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BEFORE THE PENNSYLVANIA INSURANCE DEPARTMENT

Harrisburg, Pennsylvania

In Re

PROPOSED ACQUISITION OF	)
ONEBEACON INSURANCE COMPANY	)
AND POTOMAC INSURANCE	)
COMPANY BY ARMOUR GROUP	)
HOLDINGS LIMITED	)

OPPOSITION OF BAYSIDE INSULATION COMPANY AND PLANT INSULATION ASBESTOS SETTLEMENT TRUST

This opposition is submitted by Plant Insulation Company, now known as Bayside Insulation Company and the Plant Insulation Asbestos Settlement Trust (collectively "Plant"). Plant purchased primary general liability insurance coverage from the insurance companies now known as OneBeacon Insurance Company ("OneBeacon") between 1962 and 1976. Plant has been litigating insurance coverage disputes against OneBeacon in San Francisco Superior Court since January 2006. OneBeacon has been an active participant in Plant's bankruptcy action, which was filed in May 2009. *In re Plant Insulation Co.*, 734 F.3d 900 (9th Cir. 2012). Plant has substantial asbestos liabilities. Its OneBeacon primary policies are a significant asset of the Plant estate. These policies have been determined in the referenced litigation to respond to satisfy Plant's asbestos liabilities.

Plant objects to the sale of OneBeacon Insurance Company and Potomac Insurance Company by OneBeacon Insurance Group Ltd. ("OBIG") to a subsidiary of Armour Group

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Holdings, Ltd. on the terms proposed. Approval of the proposed sale should be conditioned on OBIG and its largest shareholder, White Mountains Insurance Group, Ltd. (which owns 75% of OBIG), providing substantial additional financial support to enable OneBeacon to satisfy its legacy asbestos and environmental claims, for at least the following reasons:

- OBIG has underestimated its long-tail asbestos and environmental liabilities since its inception in 2001. Plant's asbestos liabilities alone could consume the entire remaining policyholder surplus of OBIG.
- Substantial value has been taken out of OneBeacon by its largest shareholder, White Mountain Insurance Group ("White Mountains") in recent years. For example, in 2006, White Mountains realized $327 million in OneBeacon's initial public offering. Prior to the public offering, White Mountains moved the Esurance business from OneBeacon to direct ownership by White Mountains. Later, in 2011, White Mountains realized an after-tax gain of $678 million from the sale of Esurance to Allstate Insurance Company, none of which benefited OneBeacon which started the Esurance business. Other dividends have been "upstreamed" to White Mountains.
- The publicly-disclosed summaries of the stochastic modeling performed by Towers Watson admit that asbestos losses, in particular, are increasingly difficult to project, and that estimates over time are more likely to result in "upward development" rather than "downward development." These documents acknowledge further that "more defendants see unexpected increases in their litigation profile, as more accounts are promoted to a higher tier than demoted to

a lower tier," and that discovery of "new coverage limits and claim re-openings ... can only move the estimated liabilities upward."

- Plant has no confidence that Towers Watson's modeling of OneBeacon's projected losses is correct. Indeed, it is likely that these models have substantially underestimated OneBeacon's future losses. Plant incorporates here in full the discussion of the Tower Watson projections that appears in the July 21, 2014 Expert Report of Jonathan Terrell submitted on behalf of The Pennsylvania Manufacturers Association *et al.*
- OBIG's filings with the Securities Exchange Commission ("SEC") admit that estimating its exposure to asbestos and environmental claims is subject to a great deal of "uncertainty" and that its future losses could exceed all of its currently available reinsurance.
- OneBeacon's capital and surplus will be reduced by at least 50% to 70% following the completion of the sale to Armour.
- Armour is a thinly-capitalized, privately-held company based in Bermuda that will lack the finances and the incentive to support OneBeacon's legacy liabilities after OneBeacon's assets prove to be unable to satisfy those losses.
- By contrast, OBIG is in the specialty insurance business from which it earns substantial income. It has little if any long-tail liability exposure. OBIG will be in the position financially to support OneBeacon's legacy asbestos and environmental liabilities for many years to come through the income stream generated by its profitable insurance business.

The most recent history of regulatory approval of a transaction similar to this one proved to be a disaster to policyholders with long-tail asbestos and environmental liabilities. In 1995, Zurich Insurance Group ("Zurich") acquired the ongoing insurance renewal business of The Home Insurance Company ("Home") in a complex deal that placed Home in runoff with access only to reinsurance to pay its legacy asbestos and environmental liabilities. Stripped of its income-generating insurance business, Home's assets (including more than $1 billion in "new" reinsurance provided by an affiliate of Zurich) quickly proved to be inadequate to pay Home's legacy liabilities. This happened even though state regulators were assured repeatedly – as they are being assured here – that sophisticated modeling showed that all legacy claims likely would be satisfied. Home was placed under supervision just two years after the Zurich transaction closed. It was declared insolvent and placed into liquidation in 2003. That liquidation is still in process. Policyholders have received no payment for over a decade as that liquidation has proceeded.

Home policyholders will never have their claims paid in full, despite assurances to the contrary that were made only eight years prior to the company being placed into liquidation. Those same types of assurances are being made here by OBIG and Armour, even in light of the history of Home's failed runoff.

Finally, Congress has offered the asbestos casualty insurance industry unprecedented and unique protection and benefits through enactment of section 524(g) of the Bankruptcy Code, providing final relief from all present and future asbestos claims of a particular insured in exchange for a contribution to a trust that will be used to pay claims into the future.
Section 524(g) codifies congressional policy to maximize compensation to asbestos claimants and their heirs in an environment where corporate and insurance resources already been

adjudicated to be inadequate. That process ultimately saves the insurers billions of dollars in transactional costs while providing certainty in exchange for fixed cash payments. In this context, the Proposed Sale is overreaching in light of Federal legislation that recognizes at the outset that casualty insurance resources will be inadequate to provide full compensation.

Plant asserts that the proposed sale is prejudicial to the interests of OneBeacon policyholders. The actuarial work submitted in support of the proposed sale does not provide the type of assurances that should be required for regulatory approval of a deal of this magnitude. Consequently, approval of the proposed sale should be conditioned on the following:

- A capital contribution by White Mountains of $1.005 billion to OneBeacon as reimbursement of the dividends White Mountain paid itself and the other gains realized by White Mountains from the sale of OneBeacon's assets including the initial offering of One Beacon's stock and the sale of Esurance to Allstate.
- The purchase by OBIG from National Indemnity Company ("NICO") of an additional $1.5 billion of reinsurance cover for OneBeacon's asbestos and environmental liabilities that is excess of OneBeacon's present reinsurance. If the Towers Watson modeling proves to be correct, this excess reinsurance cover will not be used. If the modeling proves to be incorrect, OneBeacon's policyholders will have additional protection.

Plant reserves its right to amend or supplement this objection if any of the currently "confidential" material submitted to the Department by OBIG is made public.

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