

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Section 319, Article III of the  
: Insurance Company Law of 1921, Act of  
Application of Provident Indemnity Life : May 17, 1921, P.L. 682, as amended, 40  
Insurance Company for Approval to : P.S. §442  
Reinsure its Entire Schedule of Policies :  
: Order No. ID-RC-02-37

DECISION AND ORDER

AND NOW, on this \_\_\_\_\_ day of December, 2002, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order.

Pursuant to Section 319 of the Insurance Company Law of May 17, 1921, as amended, (40 P.S. §442) (“Insurance Company Law”) 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 Companies**

1. Provident Indemnity Life Insurance Company (“Provident”) is a stock life insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Norristown, Pennsylvania.
2. Lincoln Heritage Life Insurance Company (“Lincoln”) is a stock life insurance company organized under the laws of the State of Illinois with its principal place of business in Springfield, Illinois.
3. Provident and Lincoln each hold a certificate authorizing the transaction of the business of insurance in this Commonwealth (“Certificate of Authority”).

**Reinsurance Filing**

4. On May 30, 2003, the Commissioner received an initial application (which, together with all material received subsequently, is collectively referenced as “Application”) from Provident for approval to reinsure its entire schedule of policies (“Bulk Transfer”) with

Lincoln.

5. The Application included an Assumption Reinsurance Agreement and Liability & Asset Transfer Agreement (“the Agreements”) that provide, inter alia, for Lincoln to assume the rights, duties, and obligations of all policies issued by Provident in exchange for an amount of assets equal to the policy reserves and liabilities of Provident less a two million dollar (\$2,000,000) ceding commission to Provident.
6. Such reinsurance and assumption of the entire schedule of policies of a domestic insurer requires the prior approval of the Commissioner in accordance with the provisions of Section 319(a) of the Insurance Company Law.

### **Standards for Review**

7. The standards set forth in Section 319(b) of the Insurance Company Law are used by the Commissioner in reviewing an application for approval submitted in accordance with Section 319(a) of the Insurance Company Law.

#### Business Written

8. When evaluating a Bulk Transfer, filed in accordance with Section 319(a) of the Insurance Company Law, the Commissioner reviews to determine that the assuming company is doing the same or a similar kind of business as the ceding company.
9. Lincoln is writing the same or a similar kind of business as Provident as reflected in documents on file with the Pennsylvania Insurance Department (“Department”).

#### License Status

10. When evaluating a Bulk Transfer, filed in accordance with Section 319(a) of the Insurance Company Law, the Commissioner reviews the license status of the assuming insurer to determine that it is licensed to transact the business of insurance in this Commonwealth or in any of the United States.
11. The 2001 Annual Statement of Provident, as filed with the Department and prepared in accordance with statutory accounting principles, reports licensure and direct premiums written in 26 states.
12. The 2001 Annual Statement of Lincoln, as filed with the Department and prepared in accordance with statutory accounting principles, reports licensure and direct premiums written in all states that Provident is licensed and has direct written premiums.

#### Financial Condition

13. When evaluating a Bulk Transfer, filed in accordance with Section 319(a) of the Insurance Company Law, the Commissioner reviews the solvency of the assuming

insurer both before and after consummation of the proposed transaction.

14. The 2001 Annual Statement of Lincoln, reports total surplus of \$67.2 million.
15. As of and for the year ended December 31, 2001, Lincoln's total assets were \$359.4 million, total liabilities were \$292.2 million, and net income was \$11.0 million.
16. As of and for the nine (9) months ended September 30, 2002, Lincoln's total assets were \$373.2 million, total liabilities were \$306.7 million, total surplus was \$66.5 million and net income was \$3.4 million.
17. On a pro forma basis, after the Bulk Transfer, Lincoln will have:
  - a) Assets of \$415.5 million;
  - b) Liabilities of \$ 351.2 million; and
  - c) Surplus of \$ 64.3 million.
18. There are no apparent solvency issues in the financial condition of Lincoln both before and after the Bulk Transfer.

#### Licensing Requirements

19. When evaluating a Bulk Transfer, filed in accordance with Section 319(a) of the Insurance Company Law, the Commissioner reviews the requirements for continued licensure of the assuming insurer.
20. Section 206 of the Insurance Company Law sets out the minimum surplus required of a stock insurance company for each line of insurance for which it is incorporated.
21. The minimum paid up capital stock and paid in surplus required of a stock insurer for each class of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
22. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Lincoln is required to maintain a minimum paid up capital stock of \$1,100,000 to write the classes of insurance for which it is presently licensed.
23. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Lincoln is required to maintain a minimum paid in surplus of \$550,000 to write the classes of insurance for which it is presently licensed.
24. Lincoln currently has sufficient paid up capital stock and paid in surplus to satisfy the requirements to write the lines of insurance for which it is presently licensed.
25. Upon completion of the Bulk Transfer, Lincoln will have sufficient paid up capital stock and paid up surplus in an amount to maintain a license to transact the business of

insurance in this Commonwealth for those lines of insurance for which it is presently licensed.

26. 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. Section 319(a) of the Insurance Company Law provides that no stock or mutual insurance company shall reinsure its entire schedule of policies except by approval of the Commissioner.
2. Section 319(b) of the Insurance Company Law provides the following standards for use by the Commissioner in reviewing an application for approval submitted in accordance with Section 319(a) of the Insurance Company Law:
  - a) the assuming insurer is doing the same or a similar kind of business;
  - b) the assuming insurer is licensed to transact business in this Commonwealth or licensed to transact business in any of the United States;
  - c) the assuming insurer is and remains of the same standards of solvency; and
  - d) the assuming insurer continues to meet all other requirements fixed by the laws of this Commonwealth for companies, associations, or exchanges transacting the same classes of business within this Commonwealth.
3. The standards of Section 319(b) of the Insurance Company Law were applied by the Commissioner in reviewing the Bulk Transfer of Provident's entire schedule of policies.
4. Based on all the information and analysis received and the Department's independent review, the Commissioner finds that the sections of the Agreements that are relevant to the Application are in accordance with the laws of the Commonwealth of Pennsylvania.
5. A company organized under the laws of the Commonwealth of Pennsylvania may transact the business of insurance if it has been issued a Certificate of Authority from the Commissioner.
6. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be deemed incorporated in the Findings Fact as if fully set forth therein.

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In Re: : Pursuant to Section 319, Article III of the  
: Insurance Company Law of 1921, Act of  
Application of Provident Indemnity Life : May 17, 1921, P.L. 682, as amended, 40  
Insurance Company for Approval to Reinsure its : P.S. §442  
Entire Schedule of Policies :  
: Order No. ID-RC-02-37

ORDER

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

An approving determination for the Assumption Reinsurance Agreement between Provident Indemnity Life Insurance Company (“Provident”) and Lincoln Heritage Life Insurance Company (“Lincoln”), as set forth in the Application, is hereby granted, subject to this Order and the following conditions:

1. After consummation of the instant transaction Provident shall not sell or assume any insurance policies without the explicit prior written approval of the Pennsylvania Insurance Department (“Department”).
2. Not later than December 31, 2003, unless extended in writing by the Department, Provident shall, with the prior written approval of the Department:
  - a. surrender its Certificate of Authority to transact the business of an insurance company;
  - b. initiate action to voluntarily dissolve the company; or
  - c. enter into an agreement to sell the company.
3. Provident shall report to the Department any actions taken with respect to its Certificate of Authority by another jurisdiction within five business days of receiving notice of such action.

This Order is effective immediately and is valid for one year from the date of signature.

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M. Diane Koken  
Insurance Commissioner  
Commonwealth of Pennsylvania