

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Section 320 of the
	:	Insurance Company Law of 1921,
Application of Auto Club Partners, Inc.	:	Act of May 17, 1921, P.L. 682, <u>as</u>
in Support of the Request for Approval	:	<u>amended</u> , 40 P.S. §443; and Sections
to Acquire Control of all the Issued and	:	1401, 1402, and 1403 of the
Outstanding Capital Stock of Keystone	:	Insurance Holding Companies Act,
Insurance Company and AAA Mid-	:	Article XIV of the Insurance
Atlantic Insurance Company	:	Company Law of 1921, Act of May
	:	17, 1921, P.L. 682, <u>as amended</u> , 40
	:	P.S. §§991.1401, 991.1402, and
	:	991.1403
	:	:
	:	Order No. ID-RC-06-10

DECISION AND ORDER

AND NOW, on this 27th day of June, 2006, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Law and the Insurance Holding Company 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 Mid-Atlantic”) is a stock casualty insurance company organized under the laws of the

- Commonwealth of Pennsylvania with its principal place of business located in Wilmington, Delaware.
2. Keystone Insurance Company (“Keystone” and together with AAA Mid-Atlantic the “Domestic Insurers”) is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilmington, Delaware. Keystone directly holds 100% of the issued and outstanding capital stock of AAA Mid-Atlantic.
  3. AAA Mid-Atlantic Inc. (“Holding Company”) is a non-profit insurance holding company organized under the laws of the Commonwealth with its principal place of business located in Wilmington, Delaware. Holding Company directly holds 100% of the issued and outstanding capital stock of Keystone.
  4. Auto Club Partners, Inc. (“Auto Club”) is a non-profit business corporation organized under the laws of the state of Delaware with its principal place of business located in Wilmington, Delaware. There is no controlling person of Auto Club.

#### Acquisition Filing

5. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, 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.
6. On May 30, 2006, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an initial application (which together with all material received subsequently is collectively referenced as “Application”) from Auto Club for approval to acquire control of the Domestic Insurers.
7. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

### Department Procedures

8. On June 17, 2006, the Department published notice in the Pennsylvania Bulletin that the Application was submitted by Auto Club and such notice invited interested persons to submit comments to the Department regarding the Application for a seven (7) day period, ending June 24, 2006
9. The Department received no comments regarding the Application during the seven (7) day comment period.

### Description of the Proposed Acquisition

10. As described in the Application, on March 23, 2006, Holding Company and Auto Club approved an agreement to reorganize the entities ("Reorganization Agreement").
11. As described in the Application and pursuant to the Reorganization Agreement, Holding Company will issue sole corporate membership to Auto Club and Holding Company would become a wholly-owned subsidiary of Auto Club.
12. As described in the Application and pursuant to the Reorganization Agreement, the total price to be paid by Auto Club for obtaining sole corporate membership of Holding Company would be zero dollars.

### Standards for Review

13. 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.
14. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

### Licensing Requirements

15. 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.

16. 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).
17. 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).
18. Upon completion of the transaction, the Domestic Insurers will have paid up capital in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the lines of authority currently held by the Domestic Insurers.
19. Upon completion of the transaction, the Domestic Insurers will have paid in surplus in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the lines of authority currently held by the Domestic Insurers.

#### Competitive Impact

20. The acquisition of control of the 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.
21. The acquisition of control of the Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of Auto Club, as stated in the Application, does not exceed the market share levels established in Section 1403.

#### Financial Condition of Bristol Associates

22. 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 persons.
23. The financial condition of Auto Club would not pose any impediments to the change in control nor jeopardize the financial condition of the Domestic Insurers.

### Plans for the Acquired Insurer

24. 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.
25. As provided in the Application, Auto Club has disclosed that it intends to make no changes to the business plan of the Domestic Insurers.

### Management

26. 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 insurers.
27. Biographical affidavits for all directors and executive officers of Auto Club were provided and the Department reviewed all affidavits that were submitted.
28. The Department is satisfied that the persons who would control the operations of the Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
29. 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 Commissioner has jurisdiction to review and approve the change in control of the Domestic Insurers.
2. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner 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 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 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 the 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-06-10

ORDER

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

The acquisition of control by Auto Club Partners, Inc. ("Auto Club") of all the issued and outstanding shares of common stock of the Keystone Insurance Company and AAA Mid-Atlantic Insurance Company is hereby approved, subject to this Order and the following condition:

Auto Club 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.

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M. DIANE KOKEN  
Insurance Commissioner  
Commonwealth of Pennsylvania