

BEFORE THE DEPUTY INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402, and
	:	1403 of the Insurance Holding
Application of Tawa plc in Support of the	:	Companies Act, Article XIV of the
Request for Approval to Acquire Control	:	Insurance Company Law of 1921,
of Lincoln General Insurance Company	:	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-11-22

DECISION AND ORDER

AND NOW, on this 5th day of October, 2011, Stephen J. Johnson, Deputy Insurance Commissioner of the Commonwealth of Pennsylvania (“Deputy 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 Deputy Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. Lincoln General Insurance Company (“Lincoln General”) is a domestic stock property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in York, Pennsylvania.
2. Walshire Assurance Company (“Walshire”) is an insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in York, Pennsylvania. Walshire directly holds 100% of the issued and outstanding capital stock of Lincoln General.
3. LGIC Holdings, LLC (“LGIC Holdings”) is an insurance holding company organized under the laws of the State of Delaware with its principal place of

business in Elk Grove Village, Illinois.

4. Kingsway LGIC Holdings, LLC (“Kingsway”) is a business company organized under the laws of the state of Delaware with its principal place of business located in Elk Grove Village, Illinois. Kingsway currently holds 100% of the issued and outstanding capital stock of LGIC Holdings.
5. Tawa plc (“Tawa”) a public limited company organized under the laws of the United Kingdom with its principal place of business located in London, England.
6. The 10% or greater shareholders of Tawa have properly filed disclaimers of control.

#### Acquisition Filing

7. 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 Department for approval or disapproval.
8. On July 18, 2011, 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 Tawa for approval to acquire control of Lincoln General.
9. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

#### Department Procedures

10. On July 30, 2011, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by Tawa and such notice invited interested persons to submit comments to the Department regarding the Application for a fourteen day period.
11. The Department received no comments regarding the Application during the fourteen day comment period.

#### Background

12. On February 9, 2009, Lincoln General discontinued the writing of new business and began a process that would result in a voluntary, solvent run-off of all business.
13. On March 11, 2009, Lincoln General substantially ceased all new writings of insurance except where otherwise required by law or pre-existing contractual

obligations.

14. As described in the Application, Tawa specializes in the run-off of business by insurance companies.

#### Description of the Proposed Acquisition

15. As described in the Application, LGIC Holdings has entered into letter agreements with the twenty charities that are the current shareholders of Walshire whereby LGIC Holdings would acquire 100% of the issued and outstanding capital stock of Walshire.
16. As described in the Application, LGIC Holdings, Tawa and Kingsway entered into a Securities Purchase Agreement (“Agreement”) whereby Tawa would acquire 51% of the issued and outstanding capital stock of LGIC Holdings.
17. Kingsway has properly filed a disclaimer of control over LGIC Holdings after enactment of the Agreement.
18. As a result of Agreement, Lincoln General would become an indirect subsidiary of Tawa.
19. As described in the Application and pursuant to the Agreement, Tawa would become the sole ultimate controlling person of Lincoln General.

#### 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 Department 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 Department reviews the requirements for continued licensure of the domestic insurer being acquired.
23. 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).
24. 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).

25. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Lincoln General is required to maintain a minimum paid up capital stock of \$2,350,000 to write the classes of insurance for which it is presently licensed.
26. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Lincoln General is required to maintain a minimum paid in surplus of \$1,175,000 to write the classes of insurance for which it is presently licensed.
27. Upon completion of the transaction, Lincoln General will have paid up capital in an amount that will satisfy the statutory minimum required of a stock property insurance company licensed to write the classes of authority currently held by Lincoln General.
28. Upon completion of the transaction, Lincoln General will have paid in surplus in an amount that will satisfy the statutory minimum required of a stock property insurance company licensed to write the classes of authority currently held by Lincoln General.

#### Competitive Impact

29. The acquisition of control of Lincoln General 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.
30. The acquisition of control of Lincoln General will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of Tawa, as stated in the Application, does not exceed the market share levels established in Section 1403.

#### Financial Condition of Tawa

31. 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.
32. The Department has reviewed the financial condition of Tawa as of December 31, 2010, and determined that it would not pose any impediments to the change in control nor jeopardize the financial condition of Lincoln General.

#### Plans for the Acquired Insurer

33. 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.

34. As provided in the Application, Tawa has no plans to liquidate Lincoln General, sell its assets or consolidate or merge them with any person, or to make material changes in their business or corporate structure except as disclosed in the Application.
35. As provided in the Application, Tawa will manage the voluntary, solvent run-off of the insurance business of Lincoln General.

#### Management

36. 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 insurers.
37. Biographical affidavits for all directors and executive officers of Tawa have been submitted to the Department and the Department reviewed all affidavits that were submitted.
38. The Department is satisfied that the persons who would control the operations of Lincoln General have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
39. 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 Department has jurisdiction to review and approve the change in control of Lincoln General.
2. Under Section 1402 of the Insurance Holding Companies Act, the Department 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 Deputy Commissioner has not found that any of the above conditions are present with respect to the change in control of Lincoln General.
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-11-22

ORDER

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

The acquisition of control by Tawa plc (“Tawa”) of all the issued and outstanding shares of common stock of Lincoln General Insurance Company (“Lincoln General”), as detailed in the Application, is hereby approved, subject to this Order and the following conditions:

1. Tawa shall provide a list of the closing documents to the Insurance Department within five (5) days of consummation of the subject transaction.
2. Tawa 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 and valid for one year, provided no material changes are made to the transaction prior to consummation.

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Stephen J. Johnson  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania