

**STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
INSURANCE DIVISION**

**BEFORE THE DIRECTOR
OF THE DEPARTMENT OF CONSUMER AND BUSINESS SERVICES**

In the Matter of the Proposed Plan of Acquisition of)
Control of Northwestern Pacific Indemnity Company,)
Portland, Oregon, by Cottage Insurance Holdings, Inc.,)
La Jolla, California)

Findings of Fact, Conclusions of
Law and Order

Case No. 13-10-003

INTRODUCTION

On September 30, 2013, Cottage Insurance Holdings, Inc. ("Cottage") filed a Statement Regarding the Acquisition and Control or Merger with a Domestic Insurer to acquire control of Northwestern Pacific Indemnity Company ("Northwestern") as required by ORS 732.517 through 732.546 (the "Form A"). The acquisition described in the filing (the "Restructuring") was approved by the Board of Directors of Cottage on October 11, 2013.

On November 18, 2013, Cottage filed Amendment No. 1 to the Form A filing regarding the acquisition of Northwestern.

Supplemental information was periodically provided until the filing was complete on December 2, 2013.

FINDINGS OF FACT

(1) Northwestern is an Oregon corporation formed on February 14, 1963, that received its original Certificate of Authority issued by the Oregon Insurance Division on March 1, 1963. It is a wholly owned subsidiary of Pacific Indemnity Company ("Pacific").

(2) Pacific is a Wisconsin corporation and immediate parent of Northwestern. Chubb Corporation is the ultimate controlling entity of Pacific.

(3) Cottage is a Delaware corporation that was formed on September 24, 2013, and funded by Genstar Capital Management for the purpose of consummating the transaction and to act as an insurance holding company to acquire and hold the stock of Northwestern.

(4) Cottage will be funded through GC Cottage Investor L.P., a Cayman partnership formed on November 12, 2013, which will fund GC Cottage Holdings, a Cayman exempt company.

(5) GC Cottage Holdings was formed on October 4, 2013, solely for the purpose of investing in and being the sole stockholder of Cottage. GC Cottage Investor L.P., and GC Cottage Holdings were formed to preserve potential tax benefits for the investors of Cottage.

(6) Genstar Capital Management is a San Francisco based private equity firm that manages over \$5.0 billion of capital across six private equity funds and will invest in Cottage from two active funds comprised of \$2.6 billion.

(7) Northwestern has only one class of shares authorized, consisting of 100,000 shares of \$26.00 par value common stock, of which 100,000 shares are issued and outstanding, all of which are owned beneficially and of record by Pacific, and that there are no other securities authorized or outstanding which may be converted into voting securities.

(8) The number of shares to be acquired by Cottage is 100,000 shares of the \$26.00 par value Common Stock of Northwestern, constituting all of its issued and outstanding shares.

(9) Cottage will purchase of all outstanding shares of Northwestern for a total purchase price of \$750,000 plus the existing capital and surplus of Northwestern which was \$16,007,752 as of September 30, 2013, as adjusted for the fair market value of the assets at the time of closing. The purchase price will be paid in cash.

(10) The source of funds for Cottage to acquire Northwestern is from capital contributions to be made to Cottage primarily by Genstar Capital Partners V AIV, L.P. and Genstar Capital Partners VI AIV, L.P.

collectively referred to as "Genstar Capital Partners V and VI"). Genstar Capital Partners V and VI will be funded by capital commitments made by the limited partners of Genstar Capital Partners V, L.P. and Genstar Capital Partners VI, L.P.

(11) The aggregate contributions to the capital of Cottage that will be made by the foregoing entities are \$75,000,000. Cottage will contribute approximately \$57,250,000 to the capital of Northwestern following the acquisition.

(12) The terms and conditions of the acquisition are set forth in the Stock Purchase Agreement, dated as of October 15, 2013, between Pacific and Cottage (the "Agreement"). The Agreement provides that a Transfer and Assumption Agreement ("Transfer Agreement") will be entered into prior to the Closing Date by Northwestern and Pacific whereby Pacific will accept and assume all of the Liabilities of Northwestern, including Liabilities relating to Policies issued prior to the Effective Date of the Transfer Agreement. On November 29, 2013, Northwestern submitted the Transfer Agreement to the Division by filing a Form D pursuant to ORS 732.574(2)(c).

(13) Following the acquisition, Cottage projects that the capital and surplus of Northwestern will be approximately \$73,250,000, consisting of paid in surplus of \$2,600,000, gross paid in and contributed surplus of \$59,675,000 and unassigned funds (surplus) of \$10,975,000.

(14) The Purchase Price was established using a customary formula that bases the purchase price on an amount equal to the amount of the capital and surplus and an amount representing the value of the certificates of authority for the states in which the company to be acquired is authorized to transact insurance. In this acquisition, Cottage is paying \$750,000 in excess of the Fair Market Value of the Investment Assets.

(15) Following the acquisition of control of Northwestern, Cottage will cause Northwestern to change its corporate name to Cottage Insurance Company.

(16) There are no plans, other than as stated herein, to declare an extraordinary dividend, to liquidate, or to sell or merge any assets of Northwestern.

(17) Cottage anticipates that GC Cottage Holdings may cause a reinsurer to be created in Bermuda (the "CAT Retention Reinsurer"); which would be a wholly owned subsidiary of GC Cottage Holdings. The CAT Retention Reinsurer, if created, would engage in a reinsurance transaction with Northwestern and provide catastrophe retention reinsurance to Northwestern. Such catastrophe retention reinsurance would cover a portion of the retention of Northwestern under its catastrophe reinsurance agreements. Cottage expects that its per occurrence retention under its reinsurance program to be \$15,000,000 and a portion of that retention would be covered by the catastrophe retention reinsurance with CAT Retention Reinsurer.

(18) In order to initially fund CAT Retention Reinsurer, Cottage may propose that Northwestern declare and pay an extraordinary dividend, in the amount of \$7,500,000. Action to declare and pay the extraordinary dividend may be taken during the first quarter of 2014 following the acquisition. Upon receipt of the dividend, Cottage would make a distribution to GC Cottage Holdings subject to an express undertaking, made prior to the payment of the dividend by Northwestern to Cottage that such distribution will be used exclusively to fund the capital of CAT Retention Reinsurer. Cottage understands and acknowledges that any such extraordinary dividend will require prior notice to and the prior approval of the Division, or failure of the Division to disapprove the request for approval of the payment of such dividend during the period prescribed by ORS 732.576.

(19) Any reinsurance transaction with CAT Retention Reinsurer will be subject to the approval of the Division pursuant to ORS 732.574(2)(3). Cottage anticipates that any such transaction will be done on funds withheld; trust or letter of credit basis so that Northwestern would recognize credit for reinsurance ceded to an alien insurer that is not admitted to transact insurance in Oregon and is not an accredited reinsurer or listed on the IID List of the National Association of Insurance Commissioners.

(20) The final and legal positions, equities, rights and relationships of Pacific will terminate upon consummation of the purchase. Immediately following the purchase, Cottage will directly own 100% of the issued and outstanding common stock of Northwestern.

(21) All current officers and directors of Northwestern will be replaced following the Closing.

The Northwestern Board of Directors will be as follows:

<u>Individual</u>	<u>Proposed Relationship</u>
James Ryan Clark	Chairman
David "Mac" McDonald Armstrong	Director
Eli P. Weiss	Director
Thomas Hutton	Director
Francis Lee	Director
Geoffrey Ian Miller	Director
Jeffrey L. Wishnie	Director

Messrs. Lee and Wishnie are Oregon residents. As a result, Northwestern will be in compliance with ORS 732.305.

The Executive Officers of Northwestern will be:

<u>Individual</u>	<u>Proposed Position</u>
David "Mac" McDonald Armstrong	President
Heath Adam Fisher	Executive Vice President and Secretary
Elizabeth W. Seitz	Treasurer and Chief Accounting Officer
Confidential Exhibit 1	Vice President - Chief Underwriting Officer

(22) Upon completion of the proposed purchase and acquisition, Cottage will have management comprised of individuals with many years of experience in property and casualty insurance and earthquake insurance. Subsequently, every phase of insurance operations will be filled with competent and experienced personnel.

(23) On the basis of the Statement Regarding the Acquisition of Control of Northwestern Pacific Indemnity Company by Cottage Insurance Holdings, Inc., and specifically on the basis of the findings of fact above, the Director enters the following:

CONCLUSIONS OF LAW

1. The Statement Regarding the Acquisition of Control of Northwestern Pacific Indemnity Company by Cottage Insurance Holdings, Inc., that was submitted to the Director is properly supported by the required documents, and meets the requirements of the Oregon Insurance Code for approval with respect to acquisitions and mergers pursuant to ORS 732.517 to 732.546.
2. The Director finds that there is no evidence that:

(a) The activity is contrary to law or would result in a prohibited combination of risks or classes of insurance.

The acquisition of control of Northwestern by Cottage is permitted by ORS 732.517 to 732.546.

(b) The activity is inequitable or unfair to the policyholders or shareholders of any insurer involved or to any other person affected by the proposed activity.

The activity is not inequitable or unfair to the policyholders or shareholders of any insurer involved or to any other person affected by the proposed activity. Cottage will purchase of all outstanding shares of Northwestern for a total purchase price of \$750,000 in cash plus the existing capital and surplus of Northwestern. Cottage projects that the capital and surplus of Northwestern after the transaction will be approximately \$73,250,000.

(c) The activity would substantially reduce the security of and service to be rendered to policyholders of any domestic insurer involved, or would otherwise prejudice the interests of such policyholders in this state or elsewhere.

Because of the increased financial condition of Northwestern as a result of this transaction, the activity would not substantially reduce the security of and service to be rendered to policyholders of any domestic insurer involved, or would otherwise prejudice the interests of such policyholders in this state or elsewhere.

(d) The activity provides for a foreign or alien insurer to be an acquiring party, and the insurer cannot satisfy the requirements of this state for transacting an insurance business involving the classes of insurance affected by the activity.

The activity does not provide for a foreign or alien insurer to be an acquiring party. As such, this provision is not relevant to the Director's consideration.

(e) The activity or its consummation would substantially lessen competition in insurance in this state or tend to create a monopoly.

This transaction will not substantially lessen competition of insurance in this state or another state or tend to create a monopoly.

(f) After the change of control and ownership, the domestic insurer to which the activity applies would not be able to satisfy the requirements for the issuance of a certificate of authority to transact the line or lines of insurance for which the insurer is currently authorized.

Northwestern will be adequately capitalized to transact the lines of business for which it is authorized in Oregon. *See* ORS 731.554.

(g) The financial condition of any acquiring party might jeopardize the financial stability of the insurer.

The transaction with Cottage will enhance – not jeopardize – the financial stability of Northwestern.

(h) The plans or proposals that 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 the insurer's business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest.

Following the proposed transaction, Cottage has no plans to liquidate Northwestern, 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.

(i) 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 activity or its consummation.

There is nothing to suggest that the competence, experience and integrity of those persons who would control the operation of Northwestern would not be in the interest of Northwestern policyholders and of the public to permit the activity or its consummation.

(j) The activity or its consummation is likely to be hazardous or prejudicial to the insurance-buying public.

The transaction will not be hazardous or prejudicial to the insurance-buying public, but will be beneficial.

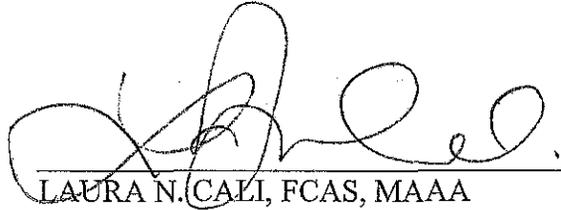
(k) The activity is subject to other material and reasonable objections.

There are no other material and reasonable objections.

ORDER

Based on the foregoing Findings of Fact and Conclusions of Law, it is hereby ordered that the acquisition of control of Northwestern Pacific Indemnity by Cottage Insurance Holdings, Inc., is hereby approved and is found to be fair, just, and equitable to the Northwestern Pacific Indemnity Company policyholders.

DATED this 11 day of December, 2013.



LAURA N. CALI, FCAS, MAAA
Oregon Insurance Commissioner and Chief Actuary

NOTICE

Pursuant to ORS 732.528 (6), any insurer or other party to the proposed activity, including the insurer proposed to be acquired, within 60 days after receipt of a notice of approval or disapproval, may appeal the final order of the director as provided in ORS 183.310 to 183.550. For purposes of the judicial review the specifications required to be set forth in the written notice from the director will be deemed the findings of fact and conclusions of law of the department.