

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402,
	:	and 1403 of the Insurance
Application of AF&L Holdings, LLC in	:	Holding Companies Act, Article
Support of the Request for Approval to	:	XIV of the Insurance Company
Acquire Control of AF&L Insurance	:	Law of 1921, Act of May 17, 1921,
Company and Senior American Life	:	P.L. 682, <u>as amended</u> , 40 P.S.
Insurance Company	:	§§991.1401, 991.1402, and 991.1403
	:	
	:	Order No. ID-RC-10-08

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. Senior American Life Insurance Company ("Senior American") is a stock life insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Warrington, Pennsylvania. Senior American is a wholly owned subsidiary of American Fidelity and Liberty.
2. AF&L Insurance Company ("AF&L Insurance" and together with Senior American "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 Warrington, Pennsylvania. AF&L directly holds 100% of the issued and outstanding capital stock of Senior American.
3. AF&L, Inc. is an insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in

Warrington, Pennsylvania. AF&L, Inc. directly holds 66.7% of the issued and outstanding voting stock of AF&L Insurance.

4. Cold Feet, LLC ("Cold Feet") is a limited liability business corporation organized under the laws of the State of Delaware with its principal place of business located in Chicago, Illinois. Cold Feet directly holds 33.3% of the voting stock of AF&L Insurance and 66.7% of the voting stock of AF&L, Inc.
5. CIVC Partners Fund, LP ("CIVC") is a business corporation organized under the laws of the State of Delaware with its principal place of business located in Chicago, Illinois. CIVC directly holds 95% of Cold Feet.
6. AF&L Holdings, LLC ("AF&L Holdings") is a limited liability business corporation organized under the laws of the State of Delaware with its principal place of business located in Warminster, Pennsylvania.
7. The ARC of Montgomery, Berks and Bucks Counties ("ARC") is a non profit corporation organized under the laws of the Commonwealth of Pennsylvania. ARC is a non-voting member of AF&L Holdings.
8. Mr. Benedict J. Iacovetti ("Mr. Iacovetti") is an individual with his principal place of business located in Warrington, Pennsylvania. Mr. Iacovetti is the Manager and sole Voting Member of AF&L Holdings.

Acquisition Filing

9. 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.
10. On December 28, 2009, 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 AF&L Holdings for approval to acquire control of Domestic Insurers.
11. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

12. On January 16, 2010, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by the Applicants and such notice invited interested persons to submit comments to the Department regarding the Application for a thirty day period, ending February 15, 2010.
13. During the thirty day comment period, the Department received no comments regarding the Application.

Description of the Proposed Acquisition

14. As described in the Application, on December 23, 2009, AF&L Insurance, AF&L, Inc. and Cold Feet entered into a Stock Transfer Agreement (“Agreement 1”) whereby Cold Feet would transfer its holdings of AF&L Insurance stock to AF&L, Inc.
15. As described in the Application, on December 23, 2009, Cold Feet and AF&L Holdings, among others, entered into a Stock and Note Transfer Agreement (“Agreement 2”) whereby Cold Feet would transfer its holdings of AF&L, Inc. stock to AF&L Holdings.
16. As described in the Application and pursuant to Agreement 2, at the time of acquisition Cold Feet would transfer to AF&L Holdings a promissory note issued by AF&L, Inc..
17. As described in the Application and pursuant to Agreement 2, at the time of acquisition CIVC would transfer to AF&L Holdings a surplus note issued by AF&L Insurance (“Surplus Note”).
18. As described in the Application, AF&L Holdings intends to redeem Surplus Note upon receipt.
19. As described in the Application, ARC has provided its understanding of its duties and responsibilities should the acquisition be approved (“ARC Representations”).

Standards for Review

20. 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.
21. 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

22. 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.
23. 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).
24. 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).
25. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), AF&L Insurance is required to maintain a minimum paid up capital stock of \$750,000 to write the lines of insurance for which it is presently licensed.
26. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Senior American is required to maintain a minimum paid up capital stock of \$1,100,000 to write the lines of insurance for which it is presently licensed.
27. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), AF&L Insurance is required to maintain a minimum paid in surplus of \$375,000 to write the lines of insurance for which it is presently licensed.
28. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Senior American is required to maintain a minimum paid in surplus of \$550,000 to write the lines of insurance for which it is presently licensed.
29. Upon completion of the transaction, AF&L Insurance will have paid up capital and paid in surplus in an amount that will satisfy the statutory minimums required of a stock casualty insurance company licensed to write the lines of authority currently held by AF&L Insurance.
30. Upon completion of the transaction, Senior American will have paid up capital and paid in surplus in an amount that will satisfy the statutory minimums required of a stock life insurance company licensed to write the lines of authority currently held by Senior American.

Competitive Impact

31. The acquisition of control of 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.

32. The acquisition of control of Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth because the market shares of AF&L Holdings, as stated in its Application, do not exceed the market share levels established in Section 1403.

Financial Condition of Applicants

33. 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.
34. The financial condition of Applicants would not pose any impediments to the change in control nor jeopardize the financial condition of Domestic Insurers.

Plans for the Acquired Insurer

35. 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.
36. As provided in the Application, the Applicants have disclosed that they intend to make no changes to the business plans of Domestic Insurers.

Management

37. 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.
38. Biographical affidavits for all directors and executive officers of the Applicants were provided as part of the Application and the Department reviewed all affidavits that were submitted.
39. The Department is satisfied that the persons who would control the operations of Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
40. 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 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 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

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

The acquisition of control by AF&L Holdings, LLC of AF&L Insurance Company and Senior American Life Insurance Company is hereby approved, subject to this Order and the following condition:

1. The Department concurs and confirms the ARC Representations.
2. Redemption of Surplus Note, as described in the Application, is hereby approved.
3. This transaction may be recorded as effective for accounting purpose as of the first day of the calendar quarter in which the acquisition is consummated.
4. AF&L Holdings, LLC shall provide a list of the closing documents to the Insurance Department within five (5) days of consummation of the subject transaction.
5. AF&L Holdings, LLC shall maintain a copy of the closing documents available for the Department's review for a period of not less than five years.

This Order is effective immediately.

JOEL ARIO
Insurance Commissioner
Commonwealth of Pennsylvania