

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402, and
	:	1403 of the Insurance Holding
Application of Commonwealth Insurance	:	Companies Act, Article XIV of the
Services, Inc. in Support of the Request for	:	Insurance Company Law of 1921,
Approval to Acquire Control of all the	:	Act of May 17, 1921, P.L. 682,
Issued and Outstanding Capital Stock of	:	<u>as amended</u> , 40 P.S. §§991.1401,
Conestoga Title Insurance Company	:	991.1402, and 991.1403
	:	
	:	Order No. ID-RC-08-08

DECISION AND ORDER

AND NOW, on this _____ day of August, 2008, Joel Ario, 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. Conestoga Title Insurance Company (“Conestoga Title”) is a stock title insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania.
2. Conestoga Financial Corporation (“Conestoga Financial”) is a business corporation organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania. Conestoga Financial currently holds 100% of the issued and outstanding capital stock of Conestoga Title.
3. Commonwealth Insurance Services (“CIS”) is a business corporation organized under the laws of the State of Delaware with its principal place of business in

Marietta, Pennsylvania.

4. Donegal Mutual Insurance Company (“Donegal Mutual”) is a mutual insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Marietta, Pennsylvania. Donegal Mutual directly holds 100% of the issued and outstanding capital stock of CIS.
5. No entity controls Donegal Mutual.

Acquisition Filing

6. 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 control of a domestic insurer must be filed with the Commissioner for approval or disapproval.
7. On August 11, 2008, 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 CIS for approval to acquire a controlling interest of Conestoga Title.
8. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Description of the Proposed Acquisition

9. As described in the Application, on August 5, 2008, CIS and Conestoga Financial entered into a Asset Purchase Agreement (“Agreement”) whereby CIS would acquire all of the assets and liabilities of Conestoga Financial.
10. As described in the Application and pursuant to the Agreement, CIS would directly hold 100% of the issued and outstanding capital stock of Conestoga Title.
11. As described in the Application and pursuant to the Agreement, Donegal Mutual would make a contribution to the capital of Conestoga Title such that upon consummation of the acquisition the surplus as regards policyholders of Conestoga Title would be not less than four million dollars.

Standards for Review

12. 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.

13. 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

14. 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.
15. The minimum paid up capital stock and paid in surplus required of a title insurer is set out in Section 705 of the Insurance Company Law (40 P.S. §910-5).
16. In accordance with Section 705 of the Insurance Company Law (40 P.S. §910-5), Conestoga Title is required to maintain a minimum paid up capital stock of \$500,000 to write the classes of insurance for which it is presently licensed.
17. In accordance with Section 205 of the Insurance Company Law (40 P.S. §910-5), Conestoga Title is required to maintain a minimum paid in surplus of \$250,000 to write the class of insurance for which it is presently licensed.
18. Upon completion of the transaction, Conestoga Title would have paid up capital in an amount that would satisfy the statutory minimum required of a title insurance company.
19. Upon completion of the transaction, Conestoga Title would have paid in surplus in an amount that would satisfy the statutory minimum required of a title insurance company.

Competitive Impact

20. The acquisition of control of Conestoga Title 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 Conestoga Title would not lessen competition or tend to create a monopoly in the Commonwealth because the title market share of Donegal Mutual, as stated in the Application, does not exceed the market share levels established in Section 1403.

Financial Condition of Donegal Mutual

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 Department has reviewed the financial condition of CIS and Donegal Mutual as of March 31, 2008, and determined that they would not pose any impediments to the change in control nor jeopardize the financial condition of Conestoga Title.

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, CIS has disclosed that it does not plan to cause Conestoga Title to declare an extraordinary dividend, to liquidate Conestoga Title, to sell its assets or to make any other changes in the business investment philosophy, operations, corporate structure or management of Conestoga Title, except as provided in the Application.
26. As provided in the Application, the policyholders of Conestoga Title would benefit from the acquisition in that Conestoga Title would remain a solvent insurer.

Management

27. 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 would control the operations of the acquired insurer.
28. Biographical affidavits for all directors and executive officers of Donegal Mutual and CIS were provided as part of the Application and the Department reviewed all affidavits that were submitted.
29. The Department is satisfied that the persons who would control the operations of Conestoga Title have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
30. 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 Conestoga Title.
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 and fail to confer benefit on policyholders of the insurer and are 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 Conestoga Title.
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-08-08

ORDER

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

The acquisition of control by Commonwealth Insurance Services, Inc. (“CIS”) of all the issued and outstanding shares of common stock of Conestoga Title Insurance Company (“Conestoga Title”), as detailed in the Application, is hereby approved, subject to this Order and the following conditions:

CIS shall provide availability to a copy of the closing documents to the Insurance Department within five (5) business days of consummation of the subject transaction.

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

Joel Ario
Insurance Commissioner
Commonwealth of Pennsylvania