BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: Application of Motorists Mutual Insurance Company in Support of the Request for Approval to Acquire Control of NorthStone Insurance Company and HM Casualty Insurance Company through its Affiliation with BrickStreet Mutual Insurance Company:


DECISION AND ORDER

AND NOW, on this 19th day of April, 2017, Teresa D. Miller, 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 Parties

Identity of PA Domestic Insurers

1. NorthStone Insurance Company ("NIC") is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Charleston, West Virginia.

2. HM Casualty Insurance Company ("HMIC") is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Charleston, West Virginia.

3. NIC and HMIC are collectively hereinafter referenced as the ("PA Domestic Insurers").
4. BrickStreet Mutual Insurance Company ("BrickStreet") is an admitted foreign mutual casualty insurance company organized pursuant to the laws of the State of West Virginia with its principal place of business in Charleston, West Virginia. BrickStreet directly owns 100% of the issued and outstanding voting securities of the PA Domestic Insurers.

Identity of Applicant

5. Motorists Mutual Insurance Company ("Motorists") is an admitted foreign mutual casualty insurance company organized pursuant to the laws of the State of Ohio with its principal place of business in Columbus, Ohio.

Acquisition Filing

6. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1922, 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.

7. On January 31, 2017, the Insurance Department of the Commonwealth of Pennsylvania ("Department") received an application (which together with all material received subsequently is hereinafter referenced as "Application") from Motorists for approval to acquire control of the PA Domestic Insurers.

8. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

9. On February 25, 2017, the Department published notice in the Pennsylvania Bulletin that the Application was submitted by Motorists and such notice invited interested persons to submit comments to the Department regarding the Application for thirty (30) days following the date of the publication ("Comment Period").

10. The Department received no comments regarding the Application during the Comment Period.

Description of the Proposed Acquisition

11. As described in the Application, Motorists will acquire control of the PA Domestic Insurers (the "Acquisition") through an affiliation transaction (the "Affiliation") which will be effectuated pursuant to the terms of:
a) an Affiliation Agreement, dated October 27, 2016, by and between Motorists and BrickStreet (the “Affiliation Agreement”), and

b) a Cost Sharing and Management Agreement (the "Management Agreement").

12. As described in the Application and in accordance with the terms of the Affiliation Agreement, BrickStreet’s Board of Directors (the “BrickStreet Board”) will increase from nine (9) members to twelve (12) members. Effective as of the closing date of the Affiliation Agreement, three (3) current members of the BrickStreet Board will resign their positions. Motorists will nominate six (6) directors for the appointment to fill the vacancies created by the expansion of the board from nine (9) to twelve (12) members and the above referenced resignations.

13. As described in the Application and in accordance with the terms of the Affiliation Agreement, Motorists will continue to possess the contractual authority to nominate six (6) of the twelve (12) members of the BrickStreet Board in all future elections of members to the BrickStreet Board.

14. As described in the Application and in accordance with the terms of the Affiliation Agreement, in the event the BrickStreet Board shall be deadlocked on any issue, the executive committee of Motorist’s Board of Directors shall decide the issue.

15. As described in the Application and in accordance with the terms of the Affiliation Agreement, BrickStreet shall be entitled to appoint designated members of the BrickStreet Board to occupy fifty percent (50%) of the director positions of Motorists’ Board of Directors.

16. As described in the Application and in accordance with the terms of the Affiliation Agreement, Motorists, BrickStreet and the PA Domestic Insurers will, subject to the Department’s approval, enter into the Management Agreement pursuant to which Motorists will provide either directly or indirectly or through the engagement of third party professionals, services in the following areas to such an extent as is necessary to satisfactorily discharge all regulatory requirements of BrickStreet, including but not limited to:

a) Reinsurance,

b) Investment services,

c) Actuarial analysis,

d) Executive management, including the right to approve the hiring and termination of the BrickStreet executives,
e) Employee benefits administration,
f) Corporate and tax accounting and annual budget approval,
g) Information technology services,
h) Compliance and strategic planning, and
i) Claims management and settlement.

17. As described in the Application and in accordance with the terms of the Affiliation Agreement, BrickStreet and the PA Domestic Insurers will, subject to the Department’s approval, participate in an Amended and Restated Pooling Agreement (“Pooling Agreement”) along with Motorists and its affiliates, which is proposed to become effective January 1, 2018.

18. As described in the Application, the PA Domestic Insurers will each cede 100% of their books of business in force as of and subsequent to the January 1, 2018, effective date to Motorists. The PA Domestic Insurers will not be allocated a proportional share of the pool.

19. Following the closing of the Acquisition, BrickStreet will continue to directly own 100% of the issued and outstanding voting securities of the PA Domestic Insurers.

20. Following the closing of the Acquisition, Motorists will become the sole ultimate controlling person of the PA Domestic Insurers.

Standards for Review

21. 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.

22. An application for a change in control must be approved unless the Department finds any one of certain enumerated conditions to be present.

Licensing Requirements

23. 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.

24. Specifically, the Department reviews whether the domestic insurer would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed after the acquisition.
25. 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).

26. 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).

27. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), NIC and HMIC are required to maintain a minimum paid up capital stock of $750,000 and $850,000 and a minimum paid in surplus of $375,000 and $425,000, respectively, to write the lines of insurance for which each is presently licensed.

28. As of December 31, 2016, the PA Domestic Insurers maintained the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which each is presently licensed.

29. Upon completion of the Acquisition, the PA Domestic Insurers will have the statutory minimum paid up capital stock and paid in surplus to satisfy the requirements to write the lines of insurance for which each is presently licensed.

Competitive Impact

30. The acquisition of control of a Pennsylvania domiciled insurer is subject to review and analysis under Section 1402(f)(1)(ii) of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control of Domestic Insurers would be to substantially lessen competition in this Commonwealth or tend to create a monopoly therein, as per 40 P.S. §991.1402(f)(1)(ii) (the “competitive standard”).

31. The acquisition of control of the PA Domestic Insurer will not lessen competition or tend to create a monopoly in the Commonwealth because the market shares of Motorists and those insurance company subsidiaries of Motorists licensed to transact the business of insurance in Pennsylvania and the market shares of BrickStreet and those insurance company subsidiaries of BrickStreet licensed to transact the business of insurance in Pennsylvania, 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 Motorists

32. 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).
33. As of December 31, 2016, Motorists reported:

Assets of: $1,359,654,695
Liabilities of: $815,395,667
Surplus as Regards Policyholders of: $544,259,029

34. The financial condition of Motorists would not pose any impediments to the change in control nor jeopardize the financial condition of the PA Domestic Insurers.

**Plans for the Acquired Insurers**

35. 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 domestic insurer.

36. In particular, the Department reviewed the plans or proposals which the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, to determine whether it is:

   a) Unfair or unreasonable;

   b) Fails to confer a benefit upon policyholders; or

   c) Not in the public interest.

37. As stated in the Application, Motorists has no future plans to declare an extraordinary dividend, to liquidate the PA Domestic Insurers, to sell the PA Domestic Insurers’ assets or to merge the PA Domestic Insurers with any person.

38. As described in the Application, the PA Domestic Insurers have no direct employees. Management and operational support functions are currently provided by employees of BrickStreet.

39. As described in the Application, the principal offices of BrickStreet will remain in Charleston, West Virginia. Additionally, BrickStreet will continue to maintain its regional office in Pittsburgh, Pennsylvania.

40. As stated in the Application, BrickStreet will continue to own 100% of the issued and outstanding voting securities of the PA Domestic Insurers.

41. As stated in the Application, certain officers and directors of Motorists will become officers and directors of BrickStreet and the PA Domestic Insurers as of the effective date of the Acquisition.
42. There is no basis in the record from which it may be concluded that the plans or proposals which the acquiring party has for the insurer are unfair or unreasonable or fails to confer a benefit upon policyholders or are not in the public interest.

Management

43. 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.

44. Biographical affidavits for all directors and executive officers of Motorists were reviewed by the Department.

45. The Department is satisfied that the persons who would control the operations of the PA Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

Hazardous or Prejudicial to Insurance Buying Public

46. When analyzing an application for an acquisition of control involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department evaluates whether the merger, consolidation or other acquisition of control is likely to be hazardous or prejudicial to the insurance buying public.

47. There is insufficient evidence in the record from which it may be concluded that the acquisition will likely be hazardous or prejudicial to the insurance buying public.

Compliance with the Pennsylvania Laws

48. When analyzing an application for an acquisition of control involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the transaction to determine whether the merger, consolidation or other acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A.

49. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.

50. 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 the PA Domestic Insurers.

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 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 the PA Domestic Insurers.

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-17-05

ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner") hereby makes the following Order:

The application of Motorists Mutual Insurance Company ("Motorists"), in support of the request for approval to acquire control of NorthStone Insurance Company and HM Casualty Insurance Company (the "PA Domestic Insurers") as set forth in the application, is hereby approved, subject to this Order and the following conditions:

1. The parties shall obtain all necessary regulatory approvals from the Department and other jurisdictions that are related to the Acquisition.

2. Motorists 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.

3. For three (3) years following the effective date of the acquisition, the PA Domestic Insurers will be prohibited from declaring or paying any dividends, returns of capital or any other type of distributions to BrickStreet Mutual Insurance Company ("BrickStreet"), without the prior approval of the Commissioner, unless said distribution has been approved by the Department as a transaction between affiliates filed under 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.
4. For a period of two (2) years after the effective date of the subject transaction, BrickStreet shall provide written notice to the Department of any planned or proposed reductions in staff that would affect more than ten percent (10%) of the employees of BrickStreet principally located in Pennsylvania as of, or within six (6) months prior to, the effective date of the subject transaction. For purposes of this condition, as of any date, the ten percent (10%) threshold shall be determined based upon a rolling twelve (12) month period. Such notice, which shall specify the reasons for the reduction in force and include information regarding planned or proposed severance pay and relocation opportunity arrangements, shall be filed with the Department as least ninety (90) days prior to any such planned or proposed reductions.

5. For a period of two (2) years after the effective date of the subject transaction, BrickStreet shall not close or cease actively doing business from Pittsburgh, Pennsylvania, without application to and the prior written approval of the Department.

6. For three (3) years following the effective date of the acquisition, the PA Domestic Insurers shall not voluntarily withdraw a certificate of authority to engage in the business of insurance in the Commonwealth of Pennsylvania without the prior approval of the Department.

7. For three (3) years following the effective date of the acquisition, the PA Domestic Insurers shall not attempt to redomesticate to another jurisdiction without the prior approval of the Department.

8. NorthStone Insurance Company shall not receive a proportional share as a participant in the Amended and Restated Reinsurance Pooling Agreement until it has filed and received the approval to increase its underwriting authority for those lines of business for which it would reinsure.

9. HM Casualty Insurance Company shall not receive a proportional share as a participant in the Amended and Restated Reinsurance Pooling Agreement until it has filed and received the approval to increase its underwriting authority for those lines of business for which it would reinsure.

10. BrickStreet and/or Motorists shall not amend, waive enforcement of, modify or enter into any other agreement or arrangement having the effect of terminating, waiving or modifying, in any material respect, the terms or conditions of the Affiliation Agreement, without the prior approval of the Department.
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.

Teresa D. Miller
Insurance Commissioner
Commonwealth of Pennsylvania