

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS
AND BUSINESS REGULATION
DIVISION OF INSURANCE

SUFFOLK, ss.

Docket No. G-2006-09

IN THE MATTER OF THE REQUEST OF

HARLEYSVILLE WORCESTER INSURANCE COMPANY,
A MASSACHUSETTS DOMESTIC STOCK INSURANCE COMPANY,

TO REDOMESTICATE TO THE COMMONWEALTH OF PENNSYLVANIA

MEMORANDUM OF DECISION AND ORDER

On October 20, 2006, Harleysville Worcester Insurance Company (“Harleysville” or the “Company”), a Massachusetts domestic stock insurance company, filed a written request with the Massachusetts Division of Insurance (“Division”) for approval to change its domiciliary state from Massachusetts to Pennsylvania, pursuant to M.G.L. c. 175, § 49A. Harleysville is a wholly owned subsidiary of Harleysville Group Inc., a Pennsylvania insurance holding company which in turn has as its majority shareholder Harleysville Mutual Insurance Company, a Pennsylvania domiciled insurance company.

On November 20, 2006 the Commissioner of Insurance issued a Notice of Hearing regarding the proposed redomestication. Said notice was posted on the Division of Insurance website and offered interested parties the opportunity to provide written or oral comment. Additionally, the Notice of Hearing was published on November 24, 2006

in the Boston Globe and the Worcester Telegram and Gazette and on December 1, 2006 in the Standard.

On December 11, 2006, the Division conducted a hearing before designee of the Commissioner of Insurance (“Commissioner”), Mindy A. Merow Rubin, Counsel to the Commissioner, at its offices, to consider whether the request of Harleysville was not in the interest of the policyholders of the Commonwealth of Massachusetts. Pursuant to M.G.L. c. 175, § 49A, “...[a]ny domestic insurer may upon approval of the commissioner, transfer its domicile to any other state in which it is admitted to transact the business of insurance, and upon such transfer shall cease to be a domestic insurer, and shall be admitted to the commonwealth, if qualified, as a foreign insurer. Said commissioner shall approve any such proposed transfer unless he shall determine such transfer is not in the interest of the policyholders of the commonwealth.”

Appearing at the public hearing to offer testimony or comment on the proposed redomestication were Peter T. Robertson, Esquire, Counsel for Harleysville Worcester Insurance Company in this matter, Dennis J. Otmaskin, President of Harleysville Worcester Insurance Company and Robert C. Macullar, Supervising Examiner.

Mr. Robertson offered certificates of publication, an original application, the Decision and Order from the Pennsylvania Insurance Department approving the transfer conditioned upon approval of the proposed redomestication by Massachusetts and the Certificate of Authority from Pennsylvania for Harleysville Worcester Insurance Company to be entered into the record. Mr. Otmaskin then gave a presentation briefly describing the company history and the reasons why this transaction should be approved. Mr. Otmaskin testified that the application to redomesticate was filed to enable

uniformity and centralization of administration for financial examination purposes. A Pennsylvania domicile will reduce financial examination fees and expenses, including substantial actuarial fees, by allowing Harleysville to be examined by the Pennsylvania Insurance Department on the same examination cycle as seven other affiliated Pennsylvania domiciled companies. Additionally, the redomestication will have no impact on Harleysville's policyholders or agents. There will be no cancellation or nonrenewal of policies and policyholders will receive the same support services currently received. There will be no change in service or support and no termination of agency contracts for existing agents. The management and organization of the company will remain the same; the only changes contemplated are to increase the staffing levels in the Massachusetts office. Mr. Otmaskin continued by explaining how the premium tax paid to Massachusetts will not decrease as a result of the redomestication. He introduced into the record a letter dated December 8, 2006 to Commissioner Bowler from Charlene D. Wolfe, Assistant Treasurer of both Harleysville and its parent company, accompanied by the final Certificate of Contribution from The Property and Casualty Initiative, LLC. Ms. Wolfe explains in her letter how as a result of the redomestication, Harleysville's tax obligation to Massachusetts will actually increase. While domiciliary companies are subject to a tax on gross investments income in addition the premium tax, Harleysville had taken advantage of an opportunity offered to domestic companies to reduce their investment income tax and receive a credit for retaliatory taxed paid to other jurisdictions. The company contributed a defined amount over five years to The Massachusetts Property and Casualty Insurance Company Community and Economic Development Initiative, LLC. As a foreign company, Harleysville will be obligated to

pay the 2.28% premium tax and will not receive credit from Massachusetts for any retaliatory tax paid to other jurisdictions.

Robert Macullar, Supervising Examiner for the Division, then testified as to the solvency requirements for foreign companies and indicated that upon analysis Harleysville would pass all the solvency tests required to obtain a foreign company license should the redomestication be approved. Additional policy form filings are not necessary as none of the contact information on the previously filed forms will change. Mr. Macullar further indicated that the Division is prepared to license Harleysville as a foreign insurer.

The Presiding Officer allowed that the hearing record would remain open until the close of business on December 11, 2006. No one else at the hearing volunteered to comment on the proposed redomestication after being given an opportunity to do so. No one opposed the subject redomestication.

Sufficient facts exist on the record to support a finding that Harleysville's proposed redomestication from Massachusetts to Pennsylvania is not contrary to the interest of the policyholders of this commonwealth. Some of the facts supporting this finding are as follows:

--Harleysville is aware of no outstanding market-conduct or financial-examination issues.

--Policyholder services will remain the same because no reduction in employees or offices in Massachusetts is contemplated;

--As the Pennsylvania Insurance Department is accredited by the National Association of Insurance Commissioners, it has the same or similar

regulatory authority over Harleysville as Massachusetts, which will continue to regulate the company in its admitted foreign-insurer status;

- Harleysville's efficiency will increase and expenses will decrease;
- There will be no loss of tax revenues to Massachusetts.

After careful consideration of the entire record of this proceeding, including all oral testimony and comment, exhibits and other documentary submissions to the docket, the Presiding Officer concludes that Harleysville's request for approval to transfer its domicile to the Commonwealth of Pennsylvania, pursuant to M.G.L. c. 175, § 49A, is not contrary to the interest of the policyholders of Massachusetts. Consequently Harleysville's request for approval to transfer its domicile to the Commonwealth of Pennsylvania is APPROVED.

Mindy A. Merow Rubin
Presiding Officer

Dated: December 27, 2006

AFFIRMED:

Julianne M. Bowler
Commissioner of Insurance

Dated: December 27, 2006