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COHEN / PLACITELLA / ROTH PC  
ATTORNEYS AT LAW

ROBERT L. PRATTER  
rpratter@cpirlaw.com

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Corporate & Financial Regulation  
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Pennsylvania  
Insurance Department

November 4, 2013

VIA EMAIL AND UNITED STATES MAIL

Deputy Insurance Commissioner Stephen J. Johnson  
Pennsylvania Department of Insurance  
1341 Strawberry Square  
Harrisburg, PA 17120

**Re: Form A Statement Regarding the Acquisition of Control of Atlantic States Insurance Company, a Pennsylvania Insurance Company and wholly owned subsidiary of Donegal Group Inc. ("DGI"), by Gregory Mark Shepard ("Shepard") (the "Form A")**

Dear Mr. Johnson:

Throughout the pendency of the Form A, DGI, on its own behalf and on behalf of its wholly owned subsidiary, Atlantic States Insurance Company ("Atlantic States"), has communicated to the Department concerning the facial and substantive deficiencies in Shepard's Form A and stated its strong opposition to approval of the Form A. The Department has also sent two rounds of comments and requests for information to Shepard, which in DGI's view, Shepard neither answered completely nor with complete candor. Most notably, Shepard continues to insist that his Form A is not part of a plan to merge or sell DGI and its affiliates to another insurance company, despite the fact that he continues to make statements and attempts to bring about that very result.

DGI has also provided voluminous information on Shepard's past activities in the insurance business, including the Illinois Health insolvency, which demonstrates that he does not satisfy the standards for Form A approval. In counsel's most recent letter to the Department dated October 10, 2013, counsel requested that the Department dismiss or disapprove the Form A for the numerous reasons that DGI has advanced. In particular, Shepard does not have the competence, experience and integrity to warrant approval of his Form A and approval would not be in the interests of DGI and its affiliates, their policyholders and the public. See 40 P.S. Section 991.1402(f)(1)(v) and 40 P.S. Section 991.1402(f)(1)(vi).

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TWO COMMERCE SQUARE 2001 MARKET STREET, SUITE 2900 PHILADELPHIA, PENNSYLVANIA 19103  
215.567.3500 / 888.375.7600 / FAX 215.567.6019 / cpirlaw.com



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40 P.S. Section 991.1402(f)(2) provides that “[t]he Department shall hold a hearing before making a determination required by this subsection if, within ten (10) days following the filing with the department of the statement, written requests for the holding of such hearing is made ... by the insurer whose stock is proposed to be acquired or, if such issuer is not an insurer, by the insurance company controlled by such insurer.” DGI and Atlantic States complied with this requirement pursuant to their counsel’s letter dated April 3, 2013 to Commissioner Consedine.

We have been informed that the Department may be considering the issuance of a hearing notice in this matter and we are writing to you with respect to the form of such a hearing. DGI and Atlantic States are parties to the Form A approval process and have numerous substantive objections to Shepard’s Form A. The Form A is clearly adversarial and there are material issues of disputed fact relating to Shepard’s intentions and plans to change the ownership of DGI and its affiliates, Shepard’s past business experience and misconduct in the insurance industry, his competence, experience and integrity, and the impact of his past, present and intended future actions with respect to DGI and its affiliates.

All of these material issues relate to the express statutory standards that the Commissioner must consider in reviewing the Form A for approval pursuant to Section 1402 of the Insurance Holding Companies Act. In order to present its case on these disputed material facts and consideration of the Form A, DGI and Atlantic States have the statutory and constitutional right to a formal hearing in this matter to be held in accordance with 1 Pa. Code Chapter 35<sup>1</sup>, in which it can cross-examine Shepard and other witnesses under oath, present other evidence in support of its opposition to the Form A and create a record upon which the Department may properly make an adjudication in this matter. See Pennsylvania County Medical Society et al. v. Linda S. Kaiser, Commissioner, Insurance Department of Pennsylvania, 699 A.2d 800; 1997 Pa Commw. LEXIS 353 (Insurance Department order approving a Form A change in control reversed and remanded for failure to comply with Insurance Holding Companies Act and Administrative Agency Law; a public informational hearing was insufficient to comply with the applicable law at which opponents were not permitted to cross-examine witnesses nor present evidence on their own behalf). Moreover, the Administrative Agency Law and due process require that this matter be decided by an adjudication based upon a formal record, with findings of fact and conclusions of law. See Callahan v. Pennsylvania State Police, 494 Pa. 461; 1981 Pa. LEXIS 874 (adjudicatory action cannot be validly taken, whether judicial or administrative, except upon hearing wherein each party has opportunity to hear evidence, cross-examine witnesses, introduce evidence and make argument).

As a company with roots in Pennsylvania for over 100 years, and in light of its strong opposition to the Form A and the serious questions that it raises, DGI respectfully believes that the Department has the legal obligation to convene a formal hearing.

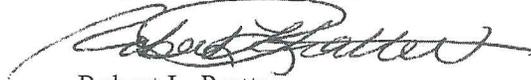
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<sup>1</sup> See also 31 PA Code Section 56.1 that states that the General Rules of Administrative Procedure at 1 Pa Code 31.1 et seq. apply to the Insurance Department except as otherwise noted not relevant here.

Stephen J. Johnson  
November 4, 2013  
Page 2

We appreciate the Department's consideration of DGI's request. We also request an opportunity to meet with you to further present our views on this subject.

Respectfully submitted,



Robert L. Pratter

COHEN, PLACITELLA & ROTH, P.C.

RLP/mfr

cc: Insurance Commissioner Michael F. Consedine  
Kimberly A. Rankin, Director, Bureau of Company Licensing and Financial Analysis  
Yen Lucas, Esquire, Chief Counsel  
Amy G. Daubert, Esquire  
Victor J. Peterson, Esquire  
Frederick W. Dreher, Esquire