

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 HealthMarkets, LLC in	:	Companies Act, Article XIV of the
Support of the Request for Approval to	:	Insurance Company Law of 1921,
Acquire Control of Fidelity Life	:	Act of May 17, 1921, P.L. 682,
Insurance Company	:	<u>as amended</u> , 40 P.S. §§991.1401,
	:	991.1402, and 991.1403
	:	
	:	Order No. ID-RC-07-38

DECISION AND ORDER

AND NOW, on this 29th 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 Company Law and the Insurance Holding Company 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

1. Fidelity Life Insurance Company (“Fidelity Life”) is a stock life insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Radnor, Pennsylvania. Fidelity Life is licensed to write life and accident & health classes of insurance in Pennsylvania.

2. Fidelity Insurance Group, Inc. (“Fidelity Group”) is an insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of located in Radnor, Pennsylvania. Fidelity Group directly holds 100% of the issued and outstanding capital stock of Fidelity Life.
3. Fidelity Mutual Life Insurance Company (in Rehabilitation) (“Fidelity Mutual” and together with Fidelity Group referenced as “Seller”) is a mutual life insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Radnor, Pennsylvania. Fidelity Mutual directly holds 100% of the issued and outstanding capital stock of Fidelity Group.
4. HealthMarkets, LLC is a business limited liability corporation organized under the laws of the state of Delaware with its principal place of business located in North Richland Hills, Texas.
5. HealthMarkets, Inc. (together with HealthMarkets, LLC referenced as (“HealthMarkets”) is a business corporation organized under the laws of the state of Delaware with its principal place of business located in North Richland Hills, Texas. HealthMarkets, Inc. directly holds 100% of the issued and outstanding capital stock of HealthMarkets, LLC.

#### Acquisition Filing

6. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that any transaction involving the control of a domestic insurer must be filed with the Commissioner for approval or disapproval.
7. On November 15, 2007, 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 HealthMarkets for approval to acquire control of Fidelity Life.
8. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

### Description of the Proposed Acquisition

9. As described in the Application, on October 25, 2007, Seller and HealthMarkets signed a Stock Purchase Agreement (which together with subsequent amendments is referenced herein as the "Agreement") whereby HealthMarkets, LLC would acquire 100% of the issued and outstanding capital stock of Fidelity Life (the "Acquisition").
10. As described in the Application, HealthMarkets would fund the Acquisition from its existing corporate resources.
11. As described in the Application and pursuant to the Agreement, the consideration for the Acquisition would be \$3,871,000, subject to certain adjustments.

### Standards for Review

12. 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.
13. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

### 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 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).
16. 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).
17. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Fidelity Life 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.

18. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Fidelity Life is required to maintain a minimum paid in surplus of \$550,000 to write the classes of insurance for which it is presently licensed.
19. Upon completion of the transaction, Fidelity Life would have paid up capital in an amount that would satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Fidelity Life.
20. Upon completion of the transaction, Fidelity Life would have paid in surplus in an amount that would satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Fidelity Life.

#### Competitive Impact

21. The acquisition of control of Fidelity Life 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.
22. The acquisition of control of Fidelity Life will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of HealthMarkets, as stated in the Application, does not exceed the market share levels established in Section 1403.

#### Financial Condition of HealthMarkets

23. 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 persons.
24. HealthMarkets, Inc. reports that as of December 31, 2006, the GAAP account balances of HealthMarkets, Inc. were:

Assets:	\$ 2,588,329,000
Liabilities:	\$ 2,063,944,000
Shareholder's Equity:	\$ 524,385,000

25. The financial condition of HealthMarkets would not pose any impediments to the change in control nor jeopardize the financial

condition of Fidelity Life.

Plans for the Acquired Insurer

26. 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.
27. As provided in the Application, HealthMarkets has disclosed that it intends to redomesticate Fidelity Life from Pennsylvania to Oklahoma upon approval of the Pennsylvania and Oklahoma Insurance Departments.

Management

28. 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 insurers.
29. Biographical affidavits for all involved directors and executive officers of HealthMarkets were provided as part of the Application and the Department reviewed all affidavits that were submitted.
30. The Department is satisfied that the persons who would control the operations of Fidelity Life have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
31. 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 Commissioner has jurisdiction to review and approve the change in control of Fidelity Life.

2. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner 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 it is 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;
  - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or,
  - 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 Fidelity Life.
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 No. ID-RC-07-38

ORDER

Upon consideration of the foregoing, the Acting Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

The Application of HealthMarkets, LLC in support of the request for approval to acquire control of Fidelity Life Insurance Company is hereby approved, subject to this Order and the following condition:

HealthMarkets, LLC shall provide a list of the closing documents to the Insurance Department within five days of consummation of the subject transaction. Such documents shall be available for Department review for a period of not less than five years from the date of the closing of this acquisition.

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

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JOEL ARIO  
Acting Insurance Commissioner  
Commonwealth of Pennsylvania