

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Loudoun Mutual : Companies Act, Article XIV of the
Insurance Company in Support of the : Insurance Company Law of 1921, Act
Request for Approval to Acquire Control : of May 17, 1921, P. L. 682, as
of Community Insurance Company and : amended, 40 P.S. §§991.1401,
Montour Mutual Insurance Company : 991.1402 and 991.1403
: :
: Order No. ID-RC-20-23

DECISION AND ORDER

AND NOW, on this 28th day of December, 2020, Jessica K. Altman, 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

Identity of PA Domestic Insurers

1. Community Insurance Company (“CIC”) is a domestic stock property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Allentown, Pennsylvania.
2. Charter Lane Holdings, Inc. (“Charter Lane”) is a stock insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania. CIC is a direct wholly-owned subsidiary of Charter Lane.

3. Community Holdings Management Inc. (“Community Holdings”) is a mutual insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania. Charter Lane is a direct wholly-owned subsidiary of Community Holdings. The policyholders of CIC are the members of Community Holdings.
4. Montour Mutual Insurance Company (“MMIC” and collectively with CIC the “PA Domestic Insurers”) is a domestic mutual property insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Bloomsburg, Pennsylvania.

Identity of Applicant

5. Loudoun Mutual Insurance Company (“Loudoun”) is an approved qualified unlicensed reinsurer organized pursuant to the laws of the Commonwealth of Virginia with its principal place of business in Waterford, Virginia.

Acquisition Filing

6. 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.
7. On September 18, 2020, 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 Loudoun for approval to acquire control of the PA Domestic Insurers.
8. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

9. On October 3, 2020, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by Loudoun 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”).
10. The Department received no comments regarding the Application during the Comment Period.

Description of the Proposed Acquisition

11. As described in the Application, Loudoun will acquire control of the PA Domestic Insurers (the “Acquisition”) pursuant to an Affiliation Agreement (the “Agreement”), dated September 15, 2020, by and between Loudoun, Charter Lane, Community Holdings and the PA Domestic Insurers.
12. As described in the Application and pursuant to the Agreement:
 - a. Loudoun will be granted the right to appoint a majority of the board of directors to each of CIC, Charter Lane, Community Holdings and MMIC. Amendments will be made to the bylaws of those corporations to further carry out that right of appointment.
 - b. CIC and MMIC will enter into an Expense Sharing Agreement with Loudoun.
 - c. CIC and MMIC will enter into a Property and Casualty Quota Share Reinsurance Contract with Loudoun whereby each insurer agrees to cede 100% of its premium income and associated losses and expenses to Loudoun.
 - d. Certain members of the board of directors of CIC and MMIC will be replaced with representatives of Loudoun so as Loudoun representatives on the board of directors hold a majority of the membership of each company’s board of directors.
 - e. Certain officers of CIC and MMIC will be replaced with representatives of Loudoun.
13. As described in the Application, Loudoun would become the sole ultimate controlling person of the PA Domestic Insurers as a result of the Acquisition.

Standards for Review

14. 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.
15. 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

16. 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.

17. 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.
18. 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).
19. 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).
20. The minimum required surplus for a mutual insurance company for each line of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
21. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), CIC is required to maintain a minimum paid up capital stock of \$950,000 and a minimum paid in surplus of \$475,000 to write the lines of insurance for which it is presently licensed.
22. Upon completion of the Acquisition, CIC will have the statutory minimum paid up capital stock and paid in surplus to satisfy the requirements to write the lines of insurance for which it is presently licensed.
23. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), MMIC is required to maintain a minimum surplus of \$950,000 to write the lines of insurance for which it is presently licensed.
24. Upon completion of the Acquisition, MMIC will have the statutory minimum surplus to satisfy the requirements to write the lines of insurance for which it is presently licensed.

Competitive Impact

25. 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, as per 40 P.S. §991.1402(f)(1)(ii) (the “competitive standard”).
26. In applying the competitive standard, the information requirements of Section 1403(c)(2) and the standards of Section 1403(d)(2) are applicable.
27. The proposed acquisition of control qualifies for the exemptions set forth in Section 1403(d)(2)(v)(A)-(C) of the Insurance Holding Companies Act for all lines of business

as contained in the annual statement required to be filed by insurers licensed to do business in this Commonwealth.

28. 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 Loudoun and the PA domestic Insurers, 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

29. 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).
30. The Department has reviewed the financial information submitted by Loudoun.
31. The financial condition of Loudoun would not pose any impediments to the change in control nor jeopardize the financial condition of the PA Domestic Insurers.

Plans for the Acquired Insurer

32. 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.
33. In particular, the Department reviewed the plans or proposals which the acquiring party has 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, to determine whether it is:
 - a. Unfair or unreasonable;
 - b. Fails to confer a benefit upon policyholders; or
 - c. Not in the public interest.
34. As stated in the Application, Loudoun plans to combine CIC and MMIC in 2021. A filing for regulatory approval will be made once the structure for combining the companies is determined and has received board approvals.
35. There is no basis in the record from which it may be concluded that the plans or proposals which the acquiring party has for the insurer are unfair or unreasonable or fails to confer a benefit upon policyholders or are not in the public interest.

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 the current executive officer and directors of Loudoun were reviewed by the Department.
38. Biographical affidavits for the proposed new officers and directors of the PA Domestic Insurers, Charter Lane and Community Holdings were reviewed by the Department.
39. 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

40. When analyzing an application for an acquisition of control 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.
41. 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

42. When analyzing an application for an acquisition of control 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.
43. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.
44. 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-20-23

ORDER

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

The application of Loudoun Mutual Insurance Company ("Loudoun") in support of the request for approval to acquire control of Community Insurance Company ("CIC") and Montour Mutual Insurance Company ("MMIC" and collectively with CIC the "PA Domestic Insurers")) as set forth in the application, is hereby approved, subject to this Order and the following conditions:

1. Loudoun 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 three (3) years after the effective date of the subject transaction, the PA Domestic Insurers shall not voluntarily withdraw any certificate of authority to engage in the insurance business in the Commonwealth of Pennsylvania without the prior written approval of the Department.
3. For a period of three (3) years after the effective date of the subject transaction, the PA Domestic Insurers shall not attempt to redomesticate to another jurisdiction without the prior written approval of the Department.

4. For three (3) years following the effective date of the acquisition, the PA Domestic Insurers will be prohibited from declaring or paying any dividends, returns of capital or any other type of distributions, without the prior approval of the Commissioner, unless said distribution has been approved by the Department as a transaction between affiliates filed under 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.
5. Loudoun and the PA Domestic Insurers shall not amend, waive enforcement of, modify or enter into any other agreement or arrangement having the effect of terminating, waiving or modifying, in any material respect, the terms or conditions of the Affiliation Agreement, 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.



Jessica K. Altman
Insurance Commissioner
Commonwealth of Pennsylvania

