

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 Clarion County Mutual Fire : 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-06-39

DECISION AND ORDER

AND NOW, on this 20th day of November, 2006, 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. Clarion County Mutual Fire Insurance Company (“Clarion”) is a mutual fire insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Marble, Pennsylvania.
2. Farmers Mutual Fire Insurance Company of Marble, Pennsylvania (“Farmers”) is a mutual fire insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Marble, Pennsylvania.
3. Clarion and Farmers each hold a certificate authorizing the transaction of the business of insurance in this Commonwealth (“Certificate of Authority”).

Reinsurance Filing

4. On October 19, 2006, the Commissioner received an initial application (which, together with all material received subsequently, is collectively referenced as “Application”) from Clarion for approval to reinsure its entire schedule of policies (“Bulk Transfer”) with

Farmers.

5. The Application included an Agreement for Acquisition of Assets and Assumption of Liabilities and an Assumption Reinsurance Agreement (“the Agreements”) that provide, inter alia, for Farmers to assume the rights, duties, and obligations of all policies issued by Clarion in exchange for all of the assets of Clarion.
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. Farmers is writing the same or a similar kind of business as Clarion 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 2005 Annual Statement of Clarion, as filed with the Department and prepared in accordance with statutory accounting principles, reports licensure and direct premiums written.
12. The 2005 Annual Statement of Farmers, as filed with the Department and prepared in accordance with statutory accounting principles, reports licensure and direct premiums written in all states that Clarion 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 2005 Annual Statement of Farmers, reports total surplus of \$5,349,643.
15. As of and for the year ended December 31, 2005, Farmers' total assets were \$13,285,247, total liabilities were \$7,935,604, and net income was \$297,684.
16. On a pro forma basis, after the Bulk Transfer, Farmers will have:
 - a) Assets of \$ 14,097,361;
 - b) Liabilities of \$ 7,951,372; and
 - c) Surplus of \$ 6,145,989.
17. There are no apparent solvency issues in the financial condition of Farmers both before and after the Bulk Transfer.

Licensing Requirements

18. 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.
19. The minimum surplus required of a mutual insurer for each class of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
20. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Farmers is required to maintain a minimum paid in surplus of \$950,000 to write the classes of insurance for which it is presently licensed.
21. Farmers currently has sufficient surplus to satisfy the requirements to write the lines of insurance for which it is presently licensed.
22. Upon completion of the Bulk Transfer, Farmers will have surplus in an amount sufficient to maintain a license to transact the business of insurance in this Commonwealth for those lines of insurance for which it is presently licensed.
23. 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 Clarion'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 of Fact as if fully set forth therein.

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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 Clarion County Mutual Fire Insurance Company (“Clarion”) and Farmers Mutual Fire Insurance Company of Marble, Pennsylvania (“Farmers”), as set forth in the Application, is hereby granted, subject to this Order and the following conditions:

1. After consummation of the instant transaction, Clarion 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, 2006, unless extended in writing by the Department, Clarion 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.

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

M. Diane Koken
Insurance Commissioner
Commonwealth of Pennsylvania