

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and  
: 1403 of the Insurance Holding  
Application of Alleghany Insurance : Companies Act, Article XIV of the  
Holdings LLC in Support of the : Insurance Company Law of 1921,  
Request for Approval to Acquire : Act of May 17, 1921, P.L. 682,  
Control of Homesite Insurance : as amended, 40 P.S. §§991.1401,  
Company of Pennsylvania : 991.1402, and 991.1403  
: :  
: Order No. ID-RC-07-44

DECISION AND ORDER

AND NOW, on this 24th day of December, 2007, Joel Ario, Acting 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. Homesite Insurance Company of Pennsylvania (“Domestic Insurer”) is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Boston, Massachusetts.
2. Homesite Group Incorporated (“Homesite”) is a publicly traded insurance holding company organized under the laws of the state of Delaware with

- its principal place of business located in Boston, Massachusetts. Homesite holds 100% of the issued and outstanding capital stock of Domestic Insurer.
3. Alleghany Insurance Holdings LLC (“Holdings”) is a limited liability corporation organized under the laws of the state of Delaware with its principal place of business located in New York, New York.
  4. Alleghany Corporation (“Alleghany”) is a business corporation organized under the laws of the state of Delaware with its principal place of business located in New York, New York. Holdings is a wholly-owned subsidiary of Alleghany.
  5. Alleghany is a publicly traded corporation that is traded on the New York Stock Exchange.
  6. The only entity holding 10% of the issued and outstanding capital stock of Alleghany has properly filed a disclaimer of control as permitted by 40 P.S. Section 991.1401.
  7. Alleghany is the sole ultimate controlling person of Holdings.

#### Acquisition Filing

8. 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 any transaction involving the control of a domestic insurer must be filed with the Commissioner for approval or disapproval.
9. On December 8, 2006, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an initial disclaimer of control over Domestic Insurer from Alleghany for its acquisition of 32.9% of the issued and outstanding capital stock of Homesite (“Disclaimer of Control”).
10. The Department accepted the Disclaimer of Control via letter dated December 27, 2006 (“Disclaimer Approval”). The Disclaimer Approval included a requirement for Alleghany to notify the Department of any significant change to the position in regards to Domestic Insurer as presented in Disclaimer of Control.
11. On November 9, 2007, the Department received an application (which together with all material received subsequently is collectively referenced

as “Application”) from Holdings for approval to assume a controlling interest of Domestic Insurer.

12. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

#### Department Procedures

13. On December 1, 2007, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by Holdings and such notice invited interested persons to submit comments to the Department regarding the Application for a seven day period, ending December 8, 2007.
14. The Department received no comments regarding the Application during the seven day comment period.

#### Description of the Proposed Acquisition

15. As described in the Application, on December 5, 2006, Holdings and Homesite signed an stock purchase agreement (“Purchase Agreement”) whereby Holdings would acquire newly issued capital stock of Homesite such that Holdings would directly hold 32.9% of the total issued and outstanding capital stock of Homesite.
16. As described in the Application, certain shareholders of Homesite had entered into a shareholders agreement (“Shareholders Agreement”) which limited the rights of shareholders that are not party to the Shareholders Agreement.
17. As described in the Application, as Holdings is not a party to the Shareholders Agreement, it filed Disclaimer of Control and the Department accepted Disclaimer of Control based on the existence of Shareholders Agreement.
18. As described in the Application, certain events may occur which will remove the basis for Disclaimer of Control and therefore Alleghany has filed for approval to become a controlling person of Domestic Insurer.

### Standards for Review

19. 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.
20. 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

21. 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.
22. 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).
23. 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).
24. Upon completion of the transaction, Domestic Insurer would have paid up capital in an amount that would satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Domestic Insurer.
25. Upon completion of the transaction, Domestic Insurer would have paid in surplus in an amount that would satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Domestic Insurer.

### Competitive Impact

26. The acquisition of control of Domestic Insurer 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.

27. The acquisition of control of Domestic Insurer will not lessen competition or tend to create a monopoly in the Commonwealth because Alleghany has no market share in the business conducted by Domestic Insurer in the Commonwealth of Pennsylvania.

Financial Condition of Alleghany

28. 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.
29. Alleghany's 10-Q reports that as of December 31, 2006, the GAAP account balances were:

Assets:	\$ 6,178,740,000
Liabilities:	\$ 3,755,494,000
Shareholder's Equity:	\$ 2,423,246,000

30. The financial condition of Alleghany would not pose any impediments to the change in control nor jeopardize the financial condition of Domestic Insurer.

Plans for the Acquired Insurer

31. 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 insurers.
32. As provided in the Application, Alleghany has disclosed that it intends to make no changes to the business plan of Domestic Insurer.

Management

33. 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.
34. Biographical affidavits for all directors and executive officers of Alleghany were provided as part of the Application and the Department reviewed all

affidavits that were submitted.

35. The Department is satisfied that the persons who would control the operations of Domestic Insurer have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
36. 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 Domestic Insurer.
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 Domestic Insurer.
  4. Based upon the Application, the Commissioner has determined that upon closing of the Acquisition Alleghany would be an ultimate controlling person of Domestic Insurer.
  5. 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 Acting Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

The application of Alleghany Insurance Holdings LLC in support of the request for approval to acquire control of Homesite Insurance Company of Pennsylvania is hereby approved, subject to this Order and the following condition:

Alleghany Insurance Holdings LLC shall provide a list of the closing documents to the Insurance Department within five days of consummation of the subject transaction. Such documents shall be available for Department review for a period of not less than five years from the date of the closing of this acquisition.

This Order is effective immediately and valid for one year, provided no material changes are made to the transaction prior to consummation.

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JOEL ARIO  
Acting Insurance Commissioner  
Commonwealth of Pennsylvania