

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of High Point Preferred : 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 21st Century Security Insurance : amended, 40 P.S. §§991.1401,
Company : 991.1402 and 991.1403
: :
: Order No. ID-RC-18-10

DECISION AND ORDER

AND NOW, on this 31st day of July, 2018, Jessica K. Altman, 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. 21st Century Security Insurance Company (“Security”) is a domestic stock casualty insurance company organized pursuant to the laws of Pennsylvania with its principal place of business in Wilmington, Delaware.
2. Mid-Century Insurance Company (“Mid-Century”) is a stock casualty insurance company organized pursuant to the laws of California with its principal place of business in Woodland Hills, California. Mid-Century currently directly holds 100% of the issued and outstanding stock of Security.

3. Farmers Insurance Exchange (“Farmers”) is a reciprocal and inter-insurance exchange organized pursuant to the laws of California with its principal place of business in Woodland Hills, California. Farmers currently directly holds 80% of the issued and outstanding stock of Mid-Century.
4. Fire Insurance Exchange (“Fire”) is a reciprocal and inter-insurance exchange organized pursuant to the laws of California with its principal place of business in Woodland Hills, California. Fire currently directly holds 10% of the issued and outstanding stock of Mid-Century.
5. Truck Insurance Exchange (collectively referenced hereinafter with Farmers and Fire as the “Exchanges”) is a reciprocal and inter-insurance exchange organized pursuant to the laws of California with its principal place of business in Woodland Hills, California. Truck currently directly holds 10% of the issued and outstanding stock of Mid-Century.

Identity of Applicant

6. High Point Preferred Insurance Company (“HPPIC”) is a stock casualty insurance company organized pursuant to the laws of New Jersey with its principal place of business in Red Bank, New Jersey.
7. Palisades Safety and Insurance Association (“PSIA”) is a reciprocal and inter-insurance exchange organized pursuant to the laws of New Jersey with its principal place of business in Red Bank, New Jersey. PSIA currently indirectly holds 100% of the issued and outstanding stock of HPPIC.
8. Plymouth Rock Assurance Corporation (“Plymouth”) is a stock casualty insurance company organized pursuant to the laws of Massachusetts with its principal place of business in Boston, Massachusetts.

Acquisition Filing

9. 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.
10. On March 29, 2018, 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 Plymouth for approval to acquire control of Security.

11. On April 23, 2018, the Department received an amended Application from HPPIC, whereby Plymouth had assigned its right to acquire Security to HPPIC.
12. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

13. On May 26, 2018, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by HPPIC 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”).
14. The Department received no comments regarding the Application during the Comment Period.

Description of the Proposed Acquisition

15. As described in the Application, on September 22, 2017, the Exchanges, Mid-Century, Security and Plymouth entered into a Master Transaction Agreement (“the Agreement”).
16. As described in the Application and pursuant to the Agreement, Plymouth intended to purchase 100% of the issued and outstanding common stock of Security from Mid-Century (“the Acquisition”).
17. As described in the Application and pursuant to the Agreement, effective April 13, 2018 Plymouth assigned its right to acquire Security to HPPIC.
18. As described in the Application, HPPIC will use existing funds (i.e. cash on hand) for payment of the purchase price.
19. As described in the Application and subsequent to the Acquisition, HPPIC would directly control 100% of the issued and outstanding stock of Security.

Standards for Review

20. 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.
21. 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

22. 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.
23. 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.
24. 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).
25. 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).
26. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Security is 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 it is presently licensed.
27. Upon completion of the Acquisition, Security 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

28. 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”).
29. The acquisition of control of Security will not lessen competition or tend to create a monopoly in the Commonwealth because Security is not an active writer and presently has no in-force policies in Pennsylvania or any other jurisdiction.

Financial Condition of Applicant

30. 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).
31. The Department has reviewed the financial information submitted by HPPIC and PSIA.
32. The financial condition of HPPIC and PSIA would not pose any impediments to the change in control nor jeopardize the financial condition of Security.

Plans for the Acquired Insurer

33. 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.
34. 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.
35. As stated in the Application, HPPIC has no future plans or proposals to liquidate Security, to sell its assets, to merge or consolidate it with any person or persons or to change its corporate structure.
36. As stated in the Application, the current Board of Directors and officers of Security will be replaced by representatives of PSIA following the Acquisition.
37. As stated in the Application, within thirty days after the effective date of the Acquisition, Security will file applications with the Pennsylvania Insurance Department and the New Jersey Department of Banking and Insurance requesting approval to redomesticate Security from the Commonwealth of Pennsylvania to the State of New Jersey, targeting an effective date for the redomestication prior to March 1, 2019.
38. 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

39. 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.
40. Biographical affidavits for the proposed new officers and directors of Security were reviewed by the Department.
41. Biographical affidavits for the officers and directors of HPPIC were reviewed by the Department.
42. The Department is satisfied that the persons who would control the operations of Security 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

43. 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.
44. There is insufficient evidence in the record from which it may be concluded that the acquisition will likely be hazardous or prejudicial to the insurance buying public.

Compliance with the Pennsylvania Laws

45. 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.
46. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.
47. 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 Security.
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 Security.
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


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

The application of High Point Preferred Insurance Company (“HPPIC”) in support of the request for approval to acquire control of 21st Century Security Insurance Company (“Security”) as set forth in the application, is hereby approved, subject to this Order and the following conditions:

1. HPPIC 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. Within thirty days after the effective date of the Acquisition, Security will file applications with the Pennsylvania Insurance Department and the New Jersey Department of Banking and Insurance requesting approval to redomesticate Security from the Commonwealth of Pennsylvania to the State of New Jersey, targeting an effective date for the redomestication prior to March 1, 2019.

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.





Jessica K. Altman
Insurance Commissioner
Commonwealth of Pennsylvania