

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and
: 1403 of the Insurance Holding
Application of PMSLIC Insurance : Companies Act, Article XIV of the
Company in Support of the Request for : Insurance Company Law of 1921,
Approval to Acquire Control of : Act of May 17, 1921, P.L. 682,
Millennium Insurance Company and : as amended, 40 P.S. §§991.1401,
Pennsylvania Medical Reinsurance : 991.1402, and 991.1403
Company :
:
: Order No. ID-RC-08-09

DECISION AND ORDER

AND NOW, on this 28th day of August, 2008, Joel Ario, 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. Millennium Insurance Company ("Millennium") is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Newtown Square, Pennsylvania.

2. Pennsylvania Medical Reinsurance Company (“PMRC”) is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Newtown Square, Pennsylvania.
3. MIC Holding Company (“MICH”) is an insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of located in Newtown Square, Pennsylvania. MICH directly holds 100% of the issued and outstanding capital stock of Millennium and PMRC.
4. PMSLIC Insurance Company (“PMSLIC”) is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Mechanicsburg, Pennsylvania.
5. NORCAL Mutual Insurance Company (“NORCAL”) is a mutual casualty insurance company organized under the laws of the state of California with its principal place of business located in San Francisco, California. NORCAL indirectly controls 100% of the issued and outstanding capital stock of PMSLIC.
6. NORCAL is the sole ultimate controlling person of PMSLIC.

Acquisition Filing

7. 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.
8. On June 18, 2008, 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 PMSLIC for approval to acquire control of Millennium and PMRC.
9. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

10. On June 28, 2008, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by PMSLIC and such notice invited interested persons to submit comments to the Department regarding the Application for a thirty day period.
11. The Department received no comments regarding the Application during the thirty day comment period.

Description of the Proposed Acquisition

12. As described in the Application, on June 16, 2008, the current owners of MICH and PMSLIC signed a Stock Purchase Agreement (which together with subsequent amendments is referenced herein as the "Agreement") whereby PMSLIC would acquire 100% of the issued and outstanding capital stock of MICH (the "Acquisition").
13. As described in the Application, PMSLIC would fund the Acquisition from its existing corporate resources.

Standards for Review

14. 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.
15. 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

16. 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.
17. 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).

18. 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).
19. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), both Millennium and PMRC are required to maintain a minimum paid up capital stock of \$750,000 to write the classes of insurance for which they are presently licensed.
20. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), both Millennium and PMRC are required to maintain a minimum paid in surplus of \$375,000 to write the classes of insurance for which they are presently licensed.
21. Upon completion of the transaction, Millennium and PMRC 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.
22. Upon completion of the transaction, Millennium and PMRC 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.

Competitive Impact

23. The acquisition of control of Millennium and PMRC 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.
24. The acquisition of control of Millennium and PMRC will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of PMSLIC, as stated in the Application, does not exceed the market share levels established in Section 1403.

Financial Condition of HealthMarkets

25. 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.

26. PMSLIC reports that as of December 31, 2007, the SAP account balances of PMSLIC were:

Assets:	\$ 405,224,397
Liabilities:	\$ 250,402,981
Shareholder's Equity:	\$ 154,821,416

27. The financial condition of PMSLIC would not pose any impediments to the change in control nor jeopardize the financial condition of Millennium and PMRC.

Plans for the Acquired Insurer

28. 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.
29. As provided in the Application, PMSLIC has disclosed that it intends to cause the merger of Millennium and PMRC with and into PMSLIC.

Management

30. 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.
31. Biographical affidavits for all involved directors and executive officers of PMSLIC were provided as part of the Application and the Department reviewed all affidavits that were submitted.
32. The Department is satisfied that the persons who would control the operations of Millennium and PMRC have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
33. 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 Millennium and PMRC.

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 and fail to confer benefit on policyholders of the insurer and are 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 Millennium and PMRC.

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-08-09

ORDER

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

The Application of PMSLIC Insurance Company in support of the request for approval to acquire control of Millennium Insurance Company and Pennsylvania Medical Reinsurance Company is hereby approved, subject to this Order and the following condition:

PMSLIC Insurance Company 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.

JOEL ARIO
Insurance Commissioner
Commonwealth of Pennsylvania