

# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

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 In the Matter of: :  
 :  
 PROPOSED ACQUISITION OF CONTROL OF: :  
 THE HARTFORD STEAM BOILER INSPECTION AND :  
 INSURANCE COMPANY and THE HARTFORD STEAM :  
 BOILER INSPECTION AND INSURANCE COMPANY OF :  
 CONNECTICUT, Connecticut domiciled insurance companies :  
 :  
 by : Docket No. EX09-04  
 :  
 MÜNCHENER RÜCKVERSICHERUNGS-GESELLSCHAFT :  
 AKTIENGESELLSCHAFT IN MÜNCHEN, a company :  
 Organized under the laws of Germany, and :  
 MÜNICH-AMERICAN HOLDING CORPORATION, a Delaware :  
 corporation. :  
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### ORDER

I, Thomas R. Sullivan, Insurance Commissioner of the State of Connecticut, having read the record in the above captioned matter, do hereby adopt the findings and recommendations of Jon E. Arsenault, Hearing Officer, which are contained in the attached Proposed Final Decision, dated March 27, 2009, and issue the following orders, TO WIT:

1. The Application of the Applicants in which they seek approval to acquire control of Domestic Insurers is hereby approved.
2. The Applicants and Domestic Insurers shall conduct their operations consistent with the representations, disclosures and commitments as set forth in the record of this proceeding and the Proposed Final Decision.
3. The Applicants 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 two (2) years, the Applicants 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, any change to the business of the Domestic Insurers including those resulting from integration activities; employment levels; changes in offices of the Domestic Insurers; any changes in location of their 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 Applicants and the Domestic Insurers.

5. The Applicants shall provide the Insurance Department with written notice of actual purchase price, final purchase price adjustments, disagreements over purchase price adjustments and amount of goodwill following consummation of the Proposed Acquisition.

6. The Applicants shall provide the Insurance Department of the names and titles of the individuals who will be responsible for filing an amended Insurance Holding Company System Annual Registration Statement pursuant to Conn. Agencies Regs. § 38a-138-10.

7. Within fifteen (15) days following the end of the month in which the Proposed Acquisition is consummated, the Domestic Insurers shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to Conn. Agencies Regs. § 38a-138-10.

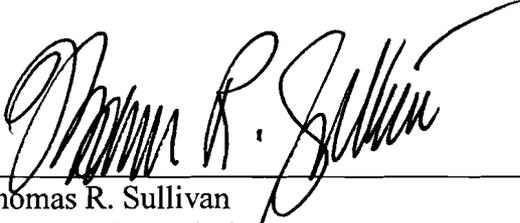
8. If the Proposed Acquisition is not consummated within three (3) months of the date of this Order and the Applicants intend to consummate the Proposed Acquisition, the Applicants shall submit to the Insurance Commissioner a statement, which shall include

(1) the reason for the Applicants' failure to consummate the Proposed Acquisition; (2) any material changes in the information contained in the Amended Form A Application; and (3) the current financial statements of the Applicants and the Domestic Insurers.

9. The Domestic Insurers shall, at all times, maintain their books, records and assets in Connecticut pursuant to Conn. Gen. Stat. § 38a-57 unless otherwise approved by the Commissioner.

10. The Applicants shall pay all expenses incurred by the Insurance Commissioner in connection with the Application filed with the Insurance Department under Conn. Gen. Stat. § 38a-130, pursuant to Conn. Gen. Stat. § 38a-132(c).

Dated at Hartford, Connecticut, this 27<sup>th</sup> day of March, 2009

  
\_\_\_\_\_  
Thomas R. Sullivan  
Insurance Commissioner



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### PROPOSED FINAL DECISION

#### I. INTRODUCTION

On January 27, 2009, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (“Munich Re”) and Munich-American Holding Corporation (“Munich-American”) (collectively, the “Applicants”), filed an application on Form A with the Connecticut Insurance Department (“Department”) pursuant to Conn. Gen. Stat. § 38a-130 and Conn. Agencies Regs. § 38a-138-6 (the “Application”) requesting approval by the Insurance Commissioner of the State of Connecticut for the proposed acquisition of control (the “Proposed Acquisition”) of two Connecticut domestic insurers: The Hartford Steam Boiler Inspection and Insurance Company (“HSB”) and The Hartford Steam Boiler Inspection and Insurance Company of Connecticut (“HSBCT”) (collectively, the “Domestic Insurers”).

The Proposed Acquisition will be effected pursuant to the terms of a Stock Purchase Agreement (“Agreement”) dated as of December 21, 2008 , by and between American International Group, Inc. (“AIG”) and Munich-American. AIG is a Delaware corporation that is the ultimate parent of the Domestic Insurers.

The Insurance Commissioner is required by Conn. Gen. Stat. § 38a-132 and Conn. Agencies Regs. § 38a-138-6 to hold a public hearing on the Proposed Acquisition of the Domestic Insurers within thirty days after the Commissioner determines that the Form A is complete in all respects. In this regard, the Department staff reviewed the Application and thereafter requested the Applicants to file supplemental information. On February 17, 2009, the Applicants filed an amended Form A with the Department which amends and restates in its entirety the original Form A text and also includes certain new and revised exhibits (the “Amended Form A”).

Based on a determination that the Application was complete, on February 19, 2009, Insurance Commissioner Thomas R. Sullivan (the “Commissioner”) issued a notice of public hearing in which he ordered that a public hearing be held on March 10, 2009 concerning the application for approval of the Proposed Acquisition of the Domestic Insurers. The hearing notice was subsequently published in *The Hartford Courant*, 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 February 19, 2009 and was published on the Department’s Internet website. In accordance with Conn. Agencies Regs. § 38a-8-48, the Applicants and the Domestic Insurers were designated as parties to this proceeding.

On February 19, 2009, the Commissioner appointed the undersigned to serve as Hearing Officer in this proceeding.

On March 3, 2009, a timely Petition to Intervene and Request for Discovery was filed by Starr Indemnity & Liability Company and Starr Technical Risks Agency, Inc. (the “Petition”). By written decision on March 9, 2009, the Petition was denied.

On March 10, 2009, the public hearing on the Proposed Acquisition of the Domestic Insurers was held before the undersigned. The following individuals testified at the public hearing on behalf of the Applicants and the Domestic Insurers: Dr. Peter Röder, Member of the Board of Management, Munich Re; Anthony Joseph Kuczinski, President and Chief Executive Officer, Munich-American ; Douglas Graham Elliot, President and Chief Executive Officer, HSB Group, Inc. (“HSB Group”); and Gregory Vistnes, Ph.D, Vice President, Charles River Associates, Washington, D.C. for the Applicants.

John M. Aerni, Esq., John Collins, Esq., and Jane Boisseau, Esq., of Dewey & LeBoeuf LLP represented the Applicants; Theodore Augustinos, Esq., and Dennis O. Brown, Esq., of Edwards, Angell, Palmer & Dodge LLP represented the Domestic Insurers.

The following Department staff participated in the public hearing: Kathryn P. Belfi, Chief Examiner, Financial Analysis and Compliance; Lynn M. Hein, Insurance Certified Supervising Examiner; and N. Beth Cook, Counsel.

Pursuant to the published hearing notice, the public was given an opportunity to speak at the hearing or to submit written comments on the Application with respect to the issues to be considered by the Commissioner. In this regard, oral and written comments on the Application were submitted by Eddie Perez, Mayor, City of Hartford, CT, Kenneth R. Kahn, Executive Director, Greater Hartford Arts Council, Charles T. Lee, Esq., McCarter & English, and J. Michael Pickens, Esq. In addition, the Applicants submitted a post hearing written submission in response to the public comment.

## **I. FINDINGS OF FACT**

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

1. The Applicants have fully complied with the disclosure requirements of Conn. Gen. Stat. § 38a-130.

2. Due notice of the public hearing required by Conn. Gen. Stat. § 38a-130(a) was given.

3. Munich Re is a company organized under the laws of the Federal Republic of Germany.

4. Munich Re's principal business address is Königinstrasse 107 Munich, Germany 80802.

5. Munich Re is the ultimate holding company of the Munich Re group of companies ("Munich Re Group").

6. Munich Re Group is one of the world's largest reinsurers and includes the second largest primary insurer in Germany in terms of gross premiums.

7. The Munich Re Group includes reinsurance and insurance subsidiaries, branches and service companies and liaison offices in over 50 locations worldwide serving clients in over 160 countries.

8. Munich Re operates in the United States principally through the insurance and reinsurance subsidiaries of Munich-American .

9. Munich-American is a Delaware corporation and is a wholly owned direct subsidiary of Munich Re.
10. Munich-American acts primarily as a holding company.
11. Munich-American's principal business address is 555 College Road East, Princeton, New Jersey 08543.
12. Munich-American is the owner of 100% of the voting securities of Munich Re America Corporation ("MRAC"), a Delaware corporation.
13. MRAC acts primarily as a holding company for the United States insurance subsidiaries.
14. The HSB Group is a wholly owned direct subsidiary of AIG Property Casualty Group ("APCG"), Inc. a Delaware corporation which is a wholly owned direct subsidiary of AIG.
15. The statutory home office of each of the Domestic Insurers is One State Street, Hartford, CT 06102.
16. HSB is a leading specialty insurer and reinsurer providing coverage for equipment breakdown, All Risk Property, inland marine and other specialty products, as well as inspection services and engineering consulting.
17. HSB is licensed in all states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.
18. HSB focuses on developing and delivering engineering knowledge and expertise to reduce customer losses and improve underwriting results.

19. The majority of HSB premium is earned from the sale of equipment breakdown insurance, which is insurance that covers financial loss from accidents to equipment.

20. HSBCT writes equipment breakdown insurance and is licensed in all states with the exception of California, the District of Columbia and Puerto Rico.

21. HSBCT offers fee-based engineering services throughout the United States.

22. HSB is both a specialty insurer and a reinsurer.

23. The Domestic Insurers sell a specialty signature suite of services for boilers and machinery that bundles coverage against the risk of breakdown or other loss to the equipment with not only underwriting and claims adjustment, but also engineering, inspection and other services for the equipment.

24. The Domestic Insurers' signature suite of services is either packaged in the form of direct insurance or booked as reinsurance. In either case, this suite of services remains the same.

25. The Domestic Insurers have approximately 2500 employees worldwide with approximately 390 employees located in Hartford, Connecticut.

26. Pursuant to the terms of the Agreement, dated December 21, 2008, by and between AIG and Munich-American, and subject to the terms and conditions set forth therein, AIG will cause APCG to sell to Munich-American all of the issued and outstanding capital stock of HSB Group.

27. The aggregate purchase price to be paid in connection with the Proposed Acquisition is \$742 million, subject to a dollar for dollar price adjustment to the extent that

the net worth of HSB at the closing of the Proposed Acquisition differs from the target net worth amount.

28. The dollar for dollar price adjustment is not subject to any minimum or maximum limits and therefore there is no minimum or maximum aggregate purchase price amount.

29. There is no specific date by which the purchase price adjustment must be completed.

30. The procedures set forth in Article II of the Agreement contemplate that the price adjustment will be completed approximately six months after the Closing, although an earlier completion date is possible if the parties agree on the purchase price adjustment.

31. The consideration to be used to effect the Proposed Acquisition will be paid in cash.

32. The Proposed Acquisition will be fully funded with internal cash resources of the Applicants.

33. It is anticipated that Munich Re will provide approximately \$500 million of the purchase price by contributing cash on hand to Munich-American shortly before the closing and that Munich-American will use this cash contribution, as well as approximately \$242 million in available cash to pay the full purchase price in cash to AIG at the closing.

34. No internal or external debt will be incurred by either Munich Re or Munich-American to obtain the cash.

35. The Proposed Acquisition is not subject to any financing contingency.

36. Pursuant to the Agreement, Munich-American will acquire and hold directly 100% of the voting securities of HSB Group following the Proposed Acquisition.

37. The nature and amount of the consideration to be paid in connection with the Proposed Acquisition were determined by arm's length negotiation between the parties to the Agreement.

38. Upon consummation of the Proposed Acquisition, HSB Group will be a direct subsidiary of Munich-American and an affiliate of Munich-American's current direct subsidiaries.

39. Munich Re will be the ultimate controlling person of the Domestic Insurers.

40. The Domestic Insurers have a financial strength rating of "A" by A.M. Best Company. The rating is under review with positive implications. The Domestic Insurers are not rated by Moody's Investor Services or Fitch, Inc.

41. As of December 31, 2008, the Domestic Insurers reported the following statutory balance sheet and income statement accounts (in millions):

<b>As of December 31, 2008</b>	<b>HSB</b>	<b>HSBCT</b>
Assets	\$1,111.8	\$96.6
Liabilities	669.2	50.3
Capital and Surplus	442.6	46.3
Net Income (Loss)	(4.2)	15.1
Premium Earned	628.1	30.1

42. The Applicants have been rated as follows:

Type of Rating	Standard & Poors	Moody's Investors Services	A.M. Best Company	Fitch, Inc.
<b>Munich Re</b>				
Financial Strength Rating	AA-	Aa3	A+	AA-
Debt Rating	AA-	Not rated	aa-	AA-
<b>Munich-American</b>				
Financial Strength Rating	Not rated	Not rated	Not rated	Not rated
Debt Rating	Not rated	Not rated	Not rated	Not rated

The Applicants' ratings have not been placed under review since the announcement of the Proposed Acquisition.

43. As of December 31, 2008, Munich Re reported in accordance with international financial reporting standards the following balance sheet and income statement accounts (in millions):

As of December 31, 2008	Munich Re
Assets	\$282,842.0
Liabilities	254,933.0
Capital and Surplus	27,909.0
Net Income (Loss)	2,006.0
Premium Earned	49,906.0

44. The biographical affidavits of the members of the board of directors and officers of the Applicants included in the record of this proceeding and the files of the

Department, describe each individual's educational background, professional credentials, and employment history, and attests to the competence, experience and integrity of those individuals who would control the operation of the Applicants and indirectly the Domestic Insurers after the acquisition.

45. Mr. Kuczinski testified that there are no plans to change the executive officers or Directors of the Domestic Insurers with the exception of Mr. Richard Booth, the Chairman of the Board of HSB who wishes to remain with AIG if the Proposed Acquisition is approved.

46. After the Proposed Acquisition, the Board of Directors and Executive Officers of HSB will be:

Directors:

- Saul Louis Basch
- Roberta Ann O'Brien
- Douglas Graham Elliot

Officers and Others:

- Douglas Graham Elliot, President and CEO
- Steven Christopher Ganci, Vice Chairman, Treasurer & CFO
- Susan Woodring Ahrens, Senior Vice President
- Maurice Darbyshire, Executive Vice President
- Theodore David Kmiecik, Senior Vice President and Comptroller
- Nancy Catherine Onken, Executive Vice President and Corporate Secretary
- William Joseph Rucci, Senior Vice President & Chief Information Officer
- Anthony John Trivella, Executive Vice President
- Steven Fazo, Investment Officer
- Jeanne Bennett Merola, Senior Vice President
- Michael Anthony Petruzzello, Executive Vice President & Chief Underwriting Officer

- Hans Arend Schols, Executive Vice President
- Stephanie Ann Watkins, Senior Vice President
- Amy Elizabeth Brodeur, Vice President & Deputy Comptroller
- William MacKay Heckles, Senior Vice President & Chief Reinsurance Officer
- Roberta Ann O'Brien, Senior Vice President, Deputy General Counsel & Compliance Officer
- James Clark Rowan Jr., Chief Investment Officer
- Loren Peter Shoemaker, Senior Vice President

47. After the Proposed Acquisition, the Board of Directors and Executive Officers of HSBCT will be:

Directors:

- Jean Anderson Cohn
- George Monroe Reider Jr.
- Jack Edwin Volinski

Officers and Others:

- Fred Arthur Bull, President and CEO
- Jean Anderson Cohn, Vice President, Secretary and General Counsel
- Steven Christopher Ganci, Vice President, Treasurer and Controller
- Barry Keith Bobo, Vice President
- Catherine Ann Coseno, Vice President
- Keith Robert Burns, Vice President
- Thomas Paul Pastor, Vice President
- Joseph Alan Conklin, Vice President
- Matthew Joseph Sweeney, Vice President

48. Following the Closing, the Domestic Insurers will continue to maintain their separate corporate existence and operate as a stand-alone unit within the Munich Re Group.

49. Dr. Röder testified that the Applicants have no current plans to change HSB Group's operations materially.

50. Mr. Kuczinski testified that the Applicants' current assumption is that, after the proposed acquisition and for the foreseeable future, HSB Group's management and operational structure, including the management and operations of the Domestic Insurers, will continue substantially as they currently are.

51. Mr. Kuczinski testified that there are no plans at this time to operationally integrate any of the Domestic Insurers' current marketing and sales activities with other Munich Re Group companies.

52. Mr. Kuczinski testified that if the Proposed Acquisition is approved, the Applicants anticipate that one or more of the Applicants' affiliates will provide services to the Domestic Insurers to replace the services currently being provided to the Domestic Insurers by affiliates in the AIG group.

53. Mr. Kuczinski testified that the Munich Re Group entities are essentially replicating the services already being performed by AIG. The Applicants have no plans for their affiliates to provide services to the Domestic Insurers which are currently being performed by the Domestic Insurers themselves.

54. Dr. Röder testified that Munich Re's primary objective in acquiring the HSB Group and the Domestic Insurers is to provide the Munich Re Group with an increased presence in the U.S. specialty insurance market.

55. Dr. Röder testified that the Applicants will assist the product development efforts of the HSB Group and the Domestic Insurers and help diversify their product mix.

56. Dr. Röder testified that the Applicants are hopeful that the combined client bases of the Applicants and the Domestic Insurers will allow for a cross-selling of insurance products.

57. Dr. Röder testified that the Applicants are considering cross-selling opportunities in their Specialty Markets division in the United States, and internationally, are considering using the Munich Re Group network of clients to expand international sales.

58. Dr. Röder testified that the Applicants want to harness the Domestic Insurers' knowledge base, in the hope that the Applicants will benefit from the Domestic Insurers' underwriting know-how and that this knowledge will assist the Applicants in improving their own business performance.

59. Dr. Röder testified that the Applicants believe that there is a clear strategic fit between the Domestic Insurers' business model and the Munich Re Group's strategic objectives.

60. Dr. Röder testified that the Domestic Insurers are selling their products mainly via other primary insurance companies on the basis of reinsurance structures.

61. Dr. Röder testified that the Domestic Insurers have a distinctive focus on a specific niche (i.e., engineering insurance and related services), where they have developed unique capabilities and processes, and on a target segment (i.e., commercial clients, mainly in the production sector).

62. Dr. Röder testified that the Applicants believe that the Munich Re Group's existing reinsurance relationships, which are characterized by joint product developments, provide for a strategic and operational fit with the Domestic Insurers within the Munich Re Group.

63. Dr. Röder testified that the Applicants anticipate that this strategic fit will allow a potential leveraging of client base in both directions.

64. Dr. Röder and Mr. Kuczinski testified that it is anticipated there would be no staffing reductions resulting from the Proposed Acquisition.

65. Mr. Kuczinski testified that there are no plans for the Domestic Insurers to relocate their executive officers and headquarters from their current location in Hartford, Connecticut.

66. Mr. Kuczinski testified that it has always been the practice of the Applicants to encourage its affiliated group entities to be good corporate citizens wherever they operate and that practice will continue as it relates to the Domestic Insurers.

67. Mr. Kuczinski and Mr. Elliot testified that barring any unforeseen negative economic impacts, the Domestic Insurers commit to maintain their current level of community involvement and charitable contributions. Mr. Kuczinski noted that HSB's annual level of charitable giving has been approximately \$625,000 to \$675,000 in Connecticut in the recent past, and the Applicants support HSB in continuing its charitable contributions at this type of level going forward.

68. Mr. Elliot testified that as a result of the financial and business difficulties that AIG is undergoing, the HSB Group has sustained ratings reductions which have caused concern among the client companies.

69. The Domestic Insurers will maintain their current licenses and write business in the states they currently serve.

70. The Domestic Insurers' books and records will continue to be maintained in Connecticut.

71. Three years of statutory financial projections for the Domestic Insurers are included in the records and files of the Insurance Department.

72. Other than as disclosed in the Amended Form A, the Applicants have no present plans or proposals to cause the Domestic Insurers to declare an extraordinary dividend or make other distributions, liquidate the Domestic Insurers, sell the Domestic Insurers' assets, merge or consolidate the Domestic Insurers with any person or persons, make any other material change in the Domestic Insurers' business operations or corporate structure or management, or cause the Domestic Insurers to enter into material contracts.

73. Neither the Applicants nor any person controlling, controlled by or under common control with the Applicants, or any person listed as a director or executive officer beneficially owns, directly or indirectly, or has a right to acquire beneficially any voting securities of the Domestic Insurers 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.

74. 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 Domestic Insurers 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 Applicants, or any other person listed as director or executive officer.

75. There have been no purchases, directly or indirectly, of any voting securities of the entities comprising the Domestic Insurers by the Applicants, any person controlling, controlled by or under common control with the Applicants or any other person listed as

directors or executive officers during the 12 calendar month preceding the filing of the Amended Form A.

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

77. The Domestic Insurers' 2007 direct written premiums in Connecticut reflect the following combined market shares: 0.11% for Inland Marine; 8.83% for Boiler & Machinery ("B&M"); and 0.03% for Commercial Multiple Peril (Non-Liability).

78. The Applicants and their controlled insurer subsidiaries' 2007 direct written premiums in Connecticut reflect the following combined market shares: 0.12% for Fire; 0.04% for Allied Lines; 0.04% for Earthquake; 0.28% for Inland Marine; 0.01% for Workers' Compensation; 0.53% for Other Liability; 0.06% for Auto Liability; 0.10% for Auto Physical Damage; 4.35% for Aircraft (all perils); 0.34% for Other Comm. Auto Liability; 0.19% for Medical Malpractice; 0.31% for Comm. Multiple Peril (Non-Liability); 0.39% Comm. Multiple Peril (Liability); 0.07 for Fire & Allied Lines; and 0.01% for Fire Lines & Home Multi Peril.

79. Dr. Gregory Vistnes testified that the Proposed Acquisition is in no way likely to substantially reduce competition in any relevant market.

80. Dr. Vistnes testified that the two merging parties have no competitive overlap because the insurance services that each party is providing are so different and the customers to whom they sell their products are so discrete and so disjointed.

81. Dr. Vistnes, Mr. Kuczinski and Mr. Elliot each testified that the Applicants do not offer any product, whether called insurance or reinsurance, that competes with the suite of services for boiler and machinery (“B&M”) insurance products that is the signature product of the Domestic Insurers.

82. Mr. Kuczinski testified that while the Applicants’ direct insurer subsidiaries do offer some B&M coverage in the United States on a direct basis, the amounts are *de minimis* in that the amount is less than \$100,000 out of the billions of dollars of business written by those subsidiaries

83. Mr. Kuczinski testified that the Applicants’ companies that offer B&M coverage purchase it from the Domestic Insurers and embed such coverage in their own products.

84. Mr. Kuczinski testified that the Applicants’ companies do not offer such embedded coverage within their own property and casualty offerings other than through the products purchased from the Domestic Insurers and therefore any competition with the Domestic Insurers is *de minimis*.

85. Dr. Vistnes testified that the reinsurance marketplace, including the B&M reinsurance marketplace, is a worldwide market in which firms from across the globe are competing to sell to customers.

86. The testimony of Dr. Vistnes, Mr. Kuczinski and Mr. Elliot reflect that the reinsurance the Domestic Insurers offer do not compete with the reinsurance that the Applicants sell.

87. Dr. Vistnes testified that the Applicants and the Domestic Insurers are selling their product and services to different companies and the product and service itself is so very different that there is no competition between the two firms.

88. Dr. Vistnes testified that the Applicants and the Domestic Insurers are operating in separate and distinct markets.

89. Dr. Vistnes testified that customers of the Domestic Insurers would not turn to the Applicants or their subsidiaries as an alternative supplier and that the Applicants' customers would not turn to the Domestic Insurers for reinsurance because those two sets of customers do not view the Domestic Insurers and the Applicants as belonging in the same set of insurance buying alternatives.

90. Dr. Vistnes testified that he saw no basis to believe that the Proposed Acquisition would cause increases in the Domestic Insurers' reinsurance costs that would have the effect of raising the Domestic Insurers' own prices.

91. Dr. Vistnes testified that the Proposed Acquisition might create efficiencies that could lower costs.

92. On January 16, 2009, Munich-American filed with the Federal Trade Commission ("FTC") and the Antitrust Division of the United States Justice Department ("DOJ") an application required by the Hart-Scott-Rodino Anti-Trust Improvements Act of 1976, as amended ("HSR" or "the Act").

93. On January 26, 2009, Munich-American received notification from the FTC that it granted early termination of the waiting period under the HSR, indicating that the FTC and DOJ did not find any potential harm to competition as a result of the proposed acquisition.

94. The Canada Competition Bureau issued an Advance Ruling Certificate with respect to the proposed transaction on February 12, 2009, which certificate constitutes the Canadian competition law clearance.

95. On March 5, 2009, the Irish Competition Authority cleared the proposed acquisition of the HSB Group, Inc. by Munich-American after completing a review of the proposed transaction notified under the Competition Act 2002 by the parties. The Competition Authority released a statement that it has formed the view that the proposed acquisition does not raise competition concerns in Ireland, and has therefore informed the companies of its decision that the proposed acquisition will not lead to a substantial lessening of competition in any markets for goods or services in Ireland and, accordingly, that it may proceed.

## **II. DISCUSSION**

Under Conn. Gen. Stat. § 38a-132(b), the Commissioner must approve the Application for the proposed acquisition of control of the Domestic Insurers unless the Commissioner finds that:

(A) After the change of control, the Domestic Insurers would not be able to satisfy the requirements for the issuance of licenses 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 Insurers or prejudice the interest of their policyholders;

(D) The plans or proposals which the acquiring party has to liquidate the Domestic Insurers, sell their assets or consolidate or merge them with any person, or make any other material change in their business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurers and not in the public interest;

(E) The competence, experience and integrity of those persons who would control the operations of the Domestic Insurers are such that it would not be in the interest of the policyholders of the Domestic Insurers and of the public to permit the merger or other acquisition of control; or

(F) The acquisition of control of the Domestic Insurers 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 Conn. Gen. Stat. § 38a-41 for various property and casualty lines of business. Pursuant to Conn. Gen. Stat. § 38a-72, the Domestic Insurers are required to have a minimum of \$2,000,000 in capital and \$2,000,000 in paid-in surplus in the aggregate and, in order to

remain licensed, there must be a reasonable relationship of the company's surplus funds to liabilities based on the type, volume and nature of insurance business transacted, and the company's risk-based capital as related to total adjusted capital must be adequate for the types of business transacted.

The Domestic Insurers currently satisfy the requirements for the issuance of a license to write the lines of business for which they are licensed.

As noted in the findings of fact, following consummation of the Proposed Transaction, the Applicants have 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

Finally, as also noted in the findings of fact and discussed below, there are no plans to change the executive officers or directors of the Domestic Insurers with the exception of Mr. Richard Booth, the Chairman of the Board of HSB who wishes to remain with AIG if the Proposed Acquisition is approved and consummated.

Accordingly, the undersigned hereby finds that based on the evidence contained in the record of this proceeding, the Domestic Insurers will be able to satisfy the requirements for the issuance of a license to write the lines of business for which they are presently licensed following consummation of the Proposed Acquisition.

**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.**

Based on the information entered into the record of this proceeding, including the Competitive Impact Statement filed as an exhibit to the Form A, the testimony of the

witnesses, the acquisition of the Domestic Insurers by the Applicants will have a minimal impact on competition in Connecticut. The Applicants provided an expert witness, Dr. Gregory Vistnes, Vice President, of Charles River Associates. Dr. Vistnes, who focuses on anti-trust and competition economics, testified under oath that the proposed acquisition poses no threat to competition in Connecticut or in the global marketplace.

Furthermore, as noted in the findings of fact, Munich-American filed an application with the Federal Trade Commission and the Antitrust Division of the Department of Justice, as required by the Hart-Scott-Rodino Antitrust Improvement Act. Under the Act and implementing regulations, 16 C.F. R. Part 801 et seq., proposed acquisitions of stock or assets having a market value in excess of \$15 million by a company having annual net sales or total assets of \$100 million or more must, with certain exceptions, be reported to the DOJ and the FTC. Accordingly, the proposed acquisition of Domestic Insurers by the Applicants may not be consummated unless the waiting periods prescribed by the Act have either been shortened by the enforcement agencies or expired without government action. On January 26, 2009, Munich-American received notification from the FTC that it granted early termination of the waiting period under the Act, indicating that the FTC and DOJ did not find any potential harm to competition as a result of the Proposed Acquisition. Therefore, an inference is drawn that there was no finding that the proposed acquisition by Applicants of the Domestic Insurers would substantially lessen competition or create a monopoly.

Accordingly, the undersigned hereby finds that based on the evidence contained in the record of this proceeding, the effect of the acquisition of control of the Domestic Insurers by

the Applicants will not substantially lessen competition of insurance or tend to create a monopoly in Connecticut.

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

Based on the information entered into the record of this proceeding, including the Amended Form A and the testimony of the witnesses, the financial condition of the Applicants is strong and should serve as a substantial benefit for the Domestic Insurers. The policyholders of the Domestic Insurers will benefit from the acquisition by a financially-strong insurance group. Accordingly, the undersigned hereby finds that the financial condition of the Applicants will not jeopardize the financial condition of the Domestic Insurers or prejudice the interest of their policyholders following the Proposed Acquisition.

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

The record reveals that the Applicants have no current plans or proposals to liquidate the Domestic Insurers, to sell their assets, or consolidate or merge them with any other entity. Indeed, the testimony reflects an intent that the Domestic Insurers will continue to maintain their separate corporate existence operating as stand-alone insurance operations headquartered in Hartford, Connecticut, and their current product offerings and plan operations will not be changed materially as a result of the Proposed Acquisition. To facilitate the transition of ownership of the Domestic Insurers, the Applicants and AIG will enter into a Transition Services Agreement to assure that AIG will continue to provide or cause to be provided for a

period of time after the acquisition certain specified services it has historically provided to the Domestic Insurers. This will ensure the orderly transition of the specified support services away from AIG to affiliates of the Applicants.

Moreover, the record reflects there will be no staffing reductions resulting from the Proposed Acquisition and that after the acquisition, the Domestic Insurers will continue to be operated as good corporate citizens and will maintain the same relative level of community involvement and charitable contributions.

Accordingly, the undersigned hereby finds that there are no material 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 Insurers are such that it would not be in the interest of the Policyholders of the Domestic Insurers 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 Applicants and the Domestic Insurers following the change of control. The biographical affidavits disclose each individual's educational background, professional credentials and their employment history and attests to their competence, experience and integrity. The Applicants have represented, and the biographical affidavits confirm, that during the last ten years none of the proposed directors or officers of the Applicants 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 Applicants 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 Applicants 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. Accordingly, the undersigned hereby finds that the competence, experience, and integrity of those persons who would control the operations of the Domestic Insurers after the Proposed Acquisition is such that it would be in the interest of policyholders of the Domestic Insurers and of the public to permit the Proposed Acquisition.

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

Based on the financial strength of the Applicants, the affirmation that the current plans for the Domestic Insurers will not disrupt the Applicants' or the Domestic Insurers' current policyholders, as well as provision of a strong and stable financial environment for the Domestic Insurers, the Proposed Acquisition is not likely to be hazardous to those buying insurance.

Accordingly, based on the information entered into the record of this proceeding, including assuming compliance with all Connecticut's insurance statutes and regulations, the undersigned hereby finds that the Proposed Acquisition of control of the Domestic Insurers is not likely to be hazardous or prejudicial to those buying insurance.

### III. CONCLUSION AND RECOMMENDATION

Based on the foregoing, the record of the March 10, 2009 public hearing, the undersigned concludes that none of the conditions justifying disapproval listed in Conn. Gen. Stat. § 38a-132(b) is present with respect to the Proposed Acquisition of the Domestic Insurers. Because the Applicants have satisfied the statutory criteria as provided in Conn. Gen. Stat. § 38a-132, the undersigned recommends that the Insurance Commissioner find that after the Proposed Acquisition of control (a) the Domestic Insurers will 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 acquisition of control will not substantially lessen competition of insurance in this state or tend to create a monopoly therein; (c) the financial condition of the Applicants is not such as might jeopardize the financial stability of the Domestic Insurers or prejudice the interest of their policyholders; (d) the Applicants' plans or proposals for the Domestic Insurers, are not unfair and unreasonable to the policyholders of the Domestic Insurers, and are in the public interest; (e) the competence, experience and integrity of the management of the Applicants are such that it would be in the interest of policyholders of the Domestic Insurers, and of the public to permit the Proposed Acquisition 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 Insurance Commissioner issue the following orders:

1. The Application of the Applicants in which they seek approval to acquire control of Domestic Insurers is hereby approved.
2. The Applicants and Domestic Insurers shall conduct their operations consistent with the representations, disclosures and commitments as set forth in the record of this proceeding and the Proposed Final Decision.
3. The Applicants 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 two (2) years, the Applicants 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, any change to the business of the Domestic Insurers including those resulting from integration activities; employment levels; changes in offices of the Domestic Insurers; any changes in location of their 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 Applicants and the Domestic Insurers.
5. The Applicants shall provide the Insurance Department with written notice of actual purchase price, final purchase price adjustments, disagreements over purchase price adjustments and amount of goodwill following consummation of the Proposed Acquisition.
6. The Applicants shall provide the Insurance Department of the names and titles of the individuals who will be responsible for filing an amended Insurance Holding Company System Annual Registration Statement pursuant to Conn. Agencies Regs. § 38a-138-10.

7. Within fifteen (15) days following the end of the month in which the Proposed Acquisition is consummated, the Domestic Insurers shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to Conn. Agencies Regs. § 38a-138-10.

8. If the Proposed Acquisition is not consummated within three (3) months of the date of this Order and the Applicants intend to consummate the Proposed Acquisition, the Applicants shall submit to the Insurance Commissioner a statement, which shall include (1) the reason for the Applicants' failure to consummate the Proposed Acquisition; (2) any material changes in the information contained in the Amended Form A Application; and (3) the current financial statements of the Applicants and the Domestic Insurers.

9. The Domestic Insurers shall, at all times, maintain their books, records and assets in Connecticut pursuant to Conn. Gen. Stat. § 38a-57 unless otherwise approved by the Commissioner.

10. The Applicants shall pay all expenses incurred by the Insurance Commissioner in connection with the Application filed with the Insurance Department under Conn. Gen. Stat. § 38a-130, pursuant to Conn. Gen. Stat. § 38a-132(c).

Dated at Hartford, Connecticut, this 27<sup>th</sup> day of March, 2009

  
Jon E. Arsenault  
Hearing Officer