

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Section 319, Article III of the
: Insurance Company Law of 1921, Act of
Application of Penn Mutual Insurance : May 17, 1921, P.L. 682, as amended, 40
Company for Approval to Reinsure its Entire : P.S. §442
Schedule of Policies :
: Order No. ID-RC-02-29

DECISION AND ORDER

AND NOW, on this 13th day of December, 2002, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order.

Pursuant to Section 319 of the Insurance Company Law of May 17, 1921, as amended, (40 P.S. §442) (“Insurance Company Law”) 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 Involved Companies

1. Penn Mutual Insurance Company (“Penn Mutual”) is a mutual fire insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in West Chester, Pennsylvania.
2. Harleysville Mutual Insurance Company (“Harleysville Mutual”) is a mutual fire insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Harleysville, Pennsylvania.
3. Penn Mutual and Harleysville Mutual each hold a certificate authorizing the transaction of the business of insurance in this Commonwealth (“Certificate of Authority”).

Reinsurance Filing

4. On November 26, 2002, the Commissioner received an initial application (which, together with all material received subsequently, is collectively referenced as “Application”) from Penn Mutual for approval to reinsure its entire schedule of policies (“Bulk Transfer”) with Harleysville Mutual.
5. The Application included an Assumption Reinsurance Agreement and Liability & Asset Transfer Agreement (“the Agreements”) that provide, inter alia, for Harleysville Mutual to assume the rights, duties, and obligations of all policies issued by Penn Mutual in exchange for all of the assets of Penn Mutual.
6. Such reinsurance and assumption of the entire schedule of policies of a domestic insurer requires the prior approval of the Commissioner in accordance with the provisions of Section 319(a) of the Insurance Company Law.
7. The Agreements provide that at closing, Penn Mutual shall surrender its Certificate of Authority to the Commissioner.
8. The Agreements provide that subsequent to the surrender of Penn Mutual’s Certificate of Authority, the then current Penn Mutual directors shall elect Harleysville Mutual nominees as directors, and then such current Penn Mutual directors shall resign effective immediately.
9. The Agreements provide that after the closing, Harleysville Mutual shall take such steps and actions as required by law to wind-up and legally dissolve Penn Mutual.

Standards for Review

10. The standards set forth in Section 319(b) of the Insurance Company Law are used by the Commissioner in reviewing an application for approval submitted in accordance with Section 319(a) of the Insurance Company Law.

Business Written

11. When evaluating a Bulk Transfer, filed in accordance with Section 319(a) of the Insurance Company Law, the Commissioner reviews to determine that the assuming company is doing the same or a similar kind of business as the ceding company.
12. Harleysville Mutual is writing the same or a similar kind of business as Penn Mutual as reflected in documents on file with the Pennsylvania Insurance Department (“Department”).

License Status

13. When evaluating a Bulk Transfer, filed in accordance with Section 319(a) of the Insurance Company Law, the Commissioner reviews the license status of the assuming insurer to determine that it is licensed to transact the business of insurance in this Commonwealth or in any of the United States.
14. The 2001 Annual Statement of Penn Mutual, as filed with the Department and prepared in accordance with statutory accounting principles, reports licensure and direct premiums written in the following states:
 - a) Delaware;
 - b) Maryland;
 - c) New Jersey;
 - d) Pennsylvania; and
 - e) Virginia.
15. The 2001 Annual Statement of Harleysville Mutual, as filed with the Department and prepared in accordance with statutory accounting principles, reports licensure and direct premiums written in all states identified in Finding of Fact No. 14.

Financial Condition

16. When evaluating a Bulk Transfer, filed in accordance with Section 319(a) of the Insurance Company Law, the Commissioner reviews the solvency of the assuming insurer both before and after consummation of the proposed transaction.
17. The 2001 Annual Statement of Harleysville Mutual, reports total surplus of \$552.4 million.
18. As of and for the year ended December 31, 2001, Harleysville Mutual's total assets were \$1,064.7 million, total liabilities were \$512.3 million, and net income was \$(3.1) million.
19. As of and for the nine (9) months ended September 30, 2002, Harleysville Mutual's total assets were \$1,083.0 million, total liabilities were \$572.9 million, total surplus was \$510.1 million and net income was \$1.2 million.
20. On a pro forma basis, after the Bulk Transfer, Harleysville Mutual will have:
 - a) Assets of \$1,129.3 million;
 - b) Liabilities of \$621.1 million; and
 - c) Surplus of \$508.3 million.
21. There are no apparent solvency issues in the financial condition of Harleysville Mutual both before and after the Bulk Transfer.

Licensing Requirements

22. When evaluating a Bulk Transfer, filed in accordance with Section 319(a) of the Insurance Company Law, the Commissioner reviews the requirements for continued licensure of the assuming insurer.
23. Section 206 of the Insurance Company Law sets out the minimum surplus required of a mutual insurance company for each line of insurance for which it is incorporated.
24. In accordance with Section 206 of the Insurance Company Law, Harleysville Mutual is required to maintain a minimum surplus of \$2,350,000 to transact the business of insurance in this Commonwealth for those lines of insurance for which it is licensed.
25. Harleysville Mutual currently has sufficient surplus to satisfy the requirements to write the lines of insurance for which it is presently licensed.
26. Upon completion of the Bulk Transfer, Harleysville Mutual will have surplus in an amount to maintain a license to transact the business of insurance in this Commonwealth for those lines of insurance for which it is presently licensed.
27. 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. Section 319(a) of the Insurance Company Law provides that no stock or mutual insurance company shall reinsure its entire schedule of policies except by approval of the Commissioner.
2. Section 319(b) of the Insurance Company Law provides the following standards for use by the Commissioner in reviewing an application for approval submitted in accordance with Section 319(a) of the Insurance Company Law:
 - a) the assuming insurer is doing the same or a similar kind of business;
 - b) the assuming insurer is licensed to transact business in this Commonwealth or licensed to transact business in any of the United States;
 - c) the assuming insurer is and remains of the same standards of solvency; and

- d) the assuming insurer continues to meet all other requirements fixed by the laws of this Commonwealth for companies, associations, or exchanges transacting the same classes of business within this Commonwealth.
- 3. The standards of Section 319(b) of the Insurance Company Law were applied by the Commissioner in reviewing the Bulk Transfer of Penn Mutual's entire schedule of policies.
- 4. Based on all the information and analysis received and the Department's independent review, the Commissioner finds that the sections of the Agreements that are relevant to the Application are in accordance with law.
- 5. A company organized under the laws of the Commonwealth of Pennsylvania may transact the business of insurance if it has been issued a Certificate of Authority from the Commissioner.
- 6. After Penn Mutual surrenders its Certificate of Authority, it will no longer be authorized to transact the business of insurance in this Commonwealth.
- 7. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be deemed incorporated in the Findings Fact as if fully set forth therein.

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ORDER

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

An approving determination for the Assumption Reinsurance Agreement between Penn Mutual Insurance Company (“Penn Mutual”) and Harleysville Mutual Insurance Company (“Harleysville Mutual”), as set forth in the Application, is hereby granted, subject to this Order and the following conditions:

1. Penn Mutual shall surrender its Certificate of Authority to the Commissioner immediately following the closing of the Assumption Reinsurance Agreement.
2. The current Penn Mutual directors shall not elect Harleysville Mutual nominees as directors until Penn Mutual has surrendered its Certificate of Authority to the Commissioner and the Pennsylvania Insurance Department has given written acknowledgement of receipt of the Certificate of Authority.

This Order is effective immediately and is valid for one year from the date of signature.

M. Diane Koken
Insurance Commissioner
Commonwealth of Pennsylvania