

BEFORE THE ACTING INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402
	:	and 1403 of the Insurance Holding
Application of California State	:	Companies Act, Article XIV of the
Automobile Association Inter-Insurance	:	Insurance Company Law of 1921, Act
Bureau in Support of the Request for	:	of May 17, 1921, P. L. 682, <u>as</u>
Approval to Acquire Control of	:	<u>amended</u> , 40 P.S. §§991.1401,
Keystone Insurance Company and AAA	:	991.1402 and 991.1403
Mid-Atlantic Insurance Company	:	
	:	Order No. ID-RC-10-33

**DECISION AND ORDER**

AND NOW, on this 15th day of December, 2010, Robert L. Pratter, Acting 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**

1. AAA Mid-Atlantic Insurance Company (“AAA-PA”) is a domestic stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilmington, Delaware.
2. Keystone Insurance Company (“Keystone”) is a domestic stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilmington, Delaware. AAA-PA is a wholly-owned subsidiary of Keystone.
3. AAA Mid-Atlantic Inc. (“Seller”) is an insurance holding company organized under the laws of the State of Delaware with its principal place of business located in Wilmington, Delaware. Keystone is a wholly-owned subsidiary of AAA Mid-Atlantic

Inc.

4. AAA-PA and Keystone are collectively referenced hereinafter as “PA Domestic Insurers.”
5. California State Automobile Association Inter-Insurance Bureau (“Applicant”) is a reciprocal insurance exchange organized under the laws of California with its principal place of business located in Walnut Creek, California.
6. California State Automobile Association (“CSAA”) is a non-profit association organized under the laws of California with its principal place of business located in Walnut Creek, California. CSAA elects the members that serve as the Board of Directors of Applicant.

#### **Acquisition Filing**

7. 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.
8. On October 12, 2010, 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 Applicant for approval to acquire control of the PA Domestic Insurers.
9. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

#### **Department Procedures**

10. On October 23, 2010, the Department published notice in the Pennsylvania Bulletin that the Application was submitted by Applicant and such notice invited interested persons to submit comments to the Department regarding the Application for 30 days following the date of the publication (“Comment Period”).
11. The Department received no comments regarding the Application during the 30-day Comment Period.

### **Description of the Proposed Acquisition**

12. As described in the Application, on October 15, 2010, Seller and Applicant entered into a Stock Purchase Agreement (“Agreement”).
13. As described in the Application and pursuant to the Agreement, Applicant would acquire 100% of the issued and outstanding capital stock of Keystone.
14. As described in the Application, Applicant would fund the total purchase price from cash and cash equivalents.
15. CSAA would become the sole ultimate controlling person of the PA Domestic Insurers upon consummation of the instant transaction.

### **Standards for Review**

16. 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.

#### Licensing Requirements

17. 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.
18. 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).
19. 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).
20. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), AAA-PA is required to maintain a minimum paid up capital stock of \$1,000,000 to write the classes of insurance for which it is presently licensed.
21. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), AAA-PA is required to maintain a minimum paid in surplus of \$500,000 to write the classes of insurance for which it is presently licensed.
22. Upon completion of the transaction, AAA-PA 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 AAA-PA.

23. Upon completion of the transaction, AAA-PA 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 AAA-PA.
24. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Keystone is required to maintain a minimum paid up capital stock of \$1,800,000 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), Keystone is required to maintain a minimum paid in surplus of \$900,000 to write the classes of insurance for which it is presently licensed.
26. Upon completion of the transaction, Keystone 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 Keystone.
27. Upon completion of the transaction, Keystone 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 of Keystone.

#### Competitive Impact

28. The acquisition of control of the PA 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.
29. The acquisition of control of the PA Domestic insurers will not lessen competition or tend to create a monopoly in the Commonwealth because Applicant has no market share in the Commonwealth of Pennsylvania.
30. Since there would be no increase in market share as a result of the acquisition, the Competitive Standard of Section 1403 of the Insurance Holding Companies Act is not applicable.

#### Financial Condition of Applicant

31. 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).
32. The Department has reviewed the annual financial statement submitted by Applicant as of December 31, 2009.
33. The financial condition of Applicant will not pose any impediments to the change in control nor jeopardize the financial condition of the PA Domestic Insurers.

#### Plans for the Acquired Insurer

34. 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.
35. As stated in the Application, Applicant has no future plans or proposals to liquidate the PA Domestic Insurers, to sell their assets, to merge or consolidate them with any person or persons, or to make any other material change in their business operations or corporate structure.

#### Management

36. 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.
37. Biographical affidavits for all directors and executive officers of Applicant were reviewed by the Department.
38. 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.
39. 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 they are 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; or,
  - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.
  - 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-10-33

**ORDER**

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

The application of California State Automobile Association Inter-Insurance Bureau (“Applicant”) in support of the request for approval to acquire control of Keystone Insurance Company and AAA Mid-Atlantic Insurance Company as set forth in the application, is hereby approved, subject to this Order and the following condition:

Applicant 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.

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.

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Robert L. Pratter  
Acting Insurance Commissioner  
Commonwealth of Pennsylvania