

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to the Insurance Company
	:	Mutual-to-Stock Conversion Act, Article
Application of Protection Mutual Insurance	:	VIII-A of the Insurance Company Law of
Company of Littlestown Requesting	:	1921, Act of May 17, 1921, P.L. 682, <u>as</u>
Approval of an Alternative Plan of	:	<u>amended</u> , added 1995, Dec. 21, P.L. 714,
Conversion and Subsequent Merger	:	40 P.S. §§ 911-A <u>et seq.</u> ; Sections 1401,
into Community Insurance Company	:	1402, and 1403 of the Insurance Holding
	:	Companies Act, Article XIV of the
	:	Insurance Company Law of 1921, Act of
	:	May 17, 1921, P.L. 682, <u>as amended</u> , 40
	:	P.S. §§ 991.1401-1403.
	:	
	:	
	:	Order No. ID-RC-23-05

DECISION AND ORDER

AND NOW, on this 8th day of August, 2023, Michael Humphreys, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Mutual-to-Stock Conversion Act and 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 the Parties

1. Protection Mutual Insurance Company of Littlestown (“Protection”) is a mutual property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Littlestown, Pennsylvania.
2. Community Insurance Company (“Community”) is a stock property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Allentown, Pennsylvania.

3. Community Holdings Management Inc. (“CHM”) is a mutual insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its primary place of business in Allentown, Pennsylvania.

The Filing

4. On February 9, 2023, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is hereinafter collectively referenced as the “Protection Application”) from Protection requesting approval to convert from mutual to stock form (the “Alternative Conversion”) and immediately merge into Community (the “Merger”).
5. If the Alternative Conversion and Merger are approved, the Merger shall become effective upon the filing of a Statement of Merger with the Pennsylvania Secretary of State (the “Effective Time”).
6. The Insurance Company Mutual-To-Stock Conversion Act, Article VIII-A of the Insurance Companies Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§ 911-A et seq. (the “Conversion Act”), provides that all plans of conversion of domestic mutual insurers must be filed with the Commissioner for approval or disapproval.
7. Section 917-A of the Conversion Act provides that a domestic mutual insurer may adopt an alternative plan of conversion that does not rely in whole or in part upon issuing nontransferable subscription rights to members to purchase stock of the converted stock company if the Commissioner finds that the plan does not prejudice the interests of the policyholders, is fair and equitable, and is not inconsistent with the purpose and intent of the Conversion Act.
8. As specified in the Protection Application, Protection proposes to convert from mutual-to-stock form pursuant to Section 917-A of the Conversion Act.
9. The Insurance Holding Companies Act, Article XIV of the Insurance Corporation Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§ 991.1401 et seq. (“Insurance Holding Companies Act”), provides that all mergers or other acquisitions of control of domestic insurers must be filed with the Commissioner for approval or disapproval.
10. The Protection Application was filed with the Department pursuant to Section 917-A of the Conversion Act and Section 1402 of the Insurance Holding Companies Act.

Department Procedures

11. On February 25, 2023, the Department published notice in the *Pennsylvania Bulletin* that the request for approval for an Alternative Conversion and subsequent Merger was submitted by Protection. This notice invited interested persons to submit comments to

the Department for a 30-day period (“the Comment Period”).

12. The Department received no comments regarding the proposed Alternative Conversion and subsequent Merger during the Comment Period.

Description of the Proposed Mutual-to-Stock Conversion

13. On December 6, 2022, the Boards of Directors of Protection and Community unanimously adopted an Agreement and Plan of Merger (the “Plan”).
14. The Boards of Directors of Protection and Community believe that the Plan is in the best interest of their companies and can reduce certain operating costs and increase their competitive position in a manner that furthers the interest of both companies.
15. The Plan provides that:
 - a. Members of Protection will become members of CHM; and
 - b. The separate existence and organization of Protection shall cease.
16. At the time the Board of Directors of Protection adopted the Plan, Protection had 556 policyholders (“Eligible Members”).
17. Protection advised the Department on April 10, 2023 that it had, on February 28, 2023 and March 1, 2023, sent to each Eligible Member notice by first class mail advising of the filing of the Protection Application with the Department.
18. Section 919-A of the Conversion Act requires that written notice regarding the Plan be sent to all members whose policies were issued after the Initial Plan was adopted by Protection’s Board of Directors on December 6, 2022.
19. As provided in the Conversion Act, members receiving notice must be advised that each such member is entitled to cancel his or her policy and receive a pro rata refund of unearned premiums.
20. The Department reviewed Protection’s proposed notice.
21. Protection represented that it has provided and continues to provide the required notice.
22. As specified in the Protection Application, Protection shall hold a meeting of the Eligible Members to vote upon the Plan following receipt of an approving determination by the Commissioner in the instant proceeding.
23. As specified in the Protection Application, the affirmative vote of at least two-thirds of the votes cast by the Eligible Members is a required condition to closing under the Plan.

Description of the Proposed Subsequent Merger

24. The corporate existence and insurance business of Protection will cease after the Alternative Conversion and subsequent Merger.
25. As described in the Plan, each policy of insurance issued by Protection and in force at the Effective Time will remain in force as a policy issued by Community in accordance with the terms of such policy. At the Effective Time, to the extent they existed prior to the Effective Time, the following rights will be extinguished:
 - a. any voting rights of the policyholders;
 - b. any right to share in the surplus of Protection; and
 - c. any assessment provisions provided for under the policies.
26. As specified in the Protection Application, at the Effective Time, all membership interests in Protection immediately prior to the Effective Time shall be cancelled and shall cease to exist.
27. As specified in the Protection Application, at the Effective Time, each member of Protection shall become a member of CHM and hold the rights afforded to members of CHM.
28. As specified in the Protection Application, at the Effective Time, all shares of the capital stock of Community issued and outstanding immediately prior to the Effective Time shall be unchanged and thereupon shall remain outstanding as shares of capital stock of Community.
29. As specified in the Protection Application, upon completion of the Alternative Conversion and subsequent Merger, Community would have the statutory minimum amounts of paid-up capital and surplus paid-in required of a stock property insurance company authorized to write the existing lines of authority currently held by Protection and Community.
30. Section 917-A of the Conversion Act provides that the Department may approve the merger of a domestic mutual insurer into a domestic or foreign stock insurer.

Compliance with Statutory Standards

31. Section 917-A of the Conversion Act establishes standards which an alternative plan of conversion must satisfy in order for approval to be granted.
32. Section 917-A of the Conversion Act provides that the Commissioner shall approve the alternative plan of conversion of a domestic mutual insurer if the Commissioner finds

that the plan will not prejudice the interests of the members, the plan is fair and equitable, and the plan is not inconsistent with the purpose and intent of the Conversion Act.

33. After the Alternative Plan of Conversion, Protection will become a stock company and will then merge into Community pursuant to 40 P.S. § 917-A(1).
34. Upon effectuation of the Merger, the current policyholders of Protection will become members of CHM.
35. The members of CHM will have the authority to elect the Board of Directors of CHM and thereby maintain control over CHM.
36. CHM will indirectly hold all the voting stock of Community.
37. Based on the information contained in the Protection Application, the Commissioner finds that the contemplated Alternative Plan of Conversion and subsequent Merger would not prejudice the interests of the Eligible Members of Protection.
38. Based on the information contained in the Protection Application, the Commissioner finds that the contemplated Alternative Plan of Conversion and subsequent Merger of Protection is not inconsistent with the purpose and intent of the Conversion Act.
39. 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. The Conversion Act provides the Commissioner jurisdiction to review and approve the Plan of Conversion.
2. Section 913-A(e) of the Conversion Act states that the Commissioner may order a hearing on whether the terms of the Plan comply with the Conversion Act after giving written notice to the mutual company and other interested persons, all of whom have the right to appear at the hearing.
3. The parties to the filing did not request a hearing, and, after review of the circumstances and documents relating to the Protection Application, the Commissioner did not elect to conduct a hearing as a proper exercise of his statutory discretion.
4. As specified in the Protection Application, all policies of Protection in force at the time of the Alternative Conversion would continue in force, and the Alternative Conversion would not change, reduce or impair in any way the insurance obligations of Protection under any insurance policy issued or contract entered into by Protection.
5. In accordance with Section 917-A of the Conversion Act, the Commissioner concludes

that the Alternative Plan of Conversion and subsequent Merger would not prejudice the interests of the Eligible Members.

6. In accordance with Section 917-A of the Conversion Act, the Commissioner concludes that the provisions of the Protection Application are fair and equitable.
7. In accordance with Section 917-A of the Conversion Act, the Commissioner concludes that the Protection Application is not inconsistent with the purpose and intent of the Conversion Act.
8. In accordance with Section 917-A of the Conversion Act, the Commissioner finds that CHM will not be insolvent or in hazardous financial condition immediately subsequent to the effectuation of the Plan.
9. As allowed by Section 918-A of the Conversion Act, the Alternative Plan of Conversion would become effective when the Eligible Members have approved the Plan of Conversion and adopted amended articles of incorporation and such amended articles of incorporation have been filed in the office of the Secretary of the Commonwealth.
10. The subsequent Merger would become effective when the Statement of Merger has been filed in the office of the Secretary of the Commonwealth.
11. The Insurance Holding Companies Act grants the Commissioner jurisdiction to review and approve the Acquisition.
12. Under Section 1402(a) of the Insurance Holding Companies Act, no person other than the issuer shall enter into any agreement to acquire any voting security of a domestic insurer by conversion unless such person has filed with the Department a statement containing the information required under 40 P.S. § 991.1402 and the acquisition has been approved by the Department.
13. The Commissioner concludes that the Protection Application satisfies the requirements of the Conversion Act and the Insurance Holding Companies Act.
14. 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

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

The Application of Protection Mutual Insurance Company (“Protection”) requesting approval of an Alternative Plan of Conversion and subsequent Merger into Community Insurance Company, as specified in the Protection Application, is hereby granted, subject to this Order and the following conditions:

1. Protection shall submit for the Commissioner’s approval any changes to the Alternative Plan of Conversion and subsequent merger.
2. Protection shall, within sixty (60) days of the date of this Order, send a notice to its Eligible Members, in a form acceptable to the Insurance Department, advising them of the policyholder meeting to vote on the Alternative Plan of Conversion and subsequent Merger in the form contained in the Protection Application.
3. Protection shall effectuate the Alternative Plan of Conversion and subsequent Merger as contemplated in the Protection Application no later than 120 days following the date of this Order.

4. Protection shall provide a copy of all final executed documents relative to the Alternative Plan of Conversion and subsequent Merger to the Commissioner within five (5) days of the effective date of the Conversion.
5. Protection shall, within sixty (60) days of the effective date of conversion and subsequent Merger, send a notice to its producers, in a form acceptable to the Insurance Department, giving notice of the Alternative Conversion and subsequent Merger.
6. Community Holdings Management Inc. (“CHM”) shall be prohibited from declaring or paying any dividends, returns of capital or any other types of distributions to its members without the prior approval of the Department.
7. Community Insurance Company (“Community”) shall not conduct any initial public offering of its common stock without the prior approval of the Department.
8. Community shall not create or issue preferred stock prior to or as a part of an initial public offering of its common stock without the prior approval of the Department.
9. CHM shall be prohibited from waiving any dividend by Community without prior approval of the Department.
10. CHM shall provide audited financial statements on an annual basis to the Department.
11. CHM shall not convert from the mutual to stock form in any manner without the prior approval of the Department.
12. CHM shall not merge with any person without the prior approval of the Department.
13. CHM shall provide any contemplated changes to its Articles of Incorporation or By-Laws to the Department for review and approval.
14. Except for those rights related to insurance coverages, the members of CHM shall be entitled to the same rights as the members of a mutual insurance company.
15. CHM shall always maintain at least a majority (51%) of the voting stock of Community, unless the Department approves otherwise.
16. CHM shall cause all future subsidiary stock holding companies to be incorporated in the Commonwealth of Pennsylvania and to remain as domestic corporations, unless the Department approves otherwise.
17. CHM shall be subject to the Insurance Holding Companies Act, 40 P.S. §991.1401 et. seq.
18. Community shall not implement any plans involving the issuance of stock, warrants or rights thereto, including, but not limited to, management recognition programs,

employee stock ownership plans, officer and director stock ownership plans, prior to or as part of an initial public offering without the prior approval of the Department.

18. CHM or its subsidiaries or affiliates shall not lend to any person funds to finance the purchase of any portion of a stock offering, unless the Department approves otherwise.
19. At any time that the Board of Directors of CHM determines that CHM has an accumulation of earnings in excess of the funds that may be needed to pay the obligations of CHM, CHM shall:
 - a. contribute any and all such funds directly to the surplus of Community to be used for the benefit of Community and its policyholders in a manner determined by the Board of Directors of Community; or
 - b. with the prior approval of the Department, declare and pay a dividend to the members of CHM.
20. Community shall not be placed into run-off without the prior approval of the Department.
21. The amended and restated Articles of Incorporation of Community, in the final form submitted with the Protection Application, are hereby approved.

This Order is effective immediately.



Michael Humphreys
Insurance Commissioner
Commonwealth of Pennsylvania