

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of BrickStreet Mutual : Companies Act, Article XIV of the
Insurance Company in Support of the : Insurance Company Law of 1921, Act
Request for Approval to Acquire Control : of May 17, 1921, P. L. 682, as
of HM Casualty Insurance Company : amended, 40 P.S. §§991.1401,
: 991.1402 and 991.1403
:
: Order No. ID-RC-16-20

DECISION AND ORDER

AND NOW, on this 2nd day of November, 2016, Teresa D. Miller, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

Identity of PA Domestic Insurer

1. HM Casualty Insurance Company (“HM Casualty”) is a domestic stock casualty insurance company organized pursuant to the laws of Pennsylvania with its principal place of business in Pittsburgh, Pennsylvania.
2. HM Insurance Group, Inc. (“HM Group”) is a domestic insurance holding company organized pursuant to the laws of Pennsylvania with its principal place of business in Pittsburgh, Pennsylvania. HM Group currently directly holds 100% of the issued and outstanding stock of HM Casualty.

3. Highmark Health PA (“Highmark”) is a domestic tax-exempt insurance holding company organized pursuant to the laws of Pennsylvania with its principal place of business in Pittsburgh, Pennsylvania. Highmark currently indirectly holds 100% of the issued and outstanding stock of HM Group.
4. No entity controls Highmark.
5. Highmark is the ultimate controlling person of HM Casualty.

Identity of Applicant

6. BrickStreet Mutual Insurance Company (“BrickStreet”) is an admitted foreign mutual casualty insurance company organized under the laws of West Virginia with its principal place of business in Charleston, West Virginia.
7. No entity controls BrickStreet.

Acquisition Filing

8. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1922, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.
9. On August 4, 2016, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is hereinafter referenced as “Application”) from BrickStreet for approval to acquire control of HM Casualty.
10. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

11. On August 20, 2016, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by BrickStreet and such notice invited interested persons to submit comments to the Department regarding the Application for thirty days following the date of the publication (“Comment Period”).
12. The Department received no comments regarding the Application during the Comment Period.

Description of the Proposed Acquisition

13. As described in the Application, BrickStreet has entered into a stock purchase agreement (“the Agreement”) with HM Group.
14. As described in the Application and pursuant to the Agreement, BrickStreet intends to purchase 100% of the issued and outstanding common stock of HM Casualty from HM Group (“the Acquisition”).
15. As described in the Application, BrickStreet would fund the entire purchase price from cash on hand.
16. As described in the Application and subsequent to the Acquisition, BrickStreet would directly control 100% of issued and outstanding stock of HM Casualty.
17. As described in the Application, BrickStreet would become the ultimate controlling person of HM Casualty as a result of the Acquisition.

Standards for Review

18. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.
19. An application for a change in control must be approved unless the Department finds any one of certain enumerated conditions to be present.

Licensing Requirements

20. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
21. Specifically, the Department reviews whether the domestic insurer would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed after the acquisition.
22. The lines of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. §382).

23. The minimum paid up capital stock and paid in surplus required of a stock insurer for each line of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
24. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), HM Casualty is required to maintain a minimum paid up capital stock of \$850,000 and a minimum paid in surplus of \$425,000 to write the lines of insurance for which it is presently licensed.
25. Upon completion of the Acquisition, HM Casualty will have the statutory minimum paid up capital stock and paid in surplus to satisfy the requirements to write the lines of insurance for which it is presently licensed.

Competitive Impact

26. The acquisition of control of a Pennsylvania domiciled insurer is subject to review and analysis under Section 1402(f)(1)(ii) of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control of Domestic Insurers would be to substantially lessen competition in this Commonwealth or tend to create a monopoly therein, as per 40 P.S. §991.1402(f)(1)(ii) (the “competitive standard”).
27. In applying the competitive standard, the informational requirements of Section 1403(c)(2) and the standards of Section 1403(d)(2) are applicable.
28. BrickStreet complied with the informational requirements of the Insurance Holding Companies Act by filing a pre-acquisition notification in the format required by the National Association of Insurance Commissioners.
29. The Department’s analysis of the applicable product and geographic markets, and the information submitted by BrickStreet, indicate that the default product markets (annual statement lines of business) and the default geographic market (state-wide) under Section 1403(d)(2)(iii)(B) of the Insurance Holding Companies Act are appropriate.
30. For all lines of business, except Workers’ Compensation, the proposed acquisition of control qualifies for the exemptions set forth in Section 1403(b)(2)(v)(A)-(C) of the Insurance Holding Companies Act.
31. The Department examined whether the line of business listed in paragraph 30 establishes a prima facie violation of the competitive standard pursuant to Sections 1403(d)(2)(i) and 1403(d)(2)(ii) of the Insurance Holding Companies Act.
32. For the line of business listed in paragraph 30 above, the market share percentages of BrickStreet and HM Casualty and their Pennsylvania operating insurance subsidiaries

do not represent a prima facie violation of the competitive standard of Section 1403(d)(2)(i) of the Insurance Holding Companies Act.

33. With respect to the line of business listed in paragraph 30 above, there is no prima facie violation of the competitive standard of Section 1403(d)(2)(ii) of the Insurance Holding Companies Act.
34. Section 1403(d)(2)(iv) of the Insurance Holding Companies Act further provides that even if an acquisition is not prima facie violative of the competitive standard under Section 1403(d)(2)(i) or (ii) as described above, the requisite anti-competitive effect may be established based upon other substantial evidence. Relevant factors for making such determination include, but are not limited to, the following: market shares, volatility of ranking of market leaders, number of competitors, concentration, trend of concentration in the industry and ease of entry and exit into the market.
35. Based upon the information submitted by BrickStreet, the Department has not found that there is substantial evidence of anti-competitive effect.

Financial Condition of Applicant

36. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring person(s).
37. The Department has reviewed the financial information submitted by BrickStreet.
38. The financial condition of the BrickStreet would not pose any impediments to the change in control nor jeopardize the financial condition of HM Casualty.

Plans for the Acquired Insurer

39. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer.
40. In particular, the Department reviewed the plans or proposals which the acquiring party has to liquidate the 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, to determine whether it is:
 - a. Unfair or unreasonable;
 - b. Fails to confer a benefit upon policyholders; or

c. Not in the public interest.

41. As stated in the Application, BrickStreet has no future plans or proposals to liquidate HM Casualty, to sell its assets, to merge or consolidate it with any person or persons or to change its corporate structure.
42. As stated in the Application, HM Casualty currently has no employees.
43. As stated in the Application, certain employees of HM Group who currently provide services to HM Casualty, became employees of BrickStreet, effective August 1, 2016, and will operate out of a new regional office opened by BrickStreet in Pittsburgh, Pennsylvania.
44. As stated in the Application, the officers and directors of BrickStreet will become the officers and directors of HM Casualty as of the effective date of the Acquisition.
45. There is no basis in the record from which it may be concluded that the plans or proposals which the acquiring party has for the insurer are unfair or unreasonable or fails to confer a benefit upon policyholders or are not in the public interest.

Management

46. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurer.
47. Biographical affidavits for all directors and executive officers of BrickStreet were reviewed by the Department.
48. The Department is satisfied that the persons who would control the operations of HM Casualty have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

Hazardous or Prejudicial to Insurance Buying Public

49. When analyzing an application for an acquisition of control involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department evaluates whether the merger, consolidation or other acquisition of control is likely to be hazardous or prejudicial to the insurance buying public.
50. There is insufficient evidence in the record from which it may be concluded that the merger will likely be hazardous or prejudicial to the insurance buying public.

Compliance with the Pennsylvania Laws

51. When analyzing an application for an acquisition of control involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the transaction to determine whether the merger, consolidation or other acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A.
52. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.
53. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Department has jurisdiction to review and approve the change in control of HM Casualty.
2. Under Section 1402 of the Insurance Holding Companies Act, the Department must approve an application for a change in control unless the Department has found that:
 - a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which they are presently licensed;
 - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
 - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and not in the public interest;
 - e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control; or,

- f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.
 - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.
3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of HM Casualty.
 4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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: Order No. ID-RC-16-20

ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”) hereby makes the following Order:

The application of BrickStreet Mutual Insurance Company. (“BrickStreet”) in support of the request for approval to acquire control of HM Casualty Insurance Company (“HM Casualty”) as set forth in the application, is hereby approved, subject to this Order and the following conditions:

1. BrickStreet shall provide to the Department a list of closing documents within five (5) days after consummation of the subject transaction and shall maintain the listed documents and make them available to the Department for a period of not less than five (5) years from the date of consummation.
2. For three (3) years following the effective date of the acquisition, HM Casualty will be prohibited from declaring or paying any dividends, returns of capital or any other type of distributions to BrickStreet, without the prior approval of the Commissioner, unless said distribution has been approved by the Department as a transaction between affiliates filed under the Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§991.1401 et seq.

3. For three (3) years following the effective date of the acquisition, HM Casualty shall not voluntarily withdraw its certificate of authority to engage in the business of insurance in the Commonwealth of Pennsylvania.
4. For three (3) years following the effective date of the acquisition, HM Casualty shall not attempt to or actually redomesticate to another jurisdiction.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation. This one year limitation does not apply to any conditions prescribed by the Department in the Order.



A handwritten signature in blue ink, reading "Teresa D. Miller".

Teresa D. Miller
Insurance Commissioner
Commonwealth of Pennsylvania