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**IN THE MATTER OF THE ACQUISITION OF CONTROL OF
UNITED CASUALTY AND SURETY INSURANCE COMPANY
BY THE GENERAL INDEMNITY GROUP, LLC**

DOCKET NO. F2016-01

DECISION AND ORDER

I. Introduction

The General Indemnity Group, LLC (“GIG” or the “Applicant”) seeks approval by the Massachusetts Commissioner of Insurance (“Commissioner”) of its proposed acquisition of control (“Acquisition”) of the United Casualty and Surety Insurance Company (“United Casualty”) pursuant to Massachusetts General Laws Chapter (“Chapter”) 175, §206B (“§206B”). United Casualty is a Massachusetts domiciled stock property and casualty insurance company incorporated in Massachusetts in 1983. It is currently authorized to transact fidelity and surety lines of business in Massachusetts and eight other states. GIG is a wholly-owned subsidiary of Boston Omaha Corporation (“Boston Omaha”).

The Acquisition for which the Applicant seeks approval is structured as a stock purchase transaction in which the Applicant will acquire control of United Casualty by purchasing all of its issued and outstanding stock. Following the Acquisition, GIG will be the sole shareholder of United Casualty.

GIG initially submitted its “Form A Statement Regarding Acquisition of Control of United Casualty” (“Form A”), and accompanying exhibits to the Massachusetts Division of Insurance (“Division”) on or about June 1, 2016. It submitted an Amendment to the Form A on

or about September 20, 2016, and a replacement Page 6 of the Form A Statement on October 31, 2016. The Commissioner directed the formation of a working group of Division staff members (the “Working Group”) that included representatives of the Financial Surveillance, Financial Examination and Legal Units to review the proposed acquisition on behalf of policyholders and the insuring public.

Pursuant to §206B(d)(1), the Commissioner must hold a public hearing on the proposed Acquisition at which the companies, any person to whom notice was sent, and “any other person whose interest may be affected . . . have the right to present evidence, examine and cross-examine witnesses, offer oral and written arguments therewith, and . . . conduct discovery proceedings . . .”. §206B(d)(2). The Commissioner appointed Jean F. Farrington, Esq., who did not participate in the Working Group’s analysis of the proposed Acquisition, to serve as Presiding Officer for the public hearing.

On September 29, 2016, the Working Group deemed GIG’s Form A complete and on October 17, 2016 the Commissioner issued a Notice of Hearing (“Notice”) regarding the Acquisition. The Notice was posted on the Division’s website and published in the Boston Globe on October 24, 2016 and in the Quincy, MA Patriot Ledger on that same date. The Notice set November 15, 2016 as the date for the public hearing and advised that information about the Acquisition was available for public inspection at the Division. GIG waived the twenty days’ notice of the hearing to which it was entitled under §206B(d)(2).

The Notice also stated that the purpose of the hearing was to afford persons identified in §206B(d)(2) an opportunity to participate in the hearing as prescribed by that section. It required any person seeking to participate to submit a Notice of Intent to Participate on or before November 9, 2016, setting forth the statutory ground for the requested participation, the basis for the person’s interest in the proposed Acquisition and the scope of the requested participation. The Notice also advised that all discovery proceedings must be concluded no later than November 14, 2016. No person or entity filed a Notice of Intent to Participate in this proceeding.

The public hearing took place on November 15, 2016. Cara Toomey, Esq. represented the Division of Insurance; Alan Packer, Esq., appeared for United Casualty. Three witnesses testified: Michael Scholl, ACAS, MAAA, president of GIG; Todd S. Carrigan, president of United Casualty; and Renu Wadhwa, a Finance Manager with the Division of Insurance. Mr.

Scholl submitted supplemental testimony reflecting the addition of a new member to the Boston Omaha Board of Directors, stating that documentation on that new member would shortly be provided to the Division. On November 17, Mr. Scholl notified the Division that Boston Omaha had decided not to enlarge its Board and submitted for the record in this proceeding a copy of the corporate vote and revised testimony deleting his statements about the addition of a new member to the Boston Omaha Board. On November 21, I held a telephone conference with representatives of the Division and the parties to the Acquisition; Mr. Scholl's November 17 testimony was entered into the record of this proceeding without objection.

II. Summary of Testimony

Mr. Scholl testified that, following the acquisition, GIG will directly own 100 percent of United Casualty's issued and outstanding stock. The proposed transaction was approved by all United Casualty shareholders on May 19, 2016, the date on which they executed a Stock Purchase Agreement. Mr. Scholl addressed the consideration for the proposed Acquisition, confirming that the consideration was determined by arms-length negotiations.

Mr. Scholl characterized United Casualty as a specialty insurance company that fits GIG's target profile for acquisitions. He explained that the proposed Acquisition would enable GIG to obtain significant surety business, experienced employees, and management who have a record of successfully meeting the needs of United Casualty's policyholders and producers. He testified that GIG plans to continue the current operations of United Casualty, with no change to its corporate name or identity, executive leadership, staff, business location, business plan, product scope or plan of distribution.

Mr. Scholl testified that the proposed Acquisition will not reduce competition in the Massachusetts market. He stated that GIG does not currently own an insurance company licensed in Massachusetts and, therefore, the transaction is not expected to create market concentration. Mr. Scholl opined that the transaction would be in the interest of United Casualty and its policyholders because it would ensure that existing policies and existing claims are administered smoothly. Further, policyholders would benefit from the new owner and administrators' commitment to the property and casualty insurance business and to customer service, as well as their strong financial standing.

Mr. Scholl testified that the directors and officers of GIG are distinguished individuals with many years of experience with GIG and affiliated insurance companies. Mr. cited their service over time as evidence of their integrity, competence and experience.

Todd S. Carrigan, President of United Casualty, testified in support of GIG's proposed Acquisition. Mr. Carrigan testified that he was involved in negotiation of the stock purchase agreement between GIG and United Casualty's stockholders and of other agreements between GIG and United Casualty that related to the transaction. He affirmed that all United Casualty's shareholders had executed that stock purchase agreement. Mr. Carrigan confirmed that United Casualty had reviewed GIG's Form A and that GIG notified United Casualty of the hearing date in accordance with the requirements of §206B(d)(2).

Mr. Carrigan summarized United Casualty's current operations; its business focuses on providing bid, performance and payment bonds for small and medium-sized contracting service firms, as well as miscellaneous surety bonds that allow its surety bond principals to satisfy statutory and contractual requirements. United Casualty is rated A- (Excellent) by A. M. Best Company and holds a Certificate of Authority from the United States Department of the Treasury allowing it to act as a surety on federal projects. Over 27 years the company has a pure ratio of approximately one percent.

Mr. Carrigan testified that United Casualty will benefit from the proposed Acquisition because GIG and its parent will bring to its operations financial strength, actuarial resources and diverse management experience. The transaction benefits the existing United Casualty shareholders by enabling them to liquidate their investment in the company, while ensuring a smooth and seamless transition for its existing management, staff and policyholders. Mr. Carrigan affirmed that GIG has no plans to alter United Casualty's business operations, underwriting or claims administration.

Renu Wadhwa, a Finance Manager with the Division, testified on behalf of the Working Group regarding its review of the proposed Acquisition. She confirmed that the Working Group, based on the seven standards contained in §206B(d)(1), analyzed the Form A filing and the amendments and exhibits to it, including the stock purchase agreement, financial statements and examination materials. She concluded that, following its review, the Working Group did not note any matters that would lead to an adverse determination with respect to compliance of the Form A filing with any of those standards.

III. Analysis of the Proposed Acquisition

The Commissioner must approve the Acquisition unless he finds that such approval would result in any of the conditions set forth in subsections (i) through (vii) of §206B(d)(1). Each of those conditions will be addressed in turn.

A. The Acquisition Satisfies the Requirements of §206B(d)(1)(i)

Section 206B(d)(1)(i) requires the domestic insurer, post-merger, to be able to satisfy the licensing requirements required to write the lines of insurance that it currently writes. United Casualty is now authorized to write property and casualty insurance business in Massachusetts, specifically the lines of surety and fidelity. Mr. Scholl testified that the change in ownership of United Casualty will not affect its existing license and that it will continue to satisfy the licensing requirements to write surety and fidelity insurance.

As Ms. Wadhwa noted, the Working Group, which included staff from the Division's Financial Surveillance Unit who oversee company licensing, had no concerns that the proposed Acquisition would adversely affect United Casualty's ability to satisfy Massachusetts licensing requirements for domestic insurers. For these reasons, I find that §206B(d)(1)(i) does not present an obstacle to approval of the Acquisition.

B. The Acquisition Satisfies the Requirements of §206B(d)(1)(ii)

Section 206B(d)(1)(ii) requires that the Acquisition not have the effect of lessening competition or creating a monopoly in the Massachusetts insurance market. Mr. Scholl testified that United Casualty now writes less than \$3 million of surety premium in Massachusetts. He pointed out that, according to current data from the Surety Association of America, that value is less than 2.5 percent of the Massachusetts marketplace. Mr. Scholl testified that, in his opinion, because of United Casualty's size and GIG's plan to continue its operations at its current level, the Acquisition will have no effect on the Massachusetts insurance market.

As noted above, Ms. Wadhwa testified that the Working Group had no concerns that the Acquisition would reduce competition in the Massachusetts market or tend to create a monopoly. For these reasons, I find that §206B(d)(1)(ii) does not present an obstacle to approval of the Acquisition.

C. The Acquisition Satisfies the Requirements of §206B(d)(1)(iii)

Subsection (iii) of § 206B(d)(1) requires that the financial condition of the acquiring company is such that the Acquisition will not jeopardize the financial stability of the domestic

insurer or prejudice the interests of the policyholders. Mr. Scholl testified that GIG and its parent, Boston Omaha, are both well-capitalized and bring additional financial strength to United Casualty, which he characterized as a stable, well capitalized company in solid financial condition now rated A- by A. M. Best Company. In GIG's view, its proposed Acquisition of United Casualty will not jeopardize United Casualty's financial stability or prejudice the interests of its policyholders. Mr. Scholl expressed GIG's belief that United Casualty policyholders will benefit from the plans to keep its seasoned and experienced management team in place and to retain its distribution system.

Ms. Wadhwa further stated that the Working Group found no indication that the Acquisition would jeopardize United Casualty's financial stability or prejudice the interest of its policyholders. For these reasons, I find that §206B(d)(1)(iii) does not present an obstacle to approval of the Acquisition.

D. The Acquisition Satisfies the Requirements of §206B(d)(1)(iv)

Subsection (iv) of §206B(d)(1) requires that the terms of the offer or agreement of acquisition not be unfair or unreasonable to policyholders of the domestic insurer. Mr. Scholl testified that GIG believes that the terms of the Acquisition are fair and reasonable to all United Casualty policyholders. He pointed out that GIG does not plan to make changes that would affect the experience of United Casualty policyholders; it is retaining United Casualty's current service providers and anticipates no changes to its producer contracts, procedures, level of service, or the contract provisions relating to policyholder rights.

Ms. Wadhwa further stated that the Working Group found no indication that the terms of the Acquisition would be unfair or unreasonable to United Casualty's policyholders. For these reasons, I find that the terms of the proposed Acquisition are not unfair or unreasonable to policyholders, and that §206B(d)(1)(iv) does not present an obstacle to approval of the Acquisition.

E. The Acquisition Satisfies the Requirements of §206B(d)(1)(v)

Subsection (v) of §206B(d)(1) requires that the acquiring party not be contemplating any material changes in the business of the domestic insurer that would be unfair and unreasonable to policyholders, or otherwise would not be in the public interest. Mr. Schell testified that GIG has no present plans to liquidate United Casualty, sell its assets, or make any material changes to its

operations. He further stated that GIG has no present plans to make any material change in United Casualty's business operations. The current United Casualty officers have accepted renewable five-year term employment contracts; with the exception of one person who is retiring, all staff positions will be maintained and all other current United Casualty personnel will remain in their current positions. Mr. Carrigan testified that the Acquisition would result in a smooth and seamless transition for policyholders, confirming that GIG has no plan to alter United Casualty's business operations, underwriting or claims administration.

Again, I note Ms. Wadhwa's testimony that the Working Group, after its review, noted no matters that would lead to an adverse determination with respect to any of the standards in §206B(d)(1)(v). For these reasons, I find that §206B(d)(1)(v) does not present an obstacle to approval of the Acquisition.

F. The Acquisition Satisfies the Requirements of §206B(d)(1)(vi)

Subsection (vi) of §206B(d)(1) requires that the competence, experience and integrity of those who will control the operations of United Casualty post-acquisition are sufficient to support a conclusion that the Acquisition will be in the interest United Casualty's policyholders and of the insuring public. Mr. Scholl testified that he is familiar with GIG's directors and executive officers, stating that GIG's directors have a long history of responsibly serving their employers and the public with integrity and financial responsibility. In his opinion, the individuals who will control United Casualty's operation after the Acquisition closes have the competence, veracity and experience to continue to act in the interests of the United Casualty policyholders and the insuring public. Mr. Scholl also testified that he is aware of the backgrounds and experience of the members of United Casualty's board of directors who will continue to serve as directors following the Acquisition. Finally, he noted that the individuals associated with GIG's parent, Boston Omaha, are seasoned and experienced in the financial industry, with proven records of competence, service, and integrity working in a regulated environment. Mr. Scholl noted that biographical information for each of those individuals was provided to the Working Group for its review. In his opinion, the competence, experience and integrity of those who will control the United Casualty's operations after closing will not jeopardize the interests of United Casualty's policyholders or the public.

As with standards (i) through (v), Ms. Wadhwa testified that the Working Group, after its review, noted no matters that would lead to an adverse determination with respect to any of

the statutory standards. Accordingly, for these reasons, I find that §206B(d)(1)(vi) does not present an obstacle to approval of the Acquisition.

G. The Acquisition Satisfies the Requirements of §206B(d)(1)(vii)

Finally, subsection (vii) of §206B(d)(1) requires that the acquisition not be hazardous or prejudicial to the insurance buying public. Mr. Scholl testified that in his view the Acquisition will enhance United Casualty's current operations because it retains its current management team and staff, but augments it by adding a parent company with particular experience and expertise, a stronger balance sheet, and access and feedback from a credentialed actuary. He stated that GIG does not believe that the Acquisition will be hazardous or prejudicial to the insurance buying public.

Again, I consider Ms. Wadhwa's testimony that the Working Group, after its review, noted no matters that would lead to an adverse determination with respect to this or any of the statutory standards. Accordingly, for these reasons I find that §206B(d)(1)(vii) does not present an obstacle to approval of the Acquisition.

III. Conclusion

I find and conclude, for all of the reasons set forth above, that the proposed Acquisition of Control of the United Casualty and Surety Company by General Indemnity Group complies with the requirements of §206B and is not prejudicial to the policyholders or to the insuring public. The Commissioner hereby authorizes the Acquisition.

SO ORDERED.

Dated: December 5, 2016

Jean F. Farrington
Presiding Officer

Approved this 5th day of December, 2016

Daniel R. Judson
Commissioner of Insurance