

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402  
: and 1403 of the Insurance Holding  
Application of Hudson Insurance : Companies Act, Article XIV of the  
Company in Support of the Request for : Insurance Company Law of 1921, Act  
Approval to Acquire Control of : of May 17, 1921, P. L. 682, as  
Allegheny Surety Company : amended, 40 P.S. §§ 991.1401,  
: 991.1402 and 991.1403  
: :  
: Order No. ID-RC-21-01

**DECISION AND ORDER**

AND NOW, on this 25th day of January, 2021, 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 Insurer

1. Allegheny Surety Company (“Allegheny”) is a domestic stock casualty insurance company organized pursuant to the laws of Pennsylvania with its principal place of business in Pittsburgh, Pennsylvania.
2. The Allegheny Group, Inc. (“AGI”) is an insurance holding company organized pursuant to the laws of Pennsylvania with its principal place of business in Pittsburgh, Pennsylvania. AGI currently directly holds 100% of the issued and outstanding stock of Allegheny.

3. Paul C. Read (“Mr. Read”) is an individual with his principal place of business in Pittsburgh, Pennsylvania. Mr. Read directly holds 32.105% of the issued and outstanding stock of AGI.
4. Richard J. Taylor (“Mr. Taylor”) is an individual with his principal place of business in Pittsburgh, Pennsylvania. Mr. Taylor directly holds 32.105% of the issued and outstanding stock of AGI.
5. Anthony P. Lekse (“Mr. Lekse”) is an individual with his principal place of business in Pittsburgh, Pennsylvania. Mr. Lekse directly holds 11.42% of the issued and outstanding stock of AGI.
6. No other stockholder holds 10% or more of the issued and outstanding stock of AGI.

Identity of Applicant

7. Hudson Insurance Company (“HIC”) is a foreign stock casualty insurance company organized pursuant to the laws of Delaware with its principal place of business in New York, New York.
8. Odyssey Reinsurance Company (“ORC”) is a foreign stock casualty insurance company organized pursuant to the laws of Connecticut with its principal place of business in Stamford, Connecticut. ORC directly holds 100% of the issued and outstanding stock of HIC.
9. Odyssey Group Holdings, Inc. (“OGHI”) is a business corporation organized pursuant to the laws of Delaware with its principal place of business in Stamford, Connecticut. OGHI directly holds 100% of the issued and outstanding stock of ORC.
10. Odyssey US Holdings, Inc. (“Odyssey US”) is a business corporation organized pursuant to the laws of Delaware with its principal place of business in Stamford, Connecticut. Odyssey US directly holds 100% of the issued and outstanding stock of OGHI.
11. Fairfax (US) Inc. (“Fairfax US”) is a business corporation organized pursuant to the laws of Delaware with its principal place of business in Lewisville, Texas. Fairfax (US) directly holds 100% of the issued and outstanding stock of Odyssey US.
12. FFHL Group Limited (“Group”) is a business corporation organized pursuant to the laws of Canada with its principal place of business in Toronto, Ontario. Group directly holds 94.44% of the issued and outstanding stock of Fairfax (US).
13. Fairfax Financial Holdings Limited (“FFHL”) is a business corporation organized pursuant to the laws of Canada with its principal place of business in Toronto, Ontario.

FFHL directly holds 100% of the issued and outstanding stock of Group, and 5.56% of Fairfax US.

14. V. Prem Watsa (“Mr. Watsa”) is an individual with his principal place of business in Toronto, Ontario. Mr. Watsa personally or beneficially owns shares that represent 43.61% of the total votes attached to all shares of FFHL.
15. No other stockholder holds 10% or more of the issued and outstanding stock of FFHL.
16. Mr. Watsa is the sole ultimate controlling person of HIC.

#### **Filing of the Application**

17. On November 6, 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 HIC requesting approval to acquire control of Allegheny.
18. 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 changes of control of domestic insurers must be filed with the Commissioner for approval or disapproval.
19. The Application was filed with the Department pursuant to Section 1402 of the Insurance Holding Companies Act.

#### **Department Procedures**

20. On November 21, 2020, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by HIC and such notice invited interested persons to submit comments to the Department regarding the Application for thirty (30) days following the date of the publication (“Comment Period”).
21. The Department received no comments regarding the Application during the Comment Period.

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

22. As described in the Application, on October 30, 2020, the Shareholders of AGI (the “Sellers”) and HIC entered into a Stock Purchase Agreement (“the SPA”).
23. As described in the Application and pursuant to the SPA, HIC intends to purchase 100% of the issued and outstanding stock of AGI from the Sellers (“the Acquisition”).

24. As described in the Application, AGI directly holds 100% of the issued and outstanding stock of Allegheny.
25. As described in the Application, the source of funds for the Acquisition would be from cash on hand.
26. As described in the Application and subsequent to the Acquisition, HIC would directly control 100% of the issued and outstanding stock of AGI and would indirectly control 100% of the issued and outstanding stock of Allegheny.
27. As described in the Application, Mr. Watsa would become the sole ultimate controlling person of Allegheny as a result of the Acquisition.

#### **Department's Approval of the Acquisition**

28. 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.
29. 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**

30. 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.
31. 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).
32. 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).
33. In accordance with Section 206 of the Insurance Company Law (40 P.S. § 386), Allegheny is required to maintain a minimum paid up capital stock of \$750,000 to write the classes of insurance for which it is presently licensed.
34. In accordance with Section 206 of the Insurance Company Law (40 P.S. § 386), Allegheny is required to maintain a minimum paid in surplus of \$375,000 to write the classes of insurance for which it is presently licensed.
35. Upon completion of the Acquisition, Allegheny will have paid up capital stock in an amount that will satisfy the minimum required of a casualty insurance company licensed to write the classes of authority currently held by Allegheny.

36. Upon completion of the Acquisition, Allegheny will have paid in surplus in an amount that will satisfy the minimum required of a casualty insurance company licensed to write the classes of authority currently held by Allegheny.

#### Competitive Impact

37. 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 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”).
38. In applying the competitive standard, the informational requirements of Section 1403(c)(2) and the standards of Section 1403(d)(2) are applicable.
39. The proposed acquisition of control qualifies for the exemptions set forth in Section 1403(b)(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.
40. The acquisition of control of Allegheny will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of HIC and its insurance company affiliates licensed to transact the business of insurance in Pennsylvania and the market share of Allegheny, do not exceed the market share levels established in Section 1403 of the Insurance Holding Companies Act.

#### Financial Condition of Applicant

41. 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).
42. The Department has reviewed the financial information submitted by HIC and Mr. Watsa.
43. The financial condition of HIC and Mr. Watsa would not pose any impediments to the change in control nor jeopardize the financial condition of Allegheny.

#### Plans for the Acquired Insurer

44. 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.

45. 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.
46. As stated in the Application, upon completion of the Acquisition and upon approval of the merger by the Department and the State of Delaware, HIC plans to merge Allegheny with and into HIC, with HIC as the sole survivor of the merger.
47. 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

48. 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.
49. Biographical affidavits for all of the officers and directors of HIC and for Mr. Watsa were reviewed by the Department.
50. The Department is satisfied that the persons who would control the operations of Allegheny 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

51. 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.
52. 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

53. 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.
54. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.

**General**

55. 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 Allegheny.
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;

- 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 Allegheny.
  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**

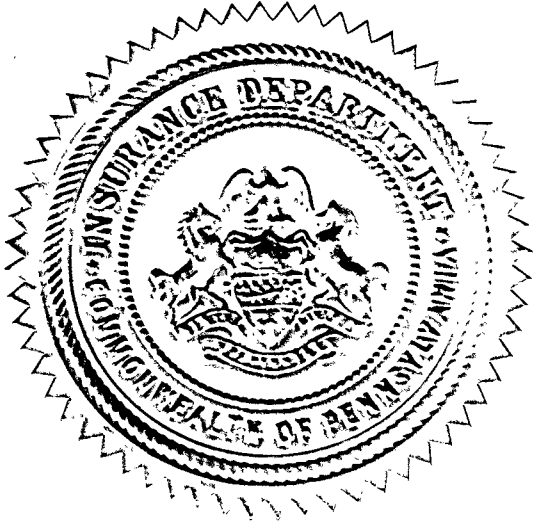
Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner") hereby makes the following Order:

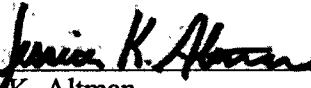
The application of Hudson Insurance Company ("HIC") in support of the request for approval to acquire control of Allegheny Surety Company ("Allegheny") as set forth in the application, is hereby approved, subject to this Order and the following conditions:

1. HIC 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 following the effective date of the subject acquisition, Allegheny will be prohibited from declaring or paying any dividends, returns of capital or any other type of distributions to HIC 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.
3. For a period of three (3) years after the effective date of the subject acquisition, Allegheny shall not voluntarily withdraw its certificate of authority to engage in the insurance business in the Commonwealth of Pennsylvania without the prior written approval of the Department.

4. For a period of three (3) years after the effective date of the subject acquisition, HIC shall not attempt to redomesticate Allegheny 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.



  
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Jessica K. Altman  
Insurance Commissioner  
Commonwealth of Pennsylvania