

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Healthcare Providers : Companies Act, Article XIV of the
Insurance Exchange in Support of the : Insurance Company Law of 1921, Act
Request for Approval to Acquire Control : of May 17, 1921, P. L. 682, as
of itself : amended, 40 P.S. §§991.1401,
: 991.1402 and 991.1403
:
: Order No. ID-RC-14-11

DECISION AND ORDER

AND NOW, on this 27th day of August, 2014, Michael F. Consedine, Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies 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. Healthcare Providers Insurance Exchange ("HPIX") is an unincorporated association organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Philadelphia, Pennsylvania. HPIX is authorized as a reciprocal and inter-insurance exchange.
2. HPIX, LLC is a limited liability company organized pursuant to the laws of the State of Delaware with its principal place of business in Philadelphia, Pennsylvania. HPIX, LLC is the attorney-in-fact ("AIF") of and thereby controls 100% of HPIX.
3. American Healthcare Providers Insurance Services Company, LLC ("American") is a limited liability company organized pursuant to the laws of the State of Delaware with its principal place of business in Philadelphia, Pennsylvania. American owns 100% of

the membership interest of AIF.

4. Wescott Holding Company, LLC (“Wescott”) is a limited liability company organized pursuant to the laws of the State of Delaware with its principal place of business in Philadelphia, Pennsylvania. Wescott owns 81.2% of the membership interest in American.
5. Thomas Gaudiosi (“Gaudiosi”) is an individual with his principal place of business in Philadelphia, Pennsylvania. Gaudiosi owns 9.4% of the membership interest in American.
6. Mark Etter (“Etter”) is an individual with his principal place of business in Abington, Pennsylvania. Etter owns 9.4% of the membership interest in American.
7. Wescott, Gaudiosi and Etter collectively own 100% of the membership interest in American and are collectively hereinafter referenced as “Sellers.”
8. Duane Morris LLP (“DM”) is a limited liability partnership organized pursuant to the laws of the State of Delaware with its principal place of business in Philadelphia, Pennsylvania. DM owns 100% of the membership interest in Wescott.
9. DM is the sole ultimate controlling person of HPIX.

Acquisition Filing

10. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1922, P.L. 682, as amended, 40 P.S. §§991.1401- 991.1413 (“Insurance Holding Companies Act”), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.
11. On May 5, 2014, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is hereinafter referenced as “Application”) from HPIX for approval to acquire control of itself.
12. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

13. On May 24, 2014, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by HPIX and such notice invited interested persons to submit comments to the Department regarding the Application for 30 days following

the date of the publication (“Comment Period”).

14. The Department received no comments regarding the Application during the Comment Period.

Description of the Proposed Acquisition

15. As described in the Application, on March 26, 2014, HPIX and Sellers entered into a Membership Interest Purchase Agreement (“Agreement”).
16. As described in the Agreement, HPIX will acquire 100% of the membership interests of American from the Sellers (“the Acquisition”).
17. As described in the Agreement, the purchase price will be paid in the form of cash and surplus notes issued by HPIX to the Sellers.
18. As described in the Application, HPIX would directly own 100% of the membership interest of American and would indirectly own 100% of the membership interest in AIF through American. AIF would continue in existence as a limited liability company and would continue to control HPIX through their attorney-in-fact relationship.
19. As described in the Application, both American and AIF are currently member managed; neither presently has a board of managers or similar governing body.
20. As described in the Application, contemporaneous with the Acquisition, HPIX anticipates that the operating agreement for American will be amended and that a board of directors of American will be established with a board and committee structure that complies with the requirements of Section 1405(c)(3) through (c)(4.1) of the Insurance Holding Companies Act.
21. HPIX has requested that the Department allow it to rely on a compliant parent company board and committee structure as permitted by Section 1405(c)(5) of the Insurance Holding Companies Act.
22. American is not an insurer, an attorney-in-fact for a reciprocal exchange, a mutual insurance holding company or a publicly held corporation having a board of directors and committees thereof which meets the requirements of 1405(c)(3) through (c)(4.1). Nonetheless, based upon HPIX’s representations, the Department is willing at this time to grant HPIX’s request to allow it to rely on the board and committee structure of American. However, the Department reserves the right to withdraw this approval at any time with 90 days prior notice to HPIX.

23. As described in the Application, HPIX expects that the attorney-in-fact agreement with AIF will be amended.

Standards for Review

24. 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.
25. An application for a change in control must be approved unless the Department finds any one of certain enumerated conditions to be present.

Licensing Requirements

26. When analyzing an application for change in control under Section 1402(f)(1)(i) of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
27. The lines of insurance for which a reciprocal and inter-insurance exchange may be formed and become licensed to write are set out in Section 1001 of the Insurance Company Law (40 P.S. §961).
28. The minimum net worth required of a reciprocal and inter-insurance exchange is set out in Section 1004 of the Insurance Company Law (40 P.S. §964).
29. In accordance with Section 1004 of the Insurance Company Law (40 P.S. §964), HPIX is required to maintain a minimum surplus of \$1,125,000 to write the line of insurance for which it is presently licensed.
30. As of June 30, 2014, HPIX maintained the statutory minimum capitalization to satisfy the requirements to write the line of insurance for which it is presently licensed.
31. Upon completion of the transaction, HPIX will have the statutory minimum capitalization to satisfy the requirements to write the line of insurance for which it is presently licensed.

Competitive Impact

32. The acquisition of control of a Pennsylvania domiciled insurer is subject to review and analysis under Section 1402(f)(1)(ii) of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control of HPIX would be to substantially lessen competition in this Commonwealth or tend to create a monopoly therein.

33. The acquisition of control of HPIX by itself does not involve any other insurer and, therefore, will not increase or otherwise have any impact on market share.

Financial Condition of Applicant

34. When analyzing an application for an acquisition of control under Section 1402(f)(1)(iii) of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring person(s).
35. The Department has reviewed the annual financial statement of American as of December 31, 2013 and the annual and quarterly financial statements submitted by HPIX as of December 31, 2013 and June 30, 2014.
36. The financial condition of HPIX and American will not pose any impediments to the change in control nor jeopardize the financial condition of HPIX.

Plans for the Acquired Insurer

37. When analyzing an application for an acquisition of control under Section 1402(f)(1)(iv) of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer.
38. In particular, the Department reviewed the transaction as set forth in the Application to determine whether it is:
- a) Unfair or unreasonable or fails to confer a benefit upon policyholders.
 - b) Not in the public interest.
39. As stated in the Application, there are no present plans or proposals to liquidate HPIX, to sell its assets, to merge or consolidate it with any person or persons, or to make any other material change in their business operations or corporate structure.
40. As stated in the Application, the board of directors of American may consider a plan to merge AIF into American, convert American into a business corporation and convert HPIX to a stock insurance company. However, such a change would first require a change in Pennsylvania law and a subsequent filing with the Department.

Management

41. When analyzing an application for an acquisition of control under Section 1402(f)(1)(v) 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

insurer.

42. Biographical affidavits of the intended officers and directors of American were reviewed by the Department.
43. The Department is satisfied that the persons who would control the operations of American have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

Hazardous or Prejudicial to Insurance Buying Public

44. When analyzing an application for a merger involving a domestic insurer under Section 1402(f)(1)(vi) of the Insurance Holding Companies Act, the Department evaluates whether the merger, consolidation or other acquisition of control is likely to be hazardous or prejudicial to the insurance buying public.
45. There is no indication that the projected future business of HPIX would impose a financial burden upon policyholders.
46. Likewise, there is no indication that the transaction would result in HPIX being in impaired financial condition.
47. Nor is there a threat regarding the ability of policyholders to enforce their insurance contracts.
48. There is insufficient evidence in the record from which it may be concluded that the acquisition will likely be hazardous or prejudicial to the insurance buying public.

Compliance with the Pennsylvania Laws

49. When analyzing an application for a merger involving a domestic insurer under Section 1402(f)(1)(vii) of the Insurance Holding Companies Act, the Department reviews the transaction to determine whether the merger, consolidation or other acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A.
50. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.
51. 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 HPIX.
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 write 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 party 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 any other material change in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and fail to confer a benefit on policyholders 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 HPIX.

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ORDER

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

1. The application (which together with all material received subsequently is hereinafter referenced as "Application") of Healthcare Providers Insurance Exchange ("HPIX") in support of the request for approval to acquire control of itself as set forth in the Application, is hereby approved, subject to this Order and the following conditions:
 - a. HPIX shall provide to the Department a list of closing documents within five (5) days after consummation of the subject transaction and shall maintain the listed documents and make them available to the Department for a period of not less than five (5) years from the date of consummation.
2. The request from HPIX for an exception to Section 1405(c)(5) of the Insurance Holding Companies Act to allow HPIX to rely on the board and committee structure of American is hereby approved, subject to the right of the Department to withdraw such approval upon 90 days prior notice to HPIX.
3. The form of the surplus notes, as filed with the Application, is hereby approved.
4. The Amended and Restated Attorney-in-Fact Agreement, as filed with the Application, is hereby approved.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation. This one year limitation does not apply to any conditions prescribed by the Department in the Order.



A handwritten signature in black ink, appearing to read "Michael Considine". The signature is written in a cursive style and is positioned above a horizontal line.

Michael F. Considine
Insurance Commissioner
Commonwealth of Pennsylvania