

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402  
: and 1403 of the Insurance Holding  
Application of ProAssurance : Companies Act, Article XIV of the  
Corporation in Support of the Request : Insurance Company Law of 1921, Act  
for Approval to Acquire Control of : of May 17, 1921, P. L. 682, as  
Eastern Alliance Insurance Company, : amended, 40 P.S. §§991.1401,  
Eastern Advantage Assurance Company : 991.1402 and 991.1403  
and Allied Eastern Indemnity Company :  
: Order No. ID-RC-13-19

**DECISION AND ORDER**

AND NOW, on this 19 day of December, 2013, Michael F. Consedine, 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. Eastern Alliance Insurance Company ("EAIC") is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania.
2. Eastern Advantage Assurance Company ("EAAC") is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania.
3. Allied Eastern Indemnity Company ("AEIC") is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania.

4. EAIC, EAAC and AEIC are collectively hereinafter referenced as the “PA Domestic Insurers”.
5. Global Alliance Holdings Ltd. (“Global”) is a business corporation organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania. The PA Domestic Insurers are direct wholly-owned subsidiaries of Global.
6. Eastern Insurance Holdings, Inc. (“EIH”) is a business corporation organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania. Global is a direct wholly-owned subsidiary of EIH.
7. PA Merger Company (“Newco”) is a newly-formed business corporation organized pursuant to the laws of the Commonwealth of Pennsylvania.
8. ProAssurance Corporation (“Applicant”) is a business corporation organized pursuant to the laws of the State of Delaware with its principal place of business in Birmingham, Alabama. Newco is a direct wholly-owned subsidiary of Applicant.
9. The stock of Applicant is publicly traded on the New York Stock Exchange. No person owns 10% or more of the voting securities of Applicant.

#### **Acquisition Filing**

10. 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- 991.1413 (“Insurance Holding Companies Act”), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.
11. On September 25, 2013, 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.
12. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

#### **Department Procedures**

13. On October 12, 2013, 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”).

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

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

15. As described in the Application, on September 23, 2013, Applicant, Newco and EIH entered into an Agreement and Plan of Merger ("Agreement").
16. As described in the Agreement:
  - a) Newco will be merged with and into EIH with each share of Newco issued and outstanding immediately prior to the effective date of the merger being converted into one share of EIH on the effective date,
  - b) all shares of EIH common stock immediately prior to the effective date of the merger shall be converted into the right to receive cash, and
  - c) EIH will become a wholly-owned subsidiary of Applicant.
17. As described in the Application and pursuant to the Agreement, Applicant would become the sole ultimate controlling person of the PA Domestic Insurers.

#### **Standards for Review**

18. 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.
19. 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

20. 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.
21. 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.
22. 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).

23. 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).
24. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), EAIC is required to maintain a minimum paid up capital stock of \$2,100,000 and a minimum paid in surplus of \$1,050,000 to write the lines of insurance for which it is presently licensed.
25. As of September 30, 2013, EAIC maintained the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which it is presently licensed.
26. Upon completion of the transaction, EAIC will have the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which it is presently licensed.
27. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), AEIC and EAAC are each required to maintain a minimum paid up capital stock of \$750,000 and a minimum paid in surplus of \$375,000 to write the lines of insurance for which each is presently licensed.
28. As of September 30, 2013, AEIC and EAAC each 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 transaction, AEIC and EAAC will each have the statutory minimum capitalization 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 the PA Domestic Insurers would be to substantially lessen competition in this Commonwealth or tend to create a monopoly therein. (the “competitive standard”).
31. The acquisition of control of the PA Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth because the market shares of those insurance company subsidiaries of the Applicant licensed to transact the business of insurance in Pennsylvania and the market shares of the PA Domestic Insurers, 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 Applicant

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. The Department has reviewed the annual and quarterly financial statements submitted by Applicant as of December 31, 2012, and June 30, 2013, respectively.
34. 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

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 insurer.
36. In particular, the Department reviewed the transaction as set forth in the Application to determine whether it is:
  - a) Unfair or unreasonable or fails to confer a benefit upon policyholders.
  - b) Not in the public interest.
37. 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.
38. There is no basis in the record from which it may be concluded the proposed transaction is unfair or unreasonable or fails to confer a benefit upon policyholders or is not in the public interest.

Management

39. 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.

40. Biographical affidavits for all directors and executive officers of Applicant were reviewed by the Department.
41. Biographical affidavits of the intended new officers and directors of the PA Domestic Insurers were reviewed by the Department.
42. 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

43. When analyzing an application for a merger 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.
44. There is no indication that the projected future business of the Applicant would impose a financial burden upon policyholders.
45. Likewise, there is no indication that the transaction would result in the companies being in impaired financial condition.
46. Nor is there a threat regarding the ability of policyholders to enforce their insurance contracts.
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 a merger 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 write 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 party 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 any other material change in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and fail to confer a benefit on policyholders and are 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.

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and Allied Eastern Indemnity Company :  
: Order No. ID-RC-13-19

**ORDER**

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

The application of ProAssurance Corporation in support of the request for approval to acquire control of Eastern Alliance Insurance Company (“EAIC”), Eastern Advantage Assurance Company (“EAAC”) and Allied Eastern Indemnity Company (“AEIC”) (EAIC, EAAC and AEIC collectively hereinafter referenced as the “PA Domestic Insurers”) as set forth in the application, is hereby approved, subject to this Order and the following conditions:

1. ProAssurance Corporation 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.
2. For a period of six (6) months after the effective date of the subject transaction, ProAssurance Corporation shall not take affirmative action to reduce the number of employees of Eastern Insurance Holdings, Inc. or the PA Domestic Insurers principally located in Pennsylvania, without application to and the prior written approval of the Department.
3. For a period of two (2) years after the effective date of the subject transaction, ProAssurance Corporation 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 Eastern Insurance Holdings, Inc. or the PA Domestic



Insurers 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.

4. For a period of two (2) years after the effective date of the subject transaction, ProAssurance Corporation shall not close or cease actively doing business from:

- a) The corporate office of Eastern Insurance Holdings, Inc. and the PA Domestic Insurers, located in Lancaster, Pennsylvania; or
- b) Any other office located in Pennsylvania,

in each case without application to and the prior written approval of the Department.

5. For a period of three (3) years after the effective date of the subject transaction, ProAssurance Corporation shall not voluntarily withdraw any certificate of authority issued to a PA Domestic Insurer to engage in the insurance business in the Commonwealth of Pennsylvania without the prior written approval of the Department.

6. For a period of three (3) years after the effective date of the subject transaction, ProAssurance Corporation shall not attempt to redomesticate any of the PA Domestic Insurers to another jurisdiction 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.





Michael F. Consedine  
Insurance Commissioner  
Commonwealth of Pennsylvania