

# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

-----X  
In the Matter of:

PROPOSED ACQUISITION OF CONTROL OF:  
PATRONS MUTUAL INSURANCE COMPANY OF  
CONNECTICUT, PATRONS FIRE INSURANCE  
COMPANY OF RHODE ISLAND, PROVISION  
STATE INSURANCE COMPANY, AND LITCHFIELD  
MUTUAL FIRE INSURANCE COMPANY, Connecticut domiciled  
insurance companies

Docket No. EX 07-102

by

STATE AUTOMOBILE MUTUAL INSURANCE COMPANY,  
an Ohio domiciled mutual insurance company  
-----X

### ORDER

I, Thomas R. Sullivan, Insurance Commissioner of the State of Connecticut, having read the record of the above captioned matter, do hereby adopt the findings and recommendations of William Arfanis, Hearing Officer, which are contained in the attached Proposed Final Decision dated December 7, 2007 and issue the following orders,

TO WIT:

1. The Form A Application of the Applicant in which it seeks approval to acquire control of Domestic Insurers be approved.
2. The Applicant and Domestic Insurers shall comply with their commitments as set forth in the Proposed Final Decision.
3. The Applicant shall provide the Insurance Department with written confirmation of the consummation of the acquisition of control by the end of the month the acquisition of control takes place.

4. For a period of three (3) years, the Applicant shall file semiannually with the Insurance Department, commencing six months from consummation of the transaction, a report under oath of its business operations in Connecticut, including but not limited to, the status of integration with the Domestic Insurers, change to the business of the Domestic Insurers; employment levels; changes in offices of the Domestic Insurers; any changes in location of its operations in Connecticut; charitable contributions made to Connecticut entities; and, notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicant and the Domestic Insurers.

5. The Applicant should provide the Department with the names and titles of those individuals who will be responsible for filing an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

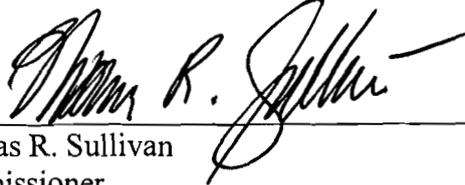
6. Within fifteen (15) days following the end of the month in which the Proposed Affiliation is consummated, the Domestic Insurers shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

7. If the Proposed Affiliation is not consummated within three (3) months of the date of this Order and the Applicant intends to consummate the Proposed Affiliation, the Applicant shall submit to the Commissioner a statement, which shall include (1) the reason for the Applicant's inability to consummate the Proposed Affiliation; (2) any material changes in the information contained in the Form A Application; and (3) the current financial statements of the Applicant and the Domestic Insurers.

8. The Domestic Insurers shall, at all times, maintain their books, records and assets in Connecticut pursuant to Connecticut Law and consistent with the terms of the Form A Application, unless otherwise approved by the Commissioner.

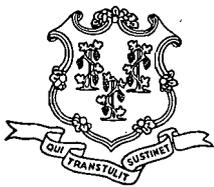
9. The Applicant shall pay expenses incurred by the Insurance Commissioner in connection with the Insurance Department's review of the captioned transaction pursuant to sections 38a-132(a)(3) and 38a-132(c) of the Connecticut General Statutes.

Dated at Hartford, Connecticut, this 7<sup>th</sup> day of December, 2007



---

Thomas R. Sullivan  
Commissioner



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

-----X  
In the Matter of:

PROPOSED ACQUISITION OF CONTROL OF:  
PATRONS MUTUAL INSURANCE COMPANY OF  
CONNECTICUT, PATRONS FIRE INSURANCE  
COMPANY OF RHODE ISLAND, PROVISION  
STATE INSURANCE COMPANY, AND LITCHFIELD  
MUTUAL FIRE INSURANCE COMPANY, Connecticut domiciled  
insurance companies

Docket No. EX 07-102

by

STATE AUTOMOBILE MUTUAL INSURANCE COMPANY,  
an Ohio domiciled mutual insurance company  
-----X

### PROPOSED DECISION

#### I. INTRODUCTION

On September 21, 2007, State Automobile Mutual Insurance Company, an Ohio domiciled mutual insurance company ("State Auto Mutual" or the "Applicant"), filed an Application on Form A with the Connecticut Insurance Department ("Department") pursuant to sections 38a-129 to 38a-140 of the Connecticut General Statutes requesting approval by the Insurance Commissioner of the State of Connecticut ("Commissioner" or "Insurance Commissioner") for the Proposed Acquisition of Control (the "Proposed Affiliation") of Patrons Mutual Insurance Company of Connecticut ("Patrons" or "Domestic Insurer"), a Connecticut domiciled property casualty insurance company, Patrons Fire Insurance Company of Rhode Island ("Patrons RI"), a Connecticut domiciled property casualty mutual insurance company, Provision State Insurance Company ("Provision"), a Connecticut domiciled property casualty stock insurance

company and Litchfield Mutual Fire Insurance Company (“Litchfield” and collectively, “Patrons Group” or “Domestic Insurers”), a Connecticut domiciled property casualty insurance company is also being requested.

Supplemental information was subsequently requested by the Department and provided by the Applicants. An Amended Form A was filed with the Department on October 26, 2007. The Amended Form A amends and restates in its entirety the original Form A text and also includes certain new and revised exhibits.

The Proposed Affiliation will be effected pursuant to the terms of an Affiliation Agreement, (“Affiliation Agreement”) dated as of September 13, 2007, and amended and restated October 24, 2007 among State Auto Mutual, Patrons, and Litchfield. The Applicant will acquire control of the entities of the Patrons Group through an Affiliation Arrangement and a Pooling Agreement with Patrons and Litchfield.

On October 31, 2007, Insurance Commissioner Thomas R. Sullivan (“Commissioner”) issued a notice of hearing, in which he ordered that a public hearing concerning the application for approval of the Proposed Affiliation of Control of the Domestic Insurers be held on November 20, 2007. The hearing notice was subsequently published in the Hartford Courant, New London Day, New Haven Register and Torrington Citizen’s Register once a week for two consecutive weeks. The notice of hearing was also filed by the Department with the Office of the Secretary of State on November 1, 2007 and was published on the Department’s Internet website. In accordance with section 38a-8-48 of the Regulations of the Connecticut State Agencies, the Applicants and Domestic Insurers were designated as parties to this proceeding.

The following individuals participated in and/or testified at the public hearing on behalf of the Applicant and the Domestic Insurer:

John E. Kreitler, Esq. and Eric Goldstein, Esq., Shipman & Goodwin LLP represented the Applicant. Peter S. Rice, Esq., Dewey & LeBoeuf LLP represented the Domestic Insurer.

The following Department staff participated in the public hearing:

Beth Cook, Esq., Counsel, Kathy Belfi, Chief Examiner and Lynn Hein, Supervising Examiner.

Pursuant to the published hearing notice, the public was given an opportunity to speak at the hearing or to submit written comments no later than the close of business on November 19, 2007, by an Order dated October 31, 2007. No public officials or members of the public signed up to speak, spoke at the hearing, or submitted written testimony.

## **II. FINDINGS OF FACT**

After reviewing the exhibits entered into the record of this proceeding, and based on the testimony of the witnesses, the undersigned makes the following findings of fact:

1. State Auto Mutual has been engaged in the property casualty insurance business since 1921.
2. State Auto Mutual markets its property and casualty products through approximately 23,400 independent insurance agents associated with approximately 3,100 agencies in 29 states.
3. State Auto Mutual underwrites various property and casualty lines of business, including private passenger automobile, non standard automobile, homeowners, pleasure boats and yachts, umbrella, farm owners, business owners, crime,

commercial property, general liability, inland marine, commercial automobile, workers compensation and surety bonds.

4. State Auto Mutual is the ultimate parent of the State Auto companies, which includes its public affiliate, State Auto Financial Corporation (“STFC”) of which State Auto Mutual owns approximately sixty-five percent (65%) of the outstanding capital stock.
5. As of December 31, 2006 State Auto Pool reported the following statutory balance sheet accounts (millions):

	December 31, 2006
Assets	\$3,213.9
Liabilities	1,599.0
Capital and surplus	1,614.9
Net income (loss)	193.1
Premium earned	1,258.3

6. State Auto Mutual and its affiliates who participate in the State Auto Pool are rated A+ (Superior) by A.M. Best.
7. The principal business address of State Auto Mutual is 518 East Broad Street, Columbus, OH 43215.
8. Patrons RI is affiliated with Patrons pursuant to an Agreement of Association which gives Patrons majority (51%) voting rights in Patrons RI for as long as Patrons RI remains indebted to Patrons.
9. The Agreement of Association arose in connection with the 1989 contribution made to Patrons RI’s surplus by Abington Mutual Fire Insurance Company (“Abington”). Abington’s rights were subsequently assigned to Patrons in 1996.
10. Patrons owns one hundred percent (100%) of the issued and outstanding capital stock of Provision.

11. The principal business address of Patrons, Patrons RI and Provision is 769 Hebron Avenue, Glastonbury, CT 06033.
12. The principal business address of Litchfield is 21 South Street, Litchfield, CT 06759-0637.
13. Patrons Group underwrites personal, commercial, farm-owners and specialty insurance products exclusively through independent agents in Connecticut, Massachusetts, Rhode Island and Vermont.
14. The Patrons Group personal insurance products include private passenger automobile, homeowners and umbrella coverage.
15. The Patrons Group commercial insurance products include business owners, artisan contractor, commercial package, dwelling fire and umbrella coverage.
16. Under its specialty programs, Patrons Group offers antique dealers and bed & breakfast coverages.
17. Patrons has an affiliation agreement and a reinsurance pooling agreement with Litchfield ("Patrons/Litchfield Pool") which has annual net premiums of approximately \$40 million.
18. Patrons and Litchfield are both rated B++ (Good) by the A.M. Best Company.
19. As of December 31, 2006 Patrons reported the following statutory balance sheet accounts (millions):

	December 31, 2006
Assets	\$47.5
Liabilities	28.9
Capital and surplus	18.6
Net income (loss)	.5
Premium earned	20.1

20. As of December 31, 2006 Litchfield reported the following statutory balance sheet accounts (millions):

	December 31, 2006
Assets	\$18.0
Liabilities	13.2
Capital and surplus	4.8
Net income (loss)	.4
Premium earned	10.1

21. As of December 31, 2006 Patrons RI reported the following statutory balance sheet accounts (millions):

	December 31, 2006
Assets	\$15.9
Liabilities	13.1
Capital and surplus	2.8
Net income (loss)	.3
Premium earned	10.6

22. As of December 31, 2006 Provision reported the following statutory balance sheet accounts (millions):

	December 31, 2006
Assets	\$3.5
Liabilities	.1
Capital and surplus	3.4
Net income (loss)	.04
Premium earned	0.0

23. Control of the Patrons Group will be acquired pursuant to the terms of an Affiliation Agreement, dated September 13, 2007 and amended and restated October 24, 2007, by and among the Applicant, Patrons and Litchfield.

24. Pursuant to the terms of the Affiliation Agreement, each of the current Boards of Directors of Patrons and Litchfield will be reconstituted as a 12-member Board of

Directors, seven (7) of whom will be selected by the Applicant, four (4) of whom will be current directors of Patrons and one (1) of whom will be a current director of Litchfield (the "Reconstituted Boards").

25. It is anticipated that the current Boards of Directors of Patrons RI and Provision will be similarly reconstituted as 12-member Boards of Directors, with the same Directors as those elected to the Reconstituted Boards of Directors of Patrons and Litchfield.

26. The Reconstituted Board members will be:

- Robert P. Restrepo, Jr.
- Mark A. Blackburn
- Paul E. Nordman
- Cynthia A. Powell
- Joel E. Brown
- Steven E. English
- James Yano
- Kevin Feeney
- Joseph L. Grochmal
- William Siclari
- Jerome Whalen
- Peter R. L. Faber

27. Following the closing of the proposed affiliation, the Reconstituted Boards of Directors for Patrons, Litchfield, Patrons RI, and Provision will elect officers for the respective companies.

28. It is anticipated that Robert P. Restrepo, Jr., the Chairman, President and CEO of State Auto Mutual, Cynthia A. Powell, Treasurer of State Auto, and James A. Yano, the Secretary of State Auto, will be elected to like positions with each of the companies in the Patrons Group.

29. It is anticipated that the incumbent officers of Patrons, Patrons RI, Provision and Litchfield will remain in the offices designated below for some time post-closing; however, the Reconstituted Boards of Directors will evaluate officer positions and make adjustments as they deem appropriate.

Patrons Mutual Insurance Company of Connecticut and Patrons Fire Insurance Company of Rhode Island:

- Robert P. Restrepo, Jr., Chairman, President and CEO
- Cynthia A. Powell, Treasurer
- James A. Yano, Secretary
- Erin A. Allende, Vice President
- Michael F. Lyons, Vice President and Assistant Treasurer
- Krista Swanson, Vice President
- Fred A. Taverne, Vice President and Assistant Secretary
- Ilene Burke, Vice President

Litchfield Mutual Fire Insurance Company

- Robert A. Restrepo, Jr., Chairman, President and CEO
- Cynthia A. Powell, Treasurer
- James A. Yano, Secretary
- Michael F. Lyons, Assistant Treasurer

- Susan Chioveti, Assistant Secretary

Provision State Insurance Company

- Robert A. Restrepo, Jr., Chairman, President and CEO
- Cynthia A. Powell, Treasurer
- James A. Yano, Secretary
- Michael F. Lyons, Assistant Treasurer
- Fred A. Taverne, Vice President and Assistant Secretary

30. Pursuant to the terms of the Affiliation Agreement, an Advisory Board will be created for Patrons and Litchfield by the Reconstituted Board of the respective company.

31. The functions of the Advisory Boards will be to assist and facilitate in their respective company's transition to becoming a fully functional member of the State Auto Mutual group of companies and to identify and recommend individuals to fill vacancies which may arise after closing with respect to directorships intended to be held by current directors of Patrons and Litchfield.

32. Each Advisory Board will remain in place for six (6) years, unless at some sooner date an Advisory Board no longer has any serving advisory board members.

33. The members of the Patrons Advisory Board will be:

- Charles J. Stepnowski
- Lynn Kelly
- Henry Katz
- Arthur Ruel Miller
- Peter Kochenburger
- Frank Phillip Prelli

34. The members of the Litchfield Advisory Board will be:

- Ernest W. Clock
- Richard S. Dutton
- Michael D. Rybak
- Arthur B. Webster
- Mary O. Loyer
- Henry Katz

35. The biographical affidavits of the members of the board of directors and officers of the Applicant, which include the individual's educational background, professional credentials, and employment history, are included in the record and the files of the Insurance Department.

36. The biographical affidavits of the members of the board of directors and officers of the Domestic Insurer, which include the individual's educational background, professional credentials, and employment history, are included in the record and the files of the Insurance Department.

37. The charters and by-laws of Patrons and Litchfield will be amended as necessary to effectuate the changes to the Board, establish the Advisory Boards and to maintain compliance with applicable Connecticut law.

38. On the terms and subject to the conditions set forth in the Affiliation Agreement, Patrons and Litchfield will terminate their existing Patrons/Litchfield Pool and become parties to the Pooling Agreement, as defined in Section 3.10 of the Affiliation Agreement, of the State Auto Pool as of January 1, 2008.

39. It is anticipated that the percentage entry points for Patrons' and Litchfield's participation in the State Auto Pool will be between 0.5% and 1.0%.
40. Upon entry into the Pooling Agreement, it is anticipated that Patrons and Litchfield will receive an A+ (Superior) rating from A. M. Best.
41. It is not anticipated that either Patrons, RI or Provision will participate in the State Auto Pool as they have no in-force business and are not currently intended to be used to issue any new policies or lines of business.
42. Patrons and Litchfield will each enter into an Investment Management Agreement with Stateco Financial Services, Inc. ("Stateco"), a State Auto Affiliate, pursuant to which Stateco will provide investment management and other financial services to Patrons and Litchfield.
43. No consideration is being paid to affect the acquisition of control; the Applicant has however, agreed to reimburse Patrons and Litchfield for the legal fees and expenses each incurs in connection with reviewing, documenting and completing the proposed affiliation.
44. No separate consideration is being paid under the Affiliation Agreement for Provision's stock.
45. The Applicant has no present intention to alter the business plans of the Patrons Group regarding its current product offerings.
46. The Applicant intends to make select State Auto products available to the Patrons Group independent agency network.
47. The Applicant does not intend to change the status of Patrons RI and Provision, and will examine its options regarding these inactive insurers.

48. The Applicant may decide to merge Patrons RI and Provision into Patrons or otherwise dissolve one or both of them at some point in the future.
49. The Agreement calls for Patrons and Litchfield to continue as separate corporate entities domiciled in Connecticut for a period of at least ten (10) years.
50. The Patrons and Litchfield offices will remain in the Hartford and Litchfield counties, respectively, for at least ten (10) years.
51. The Applicant will continue to support Patrons' and Litchfield's charitable works for a period of at least six (6) years at levels at least consistent with the past practices of the respective companies.
52. To ensure continuity of management, State Auto Mutual will enter into employment agreements with certain management personnel of the Patrons Group and it will offer the current 72 employees of Patrons continued employment for at least two (2) years following the closing of the Proposed Affiliation.
53. Litchfield, Patrons RI, and Provision currently have no separate employees.
54. The current employees of Patrons will be offered continued employment, with at least substantially similar duties and with substantially the same wage and employee benefit programs for at least two (2) years following closing.
55. The employees will be entitled to a cash severance equal to two weeks of salary for each year of service with the Patrons Group if the employee is terminated for other than cause, unless the employee voluntarily resigns.
56. The employees of Patrons initially will remain employed by Patrons, subject to Patrons' compensation and employee benefit plans.

57. Effective January 1, 2009, it is anticipated that the then current Patrons employees will become employees of State Auto Mutual or one of its affiliates.
58. To the extent permitted by such employee benefit plans, the Applicant will waive pre-existing conditions and waiting periods and provide credit for purposes of eligibility, vesting and accruals for full and partial years of service with Patrons.
59. While some consolidation in the management, financial services, and investment functions of Patrons Group will likely occur, it is anticipated that other critical functions such as marketing, agency relations and support, underwriting, claims and systems needed to run the operations of the Patrons Group will remain local, with shared resource support from other parts of State Auto as needed.
60. With regard to the preparation of financial statements and the maintenance of the books and records, it is anticipated that, as a result of the proposed affiliation of the Patrons Group with State Auto Mutual and Patrons' and Litchfield's entry into the State Auto Pool, the books and records of the Patrons Group will be removed from Connecticut to centralize the maintenance of its books and records and production of its financial statements with the rest of the insurance companies within the State Auto group.
61. Subsequent to closing the Affiliation Agreement, the Applicant plans on filing a formal request with the Connecticut Department of Insurance seeking a waiver of the requirement to keep certain records within the State of Connecticut as set forth in Connecticut General Statutes § 38a-57.
62. The Applicant expects to make the Patrons office a State Auto regional hub serving Connecticut, Massachusetts, Rhode Island and Vermont.

63. The Applicant submitted written testimony stating that if the Proposed Affiliation is approved by the Department, the Applicant agree to work with the Department to ensure that the Department has immediate and unfettered access to any books and records of the Domestic Insurer in the unlikely event of an insolvency or receivership/liquidation action regarding the Domestic Insurer.
64. Three years of statutory financial projections for the Domestic Insurers are included in the records and files of the Insurance Department.
65. Other than as disclosed in the Amended Form A, the Applicant have no present plans or proposal to cause the Domestic Insurer to declare an extraordinary dividend or make other distributions, liquidate the domestic insurer, sell the Domestic Insurer's assets, merge or consolidate the Domestic Insurer with any person or persons, make any other material change in the Domestic Insurance business operations or corporate structure or management, or cause the Domestic Insurer to enter into material contracts.
66. Neither the Applicant nor any person controlling, controlled by or under common control with the Applicant or any person listed as a director or executive officer beneficially owns or has, directly or indirectly a right to acquire beneficially any voting securities of any of the entities of the Patrons Group or any securities convertible into or evidencing a right to acquire any such voting securities whether or not such right of conversion or acquisition is exercisable immediately or at some future time.
67. There are no contracts, arrangements, or understandings, whether oral or in writing relating, directly or indirectly, to any voting securities of the entities comprising the

Patrons Group or any securities convertible into or evidencing a right to acquire any such voting securities whether or not such right of conversion or acquisition is exercisable immediately or at any future time involving Applicant, or any other person listed as director or executive officer.

68. There have been no purchases, directly or indirectly, of any voting securities of the entities comprising the Patrons Group by the Applicant, any person controlling, controlled by or under common control with the Applicant or any other person listed as directors or executive officer during the 12 calendar month preceding the filing of the amended Form A.

69. There have been no recommendations to purchase, directly or indirectly, any voting security of the entities comprising the Patrons Group made by the Applicant, any person controlling, controlled by or under common control with the Applicant or any person listed as director or executive officer, or by anyone based upon interviews or at the suggestion of the Applicant, any person controlling, controlled by or under common control with the Applicant or any person listed as director or executive officer during the 12 calendar months preceding the filing of the Amended Form A.

70. The Proposed Affiliation will not substantially lessen competition of insurance in the State of Connecticut or tend to create a monopoly therein.

71. It is anticipated that the Proposed Affiliation will offer synergies, cost savings and revenue enhancements. The Proposed Affiliation is expected to result in cost savings of approximately \$9 million in reinsurance premiums due to consolidating the Patrons and State Auto reinsurance programs.

72. The Patrons Group will have access to State Auto's technological support, including more human resources as well as sophisticated computer systems.
73. The Patrons Group agency force will gain website access to Patrons Group products and certain State Auto products, thereby increasing the agents' ease of doing business which in turn should result in increased business submissions from the agents.
74. State Auto's larger and more specialized employee group will be able to offer assistance to the Patrons Group in developing and pricing new products, such as the expected introduction of a commercial automobile product in the next few years.
75. The Applicant will have Patrons and Litchfield file a license amendment request to add reinsurance to the lines of business each is licensed to write in Connecticut.
76. All of the above benefits from the Proposed Affiliation, together with the improvement in Patrons Group's financial rating, are expected to increase the Patrons Group's premium revenues in the range of 10% during 2008.

### **III. DISCUSSION**

Section 38a-132(b) of the Connecticut General Statutes specifically requires the approval of the proposed acquisition of control of the Domestic Insurer unless it is determined that:

- (A) After the change of control, the Domestic Insurer would not be able to satisfy the requirements for the issuance of a license to write the lines of business for which they are presently licensed;
- (B) The effect of the merger or other acquisition of control would be to substantially lessen competition of insurance in this state or tend to create a monopoly in Connecticut;

- (C) The financial condition of the acquiring party is such as might jeopardize the financial stability of the Domestic Insurer or prejudice the interest of its policyholders;
- (D) The plans or proposals which the acquiring party has to liquidate the Domestic Insurer, sell its assets or consolidate or merge it with any person, or make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurer and not in the public interest;
- (E) The competence, experience and integrity of those persons who would control the operations of the Domestic Insurer are such that it would not be in the interest of the policyholders of the Domestic Insurer and of the public to permit the merger or other acquisition of control; or
- (F) The acquisition of control of the Domestic Insurer is likely to be hazardous or prejudicial to those buying insurance.

**A. The ability of the Domestic Insurers to satisfy the requirements for the issuance of a license to write the lines of business for which they are presently licensed following the proposed acquisition of control.**

The Domestic Insurers are domestic insurance companies currently licensed pursuant to section 38a-41 of the Connecticut General Statutes for property and casualty. Section 38a-72 of the Connecticut General Statutes requires that a domestic stock property-casualty insurance company must have a minimum of \$1,500,000 in capital and \$1,000,000 in paid-in surplus in the aggregate. Section 38a-72 of the Connecticut General Statutes requires that a domestic mutual property-casualty insurance company must have a minimum of \$2,500,000 in capital.

The Domestic Insurers currently satisfy the requirements for the issuance of a license to write the lines of business for which they are licensed. Following consummation of the Proposed Affiliation, the Applicant will have Patrons and Litchfield file a license amendment request to add reinsurance to the lines of business each is licensed to write in Connecticut

As noted in the finding of fact, following consummation of the Proposed Affiliation, the Applicant has no plans or proposals to liquidate the Domestic Insurers, to sell their assets, merge or consolidate the Domestic Insurers with any other person or entity. There are no plans for the Domestic Insurers to enter into any material contract, agreement, arrangement or transaction of any kind with any person or entity.

**B. Whether the effect of the merger would be to substantially lessen competition of insurance in this state or tend to create a monopoly herein.**

There was no finding that the Proposed Affiliation by the Applicant of the Domestic Insurers would substantially lessen competition or create a monopoly.

**C. Whether the financial condition of the Applicant is such as might jeopardize the financial stability of the Domestic Insurer or prejudice the interest of their policyholders.**

Substantial evidence contained in the Form A application and the supplemental information submitted to the Department indicates that the financial condition of the Applicant will not jeopardize the financial condition of the Domestic Insurers following the Merger.

**D. Whether the plans or proposals which the Applicant has to liquidate the Domestic Insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurer and not in the public interest.**

The record reveals that the Applicant has no current plans or proposals to liquidate the Domestic Insurers, to sell their assets, or consolidate or merge them with any other entity.

It is anticipated that the Proposed Affiliation will offer synergies, cost savings and revenue enhancements. The Proposed Affiliation is expected to result in cost savings of approximately \$9 million in reinsurance premiums due to consolidating the Domestic Insurers and Applicant's reinsurance programs. The Domestic Insurers will have access to the Applicant's technological support, including more human resources as well as sophisticated computer systems. The Domestic Insurers' agency force will gain website access to the Domestic Insurers' products and certain of the Applicant's products, thereby increasing the agents' ease of doing business which in turn should result in increased business submissions from the agents.

The Applicant has no present intention to alter the plans of the Domestic Insurers regarding its current product offerings, but does anticipate making select Applicant products available to the Domestic Insurers' independent agency network and to provide support to the Domestic Insurers in the development and pricing of new products.

Accordingly, the record supports the conclusion that there are no plans or proposals for the Domestic Insurers that are unfair and unreasonable to policyholders of the Domestic Insurers or not in the public interest.

**E. Whether the competence, experience and integrity of those persons who would control the operations of the Domestic Insurer are such that it would not be in the interest of the Policyholders of the Domestic Insurer and the public to permit the merger or other acquisition of control**

The record includes the biographical affidavits of those individuals who will serve as members of the boards and as officers of the Applicant and the Domestic Insurers following the change of control. The biographical affidavits disclose each individual's educational background, professional credentials and their employment history. In addition, the Applicant has represented, and the biographical affidavits confirm, that during the last ten years none of the proposed directors or officers of the Applicant and Domestic Insurers have been convicted in a criminal proceeding (excluding minor traffic violations) or have been convicted or otherwise penalized for violating any federal or state law regulating the business of insurance, securities or banking, (or in the case of an alien person, such equivalent provision as applicable). During the last ten years, none of the proposed directors or officers of the Applicant have been subject of any proceeding under the Federal Bankruptcy Code, (or in the case of an alien person, such equivalent provision as applicable) or have been affiliated with a business or organization which has subject to such proceeding.

Furthermore, no proposed director or officer of the Applicant or the Domestic Insurers has had a revocation, suspension or disciplinary sanction imposed against him or her by a governmental agency. None of the filed biographical affidavits contain any information that reflects negatively on the integrity of these individuals. The competence, experience, and integrity of those persons who would control the operations of the Domestic Insurers after the Proposed Affiliation is such that it would be in the interest of policyholders of the Domestic Insurers, and in the public interest, to permit the Proposed Affiliation.

**F. Whether the acquisition is likely to be hazardous or prejudicial to those buying insurance.**

Based on the financial strength of the Applicant, the affirmation that the current plans for the Domestic Insurers will not disrupt the Applicant's or the Domestic Insurers' current membership, the potential for growth opportunities and operating efficiencies planned by the Applicant, as well as provision of a strong and stable financial environment for the Domestic Insurers, is not likely to be hazardous to those buying insurance.

Accordingly, assuming compliance with all Connecticut's insurance statutes and regulations, it is reasonable to conclude that the Proposed Affiliation of control of the Domestic Insurers is not likely to be hazardous to those buying insurance.

#### **IV. RECOMMENDATION**

Accordingly, based on the foregoing findings of fact and discussion, the record of the November 20, 2007 public hearing, and the recommendation of the Insurance Department staff, the undersigned concludes that the Applicant has satisfied the statutory criteria as provided in section 38a-132(b) of the Connecticut General Statutes. Accordingly, the undersigned recommends that the Insurance Commissioner find, pursuant to section 38a-132(b) of the Connecticut General Statutes that after the Proposed Affiliation of control (a) the Domestic Insurers will be able to satisfy the requirements for the issuance of a license; (b) the effect of the acquisition of control will not substantially lessen competition in this state or tend to create a monopoly therein; (c) the financial condition of the Applicant is not such as might jeopardize the financial stability of the Domestic Insurers or prejudice the interest of their policyholders; (d) the plans or proposals for the Domestic Insurers, are not unfair and unreasonable to their

policyholders, and are in the public interest; (e) the competence, experience and integrity of the management of the Applicant is such that it would be in the interest of policyholders of the Domestic Insurers, and of the public to permit the Proposed Affiliation of control; and (f) the acquisition of control of the Domestic Insurers is not likely to be hazardous or prejudicial to those buying insurance.

Accordingly, the undersigned recommends the following orders:

1. The Form A Application of the Applicant in which it seeks approval to acquire control of Domestic Insurers be approved.
2. The Applicant and Domestic Insurers shall comply with their commitments as set forth in the Proposed Final Decision.
3. The Applicant shall provide the Insurance Department with written confirmation of the consummation of the acquisition of control by the end of the month the acquisition of control takes place.
4. For a period of three (3) years, the Applicant shall file semiannually with the Insurance Department, commencing six months from consummation of the transaction, a report under oath of its business operations in Connecticut, including but not limited to, the status of integration with the Domestic Insurers, change to the business of the Domestic Insurers; employment levels; changes in offices of the Domestic Insurers; any changes in location of its operations in Connecticut; charitable contributions made to Connecticut entities; and, notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicant and the Domestic Insurers.
5. The Applicant should provide the Department with the names and titles of those individuals who will be responsible for filing an amended Insurance Holding Company

System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

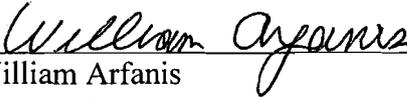
6. Within fifteen (15) days following the end of the month in which the Proposed Affiliation is consummated, the Domestic Insurers shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

7. If the Proposed Affiliation is not consummated within three (3) months of the date of this Order and the Applicant intends to consummate the Proposed Affiliation, the Applicant shall submit to the Commissioner a statement, which shall include (1) the reason for the Applicant's inability to consummate the Proposed Affiliation; (2) any material changes in the information contained in the Form A Application; and (3) the current financial statements of the Applicant and the Domestic Insurers.

8. The Domestic Insurers shall, at all times, maintain their books, records and assets in Connecticut pursuant to Connecticut Law and consistent with the terms of the Form A Application, unless otherwise approved by the Commissioner.

9. The Applicant shall pay expenses incurred by the Insurance Commissioner in connection with the Insurance Department's review of the captioned transaction pursuant to sections 38a-132(a)(3) and 38a-132(c) of the Connecticut General Statutes.

Dated at Hartford, Connecticut, this 7 day of December, 2007

  
\_\_\_\_\_  
William Arfanis  
Hearing Officer