

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402,
	:	and 1403 of the Insurance
Application of Tuscarora Wayne Insurance	:	Holding Companies Act, Article
Company in Support of the Request for	:	XIV of the Insurance Company
Approval to Acquire Control of Lebanon	:	Law of 1921, Act of May 17, 1921,
Mutual Insurance Company	:	P.L. 682, <u>as amended</u> , 40 P.S.
	:	Sections 991.1401, 991.1402, and
	:	991.1403
	:	
	:	Order No. ID-RC-10-06

DECISION AND ORDER

AND NOW, on this 22nd day of March, 2010, Joel Ario, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to 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. Lebanon Mutual Insurance Company (“Lebanon Mutual”) is a mutual fire insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Cleona, Pennsylvania.
2. Tuscarora Wayne Insurance Company (“Tuscarora Wayne”) is a stock fire insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wyalusing, Pennsylvania.

### Acquisition Filing

3. 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. Sections 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.
4. On February 2, 2010, 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 Tuscarora Wayne for approval to acquire control of Lebanon Mutual.
5. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

### Department Procedures

6. On February 13, 2010, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by Tuscarora Wayne and such notice invited interested persons to submit comments to the Department regarding the Application for a seven day period, ending February 20, 2010.
7. During the seven day comment period, the Department received no comments regarding the Application.

### Description of the Proposed Acquisition

8. As described in the Application, on January 28, 2010, Tuscarora Wayne and Lebanon Mutual entered into a Surplus Note Investment Agreement (“Agreement”) which calls for Tuscarora Wayne to assume control of Lebanon Mutual by means of electing the entire Board of Directors of Tuscarora Wayne to serve on the Board of Directors of Lebanon Mutual in exchange for a \$2,100,000 surplus note (“Note”).
9. As described in the Application and pursuant to the Agreement, Rollin P. Rissinger, Jr., S. Bruce Kurtz and Milton Garrison shall remain on the Board of Directors of Lebanon Mutual after the change in control.

### Standards for Review

10. 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.

11. 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

12. 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.
13. 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).
14. The minimum policyholders surplus required of a mutual insurer for each line of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
15. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Lebanon Mutual is required to maintain a minimum policyholder surplus of \$2,350,000 to write the lines of insurance for which it is presently licensed.
16. Lebanon Mutual reported total policyholder surplus of \$9,334,072, as of December 31, 2009.
17. Upon completion of the transaction, Lebanon Mutual will have policyholder surplus in an amount that will satisfy the statutory minimum required of a mutual fire insurance company licensed to write the lines of authority currently held by Lebanon Mutual.

#### Competitive Impact

18. The acquisition of control of Lebanon Mutual 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.
19. The acquisition of control of Lebanon Mutual will not lessen competition or tend to create a monopoly in the Commonwealth because the market shares of Tuscarora Wayne and Lebanon Mutual, as stated in their Application, do not exceed the market share levels established in Section 1403.

#### Financial Condition of Applicants

20. 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.

21. Tuscarora Wayne reported policyholder surplus of \$36,610,329 as of December 31, 2009.
22. The financial condition of Tuscarora Wayne would not pose any impediments to the change in control nor jeopardize the financial condition of Lebanon Mutual.

Plans for the Acquired Insurer

23. 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.
24. As provided in the Application, Tuscarora Wayne has no plans to significantly alter the business of Lebanon Mutual.

Management

25. 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.
26. Biographical affidavits for all directors and executive officers of Tuscarora Wayne have been provided to the Department and the Department reviewed all affidavits that were provided.
27. The Department is satisfied that the persons who would control the operations of Lebanon Mutual have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
28. 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 Lebanon Mutual.
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 Lebanon Mutual.
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.

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402,  
: and 1403 of the Insurance  
Application of Tuscarora Wayne Insurance : Holding Companies Act, Article  
Company in Support of the Request for : XIV of the Insurance Company  
Approval to Acquire Control of Lebanon : Law of 1921, Act of May 17, 1921,  
Mutual Insurance Company : P.L. 682, as amended, 40 P.S.  
: Sections 991.1401, 991.1402, and  
: 991.1403  
:  
: Order No. ID-RC-10-06

ORDER

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

The acquisition of control by Tuscarora Wayne Insurance Company (“Tuscarora Wayne”) of Lebanon Mutual Insurance Company, as described in the Application, is hereby approved, subject to this Order and the following condition:

1. The form of Surplus Note is hereby approved, and
2. Tuscarora Wayne shall provide notice to the Department within five (5) days of consummation of the subject transaction.

This Order is effective immediately and valid for one year, provided there are no material changes to the representations provided in the application. This one year limitation does not apply to any conditions prescribed by the Department in the Order.

\_\_\_\_\_  
JOEL ARIO  
Insurance Commissioner  
Commonwealth of Pennsylvania