



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

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 In the Matter of: X  
 X  
 PROPOSED ACQUISITION OF CONTROL OF: X  
 SERVUS LIFE INSURANCE COMPANY, a X  
 Connecticut insurance company X  
 by X Docket No. EX 05-127  
 XL LIFE AND ANNUITY HOLDING COMPANY, X  
 a Delaware corporation X  
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### DECISION AND ORDER

#### I. INTRODUCTION

On November 16, 2005, XL Life and Annuity Holding Company, a Delaware corporation (“XLLAH” or “Applicant”), filed an Application on Form A (“Application”) with the Connecticut Insurance Department (the “Department”) pursuant to 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 or merger (the “Proposed Acquisition” or “Merger”) of Servus Life Insurance Company, a domestic insurer organized under the laws of Connecticut (“Servus” or “Domestic Insurer”).

The Domestic Insurer is a direct wholly-owned subsidiary of Hartford Life Insurance Company, a Connecticut insurance company (“Hartford Life”), and Hartford Life is a direct-wholly-owned subsidiary of Hartford Life and Accident Insurance Company, a Connecticut

insurance company (“Hartford Life & Accident”), and Hartford Life and Accident is a direct, wholly-owned subsidiary of Hartford Life, Inc. a Delaware corporation and Hartford Life, Inc. is a direct and wholly-owned subsidiary of Hartford Holdings, Inc., a Delaware corporation, and Hartford Holdings, Inc., is a direct and wholly-owned subsidiary of the Hartford Financial Services Group, Inc., a publicly traded Delaware corporation.

Supplemental information was subsequently requested by the Department and provided by the Applicants. An Amended Application was filed with the Department on December 16, 2005 with the final Amended Application filed on January 12, 2006.

The Proposed Acquisition will be effected pursuant to a Stock Purchase Agreement, dated as of November 2, 2005 by and between Hartford Life Insurance Company and XL Life and Annuity Holding Company (“Agreement”).

On January 19, 2006, I issued a notice of hearing, in which I ordered that a public hearing concerning the application for approval of the Proposed Acquisition of Control of the Domestic Insurer be held on February 15, 2006. That order was revised for a technical correction on January 23, 2006. The hearing notice was subsequently published in The Hartford Courant, each day from January 26, 2006 to February 7, 2006, inclusive. The notice of hearing was also filed by the Department with the Office of the Secretary of State on January 20, 2006 with the revised version filed on January 23, 2006 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 following were designated as parties to this proceeding: the Applicants and the Domestic Insurer.

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

Andrew Batley, Senior Vice President

David Castano, Secretary

John Hrebec, Esq., of Lord, Bissell & Brook LLP, represented the Applicants. Walter Welsh of Hartford Life Insurance Company represented the Domestic Insurer.

The following Department staff participated in the public hearing:

Beth Cook, Esq., Kathy Belfi and Joan Nakano.

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 February 7, 2006, by an Order dated January 23, 2006. 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 written and oral testimony of the witnesses, the undersigned makes the following findings of fact:

1. XLLAH is a Delaware domiciled corporation which was organized on October 23, 2001 and serves as a holding company for certain wholly-owned subsidiaries including XL Life Insurance and Annuity Company, an Illinois-domiciled insurer (“XLLIAC”), XL Asset Funding Company I LLC, a Delaware limited liability company (“XLAFCI”), and XL Life and Annuity (Bermuda) Ltd, a Bermuda company (“XLLAB”). Applicant is managed by a board of directors and officers appointed thereby. The principal business address of XLLAH is 20 North Martingale Road, Schaumburg, Illinois 60173.
2. XLLAH is a wholly-owned subsidiary of X.L. America, Inc., a Delaware corporation (“XLA”), which in turn is a wholly-owned subsidiary of X.L. Holdings Barbados Ltd., a Barbados corporation (“XLHB”), which in turn is a wholly-owned subsidiary of XL Insurance (Bermuda) Ltd, a Bermuda company (“XL Insurance”), which in turn is a wholly-owned subsidiary of EXCEL Holdings Limited, a Cayman Islands Corporation

(“EXCEL”), which in turn is a wholly-owned subsidiary of XL Capital Ltd, a Cayman Islands domiciled, New York Stock Exchange publicly traded corporation (“XL Capital”). XL Capital is the ultimate controlling parents of the Applicant and its insurer and non-insurer affiliates, all of which are members of the XL Capital Holding Company System.

3. XL Capital, through its operating subsidiaries, is a leading provider of insurance and reinsurance coverages and financial products and services to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. As of September 30, 2005, XL Capital had consolidated assets of approximately \$54.8 billion and consolidated shareholders’ equity of approximately \$7 billion.
4. XL Capital operates in 29 countries with approximately 3500 employees, and is organized into three operating segments: Insurance, Reinsurance, and Financial Products & Services. Through its three operating segments, XL Capital offers a wide array of products and services to businesses, including excess general liability, directors and officers liability, professional liability, property and casualty insurance and reinsurance coverages, and consumer and commercial asset securitization, global infrastructure project finance, and structured investment products.
5. The principal operating subsidiaries of XL Capital within the Insurance Segment include XL Specialty Insurance Company, a Delaware corporation, XL Insurance Company of New York, Inc., a New York corporation, Greenwich Insurance Company, a Delaware corporation, Indian Harbor Insurance Company, a North Dakota corporation, XL Insurance America, Inc., a Delaware corporation, XL Select Insurance Company, an Oklahoma corporation, XL Insurance Company Limited, a United Kingdom company,

XL Insurance Switzerland, a Switzerland company, XL Europe Ltd, a Republic of Ireland company and XL Insurance.

6. Within the Reinsurance Segment, the principal operating companies include XL Re Ltd, a Bermuda company, XL Reinsurance America Inc., a New York corporation, XL Re Latin America Ltd, a Switzerland company, and XL Re Europe, a French company.
7. The principal operating companies within the Financial Products and Services Segment include XL Capital assurance Inc., a New York corporation, XL Financial Assurance Ltd., a Bermuda company, XL Life Insurance and Annuity Company, an Illinois corporation, and XL Weather & Energy Inc., a Delaware domiciled corporation.
8. The Applicant and XL Capital, through their affiliate XL Re, have a great amount of expertise in the life insurance and life reinsurance industries. XL Re has a well established life reinsurance business which has been writing business in the United Kingdom since 1999. It now has over \$5 billion of assets and a team of over 40 people split between London, Bermuda, Stamford and Paris.
9. Servus is currently licensed to write business in 49 states and the District of Columbia. Servus is not licensed in New York and the license in North Carolina is currently restricted. Its principal office is located at 200 Hopmeadow Street, Simsbury, CT 06089.
10. Servus has no employees.
11. Servus has no ownership interest or security interest of any kind in any real property.

12. Servus has not engaged in any activity or entered into or carried out any transaction since December 31, 2004.
13. In accordance with the Agreement, the Applicant will purchase one hundred percent of the issued and outstanding shares of the capital stock of Servus from Hartford Life.
14. The Merger consideration consists of the estimated surplus amount plus the amount of \$3 million subject to several adjustments set forth in the Agreement.
15. The consideration will be paid by Applicant out of available funds of XL Capital and its subsidiaries.
16. The nature and amount of the consideration to be paid in connection with the proposed Merger was determined by arm's length negotiation between the Applicant and Hartford Life.
17. Following the Merger, Servus will become a direct, wholly-owned subsidiary of XL Holding and will redomesticate to Delaware and change the company's name to XL Re Life America, Inc ("XLRLA").
18. After the Merger, the following will be officers of XL Re Life America, Inc.:

Andrew Batley, President, Chief Executive Officer

David G. Castano, General Counsel and Secretary

William J. Reifenberger, Senior Vice President

M. Cristina Downey, Vice President and Chief Underwriter

Thomas J. Hartlett, Vice President and Head of Administration

Suzanne LaBella, Assistant Vice President, Underwriting

19. After the Merger, the following will be members of the board of directors for XL Re Life America, Inc.:

Andrew Batley

David G. Castano

Gary Crofts

Robert Wilfred Douglas

William J. Reifenberger

20. The biographical affidavits of the new members of the boards of directors and officers of XLRLA, which include each individual's educational background, professional credentials, and employment history, are included in the record and the files of the Insurance Department.

21. XLRLA will operate as a reinsurer and not write policies directly to the public. The customers will be US life insurance companies and the primary business will be term life insurance that will be either coinsured or reinsured on a yearly renewable term basis. Most business is expected to be on a quota share basis and the remainder on an excess retention basis.

22. All business inforce with Servus on the closing date will continue to be reinsured with Reassure America Life Insurance Company.

23. During the 12 calendar months preceding the filing of the application, neither the Applicants, nor any person controlling, controlled by or under common control with, the

Applicants nor any of the executive officers or directors of the Applicants has effected transactions in any voting securities of Servus.

24. Neither the Applicants, nor its affiliates, nor any person listed as a director or executive officer of the Applicants, nor anyone based upon interviews or at the suggestion of such acquiring party made any recommendations to purchase any voting securities of Servus during the 12 calendar months preceding the filing of the Application.
25. Other than the Merger & Acquisition Services, Inc., there are no contracts, arrangements, understandings or agreements with broker-dealers as to the solicitation to any voting security of Servus in which the Applicants, any affiliates of the Applicants, or any person listed as a director or executive officer of the Applicants is involved. An executed copy of the agreement with Mergers & Acquisition Services, Inc. was filed as Exhibit H to the Application.

### 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 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 Insurer or prejudice the interests 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 Insurers 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 licenses to write the line or lines of business for which they are presently licensed following the proposed acquisition of control.**

The Domestic Insurer is a domestic insurance company currently licensed pursuant to section 38a-41 of the Connecticut General Statutes. The Applicant intends to redomesticate the Domestic Insurer to Delaware following the consummation of the Merger therefore the Domestic Insurer will not need to satisfy the requirements for the issuance of licenses to write the line or lines of business for which they are presently licensed following the proposed acquisition of control.

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

The Domestic Insurer has not engaged in any activity or entered into or carried out any transaction since December 31, 2004. Therefore, it is hereby concluded that the effect of

the acquisition of control by the Applicant will not substantially lessen competition of insurance or tend to create a monopoly in Connecticut.

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

Based on the written testimony and the evidence contained in the record, there is no evidence that would indicate the financial condition of the Applicant might jeopardize the financial condition of the Domestic Insurer, or prejudice the interest of the policyholders.

**D. Whether the plans or proposals which the Applicant has to liquidate the Domestic Insurer, 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 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.

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

**E. Whether the competence, experience and integrity of those persons who would control the operation 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 Proposed Acquisition or other acquisition of control.**

The record includes the biographical affidavits of those individuals who will serve as members of the board and as officers of the Applicants and the Domestic Insurer 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 Applicants and Domestic Insurer 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 the 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 been subject to such proceeding.

Furthermore, no proposed director or officer of the Applicants or Domestic Insurer 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 Insurer after the Proposed Acquisition is such that it would be in the interest of policyholders of the Domestic Insurer, and in the public interest 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 Applicant, the affirmation that the current plans of the Applicant for the Domestic Insurer will provide a strong and stable financial environment for the Domestic Insurer, it is hereby concluded that the proposed acquisition of control of the Domestic Insurer is not likely to be hazardous to those buying insurance.

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

#### IV. RECOMMENDATION

Accordingly, based on the foregoing findings of fact and discussion, the written testimony and exhibits submitted, the record of the February 15, 2006 public hearing, and the recommendation of the Insurance Department staff, I conclude that the Applicants have satisfied the statutory criteria as provided in section 38a-132(b) of the Connecticut General Statutes. Accordingly, I find that pursuant to the relevant section 38a-132(b) of the Connecticut General Statutes that after the proposed acquisition of control (a) the Domestic Insurers will be redomesticating to another state and will not be required to meet the requirements for licensing in this state; (b) the effect of the acquisition of control will not be to substantially lessen competition 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 Insurer, or prejudice the interest of their policyholders; (d) the plans or proposals for the Domestic Insurer 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 Applicants is such that it would be in the interest of policyholders of the Domestic Insurer, and of the public to permit the

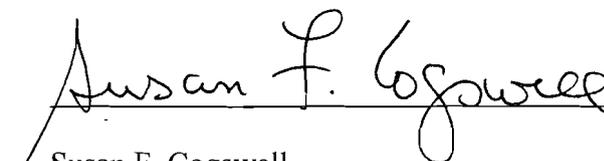
proposed acquisition of control; and (f) the acquisition of control of the Domestic Insurer is not likely to be hazardous or prejudicial to those buying insurance.

Accordingly, I order the following:

1. The Form A Application of the Applicants in which they seek approval to acquire control of the Domestic Insurer is hereby approved.
2. 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.
3. Within fifteen (15) days following the end of the month in which the proposed acquisition is consummated, the Domestic Insurer shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.
4. If the proposed transaction is not consummated within three (3) months of the date of this Order and the Applicants intend to consummate the proposed transaction, the Applicants shall submit to the Commissioner a statement, which shall include (1) the reason for the Applicants' inability to consummate the proposed transaction; (2) any material changes in the information contained in the Form A Application; and (3) the current financial statements of the Applicants and the Domestic Insurers.
5. If the Applicant has not redomesticated the Domestic Insurer to the State of Delaware within 180 days following consummation of the proposed transaction, the Applicants shall submit to the Commissioner a statement which shall state how the Applicant plans to satisfy the requirements for the issuance of licenses to write the line or lines of business for which the Domestic Insurer was licensed prior to the change of control.

6. The Applicants 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 28<sup>th</sup> day of February, 2006

  
Susan F. Cogswell  
Insurance Commissioner