

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Church Mutual Insurance : Companies Act, Article XIV of the
Company in Support of the Request for : Insurance Company Law of 1921, Act
Approval to Acquire Control of School : of May 17, 1921, P. L. 682, as
Boards Insurance Company of : amended, 40 P.S. §§991.1401,
Pennsylvania, Inc. : 991.1402 and 991.1403
:
: Order No. ID-RC-16-06

DECISION AND ORDER

AND NOW, on this 25th day of April, 2016, 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

Identity of PA Domestic Insurer

1. School Boards Insurance Company of Pennsylvania, Inc. (“SBIC”) is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Mechanicsburg, Pennsylvania.
2. School Claims Services, LLC (“SCS”) is a limited liability company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Mechanicsburg, Pennsylvania.

3. Pennsylvania School Boards Association Insurance Trust (“Trust”) is a not-for-profit entity organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Mechanicsburg, Pennsylvania. Trust directly holds 100% of the issued and outstanding stock of SBIC and is the sole member of SCS.
4. School Board Services, LLC (“SBS”) is a limited liability company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Mechanicsburg, Pennsylvania.
5. Pennsylvania School Boards Association (“PSBA”) is a not-for-profit association domiciled in Pennsylvania with its principal place of business in Mechanicsburg, Pennsylvania. Certain qualified members of the board of directors of PSBA control the Trust. PSBA is the sole member of SBS.

Identity of Applicant

6. Church Mutual Insurance Company (“Applicant”) is a mutual casualty insurance company organized pursuant to the laws of the State of Wisconsin with its principal place of business located in Merrill, Wisconsin.

Acquisition Filing

7. 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.
8. On October 30, 2015, the Pennsylvania Insurance Department (“Department”) received an initial request (which together with all material received subsequently is collectively referenced as “Application”) from the Applicant for approval to acquire control of SBIC.
9. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

10. On November 21, 2015, the Department published notice in the *Pennsylvania Bulletin* that the Application was received 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”).

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

Description of Proposed Acquisition

12. As described in the Application, Applicant, PSBA, Trust, SBS, SBIC and SCS entered into a Purchase Agreement (“Agreement”).
13. As described in the Application and pursuant to the Agreement, Applicant intends to purchase 100% of the issued and outstanding common stock of SBIC from Trust (“the Acquisition”).
14. As described in the Application, Applicant will also purchase all of the membership interest in SCS and require the Trust and SBS to transfer certain assets and liabilities to SCS before or concurrently with the Acquisition.
15. As described in the Application, Applicant would become the ultimate controlling person of SBIC as a result of the Acquisition.

Standards for Review

16. 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.
17. 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

18. 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.
19. Specifically, the Department reviews whether the domestic insurer would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed after the acquisition.
20. 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).
21. 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).

22. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), SBIC is required to maintain a minimum paid up capital stock of \$2,150,000 and a minimum paid in surplus of \$1,075,000 to write the lines of insurance for which it is presently licensed.
23. As of December 31, 2015, SBIC maintained the statutory minimum paid up capital stock and paid in surplus to satisfy the requirements to write the lines of insurance for which it is presently licensed.
24. Upon completion of the transaction, SBIC will have the statutory minimum paid up capital stock and paid in surplus to satisfy the requirements to write the lines of insurance for which it is presently licensed.

Competitive Impact

25. 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 SBIC would be to substantially lessen competition in this Commonwealth or tend to create a monopoly therein.
26. The acquisition of control of SBIC will not lessen competition or tend to create a monopoly in the Commonwealth because SBIC writes no direct business in the Commonwealth.

Financial Condition of Applicants

27. 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).
28. The Department has reviewed the statutory financial statements submitted by the Applicant as of December 31, 2011 through December 31, 2015.
29. The financial condition of the Applicant will not pose any impediments to the change in control nor jeopardize the financial condition of SBIC.

Plans for the Acquired Insurer

30. 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.

31. 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.
32. As stated in the Application, the Applicant has no future plans to declare an extraordinary dividend, to liquidate SBIC, to sell SBIC's assets or merge SBIC with any person.
33. As described in the Application, SBIC does not issue any policies. All policies are issued by other (fronting) carriers.
34. As stated in the Application, it is Applicant's present intent to continue the business of SBIC as it currently exists and to explore expanding SBIC into additional products and jurisdictions.
35. As stated in the Application, SBIC currently has no employees.
36. As stated in the Application, certain employees of SBS who currently provide services to SBIC and SCS will become employees of SCS and will continue to provide services necessary to the operation of SBIC and SCS.
37. As stated in the Application, SBIC's board of directors as of the effective date of the Acquisition will include up to four individuals who are affiliated with PSBA, each for a minimum of one three-year term.
38. There is no basis in the record from which it may be concluded the proposed transaction is unfair or unreasonable or fails to confer a benefit upon policyholders or is not in the public interest.

Management

39. 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.

40. Biographical affidavits for all directors and executive officers of Applicant were reviewed by the Department.
41. Biographical affidavits for all expected new directors of SBIC were reviewed by the Department.
42. The Department is satisfied that the persons who would control the operations of SBIC 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

43. 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.
44. 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

45. 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.
46. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.
47. 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 SBIC.
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 SBIC.
4. If any of the 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 Holding
Application of Church Mutual Insurance : Companies Act, Article XIV of the
Company in Support of the Request for : Insurance Company Law of 1921, Act
Approval to Acquire Control of School : of May 17, 1921, P. L. 682, as
Boards Insurance Company of : amended, 40 P.S. §§991.1401,
Pennsylvania, Inc. : 991.1402 and 991.1403
: :
: Order No. ID-RC-16-06

ORDER

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

The application of Church Mutual Insurance Company (“Applicant”) in support of the request for approval to acquire control of School Boards Insurance Company of Pennsylvania, Inc. (“SBIC”) as set forth in the application, is hereby approved, subject to this Order and the following conditions:

1. The Applicant 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. For a period of two (2) years after the effective date of the subject transaction, Applicant 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 SBIC or School Claims Services, LLC (“SCS”) 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.

3. For a period of two (2) years after the effective date of the subject transaction, SBIC or SCS shall not close or cease actively doing business from:

- i. Mechanicsburg, Pennsylvania; or
- ii. Any other office located in Pennsylvania,

in each case without application to and the prior written approval of the Department.

4. For a period of three (3) years after the effective date of the subject transaction, Applicant 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.

5. For a period of three (3) years after the effective date of the subject transaction, Applicant shall not attempt to redomesticate SBIC to another jurisdiction without the prior approval of the Department.

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