

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF THE ACQUISITION OF)
CONTROL OF FIRST JERSEY CASUALTY)
INSURANCE COMPANY BY THE ALLSTATE)
CORPORATION; ALLSTATE INSURANCE) HEARING OFFICER'S
HOLDINGS, LLC; ALLSTATE INSURANCE) REPORT
COMPANY; ALLSTATE NEW JERSEY)
INSURANCE COMPANY; AND ALLSTATE)
NEW JERSEY PROPERTY AND CASUALTY)
INSURANCE COMPANY)

Procedural History

In accordance with N.J.S.A. 17:27A-2, by a filing dated December 22, 2017, as supplemented through March 12, 2018, the Allstate Corporation (“Allstate”); Allstate Insurance Holdings, LLC (“AIH”); Allstate Insurance Company (“AIC”); Allstate New Jersey Insurance Company (“ANJ”); and Allstate New Jersey Property and Casualty Insurance Company (“ANJPC”) (collectively, “the applicants”) filed with the Department of Banking and Insurance (“the Department”) an application to acquire control (“the Form A filing”) of First Jersey Casualty Insurance Company (“First Jersey” or “the insurer”), a New Jersey-domiciled stock property/casualty insurer. First Jersey is directly and wholly-owned by Recreational Coverage Association of New Jersey. First Jersey is currently in run-off and has no active policyholders.

Pursuant to N.J.S.A. 17:27A-2(d), a public hearing was held on the Form A filing on March 23, 2018. Pursuant to N.J.A.C. 11:1-35.6(g), the public hearing was conducted based on the documents filed. The hearing panel and Department staff determined that the documents filed in connection with the proposed acquisition satisfied the requirements of N.J.S.A. 17:27A-2(b). Public comments were allowed to be submitted through the close of business on March 23, 2018.

No comments were received. No other documents were required and the record was closed on March 23, 2018.

Findings of Fact

First Jersey is a New Jersey stock property/casualty insurer domiciled in New Jersey. First Jersey was formed on May 22, 1981, and commenced business on February 2, 1987. It is presently in run-off and has no active policyholders. First Jersey is directly wholly-owned by Recreational Coverage Association of New Jersey (“RCANJ”), a New Jersey-domiciled corporation.¹

The applicants stated that ANJPC will acquire all of the issued and outstanding shares of the insurer from the insurer’s direct parent, RCANJ. The applicants stated that the consideration for the transaction is cash in the amount of \$5,000,000, plus the “statutory surplus” (as defined in the Stock Purchase Agreement, included as part of the Form A filing) of the insurer as of the “closing date” (as defined in the Stock Purchase Agreement). The applicants stated that, as of June 30, 2017, the statutory surplus of the insurer was \$5,298,899. The funds will be derived from excess surplus of ANJPC. No debt will be incurred by the holding company or ANJPC to complete the transaction.

Allstate is a Delaware corporation founded in 1931 that acts as a holding company for various insurance companies and other subsidiaries. Allstate’s subsidiaries are engaged in property/casualty, life, and accident and health insurance, and reinsurance. The applicants stated

¹ Pursuant to Order No. A86-102, the Commissioner at that time placed conditions on the approval of RCANJ’s acquisition of First Jersey. Pursuant to Order No. A93-110, most of the conditions were removed, with exception of Stipulation Nos. 3 and 4 as set forth in Order No. A86-102. These Stipulations required the insurer to maintain a minimum premium to surplus ratio of 2:1 and file all reinsurance contracts with the Department for final approval. The applicants request in the Form A filing that these stipulations be removed upon the closing of the within acquisition because the reasons for imposing the stipulations are no longer applicable. The hearing panel and Department staff concur that the stipulations should be removed effective upon the closing of the proposed acquisition.

that 15 of the 36 insurance subsidiaries are admitted to transact insurance in New Jersey, including ANJ and ANJPC.

AIH is a Delaware limited liability company that acts as an intermediate holding company for a number of Allstate's insurance and other subsidiaries.

AIC is an Illinois-domiciled stock property/casualty insurer. It is licensed in 49 states (not including New Jersey), the District of Columbia, Puerto Rico, and Canada.

ANJ is an Illinois-domiciled stock property/casualty insurer licensed to write direct business in Illinois and New Jersey.

ANJPC is an Illinois-domiciled stock property/casualty insurer licensed to write direct business in Illinois and New Jersey.

The applicants stated that they have no present plans or proposals to cause the insurer to declare an extraordinary dividend, liquidate the insurer, or sell the insurer's assets. The applicants intend that, following the proposed acquisition, and subject to all required regulatory approvals, ANJPC will merge with an into First Casualty, with First Casualty being the surviving entity and taking the name of ANJPC. As of the effective time of this merger, the insurer will become a direct, wholly-owned subsidiary of ANJ, and an indirect, wholly-owned subsidiary of Allstate. ANJPC will continue to write the existing lines of personal lines property/casualty insurance it was writing prior to the merger. The applicants will take all necessary steps to modify First Jersey's certificate of incorporation and certificate of authority to conform First Jersey's lines of authority with those of ANJPC.

Based on the consolidated financial statements filed by the applicants, Allstate had shareholders' equity of approximately \$20,573,000,000 in 2016; \$20,025,000,000 in 2015; and

\$22,304,000,000 in 2014. In addition, Allstate had net before-tax income of approximately \$2,754,000,000 in 2016 and \$3,282,000,000 in 2015.

Analysis

N.J.S.A. 17:27A-2(d)(1) provides that the Commissioner shall approve an acquisition of control of a domestic insurer unless he or she finds that one or more of the seven disqualifying factors set forth therein exist. The statute provides in pertinent part:

(1) The Commissioner shall approve any merger or other acquisition of control ... unless, after a public departmental hearing thereon, he [or she] finds that:

(i) After the change of control the domestic insurer ... would not 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;

(ii) The effect of the merger or other acquisition of control would be substantially to lessen competition in insurance in this State or tend to create a monopoly therein ... [applying the competitive standard as set forth in the statute];

(iii) The financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interest of its policyholders;

(iv) The financial condition of any acquiring party is such that (a) the acquiring party has not been financially solvent on a generally accepted accounting principles basis, or if an insurer, on a statutory accounting basis, for the most recent three fiscal years immediately prior to the date of the proposed acquisition (or for the whole of such lesser period as such acquiring party and any predecessors thereof shall have been in existence); (b) the acquiring party has not generated net before-tax profits from its normal business operations for the latest two fiscal years immediately prior to the date of acquisition (or for the whole of such lesser period as such acquiring party and any predecessors thereof shall have been in existence); or (c) the acquisition debt of the acquiring party exceeds 50 percent of the purchase price of the insurer;

(v) 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, are unfair and unreasonable to policyholders of the insurer and not in the public interest;

(vi) 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 of the insurer and of the public to permit the merger or other acquisition of control; or

(vii) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.

Upon a thorough review of the documents submitted into evidence, the hearing panel and Department staff have determined that none of the seven disqualifying factors set forth above should result if the proposed acquisition is effectuated. Each of these conditions is discussed below.

First, after the acquisition, the insurer will continue to meet the requirements to transact the business for which it is presently licensed pursuant to Title 17 of the New Jersey Statutes. First Jersey was formed on May 22, 1981, commenced business on February 2, 1987, and is currently in runoff with no new direct premiums written. The applicants intend to merge the insurer with ANJPC, with the insurer being the surviving entity. First Jersey is authorized to write various lines of property/casualty insurance in this State. After the merger, business will be written through the merged ANJPC/First Jersey insurer to do business as ANJPC. The applicants will take all necessary steps to modify First Jersey's certificate of incorporation and certificate of authority to conform First Jersey's lines of authority with those of ANJPC.

Second, it does not appear that the acquisition of the insurer will substantially lessen competition in the New Jersey insurance market or tend to create a monopoly therein. N.J.S.A. 17:27A-2(d)(1)(ii) provides that in applying this competitive standard, the standard set forth in

N.J.S.A. 17:27A-4.1(d) shall apply. That statute utilizes a complex formula based on the market shares of the insurers involved in the transaction. In the present matter, based on the countrywide data available (for 2016) at the time of the filing, the applicants and their affiliates and subsidiaries, and the insurer and its affiliates, do not compete in the insurance business in New Jersey. The insurer is currently in runoff and has no new direct written premium. The statute by its terms does not apply if, as an immediate result of the acquisition, there would be no increase in the market. See N.J.S.A. 17:27A-4.1(b)(2)(d). Accordingly, the acquisition will not violate the competitive standard set forth in N.J.S.A. 17:27A-4.1. Thus, it does not appear that the acquisition of the insurer will substantially lessen competition in New Jersey or tend to create a monopoly therein.

Third, it does not appear that the financial condition of the applicants will jeopardize the financial condition of the insurer. As reported in the applicable financial statements filed by the applicants, Allstate had shareholders' equity of approximately \$20,573,000,000 in 2016; \$20,025,000,000 in 2015; and \$22,304,000,000 in 2014.

Fourth, it appears that the financial conditions of the applicants are such that they have been solvent on a generally accepted accounting principles basis for the three-year period immediately prior to the date of the proposed acquisition. As set forth above, based upon the filing Allstate had substantial shareholders' equity for the most recent three years, indicating it has been in a sound and viable financial condition for the relevant period. Also, Allstate had net before-tax income of approximately \$2,754,000,000 in 2016 and \$3,282,000,000 in 2015. Finally, no debt will be incurred by the applicants in connection with the proposed acquisition. Accordingly, the requirement that the acquisition debt may not exceed 50 percent of the purchase price is satisfied.

Fifth, the applicants do not propose to liquidate the insurer or sell its assets, nor declare an extraordinary dividend. As set forth above, the applicant intends to merge the insurer into ANJPC,

with the insurer the surviving entity, and being renamed ANJPC. ANJPC will continue to write the existing lines of personal lines property/casualty insurance it was writing prior to the merger. The applicants will take all necessary steps to modify First Jersey's certificate of incorporation and certificate of authority to conform First Jersey's lines of authority with those of ANJPC.

Sixth, there is nothing in the record from which it may be concluded that the competence, experience and integrity of the persons who will control the operations of the insurer are such that it would not be in the interest of the policyholders and of the public to permit the acquisition of control. The persons who will serve as officers and directors of the insurer are those presently in those positions with the applicants with ANJPC and they will continue in the positions post-acquisition and post-merger.

Seventh, there is nothing in the record from which it may be concluded that the acquisition is likely to be hazardous or prejudicial to the insurance buying public for the reasons set forth above.

Recommendation

Based on the foregoing analysis, Department staff recommend that the proposed acquisition be approved. In addition, the Department staff recommend that Stipulations Nos. 3 and 4 in Order No. A86-102 be removed effective at the time of closing of the acquisition.

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

EXHIBIT LIST

IN THE MATTER OF THE ACQUISITION OF CONTROL OF FIRST JERSEY INSURANCE
CASUALTY COMAPNY
BY THE ALLSTATE CORPORATION

- Exhibit 1.....Form A application submitted by Express Scripts Holding Company, dated December 22, 2017
- Exhibit 2.....Waiver of 20 day notice of hearing, submitted by Joshua Borden, Esq. of Eversheds Sutherland, attorneys for Applicants, dated March 20, 2018
- Exhibit 3.....Waiver of 20 day notice of hearing, submitted by Walter E. Hanley III, Esq., of the Law Office of Walter E. Hanley, LLC, attorneys for First Jersey Casualty Insurance Company, dated March 14, 2018
- Exhibit 4.....Affidavit of Publication of Notice of Public Hearing for notice published in the Courier Post on March 16, 2018
- Exhibit 5.....Affidavit of Publication of Notice of Public Hearing for notice published in the Newark Star Ledger on March 16, 2018

jc first jersey casualty exhibits list/orders