

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Homestead Strategic : Companies Act, Article XIV of the
Holdings, Inc. in Support of the Request : Insurance Company Law of 1921, Act
for Approval to Acquire Control of : of May 17, 1921, P. L. 682, as
Homestead Insurance Company : amended, 40 P.S. §§991.1401,
: 991.1402 and 991.1403
:
: Order No. ID-RC-15-15

DECISION AND ORDER

AND NOW, on this 22nd day of October, 2015, Teresa D. Miller, 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. Homestead Insurance Company (“HIC”) is a domestic stock casualty insurance company organized under the laws of Pennsylvania with its statutory home office in Blue Bell, Pennsylvania.
2. Homestead Risk Management Corporation (“HRMC”) is a foreign holding company organized under the laws of Delaware with its principal place of business in Venice, Florida. HRMC currently directly holds 100% of the issued and outstanding stock of HIC.

3. Lonnie L. Steffen (“Mr. Steffen”) is an individual with his primary business address located in Venice, Florida. Mr. Steffen currently directly holds approximately 45.7% of the issued and outstanding stock of HRMC.
4. Roger K. Long (“Mr. Long”) is an individual with his primary business address located in Riviera Beach, Florida. Mr. Long currently directly holds approximately 45.7% of the issued and outstanding stock of HRMC.
5. Mr. Steffen and Mr. Long are each an ultimate controlling person of HIC.
6. Homestead Strategic Holdings, Inc. (“HSH”) is a foreign holding company organized under the laws of Delaware with its principal place of business in Philadelphia, Pennsylvania.
7. Thomas J. Knox (“Mr. Knox”) is an individual with his primary business address located in Philadelphia, Pennsylvania. Mr. Knox currently directly holds 100% of the issued and outstanding stock of HSH.
8. Mr. Knox is the ultimate controlling person of HSH.

Acquisition Filing

9. 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 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 May 1, 2015, 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 HSH for approval to acquire control of HIC.
11. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

12. On May 23, 2015, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by HSH 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”).

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

Description of the Proposed Acquisition

14. As described in the Application, HSH has entered into a Stock Purchase Agreement (“the Agreement”) with HRMC.
15. As described in the Application and pursuant to the Agreement, HSH intends to purchase 100% of the issued and outstanding stock of HIC from HRMC (“the Acquisition”).
16. As described in the Application, HSH would fund the entire purchase price from cash on hand.
17. As described in the Application and subsequent to the Acquisition, HSH would directly control 100% of issued and outstanding stock of HIC.
18. As described in the Application, Mr. Knox would become the ultimate controlling person of HIC as a result of the Acquisition.

Quasi-Reorganization

19. Section 320 of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §443, provides that unless otherwise provided by law, regulation or order of the Insurance Commissioner, each insurance company, association and exchange shall adhere to the annual or quarterly statement instructions and accounting practices and procedures manuals prescribed by the National Association of Insurance Commissioners (“NAIC AP&P”).
20. NAIC AP&P Statement of Statutory Accounting Principle 72 (“SSAP 72”), sets out criteria under which the restatement of gross paid-in and contributed surplus and unassigned funds (surplus) under a quasi-reorganization shall be permitted. Approval of the restatement by the Commissioner is one of the criteria.
21. Included within HSH’s Application was a request for Department approval for restatement of HIC upon Acquisition.
22. As described in the Application, upon Acquisition, HIC will have satisfied all other criteria necessary to permit the restatement.
23. The Department finds no reason to deny HSH’s request to approve the restatement.

Classes of Insurance

24. Included within HSH's Application was a request for Department approval to, upon Acquisition, surrender all classes of insurance for which HIC is currently licensed to write. HIC is currently licensed to write auto liability, inland marine and physical damage, ocean marine, other liability and workers compensation.
25. As described in the Application, HIC has eleven open and active workers' compensation claims in runoff in New Jersey. As part of HSH's request to delete the workers' compensation class of insurance, the New Jersey Department of Banking & Insurance has requested and HSH has agreed to make a special deposit in New Jersey in an amount equivalent to the estimated liability for the remaining open claim reserves of HIC.
26. Included within HSH's Application was a request for Department approval to, upon Acquisition, add the fidelity & surety and accident & health classes of insurance to HIC's license.
27. As described in the Application, HSH's sole interest in the request for the fidelity & surety class of insurance is to write one surety policy in Pennsylvania.
28. The Application included draft Amended and Restated Articles of Incorporation that must be filed with the Pennsylvania Department of State in order to effectuate the surrender of and increase in the classes of insurance requested in the Application as discussed above.
29. The Department finds no reason to deny HSH's request for the surrender of and increase in the classes of insurance requested in the Application as discussed above.

Standards for Review

30. 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.

Licensing Requirements

31. 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.
32. 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).

33. 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).
34. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), HIC is required to maintain a minimum paid up capital stock of \$750,000 to write the classes of insurance for which it intends to be licensed.
35. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), HIC is required to maintain a minimum paid in surplus of \$375,000 to write the classes of insurance for which it intends to be licensed.
36. Upon completion of the transaction, HIC will have paid up capital in an amount that will satisfy the minimum required of a casualty insurance company licensed to write the classes of authority intended to be held by HIC.
37. Upon completion of the transaction, HIC will have paid in surplus in an amount that will satisfy the minimum required of a casualty insurance company licensed to write the classes of authority intended to be held by HIC.

Competitive Impact

38. The acquisition of control of HIC 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.
39. The acquisition of control of HIC will not lessen competition or tend to create a monopoly in the Commonwealth because neither HSH nor Mr. Knox control any other insurance interests in the Commonwealth.

Financial Condition of Applicant

40. 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 person(s).
41. The Department has reviewed the financial information submitted by the Applicant and by Mr. Knox.
42. The financial condition of the Applicant and Mr. Knox would not pose any impediments to the change in control nor jeopardize the financial condition of HIC.

Plans for the Acquired Insurer

43. 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.
44. In particular, the Department reviewed the plans or proposals which the acquiring party has 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, to determine whether it is:
 - a) Unfair or unreasonable;
 - b) Fails to confer a benefit upon policyholders; or
 - c) Not in the public interest.
45. As stated in the Application, HSH has no future plans or proposals to liquidate HIC, to sell its assets, to merge or consolidate it with any person or persons, or to make any other material change in its business operations, except as stated in the Quasi-Reorganization and Classes of Insurance sections above.
46. As stated in the Application, HSH will replace the officers and directors of HIC.
47. As stated in the Application, HSH will move the statutory home office address of HIC from Blue Bell, Pennsylvania to Philadelphia, Pennsylvania.
48. There is no basis in the record from which it may be concluded that the plans or proposals which the acquiring party has for the insurer are unfair or unreasonable or fail to confer a benefit upon policyholders or are not in the public interest.

Management

49. 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 insurer.
50. A biographical affidavit for Mr. Knox was reviewed by the Department.
51. Biographical affidavits for all directors and executive officers of HSH were reviewed by the Department.

52. Biographical affidavits for all expected new officers and directors of HIC were reviewed by the Department.
53. The Department is satisfied that the persons who would control the operations of HIC 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

54. When analyzing an application for a merger involving a domestic insurer under Section 1402 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.
55. There is no indication that the projected future business of the Applicant would impose a financial burden upon policyholders.
56. Likewise, there is no indication that the transaction would result in the companies being in impaired financial condition.
57. Nor is there a threat regarding the ability of policyholders to enforce their insurance contracts.
58. 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

59. When analyzing an application for a merger involving a domestic insurer under Section 1402 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.
60. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.
61. 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 HIC.
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 and fail to confer benefit on 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 of the public to permit the acquisition of control; or,
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.
 - 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 HIC.
4. Under SSAP 72, the Commissioner has jurisdiction to review and approve a request for the restatement of gross paid-in and contributed surplus and unassigned funds (surplus) under a quasi-reorganization of HIC.
5. 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-15-15

ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”) hereby makes the following Order:

1. The application of Homestead Strategic Holdings, Inc. (“HSH”) in support of the request for approval to acquire control of Homestead Insurance Company (“HIC”) as set forth in the application, is hereby approved, subject to this Order and the following conditions:
 - a. HSH 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.
 - b. For a period of two (2) years after the effective date of the subject transaction, HSH shall provide written notice to the Department of any planned or proposed reductions in staff that would affect more than ten percent (10%) of the employees of HIC principally located in Pennsylvania as of, or within six (6) months prior to, the effective date of the subject transaction. For purposes of this condition, as of any date, the ten percent (10%) threshold shall be determined based upon a rolling twelve (12) month period. Such notice, which shall specify the reasons for the reduction in force and include information regarding planned or proposed severance pay and relocation opportunity arrangements, shall be filed with the Department as least ninety (90) days prior to any such planned or proposed reductions.

- c. For a period of two (2) years after the effective date of the subject transaction, HIC shall not close or cease actively doing business from:
 - i. Philadelphia, Pennsylvania; or
 - ii. Any other office located in Pennsylvania,in each case without application to and the prior written approval of the Department.
 - d. For a period of three (3) years after the effective date of the subject transaction, HSH shall not voluntarily withdraw any certificate of authority to engage in the insurance business in the Commonwealth of Pennsylvania without the prior written approval of the Department.
 - e. For a period of three (3) years after the effective date of the subject transaction, HSH shall not attempt to redomesticate HIC to another jurisdiction without the prior approval of the Department.
2. The request for restatement of gross paid-in and contributed surplus and unassigned funds (surplus) under a quasi-reorganization of HIC upon consummation of the subject transaction is hereby approved provided restatement shall not result in the unassigned funds (surplus) account being greater than zero or the gross paid-in and contributed surplus account being less than the minimum required by Section 206 of the Insurance Company Law (40 P.S. §386) immediately following the restatement.
3. The request from HSH to surrender all classes of insurance for which HIC is currently licensed to write and to add the fidelity & surety and accident & health classes of insurance to the license of HIC is hereby approved subject to this Order and the following conditions:
- a. HSH has requested to add the fidelity and surety line of authority to HIC's Certificate of Authority in order to write one lone surety policy in Pennsylvania. HIC shall not be authorized to write any additional policies under the fidelity and surety line or to seek the authority to write fidelity and surety business from any other jurisdiction without the prior written approval of the Department.
 - b. HSH shall provide documentation from the New Jersey Department of Banking & Insurance evidencing that the special deposit to their satisfaction was made in an amount equivalent to the estimated liability for the remaining open claim reserves of HIC.

- c. HIC shall file Amended and Restated Articles of Incorporation with the Pennsylvania Department of State.
- d. HIC shall file a copy of the Amended and Restated Articles of Incorporation, as filed with and stamped as received by the Pennsylvania Department of State, with the Insurance Department within ten (10) days of receipt from the Pennsylvania Department of State.

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.



Teresa D. Miller
Insurance Commissioner
Commonwealth of Pennsylvania

