STATE OF MAINE
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
BUREAU OF INSURANCE

IN RE: APPLICATION OF ACP RE, LTD. FOR APPROVAL OF THE ACQUISITION OF CONTROL OF NORTH EAST INSURANCE COMPANY AND YORK INSURANCE COMPANY OF MAINE Consolidated Docket No. INS-14-400	**DECISION AND ORDER**

Superintendent of Insurance Eric Cioppa issues this Decision and Order in the above-captioned matter. The consolidated proceeding was instituted upon the application of ACP Re, Ltd. ("ACP Re") for approval of the acquisition of control of North East Insurance Company ("North East") and York Insurance Company of Maine ("York"), both of which are Maine domiciled property and casualty insurance companies.

I. THE PROPOSED ACQUISITION

The application seeks the Superintendent's approval of the proposed acquisition of control by ACP Re of North East and York (the "Acquisition"). ACP Re is a privately owned, Bermuda-domiciled reinsurer. ACP Re proposes to acquire Tower Group International, Ltd. ("Tower Group"), the ultimate parent of North East and York, through a reverse merger transaction under which London Acquisition Company Limited, a subsidiary of ACP Re, will merge into Tower Group.

The Acquisition is part of a series of transactions (the "Tower Transactions") by which ACP Re has agreed to acquire Tower Group. Tower Group is a publicly traded Bermuda-based insurance holding company whose assets include ultimate ownership, through subsidiaries, of 100% of the shares of both North East and York. The Tower Transactions include agreements by Delaware insurance holding company National General Holdings Corp. and certain of its subsidiaries (collectively, "National General"), and by Delaware insurance holding company AmTrust Financial Services, Inc. and certain of its subsidiaries (collectively, "AmTrust"), to administer the run-off of Tower Group's legacy business, provide stop-loss reinsurance coverage with respect thereto, and, prospectively, manage and reinsure all business written by North East and York, as well as the other Tower Group insurers. By virtue of the Acquisition: (i) ACP Re will acquire Tower Group and its subsidiaries, including North East and York, (ii) National General and AmTrust will administer the run-off of Tower Group's pre-closing liabilities, (iii) AmTrust, prospectively, will manage and reinsure all of Tower Group's commercial lines business, and (iv) National General, prospectively, will manage and reinsure all of Tower Group's personal lines business.

In order to accomplish the Tower Transactions, ACP Re seeks the Superintendent's approval of a Merger Agreement and related agreements, including a Commercial Lines Master

Agreement, Personal Lines Master Agreement, Loss Portfolio Transfer Agreement (LPTA), LPTA Administrative Services Agreements, Managing General Agency Agreements, 100% Quota Share Reinsurance Agreements, Aggregate Stop Loss Agreement, and Attorneys-in-Fact Stock Purchase Agreement.

At closing, pursuant to the Merger Agreement, ACP Re will pay $2.50 per share for all issued and outstanding shares of Tower Group for an approximate payment of $143 million in cash. AmTrust and National General have agreed to provide ACP Re up to $250 million in financing. Upon consummation of the Tower Transactions, all of the North East and York shares will be ultimately owned by ACP Re.

II. PROCEDURAL HISTORY

ACP Re filed its application for approval and the requisite Form A statement with the Bureau of Insurance on April 9, 2014. An Amendment to the Form A was subsequently filed, as were several supplemental pre-hearing submissions.

On May 1, 2014, the Superintendent issued a Notice of Pending Proceeding, and issued the Notice of Hearing on July 14, 2014. In addition to ACP Re, the Superintendent designated Tower Group, AmTrust Financial Services, Inc., National General Holdings Corp., North East, and York as parties to the proceeding. Notice of the opportunity to intervene in the proceeding was provided to the public, but no person made application for intervention.

The Superintendent issued a pre-hearing First Information Request to which responses were provided on July 14, 2014. The companies provided further information and documents on July 11, July 23, August 1, and August 8, 2014. The Superintendent also issued two Protective Orders designating certain information as confidential and exempt from public disclosure, subject to specified conditions. A third Protective Order, covering certain documents provided by ACP Re post-hearing, is being issued today.

The public hearing was held as scheduled on August 11, 2014, at the Department of Professional and Financial Regulation in Gardiner, Maine. Members of the public were invited to attend the hearing. The vast majority of the hearing was conducted in public session, with a small portion held in Executive Session to discuss confidential future business plan information.

Evidence was offered at the hearing and admitted into the record of the proceeding without objection, including the Form A filing and amendment, the responses to the First Information Request, and the additional submissions by the companies of July 11, July 23, August 1, and August 8, 2014. The companies presented a panel of witnesses testifying in favor of approval of the Tower Transactions. No witness testified against approval. The Superintendent ordered that the record remain open after August 11 to allow for the possible admission of further evidence and further indicated that he intended to reconvene the hearing if necessary to allow the companies to address any such evidence.

The Superintendent made several oral information requests during the hearing, upon which post-hearing responses were provided. The Superintendent also issued a Second Information Request, with post-hearing responses provided. The Second Information Request

further instructed the companies to make any objections to the admission of the responses at the time the responses were submitted. No objections were made, and the responses to the Second Information Request, as well as all other post-hearing submissions by the companies, are therefore hereby admitted into evidence.

On September 3, 2014, ACP Re moved for an exemption to the statutory 10-day waiting period set forth under 24-A M.R.S. § 222(4-C)(A), which the Superintendent granted by Order issued September 4, 2014, permitting the transaction to close on or after September 14, 2014, if approved by the Superintendent on or before that date.

On September 12, 2014, the New York Department of Financial Services issued its approval for ACP Re to acquire certain affiliates of North East and York, including Tower Insurance Company of New York. In its approval letter, the New York Department noted that ACP Re's controlling shareholder agreed to certain conditions to the approval. These conditions include: (1) strengthening its actuarial resources; (2) the transition, no later than 2016, to a 3:1 premium-to-surplus ratio for the AmTrust group; (3) changes to the AmTrust group's reinsurance program and the capitalization of its affiliated Bermuda reinsurer; (4) engagement of a new external auditing firm effective in 2015; and (5) the submission of audited financial statements by ACP Re's controlling shareholder.

III. STANDARD OF REVIEW

As provided by 24-A M.R.S. §§ 222(7)(A) and 3476(2), the Superintendent is required to approve the Acquisition unless he finds that:

1. After the Acquisition, North East or York could not satisfy the requirements for the issuance of a certificate of authority according to requirements in force at the time of the issuance, or last renewal or continuation of their respective certificates of authority to do the insurance business which they intend to transact in the State of Maine. *See* 24-A M.R.S. §§ 222(7)(A)(1), 3476(2)(B).

2. The effect of the Acquisition may be substantially or materially to lessen competition in insurance or the insurance business in the State of Maine or elsewhere as to the kinds of insurance involved, or would tend to create a monopoly as to such business therein, or would violate the laws of the State of Maine or of the United States relating to monopolies or restraints of trade. *See* 24-A M.R.S. §§ 222(7)(A)(2), 3476(2)(D).

3. The financial condition of ACP Re is such as would jeopardize the financial stability of North East or York or prejudice the interest of North East's or York's policyholders. *See* 24-A M.R.S. § 222(7)(A)(3).

4. The Acquisition and/or any plans or proposals of ACP Re to liquidate, sell the assets of, or merge North East or York or to make any other major change in the business or corporate structure or management of North East or York are unfair or prejudicial to North East's or York's policyholder interests, or that North East or York, or their stockholders or policyholders, would be impaired through the Acquisition. *See* 24-A M.R.S. §§ 222(7)(A)(4), 3476(2)(C).

5. ACP Re's directors and officers do not have the competence, experience, integrity, character, and financial responsibility that would qualify them to operate North East and York in a lawful and proper manner and that would make it in the interest of policyholders and the public to permit them to control the operation of North East or York. *See* 24-A M.R.S. §§ 222(7)(A)(5), 3476(2)(A).

6. The Acquisition would tend to affect adversely the contractual obligations of North East or York or their ability and tendency to render service in the future to their policyholders and the public. *See* 24-A M.R.S. § 222(7)(A)(7).

IV. FINDINGS OF FACT AND CONCLUSIONS OF LAW

Based upon a review of the record of this proceeding, including the amended Form A application, its exhibits, and the voluminous supplemental information requested by the Superintendent and provided by the parties, and subject to the conditions set forth below, the Superintendent concludes that the preponderance of the evidence does not support any finding that would require disapproval of the Acquisition under the legal standards set forth above.

Specifically the Superintendent concludes as follows:

1. The evidence has not shown that, after the Acquisition, North East and York could not satisfy the requirements for the issuance of a certificate of authority according to requirements in force at the time of the issuance, or last renewal or continuation of their respective certificate of authority to do the insurance business which they intend to transact in the State of Maine.

2. The evidence has not shown that the effect of the Acquisition may be substantially or materially to lessen competition in insurance or the insurance business in the State of Maine or elsewhere as to the kinds of insurance involved, or would tend to create a monopoly as to such business therein, or would violate the laws of the State of Maine or of the United States relating to monopolies or restraints of trade.

3. In light of the conditions agreed to between ACP Re's controlling shareholder and the New York Department of Financial Services, the evidence has not shown that the financial condition of ACP Re is such as would jeopardize the financial stability of North East or York or prejudice the interest of North East's or York's policyholders.

4. The evidence has not shown that that ACP Re has any current plans to liquidate, sell the assets of, or merge North East or York or to make any other major change in the business or corporate structure or management of North East or York. Further, ACP Re has expressly represented that it has no such plans.

5. The evidence has not shown that ACP Re's directors and officers lack the competence, experience, integrity, character, and financial responsibility that would qualify them to operate North East and York in a lawful and proper manner and that would make it in the interest of policyholders and the public to permit them to control the operation of North East or York.

6. The evidence has not shown that the Acquisition would tend to affect adversely the contractual obligations of North East or York or their ability and tendency to render service in the future to their policyholders and the public.

V. ORDER

The application of ACP Re, Ltd. to acquire control of North East Insurance Company and York Insurance Company of Maine is hereby APPROVED, subject to the following conditions:

1. If the Superintendent or his designee(s) finds it necessary for any reason to travel out-of-state for purposes of examining books and records or any other valid regulatory purpose relating to North East or York, that company shall bear all reasonable costs related thereto; and

2. North East, York, AmTrust, and National General shall, beginning with the current month and continuing for three years, provide the Superintendent on a monthly basis any and all financial information as the Superintendent may request.

In addition to the conditions set forth in this Order, the ownership, control, and operations of North East and York remain subject to all applicable requirements of the Maine Insurance Holding Company Act and the other provisions of the Maine Insurance Code. In particular, ACP Re should be aware that all dividends paid by North East and New York shall be subject to the restrictions of 24-A M.R.S. § 222(11-C), including prior review of all dividends for the next five years, and the Form B filing of North East and York must be updated pursuant to 24-A M.R.S. § 222(8)(D) no later than October 15, 2014.

VI. NOTICE OF APPEAL RIGHTS

This Decision and Order is final agency action of the Superintendent of Insurance, within the meaning of the Maine Administrative Procedure Act, 5 M.R.S. § 8002(4). It may be appealed to the Superior Court in the manner provided for by 24-A M.R.S. § 236, 5 M.R.S. §§ 11001 through 11008, and M.R. Civ. P. 80C. Any party to the proceeding may initiate an appeal within thirty days after receiving this notice. Any aggrieved non-party whose interests are substantially and directly affected by this Decision and Order may initiate an appeal within forty days after the issuance of this Decision and Order. There is no automatic stay pending appeal. Application for stay may be made in the manner provided in 5 M.R.S. § 11004.

PER ORDER OF THE SUPERINTENDENT OF INSURANCE

September 12, 2014

ERIC A. CIOPPA
Superintendent of Insurance