

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402,
	:	and 1403 of the Insurance
Application of Penn Millers Holding	:	Holding Companies Act, Article
Corporation in Support of the Request for	:	XIV of the Insurance Company
Approval to Acquire Control of Penn	:	Law of 1921, Act of May 17, 1921,
Millers Insurance Company and American	:	P.L. 682, <u>as amended</u> , 40 P.S.
Millers Insurance Company	:	§§991.1401, 991.1402, and 991.1403
	:	
	:	
	:	Order No. ID-RC-09-19

DECISION AND ORDER

AND NOW, on this 19th day of August, 2009, Joel Ario, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to 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. American Millers Insurance Company (“American Millers”) is a stock property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilkes-Barre, Pennsylvania.
2. Penn Millers Insurance Company (“Penn Millers” and together with American Millers “Domestic Insurers”) is a stock property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilkes-Barre, Pennsylvania. Penn Millers directly holds 100% of the issued and outstanding capital stock of American Millers.
3. PMHC Corp. (“PMHC”) is a stock insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of

business located in Wilkes-Barre, Pennsylvania. PMHC directly holds 100% of the issued and outstanding capital stock of Penn Millers.

4. Penn Millers Mutual Holding Company (“Mutual Holding”) is a mutual holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilkes-Barre, Pennsylvania. Mutual Holding directly holds 100% of the issued and outstanding capital stock of PMHC.
5. Mutual Holding is the sole ultimate controlling person of Domestic Insurers.
6. Penn Millers Holding Corporation (“Penn Millers Holding”) is a business corporation organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located Wilkes-Barre, Pennsylvania.

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 all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.
8. Section 1402(g) of the Insurance Holding Companies Act provides for the exemption from the requirements of Section 1402(b) if the transaction:
 - a) does not have the effect of changing or influencing the control of a domestic insurer, or
 - b) is otherwise not comprehended within the purposes of the section.
9. On June 11, 2009, 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 Penn Millers Holding for approval to acquire control of Domestic Insurers.
10. The Application also request approval to cause the merger of two intermediate holding companies after consummation of the acquisition of Domestic Insurers by Penn Millers Holding.
11. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

12. On June 26, 2009, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by Penn Millers Holding and such notice

invited interested persons to submit comments to the Department regarding the Application for a thirty (30) day period, ending July 27, 2009.

13. During the thirty (30) day comment period, the Department received no comments regarding the Application.

Description of the Proposed Acquisition

14. As described in the Application, on April 22, 2009, Mutual Holding adopted a plan of conversion pursuant to which Mutual Holding will convert from mutual to stock form and issue all of its shares of capital stock to Penn Millers Holding (the "Conversion Plan").
15. As described in the Application and pursuant to the Conversion Plan, Mutual Holdings will change its name to PMMHC Corp. after it has changed to a stock corporation.
16. As described in the Application and pursuant to the Conversion Plan, Penn Millers Holding stock will be offered for sale in a subscription offering and, if necessary, a community offering.
17. As described in the Application and pursuant to the Conversion Plan, after the conversion PMHC would merge with and into PMMHC Corp., with PMMHC Corp. the survivor of the merger.
18. As described in the Application and pursuant to the Conversion Plan, the new sole ultimate controlling person of Domestic Insurers would be Penn Millers Holding.

Standards for Review

19. 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.
20. 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

21. 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.
22. 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).
23. The minimum paid up capital stock and paid in surplus required of a stock insurer for each line of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
 24. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), American Millers is required to maintain a minimum paid up capital stock of \$1,900,000 to write the lines of insurance for which it is presently licensed.
 25. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), American Millers is required to maintain a minimum paid in surplus of \$950,000 to write the lines of insurance for which it is presently licensed.
 26. Upon completion of the transaction, American Millers will have paid up capital in an amount that will satisfy the statutory minimum required of a property insurance company licensed to write the lines of authority currently held by American Millers.
 27. Upon completion of the transaction, American Millers will have paid in surplus in an amount that will satisfy the statutory minimum required of a property insurance company licensed to write the lines of authority currently held by American Millers.
 28. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Penn Millers is required to maintain a minimum paid up capital stock of \$2,350,000 to write the lines of insurance for which it is presently licensed.
 29. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Penn Millers is required to maintain a minimum paid in surplus of \$1,175,000 to write the lines of insurance for which it is presently licensed.
 30. Upon completion of the transaction, Penn Millers will have paid up capital in an amount that will satisfy the statutory minimum required of a property insurance company licensed to write the lines of authority currently held by Penn Millers.
 31. Upon completion of the transaction, Penn Millers will have paid in surplus in an amount that will satisfy the statutory minimum required of a property insurance company licensed to write the lines of authority currently held by Penn Millers.

Competitive Impact

32. The acquisition of control of the Domestic Insurers 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.

33. The acquisition of control of the Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth because the market shares of Penn Millers Holding, as stated in their Application, do not exceed the market share levels established in Section 1403.

Financial Condition of Applicants

34. 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.
35. The Department has reviewed the pro forma financial statements of Penn Miller Holding and determined that Penn Millers Holding's financial position would not pose any impediments to the change in control nor jeopardize the financial condition of Domestic Insurers.

Plans for the Acquired Insurer

36. 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.
37. As provided in the Application, Penn Millers Holding has disclosed that it intends to make no changes to the business plans of Domestic Insurers.

Management

38. 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.
39. Biographical affidavits for all directors and executive officers of Penn Miller Holding were provided as part of the Application and the Department reviewed all affidavits that were submitted.
40. The Department is satisfied that the persons who would control the operations of Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
41. The Commissioner finds that the merger of PMHC with and into PMMHC Corp., as described in the Application, would not have the effect of changing or influencing the ultimate control of Domestic Insurers.

ID-RC-98-29

42. On October 23, 1998, the then Insurance Commissioner of the Commonwealth of Pennsylvania, M. Diane Koken, issued order ID-RC-98-29 approving the conversion of Pennsylvania Millers Mutual Insurance Company to a stock insurance company within a mutual holding company structure. The resulting stock insurer is Penn Millers.
43. Order ID-RC-98-29 contained 32 conditions to the approval.
44. This order would satisfy the following conditions of order ID-RC-98-29:
 20. Mutual Holding Company shall not convert from the mutual to stock form in any manner without the prior approval of the Commissioner.
 21. Mutual Holding Company shall not merge with any person without the prior approval of the Commissioner.
 22. Mutual Holding Company shall provide any contemplated changes to its Articles of Incorporation or By-Laws to the Commissioner for review and approval.
 28. Mutual Holding Company, Stock Holding Company or Stock Insurance Company shall not implement any plans involving the issuance of stock, warrants or rights thereto, including, but not limited to, management recognition programs, employee stock ownership plans, officer and director stock ownership plans, prior to or as part of an initial public offering without the prior approval of the Commissioner.
45. All of the remaining conditions of order ID-RC-98-29 have been rendered moot by changes to the applicable laws and the passage of time.

Mutual-to-Stock Conversion Act

46. The Insurance Company Mutual-to-Stock Conversion Act, Article VIII-A of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, added 1995, Dec. 21, P.L. 714, 40 P.S. §§911-A et seq., as amended regulates the mutual to stock conversions of insurance companies. It is not applicable to insurance holding companies.
47. 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 Domestic Insurers.
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 Domestic Insurers.
4. The request for approval for the merger of PMHC with and into PMMHC Corp. was properly filed pursuant to and in accordance with Section 1402(g) of the Insurance Holding Companies Act.
5. 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 Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

The acquisition of control by Penn Millers Holding Corporation of Penn Millers Insurance Company and American Millers Insurance Company and the subsequent merger of PMHC Corp. with and into PMMHC Corp. is hereby approved, subject to this Order and the following conditions:

1. Penn Millers Holding Corporation shall provide a list of the closing documents to the Insurance Department within five days after 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.
2. The conditions of order ID-RC-98-29 shall no longer be applicable.

This Order is effective immediately and valid for one year, provided there are no material changes to the representations provided in the application.

JOEL ARIO
Insurance Commissioner
Commonwealth of Pennsylvania