McGuireWoods LLP
625 Liberty Avenue, 23rd Floor
Pittsburgh, PA 15222-3142
Phone: 412.667.6000
Fax: 412.667.6050
www.mcguirewoods.com

Paul K. Stockman
Direct: 412.667.7945

McGUIREWOODS

pstockman@mcguirewoods.com
Direct Fax: 412.667.7975

April 23, 2013

Via Federal Express

Mr. Robert Brackbill
Chief, Company Licensing Division
Commonwealth of Pennsylvania
Insurance Department
Office of Regulation of Companies
1345 Strawberry Square
Harrisburg, PA 17120

Steven L. Yerger
Company Licensing Division
Commonwealth of Pennsylvania
Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

RE Application for Approval to Acquire Control of OneBeacon Insurance Company and Potomac Insurance Company

Dear Mr. Brackbill and Mr. Yerger:

Please accept for filing an original and two copies of a Petition to Intervene, filed on behalf of The Pennsylvania Manufacturers' Association, Associated Industries of Massachusetts, Belden Inc., Crosby Valve, LLC, Invensys, Inc., ITT Corporation, Meritor, Inc., PolyOne Corporation, The Proctor & Gamble Company, Rockwell Automation, Inc., 3M Company, United Technologies Corporation and The William Powell Company. Also enclosed is an extra file-stamp copy, please endorse it to indicate receipt and return it to me in the enclosed postage paid envelope.

Thank you for your consideration. Of course, please do not hesitate to contact me with any questions or comments.

Very truly yours,

Paul K. Stockman

Enclosure
cc: Stuart Wrenn (w/enc. via Federal Express)
James R. Potts, Esq. (w/enc. via Federal Express)
Steven B. Davis, Esq. (w/enc. via Federal Express)
Maureen A. Phillips, Esq. (w/enc. via Federal Express)
Constance B. Foster, Esq. (w/ enc. via Federal Express)

BEFORE THE INSURANCE DEPARTMENT OF THE COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	
	:	
APPLICATION FOR APPROVAL TO ACQUIRE CONTROL OF ONEBEACON INSURANCE COMPANY AND POTOMAC INSURANCE COMPANY	:	Pursuant to Sections 1401-1403 of the Insurance Company Holding Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, as amended, 40 P.S. § 991.1401-04
	:	
	:	43 Pa. Bull. 1157 (Feb. 23, 2013), Doc. No. 13-329

PETITION TO INTERVENE

The Pennsylvania Manufacturers' Association; Associated Industries of Massachusetts; Belden Inc.; Crosby Valve, LLC; Invensys Inc.; ITT Corporation; Meritor, Inc.; PolyOne Corporation; The Procter & Gamble Company; Rockwell Automation, Inc.; 3M Company; United Technologies Corporation; and The William Powell Company (collectively, the "Petitioners"), pursuant to 1 Pa. Code § 35.27-.28 and 31 Pa. Code § 56.1, respectfully seek leave to intervene in the above-captioned administrative proceeding, in which Trebuchet US Holdings, Inc., a subsidiary of Bermuda-domiciled Armour Group Holdings Limited (collectively "Armour Group") seeks regulatory approval by the Pennsylvania Insurance Department (the "Department") of an agreement to purchase from OneBeacon Insurance Group LLC ("OBIG") all of the issued and outstanding shares of capital stock, and thereby acquire control of, two of its subsidiaries: OneBeacon Insurance Company ("OBIC") and Potomac Insurance Company ("Potomac") (collectively the "Acquired Companies"). In support of their Petition, Petitioners state as follows:

1. The stated purpose and effect of the proposed sale and transfer of control (the "Proposed Transaction") is to permanently segregate the legacy asbestos,

environmental and other "long-tail" liabilities covered under historical general liability policies issued by the Acquired Companies' predecessors from the ongoing underwriting, sales, and marketing operations, premium and investment income, goodwill and surplus of OBIG and its remaining operating subsidiaries. The Proposed Transaction will thus convert the Acquired Companies into a runoff entity managed by Armour Group, which is owned and staffed by individuals with a track record of structuring runoffs as investment opportunities to enrich their shareholders at the expense of policyholders such as Petitioners. Petitioners are commercial entities and trade associations, each of whom (or whose members) for many years purchased from the Acquired Companies' predecessors millions of dollars of legacy "occurrence" policies that are only now being called upon to pay underlying long-tail claim exposures. Under the Proposed Transaction, those legacy policies, and the claims-paying obligations that are part of their core promise, will be jettisoned by OBIG and shunted over to a runoff operation with a suspect capital structure and limited resources for satisfying valid claims under hundreds, if not thousands, of legacy policies issued by predecessor entities collectively known as the Commercial Union Insurance Companies.[1]

2. The Petitioners are deeply concerned that without additional financial contributions from OBIG and other protections, the Proposed Transaction, if approved by the Department, will severely impair Petitioners' ability to rely on their legacy "occurrence" policies originally purchased from the Commercial Union Insurance Companies to pay ongoing asbestos, environmental and other long-tail claims. The Petitioners are equally concerned that the structure of the proposed runoff, including

[1] These predecessor companies, whose obligations to pay claims under legacy policies have been assumed by OBIC and its subsidiaries, include Commercial Union Insurance Company, Employers Commercial Union Insurance Company, Employers Liability Assurance Corporation Ltd., American Employers Insurance Company, Employers Surplus Lines Insurance Company, and members of the former General Accident Insurance Group.

potential claims management fees and other distributions to Armour Group, may create incentives to slow-pay, or refuse to pay, valid claims that are due and owing under their legacy policies. Finally, Petitioners are concerned that the conversion of the Acquired Companies into a runoff vehicle, operating with a significantly reduced policyholder surplus and decoupled from OBIG's ongoing business operations and pooled reserve and reinsurance structure, may impair the financial viability of the Acquired Companies and compromise their ability to pay valid claims arising under the legacy Commercial Union policies.

3. These concerns are heightened by the Applicants' wholesale designation of most exhibits to their Form A filing, including financial statements, business plans for the acquired runoff entities, reinsurance arrangements, claims servicing agreements, and financial information about the principals of Armour Group, as "confidential," "proprietary" and "trade secret" information. The pervasive non-disclosure of these materials appears designed to render the Proposed Transaction as opaque as possible, and to deprive policyholders whose rights may be impaired by the Proposed Transaction of any meaningful opportunity to assess its financial impact on the security of their policies.

4. For all of these reasons, Petitioners seek leave to intervene in this proceeding, and to scrutinize the bona fides of the Proposed Transaction pursuant to the standards set forth in Section 1402(f)(1) of the Insurance Holding Company Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, *as amended*, 40 P.S. § 991.1402(f)(1). The interests of Petitioners and other policyholders who would be subjected to the proposed runoff operation are not adequately represented by the existing parties to this proceeding, as the interest of OBIG is to shed its long-tail liabilities to policyholders under decades of legacy insurance policies, and the interest of Armour Group is to acquire and manage an investment portfolio rather than to fairly value and pay valid asbestos, environmental and other claims covered under the transferred policies issued by the Acquired Companies' predecessors. Petitioners'

participation in this proceeding is specifically authorized under 1 Pa. Code § 35.28(a)(2), which identifies "consumers, customers or other patrons served by the applicant" as appropriate intervenors. Petitioners' participation as intervenors also would serve the public interest, as contemplated by 1 Pa. Code § 35.28(a)(3), by assuring that any decision by the Department in response to the pending application will be fully informed and based on an appropriate record.

The Petitioners:

5. The Petitioners are policyholders that purchased substantial general liability insurance coverage from the Commercial Union Insurance Companies, or trade associations whose members purchased such coverage. The Commercial Union Insurance Companies' obligations under the decades of legacy "occurrence" policies issued to Petitioners, Petitioner trade associations' members, and others have been assumed by the Acquired Companies. The policies purchased by Petitioners were in effect from the 1930s until the 1980s, and provided broad protection against underlying claims and suits brought by third parties seeking recovery for bodily injury and property damage that allegedly happened during the relevant policy periods, even if the injury or damage was not apparent during the coverage period of the policies, and even if underlying claims were not asserted against the policyholders until many years later. The broad coverage provided by these legacy policies is both valuable and irreplaceable, as policies providing comparable protection are no longer available at any price in the current insurance markets.

6. In recent years, the Petitioners or their members have received substantial numbers of asbestos, environmental, toxic tort and other "long-tail" claims seeking recovery for latent bodily injury and property damage that allegedly developed over the course of many years. Petitioners or their members have sought defense and indemnity coverage for these underlying claims from the Acquired Companies, which have assumed

the obligations of the Commercial Union Insurance Companies under the legacy policies issued to Petitioners or their members.

a. Petitioner The Pennsylvania Manufacturers' Association ("PMA") is a nonprofit association that, for the last 104 years, has been the leading voice for Pennsylvania manufacturers on issues of competitive business tax rates, scientifically sound and cost-effective regulations, litigation reform, responsible levels of government spending, advanced skills for our workforce, and growth-friendly labor and employment policies. PMA believes that many of its current and past members purchased insurance policies from the Commercial Union Insurance Companies. Such policies have been and will continue to be a source of potential coverage for environmental, asbestos and other long-term property damage and personal injury claims arising in Pennsylvania, and the ongoing availability of such insurance protection is vital to the ability of PMA members to create jobs and foster economic prosperity in Pennsylvania.

b. Petitioner Associated Industries of Massachusetts ("AIM") is a 98-year-old nonprofit association with over 5,000 employer members doing business in the Commonwealth of Massachusetts. AIM's mission is to promote the well-being of its members and their employees by proactively advocating fair and equitable public policy and providing relevant and reliable information on matters shaping such public policy. About 30% of AIM's members are in the manufacturing sector. AIM believes that many of its current and past members purchased insurance policies from the Commercial Union Insurance Companies – which were founded in and for many years have been headquartered in Massachusetts. Such policies have been and will continue to be a source of potential coverage for environmental, asbestos and other long-term property damage and personal injury claims arising in Massachusetts (and many other states as well).

c. Belden Wire & Cable Company LLC, a subsidiary of Petitioner Belden Inc., or Belden Wire & Cable Company LLC's predecessors (collectively "Belden") purchased a substantial number of primary and umbrella general liability policies from the Commercial Union Insurance Companies. These policies were issued for periods from 1960 to 1975. Belden has received, and will continue to receive, third-party claims seeking damages resulting from alleged exposure to asbestos from historical Belden products, and Belden has sought coverage and will continue to seek coverage of these underlying asbestos claims from the Acquired Companies under the policies issued by their predecessors. Commercial Union agreed to pay a majority of defense costs of each tendered asbestos claim against Belden, and since 1998 Commercial Union and/or the Acquired Companies have honored this agreement.

d. Petitioner Crosby Valve, LLC ("Crosby Valve") is a Nevada limited liability corporation with its principal place of business in Golden Valley, Minnesota. Crosby Valve was formed originally in 1874 as Crosby Steam Gage & Valve Company and for most of its operating history was known as Crosby Valve & Gage Company. Crosby Valve purchased a substantial number of general liability policies from the Commercial Union Insurance Companies. The Crosby Valve policies issued by the Commercial Union Companies were issued for periods that potentially include 1936 to 1947, 1974 to 1976, and 1978-82, and perhaps other periods as well. These policies include, without limitation, American Employers' Insurance Company policy nos. O-9495, GLPL 49233, O-10258, GLPL57948, O-11640, and O-12391 (1936-1940) and Commercial Union Insurance Company or American Employers' Insurance Company policy nos. CB9793001 and CB9793005 (1974-1976) and C/RCBW358240/R and ABW450406 (1978-1982). Crosby Valve has received hundreds of third-party claims seeking damages resulting from alleged exposure to asbestos at various

manufacturing facilities and other locations, including numerous claims arising in Pennsylvania. Crosby Valve has sought coverage of these underlying asbestos from the Acquired Companies under the policies issued by their predecessors.

e. Petitioner ITT Corporation ("ITT") purchased substantial excess general liability coverage from the Commercial Union Insurance Companies under "occurrence" policies that were issued for periods from 1967 through 1975. Some of these policies attach directly in excess of primary coverage that is exhausted or nearly exhausted. ITT has incurred, and will continue to incur, significant asbestos and environmental liabilities covered under its legacy policies. ITT has tendered to such claims to the Acquired Companies for coverage, and anticipates tendering additional claims as they are filed in the future. ITT is actively pursuing coverage of these liabilities from its insurers, including OBIC, in two pending coverage actions in California.

f. Petitioner PolyOne Corporation ("PolyOne") has rights under three excess general liability insurance policies issued to The B.F.Goodrich Company *et al.* by certain of the Commercial Union Insurance Companies. These "occurrence-based" policies were issued for the period from January 1, 1968 through January 1, 1975, and remain in effect. PolyOne's rights under these policies arise by virtue of its status as successor-by-merger to The Geon Company, a former division and subsidiary of The B.F. Goodrich Company (whose interests in this proceeding are described in Paragraph 6.j below). PolyOne presently receives payments under the policies pursuant to a declaratory judgment entered by the Court of Common Pleas of Summit County, Ohio in *Goodrich Corp. v. Commercial Union Insurance Company,* et al., No. CV 1999-02-0410.

g. Petitioner The Procter & Gamble Company ("P&G") and its subsidiary, The Gillette Company, purchased a substantial number of primary,

umbrella and excess general liability policies from the Commercial Union Insurance Companies. The P&G policies were issued for periods 1966 to 1979, and the Gillette policies were issued for periods from at least the 1940s until 1984. Both P&G and Gillette have received third-party claims seeking damages resulting from alleged exposure to asbestos at various manufacturing facilities and for environmental damage allegedly resulting from historical waste disposal. P&G and Gillette have asserted coverage for these underlying asbestos and environmental claims from the Acquired Companies under the policies issued by their predecessors. On two prior occasions, Gillette was forced to engage in protracted coverage litigation with one or more Acquired Companies in order to obtain coverage for underlying environmental claims.

h. Petitioners Rockwell Automation, Inc., Meritor, Inc., and Invensys Inc. (the "Rockwell Successors") are successors-in-interest to certain assets and liabilities of the company formerly known as Rockwell International Corporation ("Rockwell"), a broadly diversified manufacturing company previously headquartered in Pittsburgh, Pennsylvania. Rockwell and its predecessors purchased a substantial number of primary, umbrella and excess general liability policies from Employer's Liability Assurance Corp., Employer's Surplus Lines Insurance Company, and Employer's Commercial Union Insurance Company of America. These policies issued by the Commercial Union Companies were issued for periods from 1950 to 1974. The Rockwell Successors have received tens of thousands of third-party claims seeking damages resulting from alleged exposure to asbestos-containing products Rockwell manufactured and/or at various manufacturing facilities and other locations, including many claims arising in Pennsylvania. The Rockwell Successors have sought coverage of these underlying asbestos from the Acquired Companies under the policies issued by their predecessors.

i. Petitioner 3M Company ("3M") purchased primary general liability coverage from the Commercial Union Insurance Companies in the 1950s and purchased excess general liability coverage from the Commercial Union Insurance Companies in several excess layers under "occurrence" policies issued for periods from 1967 until 1977. Some of these policies attach directly in excess of coverage that is exhausted and others attach directly in excess of coverage that is nearly exhausted. 3M has received many third-party claims seeking damages resulting from alleged exposure to asbestos and claims for environmental damage allegedly resulting from historical activities and disposal. 3M has sought coverage for these underlying claims from OBIC under the policies issued by its predecessors. 3M is actively pursuing coverage for its asbestos liabilities from its insurers, including OBIC, in a pending coverage action in Minnesota.

j. Petitioner United Technologies Corporation and certain of its subsidiaries, including but not limited to Carrier Corporation, Goodrich Corporation, and Otis Elevator Company (hereafter, collectively, "UTC") purchased substantial primary, umbrella, and excess general liability policies from the Commercial Union Insurance Companies. The UTC policies were issued for periods from at least 1961 to 1986 and remain in effect. UTC has received third-party claims seeking damages resulting from alleged exposure to asbestos, including alleged asbestos exposure at various manufacturing facilities, for environmental damages allegedly resulting from historical operations, including alleged waste disposal, and for various other long-tail claims, and UTC expects to continue to receive claims of all of these types in the future. UTC has asserted coverage for these underlying asbestos and environmental claims from the Acquired Companies under policies issued by them or their predecessors. The responsibility for handling, determining coverage for, and paying these ongoing asbestos, environmental, and other claims will be transferred to Armour Group

under the Proposed Transaction. UTC has actively pursued and/or is actively pursuing coverage litigation against OBIC regarding such claims, including litigation in Ohio.

k. Petitioner The William Powell Company ("Powell") purchased substantial primary and excess general liability coverage from the General Accident Fire and Life Assurance Corporation, Ltd. (which later merged with the Commercial Union Companies) under "occurrence" policies issued for periods from the 1940s through 1977. Powell has incurred, and will continue to incur, significant liabilities for asbestos exposure personal injury claims covered under its legacy policies. Powell has tendered such claims to OBIC for coverage, and OBIC has accepted coverage for many of such claims and has paid significant amounts in the defense and settlement of such claims; Powell anticipates tendering additional claims as they are filed in the future. The responsibility for handling, determining coverage for, and paying these ongoing asbestos claims will be transferred to Armour Group under the Proposed Transaction.

7. As summarized above, Petitioners or their members collectively purchased billions of dollars in general liability insurance from the Commercial Union Insurance Companies, policies that provide continuing coverage for Petitioners' ongoing asbestos, environmental and other long-tail liabilities. Petitioners have tendered these underlying claims to the Acquired Companies for coverage, and anticipate tendering additional such claims as they are filed in the future. Petitioners therefore have a direct and substantial interest in assuring that the Acquired Companies are adequately capitalized, properly reserved, and capable of providing timely and professional claims management services to Petitioners for the foreseeable future. These interests are or may be directly impacted by the Proposed Transaction.

The Proposed Transaction:

8. On February 7, 2013, Armour Group and OBIG filed a Form A application with the Department, requesting permission for Armour Group to purchase all of the issued and outstanding shares of capital stock, and thereby acquire control of, OBIC and Potomac. The Proposed Transaction would be accomplished through a Stock Purchase Agreement ("SPA") and various amendments (Exhibits SPA and SPA-A1 to Form A). The application also states that "as a condition of closing" on the Proposed Transaction, two other operating subsidiaries of OBIC, Employers Fire Insurance Company and OneBeacon America Insurance Company (the "OBIC Subsidiaries"), must be redomesticated from Massachusetts to Pennsylvania, and that Armour Group "intends" to amend the Form A after redomestication is accomplished to add the OBIC Subsidiaries as Acquired Companies. To Petitioners' knowledge, the Applicants have sought permission from Massachusetts insurance regulators to redomesticate the OBIC Subsidiaries, but that request has not yet been approved.

9. According to the Form A filing, the Proposed Transaction is "part of a restructuring undertaken by OneBeacon Group . . . to separate its ongoing specialty insurance business risks from certain risks currently in run-off." Form A at 2. OBIG has been pursuing this strategy for several years, as part of a corporate retooling designed to transform the OBIG from a broad-based commercial lines insurer into a specialty lines insurer focused on professional liability risks, ocean and inland marine insurance, tuition refund insurance, and other specified risks. OBIG has also narrowed its underwriting focus to discrete industry segments such as energy, sports and leisure and public entities.

10. A key component of OBIG's strategic reorientation has been to find a way to rid itself of the earnings drag associated with its prior incarnation as a broad-based general liability insurer for large corporate policyholders. The legacy general liability policies issued to those policyholders by the Acquired Companies' predecessors remain heavily exposed to ongoing asbestos, environmental, toxic tort and other long-tail claim

liabilities. The transaction under review in this proceeding represents OBIG's attempt to walk away from those legacy liabilities, once and for all, by converting the Acquired Companies into pure runoff vehicles and then selling them to Armour Group, which will manage the runoff of the legacy policies to maximize its own profits, presumably until the Acquired Companies' diminished reserves, reinsurance and claims-paying ability is sufficiently compromised that they are forced into liquidation.

11. While section 2.1 of the SPA sets forth a nominal purchase price that Armour Group will pay to OBIG for the Acquired Companies, both the SPA and the Form A filing expressly acknowledge that the ultimate purchase price to be calculated under the SPA may be a negative number, and that OBIG may then be required to contribute additional funds to increase the Acquired Companies' reserves or surplus, in exchange for one or more surplus notes from OBIC whose terms have been withheld by the Applicants. Form A at 8; SPA § 5.19. The SPA also purports to limit the aggregate amount of hypothetical additional contributions that OBIG must make to bolster the Acquired Companies' reserves and surplus. *See* SPA § 5.19, at 58-59. These provisions, when viewed against the likelihood of a negative purchase price, more closely resemble a fire sale of OBIG's depleted subsidiaries than a transfer of going concern insurance businesses for valuable consideration.

12. Before the Proposed Transaction was even submitted to the Department for approval, OBIG caused the Acquired Companies to pay special dividends, which effectively transferred capital in excess of the statutory minimum surplus upstream to OBIG. According to an alert from Marsh Risk Consulting, approximately $770 million of previously available surplus has already been stripped out of the Acquired Companies, wiped off their books, and handed over to OBIG, in order to insulate those funds from the hundreds of asbestos, environmental and other long-tail claims already pending against the legacy Commercial Union policies. Given that the incidence and frequency of these long-tail claims are notoriously difficult to predict, that such claims are currently the

subject of substantial coverage litigation against the Acquired Companies, and that they have been consistently under-valued and chronically under-reserved by OBIG in the past, the drastic reduction of the Acquired Companies' surplus is of significant concern to Petitioners.

13. The SPA states that the Acquired Companies will retain their rights to preexisting reinsurance covering treaty years prior to 2002, as well as loss portfolio transfer and reinsurance agreements executed with two Berkshire Hathaway entities – General Reinsurance Corporation and National Indemnity Company (collectively "NICO") – in 2001. SPA § 5.17. These loss portfolio transfers were accompanied by the wholesale delegation to NICO and its claims subsidiary, Resolute Management, Inc. ("Resolute"), of exclusive authority to administer asbestos and environmental claims under policies issued by the Acquired Companies' predecessors. The Form A does not disclose how much reinsurance is left under the NICO agreements, or what role, if any, Resolute will have in administering claims under Commercial Union policies if the Proposed Transaction is approved.

14. The Form A states that OBIC will enter into an "Amended and Restated 100% Quota Share Reinsurance Agreement" with an affiliate named Atlantic Specialty Insurance Company ("ASIC"), as well as separate "Administrative Services Agreements" with ASIC covering the runoff business transferred to Armour Group and the business retained by OBIG. Form A at 9. Because the Reinsurance Agreement has been withheld under claims of confidentiality, it is impossible for Petitioners to assess what risks are ceded to ASIC under the Agreement, how much (if any) of the transferred runoff business is reinsured by the Agreement, and the limits and quality of that reinsurance. It is also impossible to determine (i) what services OBIC supposedly will provide to ASIC under the "Runoff Business Administrative Services Agreement" referenced in the Form A and SPA, (ii) the nature of the claims and reinsurance services that OBIG allegedly will provide to the Acquired Companies under the "Transition Services Agreement"

referenced in the Form A, and (iii) the "corporate functions" that Armour Group will provide to the Acquired Companies, through its Trebuchet subsidiary, after the closing. All of these ancillary agreements have been designated as confidential. Petitioners and other policyholders are entirely in the dark concerning these and other critical details of the Proposed Transaction.

Concerns Raised By The Proposed Transaction:

15. The Applicants' decision to withhold basic information concerning the Acquired Companies' existing and contemplated reinsurance arrangements, the adequacy of their loss reserves under legacy Commercial Union policies, and the numerous ancillary agreements implementing the Proposed Transaction make it difficult to assess the extent of the risks that the Proposed Transaction poses to the Acquired Companies' policyholders. Nevertheless, the limited information released or obtained thus far strongly suggests that the Proposed Transaction, if approved and consummated, will impair the Acquired Companies' financial position, create disincentives for payment of covered claims under legacy policies, and eventually leave policyholders unable to collect the full insurance proceeds to which they would otherwise be entitled, and for which substantial premiums were paid to OBIG's predecessors. In particular:

a. The stated purpose of the Proposed Transaction is to permanently separate the valuable, ongoing, specialty underwriting business of the OBIG entities from the unprofitable runoff business, which consists overwhelmingly of historic "occurrence" policies written by the Commercial Union Insurance Companies with massive asbestos and environmental claims already pending against them, and the certainty that more such claims will be made against those legacy policies in the future. This is not a matter of speculation; it is an actuarial fact. By offloading its runoff business, OBIG seeks to sever the Acquired Companies' participation in its pooled intercompany reinsurance and reserves,

and to replace that participation with a one-time reserve infusion and new reinsurance arrangements that have not been disclosed or subjected to searching independent review. More importantly, OBIG seeks to wall off the Acquired Companies, and the runoff exposures they are saddled with, from the ongoing premium and investment income stream generated by its profitable underwriting operations, which would otherwise provide an ongoing source of funds to pay runoff claims. Petitioners are concerned that the reduced levels of the Acquired Companies' capital and reserves may be insufficient to satisfy even Petitioners' pending long-tail claims, let alone future exposures.

b. The Acquired Companies were inadequately capitalized before the Proposed Transaction was developed, and their capital position has recently been further eroded by OBIG's dramatic reduction in their surplus. According to Marsh Risk Consulting, OBIG treated itself to a special dividend, in anticipation of the sale of the Acquired Companies, that has reduced their available surplus from approximately $900 million to approximately $130 million. It is difficult to justify such a reduction in light of the large numbers of open asbestos and environmental claims pending under the Acquired Companies' legacy policies, the pendency of active coverage litigation involving hundreds of those policies, and the sharp disagreement that exists over the Acquired Companies' ultimate exposure to those claims. Prominent rating agencies share this view. For example, Fitch has noted the "sharp reduction in the capital levels of the targeted runoff companies," and warned that "[s]hould such weakened capital levels be maintained by Armour management post sale, or should Armour management fail to provide clarity with respect to future capital levels, Fitch would expect to downgrade the . . . ratings of the runoff entities." Fitch Ratings, "Fitch Places OneBeacon Runoff Entities on Rating Watch Negative; Affirms Ongoing Subsidiaries," October 18, 2012, *available at*

http://www.businesswire.com/news/home/20121018006249/en/Fitch-Places-OneBeacon-Runoff-Entities-Rating-Watch.

c. According to Best's Insurance Reports, there is less than $200 million in reinsurance remaining under the 2001 loss portfolio transfer agreements between OBIG and NICO, which originally provided $2.5 billion in reinsurance, and an additional $400 million in adverse loss development cover, to the Acquired Companies for asbestos and environmental exposures under legacy Commercial Union policies. The remaining reinsurance is plainly insufficient to satisfy the open long-tail claims pending under the Acquired Companies' legacy policies, and the additional "incurred but not reported" claims that are likely to arise under those policies in the future.

d. According to OBIG's 8-K filing for the third quarter of 2012, more than $2 billion of reinsurance receivables for unpaid claims was transferred to "assets held for sale," while almost $2.3 billion was transferred from loss and loss adjustment expense reserves to "liabilities held for sale." Even this substantial projected net loss is likely optimistic. OBIG and its predecessors have a lengthy track record of making overly optimistic loss projections for long-tail claims. Petitioners are concerned that this most recent set of loss projections is equally unrealistic, and that OBIG has both under-reserved for asbestos and environmental losses under legacy policies and overstated likely reinsurance recoveries for those categories of long-tail claims. That is why the SPA states that neither OBIG nor the Acquired Companies represent or warrant that the loss reserves or reinsurance maintained for the Acquired Companies are adequate. SPA § 7.8, at 70.

16. Finally, the Applicants have withheld as confidential information about the financial resources of Armour Group and its principals, as well as the manner in which they would be compensated for the runoff services they would provide under the

Proposed Transaction. *See* Form A at 5-8, 13. While Armour Group touts its experience managing the runoff of large discontinued casualty businesses, the actual results generated by the runoffs in which its principals have previously been involved were highly detrimental to the interests of policyholders.

a. For example, one of Armour Group's principals was a senior executive for Centre Reinsurance Group Limited, which was deeply involved in a series of reinsurance transactions through which its parent, the Zurich Financial Services Group, obtained preferential access to the profitable renewal accounts of Home Insurance Company before placing Home in a Zurich-supervised runoff. Although actuaries assured state regulators that Home's existing reserves and reinsurance recoverables from Centre Re and others would last 30 years, it was placed into liquidation only five years later.

b. Another principal of Armour Group was formerly the President of Castlewood Limited, whose U.S. affiliate has managed the runoff of Seaton Insurance Company and Stonewall Insurance Company under legacy "occurrence" policies that remain heavily exposed to asbestos and environmental claims. Those runoffs have been marked by lengthy delays in the recognition and payment of valid claims, as Seaton and Stonewall repeatedly have forced policyholders into protracted coverage litigation, and have repeatedly refused to pay covered long-tail claims unless policyholders agree to commute their policies for a small fraction of their available limits.

c. Another Armour Group executive is a former Executive Director of PRO Insurance Solutions Limited, which for several years has been a principal servicing agent of the solvent scheme "mill" in the London Market. Solvent schemes of arrangement are the principal mechanism through which insurers operating in the London Market have sought to extinguish their obligations to pay long-tail liabilities of U.S. policyholders under decades of "occurrence" policies.

Solvent schemes typically are approved at meetings attended by a tiny minority of creditors, several of whom are afforded inflated and manipulated voting values to assure that the requisite statutory majorities are achieved. Once the schemes are approved, PRO is often retained by the insurer to negotiate forced commutations with dissenting creditors whose rights under decades of occurrence policies will be irretrievably extinguished by the scheme.

17. In addition to the résumés of Armour Risk's principals and managers, Petitioners are concerned that the undisclosed compensation framework for the Proposed Transaction may be structured to provide incentives to delay or deny payment of covered claims under the Acquired Companies' legacy runoff policies. Such skewed compensation incentives have been a serious problem with other runoff arrangements, and the Applicants' desire to keep these arrangements confidential is not reassuring. For example, it appears likely that Armour Group entered into this Proposed Transaction with the assurance that it would be permitted to treat the Acquired Companies' loss reserves as an investment fund, enjoy the benefit of the remaining surplus, collect fees for managing the runoff, and control the timing and amount of claim payments to policyholders in order to maximize its own shareholder profits. Added to these potential incentives to avoid paying claims is Armour Group's immunity from the normal business constraint of keeping corporate insurance buyers happy for future renewals. The compensation arrangements underlying the Proposed Transaction merit exacting scrutiny.

Grounds For Intervention:

18. The general rules of administrative practice and procedure are applicable to proceedings before the Department. *See* 31 Pa. Code § 56.1.

19. Under those rules, anyone may file a petition to intervene in an administrative proceeding. 1 Pa. Code § 35.27. In evaluating whether such a petition should be granted, the Department should consider whether the proposed intervenor has

"a right . . . or an interest of such a nature that intervention is necessary or appropriate," including "an interest which may be directly affected and which is not adequately represented by existing parties." Persons eligible to intervene ordinarily include "consumers, customers or other patrons served by the applicant or respondent." *Id.* § 35.28(a)(2).

20. Petitioners qualify as persons "served by the applicant" who have a legally cognizable interest in the outcome of this proceeding. This is so because: (a) Petitioners (or their members or predecessors) purchased numerous insurance policies from the Acquired Companies' predecessors for substantial premiums over the course of decades; (b) those policies impose ongoing executory obligations on the Acquired Companies to handle and pay covered third-party liability claims, including asbestos, environmental and other long-tail claims; (c) Petitioners have submitted such claims for handling and payment by the Acquired Companies, and anticipate submitting additional claims under the same policies in the future; (d) the Proposed Transaction would transfer responsibility for managing, handling and paying such claims under the policies to Armour Group; (e) Petitioners have a direct financial stake in assuring that the Acquired Companies are adequately capitalized, properly reserved, and capable of paying long-tail claims under proposed new ownership; and (f) Petitioners have a direct financial interest in assuring that the investigation, handling, defense and payment of long-tail claims under their legacy policies is fairly and efficiently managed, and is not subordinated to the investment objectives of Armour Group or the restructuring strategy of OBIG.

21. Petitioners' interests as policyholders of the Acquired Companies are not adequately represented by the existing parties to this proceeding, whose interests may in fact be adverse to their policyholders.

22. Allowing Petitioners to intervene also would assist the Department in evaluating the Proposed Transaction and would be in the public interest. *Id.*

§ 35.28(a)(3). In evaluating the Proposed Transaction, the Department must consider whether, *inter alia*,

a. the "financial condition of the acquiring party is such as might jeopardize the stability of the insurer and prejudice the interest of its policyholders";

b. the "plans or proposals . . . are unfair and unreasonable and fail to confer benefit on policyholders of the insurer and are not in the public interest";

c. the "competence, experience and integrity of those persons who would control of the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public interest"; and

d. the "merger, consolidation or other acquisition of control is likely to be hazardous or prejudicial to the insurance buying public."

40 P.S. § 991.1402(f)(1)(iii-vi).

23. For the reasons explained above, Petitioners believe that one or more of these grounds for disapproving the Proposed Transaction are present here, and are prepared to thoroughly scrutinize the Proposed Transaction once they are afforded access to the supporting documents that have been withheld by the Applicants. Moreover, in the event the runoff business transferred to Armour Group is inadequately capitalized, under-reserved, and destined for insolvency, the ultimate costs of any such failure will fall not only on Petitioners and other policyholders, but on state guaranty associations in the fifty states in which the Acquired Companies are licensed. For this additional reason, the Department should review the Proposed Transaction carefully, scrutinize the assumptions underlying the Applicants' loss reserves and liability estimates, and assure that its decision to approve or disapprove the Proposed Transaction is a fully informed one. Allowing Petitioners to intervene will assist the Department in applying the foregoing legal standards to the underlying facts.

24. Petitioners are willing to comply with any protective order or confidentiality designation that the Department deems appropriate to protect documents and information for which confidential treatment is warranted under applicable law.

Prayer For Relief:

WHEREFORE, for the reasons set forth above, Petitioners respectfully request that the Department:

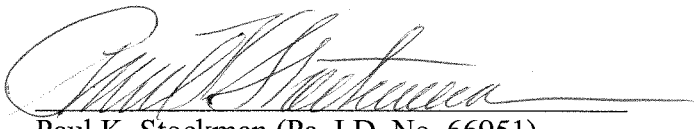
a. Grant their Petition to Intervene;

b. Permit Petitioners to have complete access to the materials submitted in connection with the Form A Application, including all supporting materials unilaterally designated as confidential by Applicants;

c. Permit Petitioners to participate in all aspects of this proceeding, including any financial analyses of the Proposed Transaction and any hearings conducted by the Department; and

d. Grant any other relief that Petitioners may request and the Department may deem appropriate.

Respectfully submitted,



Paul K. Stockman (Pa. I.D. No. 66951)
MCGUIREWOODS LLP
625 Liberty Avenue, 23rd Floor
Pittsburgh, Pennsylvania 15222
Telephone: 412.667.7945
Facsimile: 412.667.7975
pstockman@mcguirewoods.com

Counsel for Petitioners Pennsylvania Manufacturers' Association, Associated Industries of Massachusetts, Crosby Valve, LLC, Invensys Inc., ITT Corporation, Meritor, Inc., PolyOne Corporation , The Procter & Gamble Company, Rockwell Automation, Inc., United Technologies Corporation, and The William Powell Company

Dean A. Bierkan by PKS with permission
Dean A. Bierkan (Pa. I.D. No. 94223)
LATHROP & GAGE LLP
230 Park Avenue, Suite 2400
New York, New York 10169
Telephone: 212.850.6220
Facsimile: 212.850.6221
DBierkan@LathropGage.com

Counsel for Petitioner Belden Inc.

Basil A. DiSipio by PKS with permission
Basil A. DiSipio (Pa. I.D. No. 28212)
LAVIN, O'NEIL, RICCI, CEDRONE & DISIPIO
190 North Independence Mall West, Suite 500
Philadelphia, Pennsylvania 19106
Telephone: 215.351.7929
Facsimile: 215.351.3024
bad@lavin-law.com

Counsel for Petitioner 3M Company

Of Counsel:

William F. Greaney
Charles Fischette
COVINGTON & BURLING LLP
1201 Pennsylvania Ave., NW
Washington, D.C. 20004
Telephone: 202.662.5486
Facsimile: 202.778.5486
wgreaney@cov.com
cfischette@cov.com

Counsel for Petitioners ITT Corporation and The Procter & Gamble Company

Robert J. Gilbert
Fannie I. Minot
GILBERT & RENTON LLC
344 North Main Street
Andover, Massachusetts 01810
Telephone: 978.475.7580

Facsimile: 978.475.1881
rgilbert@gilbertandrenton.com
fminot@gilbertandrenton.com

Counsel for Petitioners Pennsylvania Manufacturers' Association, Associated Industries of Massachusetts, Crosby Valve, LLC, Invensys Inc., Meritor, Inc., and Rockwell Automation, Inc.

Douglas L. Skor
Patrick J. Boley
LARSON • KING, LLP
2800 Wells Fargo Place
30 East Seventh Street
St. Paul, Minnesota 55101
Phone: 651.312.6500
Facsimile: 651.312.6618
dskor@larsonking.com
pboley@larsonking.com

Counsel for Petitioner 3M Company

Paul A. Rose
BROUSE MCDOWELL
388 South Main Street, Suite 500
Akron, Ohio 44311
Telephone: 330.434.6935
Fax: 330.253.8601
PRose@brouse.com

Counsel for United Technologies Corporation

Robert C. Mitchell
VORYS, SATER, SEYMOUR AND PEASE LLP
52 East Gay Street
Columbus, Ohio 43215
Direct: 614.464.8365
Fax: 614.719.5099
rcmitchell@vorys.com

Counsel for The William Powell Company

CERTIFICATE OF SERVICE

The undersigned hereby certifies that today I served true copies of the foregoing Petition to Intervene via Federal Express overnight delivery, postage prepaid, upon the following counsel of record and participants, in accordance with the requirements of 1 Pa. Code § 33.32 (relating to service by a participant):

Stuart Wrenn
ARMOUR RISK MANAGEMENT, INC.
1880 JFK Boulevard, Suite 801
Philadelphia, Pennsylvania 19103
Telephone: 215.665.5000 x322
swrenn@armourre.bm

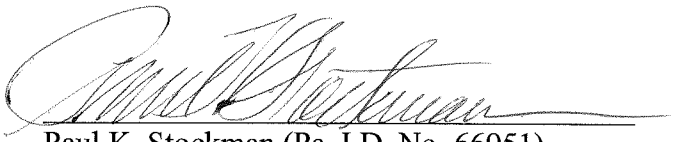
James R. Potts, Esq.
COZEN O'CONNOR
1900 Market Street
Philadelphia, Pennsylvania 19103-3508
Telephone: 215.665.2784
Facsimile: 215.701.2102
jpotts@cozen.com

Steven B. Davis, Esq.
STRADLEY RONON STEVENS & YOUNG, LLP
2800 One Commerce Square
Philadelphia, Pennsylvania 19103-7098
Telephone: 215.564.8714
Facsimile: 215.564.8120
sdavis@stradley.com

Maureen A. Phillips, Esq.
Senior Vice President & General Counsel
ONEBEACON INSURANCE GROUP LLC
601 Carlson Parkway
Minnetonka, Minnesota 55305
Telephone: 952.852.6731
MPhillips@OneBeacon.com

Constance B. Foster, Esq.
SAUL EWING, LLP
2 North Second Street, 7th Floor
Harrisburg, Pennsylvania 17101
Telephone: 717.238.7560
Facsimile: 717.257.7582
cfoster@saul.com

Dated: April 23, 2013



Paul K. Stockman (Pa. I.D. No. 66951)

Counsel for Petitioners Pennsylvania Manufacturers' Association, Associated Industries of Massachusetts, Crosby Valve, LLC, Invensys Inc., ITT Corporation, Meritor, Inc., PolyOne Corporation , The Procter & Gamble Company, Rockwell Automation, Inc., United Technologies Corporation, and The William Powell Company