

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and
 : 1403 of the Insurance Holding
Application of Mutual Fire Insurance : Companies Act, Article XIV of the
Company of Calvert County in Support of : Insurance Company Law of 1921,
the Request for Approval to Merge with : Act of May 17, 1921, P.L. 682,
Farmers Alliance and Industrial Union : as amended, 40 P.S. §§991.1401,
Mutual Fire Insurance Company : 991.1402, and 991.1403; Sections
 : 1921 through 1929 of the 1988
 : Business Corporation Law, Act of
 : December 21, 1988, P.L. 1444, No.
 : 177, as amended, 15 Pa. C.S.
 : §§1921-1928; Sections 205 and 207
 : of the GAA Amendments Act of
 : 1990, Act of December 19, 1990,
 : P.L. 834, No. 198, as amended, 15
 : P.S. §§21205 and 21207.
 :
 : Order No.: ID-RC-01-36

DECISION AND ORDER

AND NOW, on this 30 day of November, 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, the 1988 Business Corporation Law and the GAA Amendments Act of 1990, 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

1. Farmers Alliance and Industrial Union Mutual Fire Insurance Company ("Farmers Alliance") is a domestic mutual property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Shinglehouse, Pennsylvania.
2. Mutual Fire Insurance Company in Calvert County ("Mutual Fire") is a foreign mutual fire insurance company organized under the laws of the state of Maryland with its principal place of business in Prince Frederick, Maryland.

Filing of the Application

3. On October 1, 2001, 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 Mutual Fire requesting approval to merge with Farmers Alliance, with Mutual Fire being the survivor.
4. 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. ("Insurance Holding Companies Act"), provides that all mergers or other acquisitions of control of domestic insurers must be filed with the Department for approval or disapproval.
5. The 1988 Business Corporation Law, Act of December 21, 1988, P.L. 1444, as amended, Sections 1921 through 1929, 15 Pa. C.S. §§1921 through 1929 ("1988 BCL"), and the GAA Amendments Act of 1990, P.L. 834, No. 198, as amended, 15 P.S. §§21205, 21207 ("GAA Amendments Act"), provide that all plans of merger of domestic insurers must be filed with the Department for approval or disapproval.
6. The Application was filed with the Department pursuant to Section 1402 of the Insurance Holding Companies Act and Section 205 of the GAA Amendments Act.

Notice and Filing of Comments

7. On October 20, 2001, the Department published notice in the Pennsylvania Bulletin that the Application had been submitted and such notice invited interested persons to submit comments to the Department regarding the Application for a 30-day period, ending November 19, 2001.

8. During the 30-day public comment period, the Department received no comments regarding the Application.

The Transaction

9. Mutual Fire and Farmers Alliance executed an Agreement and Plan of Merger dated as of September 25, 2001, ("Merger Agreement") which provides for Farmers Alliance to merge with Mutual Fire, with Mutual Fire to be the surviving corporation.
10. As described in the Application, the Merger Agreement was adopted by the policyholders of Farmers Alliance at a special meeting of the members on November 19, 2001.
11. As described in the Application, the Merger Agreement was adopted by the policyholders of Mutual Fire at a special meeting of the members on October 29, 2001.
12. As described in the Application, Mutual Fire shall acquire all of the assets of Farmers Alliance and assume all of the debts and other liabilities of Farmers Alliance.

Standards for Review

13. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a merger or other acquisition of control of a domestic insurer.
14. The application for a merger or other acquisition of control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

Licensing Requirements

15. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the surviving insurer.
16. The class or classes 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).
17. Section 206 of the Insurance Company Law (40 P.S. §386) sets out the minimum surplus required of an insurance company for each class of

insurance for which it is incorporated.

18. Mutual Fire is licensed by the Department to transact property & allied lines, inland marine & physical damage, glass, other liability, burglary & theft, elevator and personal property floater classes of insurance in Pennsylvania.
19. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Mutual Fire is required to maintain a minimum surplus of \$950,000 to maintain a license to transact the business of insurance in this Commonwealth for those classes of insurance for which it is licensed.
20. Upon completion of the transaction, Mutual Fire will have surplus in an amount sufficient to maintain a license to transact the business of insurance in this Commonwealth for those classes of insurance for which it is presently licensed.

Competitive Impact

21. The merger of Farmers Alliance with and into Mutual Fire is subject to review and analysis under Section 1403(d)(2) of the Insurance Holding Companies Act to determine whether the effect of the merger would substantially lessen competition in this Commonwealth or tend to create a monopoly therein.
22. The merger of Farmers Alliance with and into Mutual Fire will not lessen competition or tend to create a monopoly in the Commonwealth because the market shares of Farmers Alliance and the market share of Mutual Fire, as stated in the Application, do not exceed the market share levels established in Section 1403 of the Insurance Holding Companies Act.

Financial Condition of Applicant

23. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the surviving insurer.
24. As of December 31, 2000, Mutual Fire reported:

Assets of:	\$3,484,453
Liabilities of:	\$1,555,574
Surplus as Regard Policyholders of:	\$1,928,879
25. The financial condition of Mutual Fire would not pose any impediments to the merger nor prejudice the interest of the policyholders of Farmers

Alliance.

Plans for the Acquired Insurer

26. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals of the surviving insurer after the merger.
27. As stated in the Application, no in-force policies will be non-renewed as a result of the merger.
28. As stated in the Application, most existing agents of Farmers Alliance will be offered contracts with Mutual Fire.
29. The Department did not find the Merger Agreement to be:
 - a. unfair or unreasonable to the policyholders of Farmers Alliance, or
 - b. contrary to the interests of the public.
30. The Department did not find any material changes in the plans for the business, corporate structure or management of Farmers Alliance after the merger that would be:
 - a. unfair and unreasonable to the policyholders of Farmers Alliance, or
 - b. contrary to the interests of the public.

Management

31. When analyzing an application for a merger involving a domestic insurer 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 surviving insurer.
32. Biographical affidavits for all directors and executive officers of Mutual Fire were reviewed by the Department.
33. The Department is satisfied that the persons who control the operations of Mutual Fire have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
34. 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 merger of Farmers Alliance and Mutual Fire.
2. Under Section 1402 of the Insurance Holding Companies Act, the Department must approve an application for a merger 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 effect of the merger 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 merger of Farmers Alliance with and into Mutual Fire.

4. The Commissioner concludes that the preparation of the Merger Agreement, pertaining to the terms and conditions, satisfies the requirements of Section 1922 of the 1988 BCL.
5. The Commissioner concludes that the Merger Agreement satisfies the requirements of Section 1924 as it has been adopted by the policyholders of Farmers Alliance and Mutual Fire and by the Board of Directors of Farmers Alliance and Mutual Fire.
6. The Commissioner concludes that the Articles of Merger will satisfy the requirements of Section 1926 of the 1988 BCL.
7. The Commissioner concludes that the Merger Agreement will be effective on or after proper filing of Articles of Merger with the Department of State pursuant to Sections 1927 and 1928 of the 1988 BCL.
8. The Commissioner concludes that, if the proposed merger is consummated, all the rights, privileges, immunities, powers and purposes of Farmers Alliance will be conveyed to the surviving entity, as a matter of law, pursuant to Section 1929 of the 1988 BCL.
9. Pursuant to Section 205(b) of the GAA Amendments Act, the Commissioner concludes that the terms and conditions of the proposed merger are fair and that the proposed merger is in accordance with law and not injurious to the interests of the policyholders and creditors.
10. The Application satisfies the requirements of the Insurance Holding Companies Act, the 1988 BCL and the GAA Amendments Act.
11. 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 approves the application of Mutual Fire Insurance Company in Calvert County ("Mutual Fire") requesting approval for the merger of Farmers Alliance and Industrial Union Mutual Fire Insurance Company ("Farmers Alliance") with and into Mutual Fire subject to the following conditions:

1. A copy of the Articles of Merger must be filed with the Commissioner not later than ten (10) days after their filing with the Pennsylvania Department of State.
2. Mutual Fire shall mail to each policyholder of Farmers Alliance an approved endorsement within sixty (60) days of the effective date of the proposed merger. This endorsement will notify all policyholders of Farmers Alliance of the merger and advise them that Mutual Fire is

responsible for all of the obligations and liabilities of such policyholders' policies.

This Order is effective immediately and valid for one year, provided there are no material changes to the Application.


M. DIANE KOKEN
Insurance Commissioner
Commonwealth of Pennsylvania

