

**STATE OF CONNECTICUT**  
*INSURANCE DEPARTMENT*

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In the Matter of:

PROPOSED ACQUISITION OF CONTROL OF:  
CONNECTICUT LIFE AND CASUALTY INSURANCE  
COMPANY, RESPONSE INSURANCE COMPANY,  
RESPONSE WORLDWIDE INSURANCE  
COMPANY, RESPONSE WORLDWIDE DIRECT AUTO  
INSURANCE COMPANY, and WARNER INSURANCE  
COMPANY, Connecticut domiciled insurance companies

Docket No. EX07-52

by

J.C. Flowers II L. P., a Cayman Islands exempted limited  
partnership and JCF DRC, L.P., an Alberta limited  
partnership

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**ORDER**

I, Thomas R. Sullivan, Insurance Commissioner of the State of Connecticut,  
having read the record of the above captioned matter, do hereby adopt the findings and  
recommendations of William Arfanis, Hearing Office, which are contained in the  
attached Proposed Final Decision dated January 11, 2008 and issue the following orders,

TO WIT:

1. The Form A Application of the Applicants in which it seeks approval to acquire control of Domestic Insurers be approved.
2. The Applicants and Domestic Insurers shall comply with their commitments as set forth in the Proposed Final Decision.

3. The Applicants shall provide the Insurance Department with written confirmation of the consummation of the acquisition of control by the end of the month the acquisition of control takes place.

4. For a period of two (2) years, the Applicants shall file semiannually with the Insurance Department, commencing six months from consummation of the transaction, a report under oath of its business operations in Connecticut, including but not limited to, any change to the business of the Domestic Insurers; employment levels; changes in offices of the Domestic Insurers; any changes in location of its operations in Connecticut; charitable contributions made to Connecticut entities; and, notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicants and the Domestic Insurers.

5. The Applicants should provide the Department with the names and titles of those individuals who will be responsible for filing an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

6. Within thirty (30) days following the end of the month in which the Proposed Acquisition is consummated, the Domestic Insurers shall file a request for a waiver of the requirements of section 38a-136(i) of the Connecticut General Statutes.

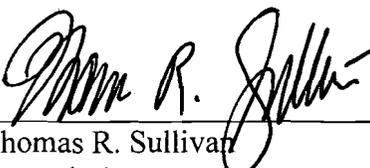
7. Within fifteen (15) days following the end of the month in which the Proposed Acquisition is consummated, the Domestic Insurers shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

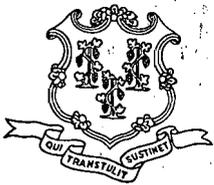
8. If the Proposed Acquisition is not consummated within three (3) months of the date of this Order and the Applicant intends to consummate the Proposed Acquisition, the Applicants shall submit to the Commissioner a statement, which shall include (1) the reason for the Applicants' inability to consummate the Proposed Acquisition; (2) any material changes in the information contained in the Form A Application; and (3) the current financial statements of the Applicants and the Domestic Insurers.

9. The Domestic Insurers shall, at all times, maintain their books, records and assets in Connecticut pursuant to Connecticut Law and consistent with the terms of the Form A Application, unless otherwise approved by the Commissioner.

10. The Applicants shall pay expenses incurred by the Insurance Commissioner in connection with the Insurance Department's review of the captioned transaction pursuant to sections 38a-132(a)(3) and 38a-132(c) of the Connecticut General Statutes.

Dated at Hartford, Connecticut, this 11<sup>th</sup> day of January, 2008

  
\_\_\_\_\_  
Thomas R. Sullivan  
Commissioner



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

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J.C. Flowers II L. P., a Cayman Islands exempted limited  
partnership and JCF DRC, L.P., an Alberta limited partnership  
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### PROPOSED DECISION

#### I. INTRODUCTION

On May 8, 2007, J. C. Flowers II L.P. ("Fund" or the "Applicant"), filed an Application on Form A ("Application") with the Connecticut Insurance Department ("Department") pursuant to sections 38a-129 to 38a-140 of the Connecticut General Statutes requesting approval by the Insurance Commissioner of the State of Connecticut ("Commissioner" or "Insurance Commissioner") for the Proposed Acquisition of Control (the "Proposed Acquisition") of Connecticut Life & Casualty Insurance Company ("CLCIC"), Response Insurance Company ("Response Insurance"), Response Worldwide Direct Auto Insurance Company ("Response Worldwide Direct"), Response Worldwide Insurance Company ("Response Worldwide"), and Warner Insurance Company ("Warner" and collectively as "Direct Response" or the "Domestic Insurers"), all Connecticut domestic insurers.

Supplemental information was subsequently requested by the Department and provided by the Applicant. Amended Forms A were filed with the Department on August 2, 2007,

September 14, 2007, and November 1, 2007. On December 14, 2007, Fund amended the Application to include JCF DRC, L.P. ("JCF DRC" and collectively with Fund, "Applicants") as an applicant. The Amended Form A amends and restates in its entirety the original Form A text and also includes certain new and revised exhibits.

The Proposed Acquisition will be effected pursuant to the terms of a Stock Purchase Agreement ("Agreement") dated as of March 28, 2007, as amended October 10, 2007 and again on December 7, 2007 among the Applicants, The Plymouth Rock Company Incorporated ("PRC"), Stoneridge Holding LLC, ("Stoneridge"), Direct Response Corporation ("DR"), Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, L.P., Morgan Stanley Capital Investors, L.P., D.R. Investors, L.P. and DR Investors II, L.P. (collectively "MetalMark" and with PRC, Stoneridge, and DR, the "Sellers").

On November 20, 2007, Insurance Commissioner Thomas R. Sullivan ("Commissioner") issued a notice of hearing, in which he ordered that a public hearing concerning the application for approval of the Proposed Acquisition of Control of the Domestic Insurers be held on December 20, 2007. The hearing notice was subsequently published in the *Hartford Courant*, and *New Haven Register* once a week for two consecutive weeks. The notice of hearing was also filed by the Department with the Office of the Secretary of State on November 20, 2007 and was published on the Department's Internet website. In accordance with section 38a-8-48 of the Regulations of the Connecticut State Agencies, the Applicants and Domestic Insurers were designated as parties to this proceeding.

The following individuals participated in and/or testified at the public hearing on behalf of the Applicants and the Domestic Insurer:

David I. Schamis, Managing Director, J. J. Flowers & Co. LLC for the Applicants.

Daniel A. Rabinowitz, Esq., Sullivan & Cromwell LLP represented the Applicants.

David Schonbrun of Direct Response represented the Domestic Insurers.

The following Department staff participated in the public hearing:

Jon Arsenault, Esq., General Counsel, Kathy Belfi, Chief Examiner and Joan Nakano, Supervising Examiner.

Pursuant to the published hearing notice, the public was given an opportunity to speak at the hearing or to submit written comments no later than the close of business on December 17, 2007, by an Order dated November 20, 2007. No public officials or members of the public signed up to speak, spoke at the hearing, or submitted written testimony.

## **II. FINDINGS OF FACT**

After reviewing the exhibits entered into the record of this proceeding, and based on the testimony of the witnesses, the undersigned makes the following findings of fact:

1. J.C. Flowers II L.P. is a Cayman Islands exempted limited partnership.
2. The Fund, and certain related alternative investment vehicles, comprise an investment program established in 2006 by J.C. Flowers & Co. LLC ("JCF") primarily to make privately negotiated equity and equity-related investments in the financial services industry.
3. JCF was formed by J. Christopher Flowers ("Flowers") in 1998.
4. Flowers is considered one of the preeminent investors and advisors in the financial services industry having spent substantially all of his professional career focused on the sector.
5. Prior to forming JCF, Flowers spent 19 years at Goldman, Sachs & Co. ("Goldman Sachs") where he was among the founders of, and later headed, the Financial Institutions Group.
6. Flowers formed JCF shortly after retiring from Goldman Sachs in 1998.
7. Between 1998 and 2002, Flowers completed the highly successful investment in The Enstar Group, Inc and sponsored, with Ripplewood Holdings LLC, the purchase of Shinsei Bank, Limited (formerly The Long-Term Credit Bank of Japan), from the Japanese government (collectively, the "Pre-Fund I" investments").
8. In 2002, JCF formed J.C. Flowers I L.P ("Fund I") with \$900 million in commitments primarily from leading financial institutions.

9. JCF formed J.C. Flowers II L.P. to pursue the same investment strategy employed in the successful Pre-Fund I and Fund I investments.
10. The Fund considers investment opportunities primarily in the United States, Western Europe and Asia and pursues both control and strategic minority positions generally where JCF believes it can add value and exert influence through board representation and extensive shareholder rights.
11. The Fund has received equity commitments of \$7 billion, of which Flowers has committed \$200 million and other JCF professionals have committed \$69 million.
12. As a result of the above commitments, when fully called, Flowers will hold an approximately 3% equity ownership interest in the Fund.
13. Since 1998 including the Pre-Fund I and Fund I transactions, Flowers and JCF have invested \$3.7 billion of capital from Flowers, third parties and Fund I in financial services companies.
14. As of February 2006, the most recent date for which such information is available, the investments in financial services companies in the aggregate had a total realized and unrealized value of \$9.8 billion.
15. JCF has considerable experience in investing in the insurance industry with notable holdings being Concord Re, Affirmative Insurance Holdings and Symetra Life.
16. JCF DRC is a newly formed Alberta limited partnership organized specifically for purposes of this Proposed Acquisition.
17. The equity interests in JCF DRC will be owned exclusively by the Fund and the affiliated partnerships of the Fund.
18. JCF DRC's general partner, with the exclusive power to control JCF DRC, will be a Delaware limited liability company whose sole member is Flowers.
19. JCF DRC will purchase all of the shares to be owned by the Fund under the Stock Purchase Agreement and will hold no other significant assets and conduct no activities other than owning shares and activities incidental thereto.

20. The principal business address of the Applicants is 717 Fifth Avenue, 26<sup>th</sup> Floor, New York, New York 10022.
21. The Applicants are not rated by any rating agency.
22. The principal business address of Direct Response is 500 South Broad Street, Meriden, CT 06450.
23. The Domestic Insurers offer property and casualty products, focusing on low cost auto insurance marketed principally on a direct to the consumer basis.
24. The Domestic Insurers are rated B++ (Good) by the A.M. Best Company.
25. As of December 31, 2006 the Domestic Insurers reported the following statutory balance sheet accounts (millions):

As of December 31, 2006	Connecticut Life & Casualty Insurance Company	Response Insurance Company	Response Worldwide Direct Auto Insurance Company	Response Worldwide Insurance Company	Warner Insurance Company
Assets	26,096,237	99,532,646	45,589,624	66,507,708	31,616,305
Liabilities	16,182,470	28,072,142	29,499,781	43,049,943	9,434,995
Capital and Surplus	9,913,768	71,460,504	16,089,843	23,457,765	22,181,310
Net Income (Loss)	(304,978)	203,685	(426,070)	(840,699)	(124,522)
Premium Earned	16,640,963	20,802,122	30,508,432	44,375,903	8,320,484

26. Control of the Domestic Insurers will be acquired pursuant to the terms of a Stock Purchase Agreement (“Agreement”) dated as of March 28, 2007, as amended on October 10, 2007 and December 8, 2007 among the Applicants and the Sellers.
27. The consideration to be used in effectuating the Proposed Acquisition consists of the Applicants’ funds, including funds to be drawn from limited partners of the Applicants pursuant to capital commitments.

28. No loan will be a source of any consideration to effect the Proposed Acquisition.
29. The Applicants will acquire 123,720 shares of common stock for cash consideration of \$101 million.
30. The biographical affidavits of the members of the board of directors and officers of the Applicants, which include the individual's educational background, professional credentials, and employment history, are included in the record and the files of the Insurance Department.
31. Under the Agreement, the initial Board of Directors ("Board") from and after the Closing Date ("Closing") of the Proposed Acquisition will consist of eleven members as follows:
- J. Christopher Flowers
  - David I. Schamis
  - Jeffrey C. Keil
  - Mory Katz
  - Sandra Urie
  - John Waller
  - James N. Bailey
  - Hal Belodoff
  - Howard Hoffen
  - Lawrence Unrein
  - James M. Stone
32. The Applicants will have the right to remove six of the initial eleven directors (Flowers, Schamis, Keil, Katz, Waller and Urie) at any time for any reason.
33. The Applicants have the ability to increase the Board up to a maximum of 18 and designate all of the additional members up to a total of 13 members.

34. Following the Closing, the Domestic Insurers will continue to maintain their separate corporate existence and will be operated in accordance with the currently existing business plans.
35. The Applicants have no present intention to alter the business plans of the Domestic Insurers.
36. After the Closing, Mory Katz will continue to serve as Chief Executive Office and Jeffrey C. Keil will continue to serve as Chairman of the Board.
37. The Domestic Insurers will maintain their current licenses and write business in the states they currently serve.
38. The Domestic Insurers' executive offices and headquarters will remain in Connecticut.
39. The Domestic Insurers' books and records will continue to be maintained in Connecticut.
40. Three years of statutory financial projections for the Domestic Insurers are included in the records and files of the Insurance Department.
41. Other than as disclosed in the Amended Form A, the Applicants have no present plans or proposal to cause the Domestic Insurers to declare an extraordinary dividend or make other distributions, liquidate the domestic insurer, sell the Domestic Insurers' assets, merge or consolidate the Domestic Insurers with any person or persons, make any other material change in the Domestic Insurance business operations or corporate structure or management, or cause the Domestic Insurer to enter into material contracts.
42. Neither the Applicants nor any person controlling, controlled by or under common control with the Applicants or any person listed as a director or executive officer beneficially owns or has, directly or indirectly a right to acquire beneficially any voting securities of any of the entities of the Domestic Insurers or any securities convertible into or evidencing a right to acquire any such voting securities whether or not such right of conversion or acquisition is exercisable immediately or at some future time.
43. There are no contracts, arrangements, or understandings, whether oral or in writing relating, directly or indirectly, to any voting securities of the entities comprising the Domestic Insurers

or any securities convertible into or evidencing a right to acquire any such voting securities whether or not such right of conversion or acquisition is exercisable immediately or at any future time involving Applicants, or any other person listed as director or executive officer.

44. There have been no purchases, directly or indirectly, of any voting securities of the entities comprising the Domestic Insurers by the Applicants, any person controlling, controlled by or under common control with the Applicant or any other person listed as directors or executive officer during the 12 calendar month preceding the filing of the amended Form A.

45. There have been no recommendations to purchase, directly or indirectly, any voting security of the entities comprising the Domestic Insurers made by the Applicants, any person controlling, controlled by or under common control with the Applicants or any person listed as director or executive officer, or by anyone based upon interviews or at the suggestion of the Applicants, any person controlling, controlled by or under common control with the Applicants or any person listed as director or executive officer during the 12 calendar months preceding the filing of the Amended Form A.

46. The Proposed Affiliation will not substantially lessen competition of insurance in the State of Connecticut or tend to create a monopoly therein.

### **III. DISCUSSION**

Section 38a-132(b) of the Connecticut General Statutes specifically requires the approval of the proposed acquisition of control of the Domestic Insurers unless it is determined that:

- (A) After the change of control, the Domestic Insurers would not be able to satisfy the requirements for the issuance of licenses to write the lines of business for which they are presently licensed;
- (B) The effect of the merger or other acquisition of control would be to substantially lessen competition of insurance in this state or tend to create a monopoly in Connecticut;

- (C) The financial condition of the acquiring party is such as might jeopardize the financial stability of the Domestic Insurers or prejudice the interest of its policyholders;
- (D) The plans or proposals which the acquiring party has to liquidate the Domestic Insurers, sell its assets or consolidate or merge it with any person, or make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurers and not in the public interest;
- (E) The competence, experience and integrity of those persons who would control the operations of the Domestic Insurers are such that it would not be in the interest of the policyholders of the Domestic Insurers and of the public to permit the merger or other acquisition of control; or
- (F) The acquisition of control of the Domestic Insurers is likely to be hazardous or prejudicial to those buying insurance.

**A. The ability of the Domestic Insurers to satisfy the requirements for the issuance of a license to write the lines of business for which they are presently licensed following the proposed acquisition of control.**

The Domestic Insurers are domestic insurance companies currently licensed pursuant to section 38a-41 of the Connecticut General Statutes for various property and casualty lines of business. Section 38a-72 of the Connecticut General Statutes requires that a domestic stock property-casualty insurance company must have a minimum of \$2,000,000 in capital and \$2,000,000 in paid-in surplus in the aggregate.

The Domestic Insurers currently satisfy the requirements for the issuance of a license to write the lines of business for which they are licensed.

As noted in the finding of fact, following consummation of the Proposed Affiliation, the Applicant has no plans or proposals to liquidate the Domestic Insurers, to sell their assets, merge or consolidate the Domestic Insurers with any other person or entity. There are no plans for the

Domestic Insurers to enter into any material contract, agreement, arrangement or transaction of any kind with any person or entity.

**B. Whether the effect of the merger would be to substantially lessen competition of insurance in this state or tend to create a monopoly herein.**

There was no finding that the Proposed Affiliation by the Applicants of the Domestic Insurers would substantially lessen competition or create a monopoly.

**C. Whether the financial condition of the Applicant is such as might jeopardize the financial stability of the Domestic Insurer or prejudice the interest of their policyholders.**

Substantial evidence contained in the Form A application and the supplemental information submitted to the Department indicates that the financial condition of the Applicants will not jeopardize the financial condition of the Domestic Insurers following the Merger.

**D. Whether the plans or proposals which the Applicant has to liquidate the Domestic 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 Domestic Insurer and not in the public interest.**

The record reveals that the Applicants have no current plans or proposals to liquidate the Domestic Insurers, to sell their assets, or consolidate or merge them with any other entity.

The Applicant has no present intention to alter the plans of the Domestic Insurers regarding its current product offerings or plan of operations.

Accordingly, the record supports the conclusion that there are no plans or proposals for the Domestic Insurers that are unfair and unreasonable to policyholders of the Domestic Insurers or not in the public interest.

**E. Whether the competence, experience and integrity of those persons who would control the operations of the Domestic Insurer are such that it would not be in the interest of the Policyholders of the Domestic Insurer and the public to permit the merger or other acquisition of control**

The record includes the biographical affidavits of those individuals who will serve as members of the boards and as officers of the Applicants and the Domestic Insurers following the

change of control. The biographical affidavits disclose each individual's educational background, professional credentials and their employment history. In addition, the Applicant has represented, and the biographical affidavits confirm, that during the last ten years none of the proposed directors or officers of the Applicant and Domestic Insurers have been convicted in a criminal proceeding (excluding minor traffic violations) or have been convicted or otherwise penalized for violating any federal or state law regulating the business of insurance, securities or banking, (or in the case of an alien person, such equivalent provision as applicable). During the last ten years, none of the proposed directors or officers of the Applicant have been subject of any proceeding under the Federal Bankruptcy Code, (or in the case of an alien person, such equivalent provision as applicable) or have been affiliated with a business or organization which has subject to such proceeding.

Furthermore, no proposed director or officer of the Applicants or the Domestic Insurers has had a revocation, suspension or disciplinary sanction imposed against him or her by a governmental agency. None of the filed biographical affidavits contain any information that reflects negatively on the integrity of these individuals. The competence, experience, and integrity of those persons who would control the operations of the Domestic Insurers after the Proposed Affiliation is such that it would be in the interest of policyholders of the Domestic Insurers, and in the public interest, to permit the Proposed Affiliation.

**F. Whether the acquisition is likely to be hazardous or prejudicial to those buying insurance.**

Based on the financial strength of the Applicants, the affirmation that the current plans for the Domestic Insurers will not disrupt the Applicants' or the Domestic Insurers' current membership, as well as provision of a strong and stable financial environment for the Domestic Insurers, is not likely to be hazardous to those buying insurance.

Accordingly, assuming compliance with all Connecticut's insurance statutes and regulations, it is reasonable to conclude that the Proposed Acquisition of control of the Domestic Insurers is not likely to be hazardous to those buying insurance.

#### **IV. RECOMMENDATION**

Accordingly, based on the foregoing findings of fact and discussion, the record of the December 20, 2007 public hearing, and the recommendation of the Insurance Department staff, the undersigned concludes that the Applicants have satisfied the statutory criteria as provided in section 38a-132(b) of the Connecticut General Statutes. Accordingly, the undersigned recommends that the Insurance Commissioner find, pursuant to section 38a-132(b) of the Connecticut General Statutes that after the Proposed Acquisition of control (a) the Domestic Insurers will be able to satisfy the requirements for the issuance of a license; (b) the effect of the acquisition of control will not substantially lessen competition in this state or tend to create a monopoly therein; (c) the financial condition of the Applicants is not such as might jeopardize the financial stability of the Domestic Insurers or prejudice the interest of their policyholders; (d) the plans or proposals for the Domestic Insurers, are not unfair and unreasonable to their policyholders, and are in the public interest; (e) the competence, experience and integrity of the management of the Applicants is such that it would be in the interest of policyholders of the Domestic Insurers, and of the public to permit the Proposed Acquisition of control; and (f) the acquisition of control of the Domestic Insurers is not likely to be hazardous or prejudicial to those buying insurance.

Accordingly, the undersigned recommends the following orders:

1. The Form A Application of the Applicants in which it seeks approval to acquire control of Domestic Insurers be approved.

2. The Applicants and Domestic Insurers shall comply with their commitments as set forth in the Proposed Final Decision.

3. The Applicants shall provide the Insurance Department with written confirmation of the consummation of the acquisition of control by the end of the month the acquisition of control takes place.

4. For a period of two (2) years, the Applicants shall file semiannually with the Insurance Department, commencing six months from consummation of the transaction, a report under oath of its business operations in Connecticut, including but not limited to, any change to the business of the Domestic Insurers; employment levels; changes in offices of the Domestic Insurers; any changes in location of its operations in Connecticut; charitable contributions made to Connecticut entities; and, notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicants and the Domestic Insurers.

5. The Applicants should provide the Department with the names and titles of those individuals who will be responsible for filing an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

6. Within thirty (30) days following the end of the month in which the Proposed Acquisition is consummated, the Domestic Insurers shall file a request for a waiver of the requirements of section 38a-136(i) of the Connecticut General Statutes.

7. Within fifteen (15) days following the end of the month in which the Proposed Acquisition is consummated, the Domestic Insurers shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

8. If the Proposed Acquisition is not consummated within three (3) months of the date of this Order and the Applicant intends to consummate the Proposed Acquisition, the Applicants shall submit to the Commissioner a statement, which shall include (1) the reason for the

Applicants' inability to consummate the Proposed Acquisition; (2) any material changes in the information contained in the Form A Application; and (3) the current financial statements of the Applicants and the Domestic Insurers.

9. The Domestic Insurers shall, at all times, maintain their books, records and assets in Connecticut pursuant to Connecticut Law and consistent with the terms of the Form A Application, unless otherwise approved by the Commissioner.

10. The Applicants shall pay expenses incurred by the Insurance Commissioner in connection with the Insurance Department's review of the captioned transaction pursuant to sections 38a-132(a)(3) and 38a-132(c) of the Connecticut General Statutes.

Dated at Hartford, Connecticut, this 11 day of January, 2008

  
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William Arfanis  
Hearing Officer