

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and  
: 1403 of the Insurance Holding  
Application of XL Capital Ltd. and XL : Companies Act, Article XIV of the  
Insurance Ltd. in Support of the : Insurance Company Law of 1921,  
Request for Approval to Acquire : Act of May 17, 1921, P.L. 682,  
Control of Legion Insurance Company, : as amended, 40 P.S. §§991.1401,  
Villanova Insurance Company and U.S. : 991.1402, and 991.1403  
Insurors Company :  
:  
:  
: Order No. ID-RC-01-27

DECISION AND ORDER

AND NOW, on this \_\_\_12th\_\_\_ day of September, 2001, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Law and the Insurance Holding Company Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. Legion Insurance Company ("Legion") is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Philadelphia, Pennsylvania.

2. Villanova Insurance Company ("Villanova") is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Philadelphia, Pennsylvania.
3. U. S. Insurors Company ("US Insurors" and together with Legion and Villanova the "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 Philadelphia, Pennsylvania.
4. Mutual Risk Management Ltd. ("MRM") is a business corporation organized under the laws of Bermuda, with its principal place of business to be located in Hamilton, Bermuda. MRM indirectly holds 100% of the issued and outstanding voting stock of the Domestic Insurers.
5. Common stock of MRM is publicly traded on the New York Stock Exchange.
6. XL Insurance Ltd ("XL Insurance") is an insurance company organized under the laws of Bermuda with its principal place of business located in Hamilton, Bermuda.
7. XL Capital Ltd ("XL Capital") is a business corporation organized under the laws of Cayman Islands with its principal place of business located in Hamilton, Bermuda. XL Capital indirectly holds 100% of the issued and outstanding voting stock of XL Insurance.
8. Common stock of XL Capital is publicly traded on the New York Stock Exchange.

#### Acquisition Filing

9. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. ("Insurance Holding Companies Act"), provides that any transaction involving the control of a domestic insurer must be filed with the Commissioner for approval or disapproval.
10. On June 8, 2001, 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 XL Capital for approval to acquire control of the

Domestic Insurers.

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

#### Department Procedures

12. On June 23, 2001, the Department published notice in the Pennsylvania Bulletin that the Application was submitted by XL Capital and such notice invited interested persons to submit comments to the Department regarding the Application for a thirty (30) day period, ending July 23, 2001.
13. The Department received no comments regarding the Application during the thirty (30) day comment period.

#### Description of the Proposed Acquisition

14. As described in the Application, on May 8, 2001, MRM and XL Insurance (among others) signed a Securities Purchase Agreement ("Agreement") whereby XL Insurance would acquire convertible exchangeable debentures, voting preferred stock and warrants to purchase additional shares of common stock of MRM (the "Acquisition").
15. As described in the Application and pursuant to the Agreement, consummation of the Acquisition would result in XL Capital indirectly holding stock and stock equivalents that on a fully diluted basis would constitute approximately 18% of the issued and outstanding voting stock of MRM.
16. As described in the Application and pursuant to the Agreement, MRM will receive a total of \$112,500,000 from the Acquisition.
17. As described in the Application, XL Capital will fund its portion of the total purchase price, \$52,500,000, from its existing corporate resources and no part of the purchase price will be obtained from borrowed funds.
18. As described in the Application, the Domestic Insurers will not be required to issue extraordinary dividends to support MRM in the payment of interest or dividends resulting from the Acquisition.

### 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 classes of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. §382).
23. The minimum paid up capital stock and paid in surplus required of a stock insurer for each class of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
24. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Legion is required to maintain a minimum paid up capital stock of \$2,350,000 to write the classes of insurance for which it is presently licensed.
25. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Legion is required to maintain a minimum paid in surplus of \$1,175,000 to write the classes of insurance for which it is presently licensed.
26. Upon completion of the transaction, Legion will have paid up capital in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Legion.
27. Upon completion of the transaction, Legion will have paid in surplus in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently

held by Legion.

28. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Villanova is required to maintain a minimum paid up capital stock of \$2,350,000 to write the classes of insurance for which it is presently licensed.
29. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Villanova is required to maintain a minimum paid in surplus of \$1,175,000 to write the classes of insurance for which it is presently licensed.
30. Upon completion of the transaction, Villanova will have paid up capital in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Villanova.
31. Upon completion of the transaction, Villanova will have paid in surplus in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Villanova.
32. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), US Insurors is required to maintain a minimum paid up capital stock of \$950,000 to write the classes of insurance for which it is presently licensed.
33. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), US Insurors is required to maintain a minimum paid in surplus of \$475,000 to write the classes of insurance for which it is presently licensed.
34. Upon completion of the transaction, US Insurors will have paid up capital in an amount that will satisfy the statutory minimum required of a property insurance company licensed to write the classes of authority currently held by US Insurors.
35. Upon completion of the transaction, US Insurors will have paid in surplus in an amount that will satisfy the statutory minimum required of a property insurance company licensed to write the classes of authority currently held by US Insurors.

### Competitive Impact

36. 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.
37. The acquisition of control of the Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of XL Capital, as stated in the Application, does not exceed the market share levels established in Section 1403.

### Financial Condition of XL Capital

38. 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.
39. XL Capital reported December 31, 2000, audited GAAP account balances of:

Assets:	\$ 16,941,952,000
Liabilities:	\$ 11,368,284,000
Shareholder's Equity:	\$ 5,573,668,000

40. The financial condition of XL Capital would not pose any impediments to the change in control nor jeopardize the financial condition of the Domestic Insurers.

### Plans for the Acquired Insurer

41. 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.
42. As provided in the Application, XL Capital has disclosed that it intends to make no significant changes to the business plans of the Domestic Insurers.

## 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 insurers.
44. Biographical affidavits for all directors and executive officers of XL Capital were provided as part of the Application and the Department reviewed all affidavits that were submitted.
45. The Department is satisfied that the persons who would control the operations of the Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
46. 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 the 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 the 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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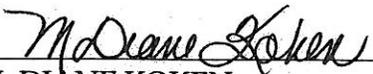
ORDER

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

The application of XL Capital Ltd. ("XL Capital") and XL Insurance Ltd. in support of the request for approval to acquire control of Legion Insurance Company, Villanova Insurance Company and U.S. Insurors Company is hereby approved, subject to this Order and the following condition:

XL Capital shall provide copies of the closing documents to the Insurance Department within five (5) days of consummation of the subject transaction.

This Order is effective immediately and valid for one year, provided no material changes are made to the transaction prior to consummation.

  
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M. DIANE KOKEN  
Insurance Commissioner  
Commonwealth of Pennsylvania

