

BEFORE THE ACTING INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Allegany Co-Op : 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 Conemaugh Valley Mutual Insurance : amended, 40 P.S. §§991.1401,
Company : 991.1402 and 991.1403; Chapter
: 25 of Title 31 of the Pennsylvania
: Code, 31 Pa. Code §§25.1-.23.
:
: Order No. ID-RC-07-30

DECISION AND ORDER

AND NOW, on this 14th day of November, 2007, Joel Ario, Acting 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

1. Conemaugh Valley Mutual Insurance Company (“Conemaugh Valley”) is a mutual fire insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Johnstown, Pennsylvania.
2. Allegany Co-Op Insurance Company (“Allegany”) is a property and casualty insurance co-operative organized pursuant to the laws of the state of New York with its principal place of business located in Cuba, New York.

Acquisition Filing

3. On August 15, 2007, Conemaugh Valley and Allegany signed a Affiliation Agreement (“Agreement”) whereby Allegany would acquire control of Conemaugh Valley by holding a majority of the membership on Conemaugh Valley’s Board of Directors.
4. 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.
5. On June 14, 2007, 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 Allegany for approval to acquire control of Conemaugh Valley.
6. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

7. On July 14, 2007, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by Allegany 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”).
8. During the Comment Period, the Department received no comments regarding the Application.

Description of the Proposed Acquisition

9. As described in the Application and pursuant to the Agreement, Allegany must obtain regulatory approvals from the state of New York and successfully complete its conversion to an advance premium cooperative and subsequent merger with an insurer currently controlled by Allegany.
10. As described in the Application and pursuant to the Agreement, Allegany will advance to Conemaugh Valley an amount not to exceed one million dollars in exchange for one or more surplus notes. This amount is a total to be advanced, whether it be all at once or through one or more subsequent transactions.

11. As described in the Application and pursuant to the Agreement, Conemaugh Valley will nominate a sufficient number of representatives recommended by Allegany's Board of Directors to serve on Conemaugh Valley's Board of Directors in order to ensure that Allegany's representation will constitute a majority of Conemaugh Valley's Board of Directors.
12. As described in the Application and pursuant to the Agreement, Allegany's representatives on the Conemaugh Valley Board of Directors shall also constitute a majority of each committee of the Conemaugh Valley Board of Directors.

Standards for Review

13. 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.

Licensing Requirements

14. 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.
15. 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).
16. The minimum surplus required of a mutual insurer for each line of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
17. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Conemaugh Valley is required to maintain a minimum surplus of \$950,000 to write the lines of insurance for which it is presently licensed.
18. As of September 30, 2007, Conemaugh Valley maintained the statutory minimum surplus to satisfy the requirements to write the lines of insurance for which it is presently licensed.
19. Upon completion of the transaction, Conemaugh Valley will have the statutory minimum surplus to satisfy the requirements to write the lines of insurance for which it is presently licensed.

Competitive Impact

20. The acquisition of control of Conemaugh Valley is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act 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.
21. The acquisition of control of Conemaugh Valley will not lessen competition or tend to create a monopoly in the Commonwealth because Allegany has no market share in the Commonwealth of Pennsylvania.

Financial Condition of Applicant

22. 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).

23. The annual financial statement submitted by Allegany as of December 31, 2006, reports:

Admitted Assets:	\$26,236,033
Total Liabilities:	\$11,377,152
Surplus as Regards Policyholders:	\$14,858,881.

24. The financial condition of Allegany will not pose any impediments to the change in control nor jeopardize the financial condition of Conemaugh Valley.

Plans for the Acquired Insurer

25. 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.
26. As provided in the Application, Allegany has no future plans or proposals to liquidate Conemaugh Valley, to sell its assets to or merge it with any person or persons.

Management

27. 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.
28. Biographical affidavits for all directors and executive officers of Allegany in addition to those new intended directors and officers of Conemaugh Valley were reviewed by the Department.
29. The Department is satisfied that the persons who would control the operations of Conemaugh Valley have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
30. 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 Conemaugh Valley.
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 write 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 Conemaugh Valley.
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 Acting Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

The application of Allegany Insurance Company (“Allegany”) in support of the request for approval to acquire control of Conemaugh Valley Mutual Insurance Company as set forth in the Application, is hereby approved, subject to this Order and the following conditions:

1. Allegany shall obtain all required regulatory approvals from the New York Insurance Department prior to consummation of the subject transaction, and
2. Allegany 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.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation.

JOEL ARIO
Acting Insurance Commissioner
Commonwealth of Pennsylvania