

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

In Re:	:	Pursuant to Sections 1401, 1402, and
	:	1403 of the Insurance Holding
Application of Security Life Insurance	:	Companies Act, Article XIV of the
Company of America in Support of the	:	Insurance Company Law of 1921,
Request for Approval to Merge Eastern	:	Act of May 17, 1921, P.L. 682,
Life and Health Insurance Company with	:	<u>as amended</u> , 40 P.S. §§991.1401,
and into Security Life Insurance Company	:	991.1402, and 991.1403; Sections
of America	:	1921 through 1929 of the 1988
	:	Business Corporation Law, Act of
	:	December 21, 1988, P.L. 1444, No.
	:	177, <u>as amended</u> , 15 Pa. C.S.
	:	§§1921-1929; Sections 205 and 207
	:	of the GAA Amendments Act of
	:	1990, Act of December 19, 1990,
	:	P.L. 834, No. 198, <u>as amended</u> , 15
	:	P.S. §§21205 and 21207.
	:	
	:	Order No.: ID-RC-10-12

**DECISION AND ORDER**

AND NOW, on this \_11th\_ day of June, 2010, Joel Ario, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies Act, the 1988 Business Corporation Law and the GAA Amendments Act of 1990, 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. Eastern Life and Health Insurance Company (“ELH”) is a stock life insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania.
2. Eastern Insurance Holdings, Inc. (“EIHI”) is an insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania. ELH is a direct wholly-owned subsidiary of EIHI.
3. The stock of EIHI is publicly traded on the NASDAQ National Market.
4. No person, directly or indirectly, controls 10% or more of the voting securities of EIHI.
5. EIHI is the sole ultimate controlling person of ELH.
6. Security Life Insurance Company of America (“Security”) is an admitted stock life insurance company organized under the laws of the State of Minnesota with its principal place of business located in Minnetonka, Minnesota.
7. Security American Financial Enterprises Inc. (“SAFE”) is a corporation organized under the laws of the State of Minnesota with its principal place of business located in Minnetonka, Minnesota. Security is a direct wholly-owned subsidiary of SAFE.
8. SAFE Partners, LLC is a limited liability company organized under the laws of the State of Minnesota with its principal place of business located in Minnetonka, Minnesota. SAFE is a direct wholly-owned subsidiary of SAFE Partners, LLC.
9. SAFE Partners, LLC is the sole ultimate controlling person of Security.

### **Filing of the Application**

10. On May 12, 2010, 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 Security requesting approval to merge ELH with and into Security, with Security being the survivor.
11. 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 mergers or other acquisitions of control of domestic insurers must be filed with the Department for approval or disapproval.
12. The 1988 Business Corporation Law, Act of December 21, 1988, P.L. 1444, as amended, Sections 1921 through 1929, 15 Pa. C.S. §§1921 through 1929 (“1988 BCL”), and the GAA Amendments Act of 1990, P.L. 834, No. 198, as amended, 15 P.S. §§21205, 21207 (“GAA Amendments Act”), provide that all plans of merger of domestic insurers must be filed with the Department for approval or disapproval.
  13. The Application was filed with the Department pursuant to Section 1402 of the Insurance Holding Companies Act and Section 205 of the GAA Amendments Act.

### **Notice and Filing of Comments**

14. On May 22, 2010, the Department published notice in the *Pennsylvania Bulletin* that the Application had been submitted and such notice invited interested persons to submit comments to the Department regarding the Application for a 14 day period, ending June 5, 2010.
15. During the 14 day public comment period, the Department received no comments regarding the Application.

### **The Transaction**

16. On May 4, 2010, Security, SAFE, ELH and EIHI entered into an Agreement and Plan of Merger (“Merger Agreement”) whereby ELH would merge with and into Security with Security being the survivor of the merger.
17. As described in the Application, the Merger Agreement was adopted by resolution of the board of directors of ELH on May 3, 2010.
18. As described in the Application, the Merger Agreement was adopted by written consent of the sole shareholder of ELH on May 3, 2010.
19. As described in the Application, prior to closing, ELH will distribute cash and investment securities to EIHI equal to the amount of ELH’s statutory capital and surplus as of the last day of the month immediately preceding the closing (the “Pre-Merger Distribution”).
20. As described in the Application, Security and SAFE will pay to EIHI an amount equal to the shareholders’ equity of ELH as of the last day of the month immediately preceding the closing, determined in accordance with the generally accepted accounting principles, minus (a) the amount of the Pre-Merger

Distribution, plus (b) \$250,000 (the “Merger Consideration”).

21. As described in the Application, all of the outstanding shares of ELH shall be converted into the right to receive the Merger Consideration at the closing, and then cancelled.
22. As described in the Application, Security shall acquire all of the assets of ELH and assume all of the debts and other liabilities of ELH.
23. As described in the Application, the articles of incorporation and by-laws of Security in effect immediately prior to the merger shall be the articles of incorporation and by-laws of Security upon the effective date of the merger.
24. As described in the Application, the members of the board of directors and the officers of Security prior to the merger shall be the members of the board of directors and the officers of Security after the merger.

### **Standards for Review**

#### **Insurance Holding Companies Act**

25. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a merger or other acquisition of control of a domestic insurer.
26. In accordance with Section 1402(f)(1) of the Insurance Holding Companies Act, the application for a merger or other acquisition of control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

### **Licensing Requirements**

27. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the surviving insurer.
28. The class or 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).
29. Section 206 of the Insurance Company Law (40 P.S. §386) sets out the minimum paid up capital and paid in surplus required of an insurance company for each class of insurance for which it is incorporated.

30. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Security is required to maintain a minimum paid up capital stock and paid in surplus of \$1,650,000 to write the classes of insurance for which it is presently licensed.
31. Upon completion of the transaction, Security would have paid up capital stock and paid in surplus in an amount that would satisfy the statutory minimum required of a stock life insurance company licensed to write the classes of authority currently held by Security.

#### Competitive Impact

32. The merger of ELH with and into Security is subject to review and analysis under Section 1403(d)(2) of the Insurance Holding Companies Act to determine whether the effect of the merger would substantially lessen competition in this Commonwealth or tend to create a monopoly therein.
33. The merger of ELH with and into Security would not lessen competition or tend to create a monopoly in the Commonwealth because the market shares of ELH and the market share of Security, as stated in the Application, do not exceed the market share levels established in Section 1403 of the Insurance Holding Companies Act.

#### Financial Condition of Applicant

34. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the surviving insurer.
35. As of March 31, 2010, Security reported:

Assets of:	\$ 77,623,276
Liabilities of:	\$ 53,430,275
Capital and Surplus of:	\$ 24,193,002
36. The financial condition of Security would not pose any impediments to the merger nor prejudice the interest of the policyholders of ELH.

#### Plans for the Acquired Insurer

29. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals of the surviving insurer after the merger with respect to the acquired insurer.

37. As stated in the Application, no in-force policies would be non-renewed as a result of the merger.
38. As stated in the Application, there are no anticipated changes to coverages and premiums of current policies as a result of the merger.
39. As stated in the Application, Security will maintain a regional office in the location of ELH's current headquarters in Lancaster, Pennsylvania.
40. After reviewing the application, the Department did not find the Merger Agreement to be:
  - a. unfair or unreasonable to the policyholders of ELH, or
  - b. contrary to the interests of the public.
41. After reviewing the application, the Department did not find any material changes in the plans for the business, corporate structure or management of Security after the merger that would be:
  - a. unfair and unreasonable to the policyholders of Security, or
  - b. contrary to the interests of the public.

#### Management

42. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who would control the operations of the surviving insurer.
43. Biographical affidavits for all directors and executive officers of Security were reviewed by the Department.
44. The Department is satisfied that the persons who control the operations of Security have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

#### **GAA Amendments Act**

45. Section 205 of the GAA Amendments Act establishes standards for approval of an application for a merger of a domestic insurer.
46. The application for a merger must be approved if the transaction is in accordance with law and not injurious to the interests of the policyholders

and creditors.

47. Based on the above Findings of Fact, the Department is satisfied that the standards set forth in Section 205 of the GAA Amendments Act are satisfied.
48. 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 merger of ELH and Security.
2. Under Section 1402 of the Insurance Holding Companies Act, the Department must approve an application for a merger unless the Department has found that:
  - a) The insurer would 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 effect of the merger would 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 merger of ELH with and into Security.
4. The Commissioner concludes that the preparation of the Merger Agreement, pertaining to the terms and conditions, satisfies the requirements of Section 1922 of the 1988 BCL.
5. The Commissioner concludes that the Merger Agreement was adopted by the board of directors and sole shareholder of ELH in satisfaction of the requirements



of Section 1924 of the 1988 BCL.

6. The Commissioner concludes that the Merger Agreement is subject to the approval of the insurance department of the State of Minnesota pursuant to the requirements of Section 1925 of the 1988 BCL.
7. The Commissioner concludes that the Articles of Merger would satisfy the requirements of Section 1926 of the 1988 BCL.
8. The Commissioner concludes that the Merger Agreement would be effective on or after proper filing of Articles of Merger with the Department of State pursuant to Sections 1927 and 1928 of the 1988 BCL.
9. The Commissioner concludes that, if the proposed merger is consummated, all the rights, privileges, immunities, powers and purposes of ELH would be conveyed to the surviving entity, as a matter of law, pursuant to Section 1929 of the 1988 BCL.
10. Pursuant to Section 205(b) of the GAA Amendments Act, the Commissioner concludes that the terms and conditions of the proposed merger are fair and that the proposed merger is in accordance with law and not injurious to the interests of the policyholders and creditors.
11. The Commissioner concludes that the Application satisfies the requirements of the Insurance Holding Companies Act, the 1988 BCL and the GAA Amendments Act.
12. 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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	:	P.S. §§21205 and 21207.
	:	
	:	Order No.: ID-RC-10-12

**ORDER**

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”) hereby makes the following Order approving the application of Security Life Insurance Company of America (“Security”) in support of the request for approval to merge Eastern Life and Health Insurance Company (“ELH”) with and into Security, subject to the following conditions:

1. In order to effectuate the merger, the following shall occur:
  - a) The Minnesota Department of Commerce shall have approved the transaction; and
  - b) Articles of Merger shall be filed with the Pennsylvania Department of State.

2. A copy of the Minnesota approval and a copy of the filed Articles of Merger shall be provided to the Commissioner not later than ten (10) days after receipt of the documents.
3. Security shall mail to each policyholder of ELH an approved endorsement within sixty (60) days of the effective date of the proposed merger. This endorsement will notify all policyholders of ELH of the merger and advise them that Security is responsible for all of the obligations and liabilities of such policyholders' policies.
4. This transaction may be recorded as effective for accounting purpose on the first day of the calendar quarter in which the transaction is closed.

This Order is effective immediately and valid for one year, provided no material changes are made to the transaction as approved under the Application.

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JOEL ARIO  
Insurance Commissioner  
Commonwealth of Pennsylvania