

**BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA**

In Re: : Pursuant to Sections 1401, 1402, and
: 1403 of the Insurance Holding
Application of ACE American Insurance : Companies Act, Article XIV of the
Company in Support of the Request for : Insurance Company Law of 1921, Act of
Approval to Acquire Control of Penn : May 17, 1921, P.L. 682, as amended, 40
Millers Insurance Company and American : P.S. §§991.1401, 991.1402, and 991.1403
Millers Insurance Company :
:
: Order No. ID-RC-11-26

DECISION AND ORDER

AND NOW, on this 9 day of November, 2011, Michael F. Consedine, 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 Parties

Identity of Insurance Holding Company to be Acquired

1. American Miller Insurance Company (“AMIC”) is a domestic stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilkes-Barre, Pennsylvania.
2. Penn Millers Insurance Company (“PMIC”) is a domestic stock property insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilkes-Barre, Pennsylvania. AMIC is a direct wholly-owned subsidiary of PMIC.
3. Penn Millers Holding Corporation (“PMHC”) is a publicly-traded (NASDAQ) holding company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilkes-Barre,

Pennsylvania. PMIC is an indirect wholly-owned subsidiary of PMHC.

4. No person, directly or indirectly, controls 10% or more of the voting securities of PMHC.
5. PMHC is the sole ultimate controlling person of PMIC and AMIC.

Identity of Applicant and Certain Affiliates

6. Panther Acquisitions Corp. (“Merger Sub”) is a newly-formed business corporation organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Harrisburg, Pennsylvania.
7. ACE American Insurance Company (“AAIC”) is a domestic stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Philadelphia, Pennsylvania. Merger Sub is a direct wholly-owned subsidiary of AAIC.
8. ACE Limited is a publicly-traded (NYSE) business corporation organized under the laws of Switzerland with its principal place of business located in Zurich, Switzerland. AAIC is an indirect wholly-owned subsidiary of ACE Limited.
9. No person, directly or indirectly, controls 10% or more of the voting securities of ACE Limited.

Acquisition Filing

10. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, 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 Department for approval or disapproval.
11. On September 28, 2011, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is collectively referenced as “Application”) from AAIC for approval to acquire control of PMIC and AMIC.
12. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

13. On October 15, 2011, the Department published notice in the Pennsylvania Bulletin that the Application was submitted by AAIC and such notice invited interested persons to submit comments to the Department regarding the

Application for 21 days following the date of the publication (“Comment Period”).

14. The Department received no comments during the Comment Period.

Description of the Proposed Acquisition

15. As described in the Application, on September 7, 2011, AAIC, Merger Sub and PMHC entered into an Agreement and Plan of Merger (“Agreement”).
16. As described in the Agreement:
 - a) Merger Sub will be merged with and into PMHC with each share of Merger Sub issued and outstanding to AAIC immediately prior to the effective date of the merger being converted into one share of PMHC on the effective date,
 - b) all shareholders of PMHC immediately prior to the effective date of the merger shall be converted into the right to receive cash, and
 - c) PMHC will become a wholly-owned subsidiary of AAIC.
17. As described in the Application, ACE Limited would become the ultimate controlling person of PMIC and AMIC.

Standards for Review

18. 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

19. 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.
20. 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).
21. 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).

22. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), PMIC is required to maintain a minimum paid up capital stock of \$2,350,000 and a minimum paid in surplus of \$1,175,000 to write the lines of insurance for which it is presently licensed.
23. As of June 30, 2011, PMIC maintained the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which it is presently licensed.
24. Upon completion of the transaction, PMIC will have the statutory minimum capitalization to satisfy the requirements 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), AMIC is required to maintain a minimum paid up capital stock of \$1,900,000 and a minimum paid in surplus of \$950,000 to write the lines of insurance for which it is presently licensed.
26. As of June 30, 2011, AMIC maintained the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which it is presently licensed.
27. Upon completion of the transaction, AMIC will have the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which it is presently licensed.

Competitive Impact

28. The acquisition of control of PMIC and AMIC are 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.
29. The acquisition of control of PMIC and AMIC will not lessen competition or tend to create a monopoly in the Commonwealth because the market shares of those insurance company subsidiaries of ACE Limited licensed to transact the business of insurance in Pennsylvania and the market shares of PMIC and AMIC, as stated in its Application, do not exceed the market share levels established in Section 1403 of the Insurance Holding Companies Act.

Financial Condition of Applicant

30. 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).

31. The Department has reviewed the annual financial statement submitted by AAIC as of December 31, 2010.

32. As of December 31, 2010, AAIC reported:

Assets of \$10,033 million

Liabilities of \$8,062 million

Surplus as Regards Policyholders of \$1,972 million

33. The Department has reviewed the annual consolidated financial statement submitted by ACE Limited as of December 31, 2010.

34. As of December 31, 2010, ACE Limited reported:

Assets of \$83,355 million

Liabilities of \$60,381 million

Total Equity of \$22,974 million

35. The financial condition of AAIC and ACE Limited will not pose any impediments to the change in control nor jeopardize the financial condition of PMIC and AMIC.

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 to determine whether they are unfair or unreasonable to its policyholders and not in the public interest.

37. The Department did not find any material changes in the plans for the business, corporate structure or management of PMIC or AMIC after the acquisition that would be:

a) unfair and unreasonable to the policyholders of PMIC or AMIC, or

b) contrary to the interests of the public.

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 insurer.

39. Biographical affidavits for all directors and executive officers of AAIC were reviewed by the Department.
40. Biographical affidavits for all directors and executive officers of ACE Limited were reviewed by the Department.
41. Biographical affidavits for proposed new directors and executive officers of PMIC and AMIC were also reviewed by the Department.
42. The Department is satisfied that the persons who would control the operations of PMIC and AMIC have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
43. 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 PMIC and AMIC.
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 operate 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.
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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 PMIC and AMIC.
 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 Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner") hereby makes the following Order:

The application of ACE American Insurance Company in support of the request for approval to acquire control of Penn Millers Insurance Company and American Millers Insurance Company as set forth in the Application, is hereby approved, subject to this Order and the following condition:

ACE American Insurance Company 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. This one year limitation does not apply to any conditions prescribed by the Department in the Order.



Michael F. Consedine
Insurance Commissioner
Commonwealth of Pennsylvania