

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402
	:	and 1403 of the Insurance Holding
Application of White Mountains	:	Companies Act, Article XIV of the
Insurance Group, Ltd., TACK Holdings	:	Insurance Company Law of 1921,
Corp. and TACK Acquisition Corp.	:	Act of May 17, 1921, P. L. 682, <u>as</u>
in Support of the Request for Approval	:	<u>amended</u> , 40 P.S. §§991.1401,
to Acquire Control of CGU Insurance	:	991.1402 and 991.1403; Chapter
Company, General Accident Insurance	:	25 of Title 31 of the Pennsylvania
Company and Potomac Insurance	:	Code, 31 Pa. Code §§25.1-.23;
Company	:	Section 319, Article III of the
	:	Insurance Company Law of 1921,
	:	Act of May 17, 1921, P.L. 682, <u>as</u>
	:	<u>amended</u> , 40 P.S. §442.
	:	
	:	Order No. ID-RC-01-15

DECISION AND ORDER

AND NOW, on this 31 day of May, 2001, M. Diane Koken, 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 Involved Persons

Identity of Applicants

1. White Mountains Insurance Group Ltd. ("White Mountains") is a business entity organized under the laws of Bermuda with its principal place of business in Hanover, New Hampshire.

2. The common stock of White Mountains is publicly traded on the New York Stock Exchange.
3. John Joseph Byrne (“Byrne”) is an individual residing in Hanover, New Hampshire with his principal place of business in Hanover, New Hampshire. Byrne controls 10% or more of the voting securities of White Mountains.
4. TACK Holding Corp. (“TACK Holdings”) is a newly-formed business corporation organized under the laws of the State of Delaware, with its principal place of business in Hanover, New Hampshire. TACK Holdings is an indirect wholly-owned subsidiary of White Mountains.
5. TACK Acquisition Corp. (“TACK Acquisition”) is a newly-formed business corporation organized under the laws of the State of Delaware, with its principal place of business in Hanover, New Hampshire. TACK Acquisition is a wholly-owned subsidiary of TACK Holdings.
6. White Mountains, TACK Holdings and TACK Acquisition are collectively referenced hereinafter as “Applicants.”

Identity of Sellers

7. CGNU plc (“CGNU”) is an insurance holding company organized under the laws of England and Wales, with its principal place of business in London, England.
8. CGU International Holdings Luxembourg S.A. (“CGU International”) is an insurance holding company organized under the laws of Luxembourg with its principal place of business in Luxembourg. CGU International is an indirect wholly-owned subsidiary of CGNU.
9. CGU Holdings LLC (“CGU Holdings”) is an insurance holding company organized under the laws of Delaware with its principal place of business in Wilmington, Delaware. CGU Holdings is an indirect wholly-owned subsidiary of CGNU.
10. CGNU, CGU International and CGU Holdings are collectively referenced hereinafter as “Sellers.”

Identity of the Insurance Holding Company to be Acquired

11. CGU Corporation is an insurance holding company organized under the laws of the State of Delaware with its primary place of business in Boston, Massachusetts. The outstanding stock of CGU Corporation is owned 54.14% by CGU International and 45.86% by CGU Holdings.

Identity of the Pennsylvania Domiciled Insurers to be Acquired

12. CGU Insurance Company (“CGUIC”) is a domestic stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Boston, Massachusetts. CGUIC is a wholly-owned subsidiary of CGU Corporation.
13. General Accident Insurance Company (“General Accident”) is a domestic stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Boston, Massachusetts. General Accident is a wholly-owned subsidiary of CGU Corporation.
14. Potomac Insurance Company (“Potomac”) is a domestic stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Boston, Massachusetts. Potomac is a wholly-owned subsidiary of CGU Corporation.
15. CGUIC, General Accident and Potomac are referenced hereinafter as “PA Domestic Insurers.”

Acquisition Filing

16. On September 24, 2000, the Applicants and Sellers executed a stock purchase agreement (which together with all amendments received subsequently is collectively referenced as “Stock Purchase Agreement”) under which Applicants would acquire control of the PA Domestic Insurers through the acquisition of CGU Corporation.
17. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, 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.
18. On October 23, 2000, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an initial application (which together with all material received subsequently is collectively referenced as “Application”) from Applicants for approval to acquire control of all of the issued and outstanding stock of the PA Domestic Insurers.
19. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

20. On November 4, 2000, the Department published notice in the Pennsylvania Bulletin that the Application was submitted by Applicants and such notice invited interested persons to submit comments to the Department regarding the Application for 30 days following the date of the publication (“Comment Period”).
21. During the Comment Period, the Department received one (1) comment from interested persons. The comment letter was submitted by a retiree of the CGU companies requesting that the Department condition its approval of the Application on the CGU companies’ abandonment of the unilateral right to cancel the retiree health care benefits of existing retirees or those who may become retirees as a result of the proposed acquisition transaction.
22. The comment letter was forwarded to White Mountains for response.
23. The Department reviewed and considered, in its analysis of the Application, the comment letter from the commentor as well as White Mountain’s response to the letter.
24. The interested person who submitted comments did not raise issues under the statutory standards of Section 1402 of the Insurance Holding Companies Act or the Form A requirements, but rather raised concerns related to retiree benefits.

Description of the Proposed Acquisition

25. The Stock Purchase Agreement was adopted and consented to by the Board of Directors of White Mountains on September 24, 2000, and the Board of Directors of CGNU on September 25, 2000.
26. As described in the Application, Applicants propose to acquire the United States property and casualty insurance operations of CGNU, including the PA Domestic Insurers (collectively referenced hereinafter as “CGU Companies”).
27. As described in the Application, Applicants will accomplish the acquisition by purchasing all of the issued and outstanding stock of CGU Corporation.
28. As described in the Application, Applicants will acquire all of the issued and outstanding stock of CGU Corporation for a consideration of cash and exchangeable notes in TACK Holdings.
29. As described in the Application, Applicants will be changing the names of General Accident and CGUIC after closing.

Standards for Review

30. Section 1402(f)(1) of the Insurance Holding Companies Act (40 P.S. §991.1402(f)(1)) establishes the standards for approval of an application for a change in control of a domestic insurer.
31. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

Licensing Requirements

32. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act (40 P.S. §991.1402), the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
33. 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).
34. 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).
35. The PA Domestic Insurers are each currently incorporated and licensed to write the lines of insurance as defined in Section 202(b) and (c) of the Insurance Company Law (40 P.S. §382(b) and (c)).
36. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), the PA Domestic Insurers are independently required to maintain a minimum paid up capital stock of \$2,350,000 and a minimum paid in surplus of \$1,175,000 to write the lines of insurance for which each is presently licensed.
37. As of March 31, 2001, the PA Domestic Insurers each maintained the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which each is presently licensed.
38. Upon completion of the transaction, the PA Domestic Insurers will have the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which each is presently licensed.

Competitive Impact

39. The acquisition of control of the PA Domestic Insurers is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act (40 P.S. §991.1403), to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth.
40. The acquisition of control of the PA Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth because the market shares of the CGU Companies licensed to transact the business of insurance in Pennsylvania and the market share of the Pennsylvania licensed insurance subsidiaries of White Mountains, as stated in the Application, do not exceed the market share levels established in Section 1403 of the Insurance Holding Companies Act (40 P.S. §991.1403).

Financial Condition of Applicant

41. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act (40 P.S. §991.1402), the Department reviews the financial condition of the acquiring person(s).
42. The Department has reviewed the financial statements submitted by Byrne as of December 31, 2000.
43. As of December 31, 2000, White Mountains reported:

Assets of \$3,545.2 million
Liabilities of \$2,498.7 million
Shareholders' equity of \$1,046.5 million
44. On a pro forma basis, after the acquisition White Mountains will have:

Assets of \$14,466 million
Liabilities of \$12,664 million
Shareholders' equity of \$1,557 million
45. The financial condition of White Mountains and Byrne will not pose any impediments to the change in control nor jeopardize the financial condition of the PA Domestic Insurers.

Plans for the Acquired Insurer

46. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act (40 P.S. §991.1402), the Department reviews the plans or proposals which the acquiring party has for the insurer.
47. As provided in the Application, there will be no change in the office locations of the PA Domestic Insurers after the acquisition.
48. As provided in the Application, there will be no change in the number of employees at each location of the PA Domestic Insurers as a result of the acquisition.
49. As provided in the Application, there will be no change in the management structure of the PA Domestic Insurers or the composition of the key management personnel of the PA Domestic Insurers as a result of the acquisition.
50. The Department did not find any material changes in the plans for the business, corporate structure or management of the PA Domestic Insurers after the acquisition that would be:
 - a) unfair and unreasonable to the policyholders of the PA Domestic Insurers, or
 - b) contrary to the interests of the public.

Management

51. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act (40 P.S. §991.1402), the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurers.
52. As described in the Application, CGU Corporation's current management team will continue to run the insurance operations of the CGU Companies.
53. As described in the Application, Applicants have no plans to change the management and/or staff of any of the CGU Companies.
54. As described in the Application, the TACK Acquisition management staff will oversee the financial affairs of the CGU Companies.

55. As described in the Application, upon closing certain members of the TACK Acquisition management team will become members of the board of directors of CGU Corporation.
56. Biographical affidavits for all directors and executive officers of the Applicants were reviewed by the Department.
57. The Department is satisfied that the persons who would control the operations of the PA Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

Reinsurance

58. As described in the Application, National Indemnity Company has entered into a reinsurance agreement with Potomac ("NICO Agreement") to provide approximately \$2.5 billion of reinsurance protection from January 1, 2000, with respect to the asbestos and environmental and certain other discontinued operations liabilities of the CGU Companies.
59. As described in the Application, General Reinsurance Corporation has entered into a reinsurance agreement with Potomac ("Gen Re Agreement") to provide approximately \$570 million of reinsurance protection with respect to amounts paid on or after the acquisition relating to claims with accident dates on or before December 31, 2000, for substantially all classes of non-discontinued business of the CGU Companies.
60. As described in the Application, the entire schedule of policies of Potomac will be reinsured through the cumulative effect of the NICO and Gen Re Agreements. Such reinsurance transactions require the prior approval of the Commissioner in accordance with Section 319 of the Insurance Company Law (40 P.S. §442).
61. On April 3, 2001, White Mountains filed a request for Department approval of the NICO and Gen Re Agreements (which together with all material received subsequently is collectively referenced as "Reinsurance Request").
62. 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 (40 P.S. §991.1402), the Department has jurisdiction to review and approve the change in control of the PA Domestic Insurers.

2. Under Section 1402 of the Insurance Holding Companies Act (40 P.S. §991.1402), 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 (40 P.S. §991.1402), the Commissioner has not found that any of the above conditions are present with respect to the change in control of the PA Domestic Insurers.
4. Section 319 of the Insurance Company Law (40 P.S. §442) provides that no domestic stock or mutual insurance company shall reinsure its entire schedule of policies except by approval of the Commissioner.
5. Based on all the information and analysis received and the Department's independent review, the Commissioner concludes that the Reinsurance Request is in accordance with law.

6. 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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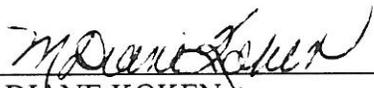
ORDER

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

1. The application of White Mountains Insurance Group Ltd., TACK Holdings Corp. and TACK Acquisition Corp. (hereinafter collectively referenced as “Applicants”) for approval to acquire control of CGU Insurance Company (“CGU”), General Accident Insurance Company (“General Accident”) and Potomac Insurance Company (“Potomac”) (hereinafter collectively referenced as “PA Domestic Insurers”) as set forth in the Application, is hereby approved, subject to this Order and the following conditions:
 - a. All necessary regulatory filings and approvals are obtained prior to consummation of the Stock Purchase Agreement.

- b. Applicants shall provide copies of the closing documents within five (5) days of consummation of the subject transaction.
 - c. A Form B Insurance Holding Company System Annual Registration Statement amendment must be filed within five (5) days of consummation of the subject transaction.
 - d. Applicants shall retain an independent actuary to review and analyze the reserves of Potomac, including but not limited to the adequacy of the reserves for reinsurance uncollectibles, at least once every two years. Except that such an actuarial review and analysis will not be necessary for any year in which the Department has retained the services of an independent actuary in conducting a financial examination of Potomac.
 - e. The selection of the actuary and scope of the review shall be subject to the prior written approval of the Commissioner.
2. The application of White Mountain Insurance Group Ltd. requesting approval of the reinsurance agreements between Potomac and National Indemnity Company and Potomac and General Reinsurance Corporation having the cumulative effect of Potomac reinsuring its entire schedule of policies as set forth in the application, is hereby approved, subject to this Order.

This Order is effective immediately.



M. DIANE KOKEN
Insurance Commissioner