STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF THE ACQUISITION OF CONTROL OF NEW JERSEY SKYLANDS MANAGEMENT, LLC, ATTORNEY-IN-FACT OF NEW JERSEY SKYLANDS INSURANCE ASSOCIATION, AND NEW JERSEY SKYLANDS INSURANCE COMPANY BY ACP RE, LTD AND NATIONAL GENERAL HOLDINGS CORP.	)	HEARING OFFICER'S REPORT

Procedural History

In accordance with N.J.S.A. 17:27A-2, by a filing dated April 9, 2014, amended on May 16, 2014, amended on July 28, 2014, and supplemented through September 8, 2014, ACP Re, Ltd. ("ACP Re") and National General Holdings Corp. ("National General") filed with the Department of Banking and Insurance ("the Department") an application to acquire, through a series of transactions, control ("the Form A filing") of New Jersey Skylands Management, LLC ("NJAIF"), Attorney-In-Fact of New Jersey Skylands Insurance Association ("NJSIA"), a New Jersey-domiciled inter-insurance reciprocal exchange and its wholly owned subsidiary New Jersey Skylands Insurance Company, a New Jersey domiciled stock insurer ("NJSIC," and collectively with NJSIA as "the Insurers"). NJAIF is a New Jersey domiciled limited liability company that, pursuant to contract, is the Attorney-In-Fact of NJSIA, and directs the management and operations of NJSIA and ultimately NJSIC. NJAIF is a wholly owned indirect subsidiary of Tower Group International, Ltd. a Bermuda domiciled, publicly traded holding company ("TWGP"). TWGP is a publicly-traded Bermuda-based insurance holding company, which owns, among other entities and assets: (i) two Bermuda reinsurers; (ii) eleven U.S.-domiciled property and casualty insurance companies, including two additional New Jersey domestic insurance companies; (iii) NJAIF and the Insurers; and (iv) one other Attorney-in-Fact, (Adirondack AIF, LLC) which controls a New York domiciled inter-insurance reciprocal exchange (Adirondack Insurance Exchange), which in turn owns a New Hampshire domiciled property and casualty insurance company.

Pursuant to N.J.S.A. 17:27A-2d, a public hearing was held on the Form A filing. Pursuant to N.J.A.C. 11:1-35.6(g), on September 12, 2014, 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-2b. No comments were received. No additional documents were required and the record was closed on that date at 4 p.m. and this report was issued thereafter.

Findings of Fact

ACP Re is a privately owned Bermuda domiciled reinsurer which historically reinsured a portion of the property and casualty business of National General. ACP Re is the parent company of London Acquisition Company Limited, which is a party to the merger. ACP Re is currently rated A- (Excellent) by A.M. Best.

National General is a Delaware insurance holding corporation. Through its subsidiaries, National General underwrites and provides property and casualty insurance and accident and health insurance in the U.S. and Internationally.

The Acquisitions are a part of a series of transactions (the "Tower Transactions") by which ACP Re, a Bermuda reinsurer has agreed to acquire TWGP, which presently includes the following New Jersey domestic insurance entities: NJSIA and NJSIC (the Insurers that are the subjects of this Form A filing), Preserver Insurance Company ("PIC"), and Kodiak Insurance Company ("Kodiak") both of which are also domiciled in New Jersey. ACP Re has applied for approval from the Commissioner in a separate Form A filing to acquire PIC in the Tower Transactions ("PIC Form A"). The PIC Form A has been reviewed by the Department and is recommended for simultaneous approval by the Commissioner under separate Hearing Officer's Report and Order. TWGP has also applied to the Department and is simultaneously receiving approval from the Commissioner to dissolve Kodiak prior to the closing of the Tower Transactions.[1] ACP Re has stated that, after closing of the Tower Transactions, National General and AmTrust Financial Services, Inc. ("AmTrust"), a Delaware corporation, have agreed to administer the run-off of TWGP's legacy business, provide stop-loss coverage with respect thereto, and, prospectively, manage and insure all business written by the TWGP insurers (not including the Insurers). As a result of the merger of TWGP with ACP Re, ACP Re will temporarily acquire ownership of NJAIF (which manages the Insurers), as well as Adirondack AIF, LLC ("NYAIF"), the Attorney-In-Fact of Adirondack Insurance Exchange.

Immediately upon closing of the merger between TWGP and ACP Re, National General will acquire TWGP's member interests in NJAIF and NYAIF, and thus the Insurers, from ACP Re.[2] Pursuant to the purchase agreement, National General agrees to pay a total of \$7.5 million for the NJAIF and NYAIF, of which \$1.19 million represents the purchase price for the New Jersey entities.

[1] Due to Kodiak's dissolution prior to closing of the Tower Transactions, no Form A filing is required pursuant to N.J.S.A. 17:27A-2.

[2] By two letters dated September 12, 2014, the New York State Department of Financial Services approved the acquisitions of NYAIF by ACP Re and National General, and the acquisition of the three New York insurers in TWGP by ACP Re. Those letters memorialized certain actions AmTrust has indicated to the New York Department of Financial Services that it will take post-closing of the Tower transactions.

Based on the filed consolidated financial statements prepared on a GAAP basis, ACP Re had total shareholder's equity of approximately $302.9 million in 2013, $256.0 million in 2012, and $209.7 million in 2011. ACP Re also had total comprehensive income of $56.2 million in 2013, $56.0 million in 2012, and $45.1 million in 2011. ACP Re's net income before income tax expense was approximately $17.0 million in 2013, $21.4 million in 2012, and $15.1 million in 2011.

Based on the filed consolidated financial statements, prepared in accordance with the standards of the Public Company Accounting Oversight Board (United States), National General had total stockholders' equity of approximately $642.9 million in 2013, $413.0 million in 2012, and $361.6 million in 2011. National General's net income before income tax expense was approximately $52.0 million in 2013, $46.0 million in 2012, and $48.6 million in 2011.

Upon the ultimate acquisition of NJAIF, National General stated that it is the company's intention to continue the operations and use the acquisition of NJAIF to broaden its personal lines capabilities in New Jersey. National General stated that it believes NJAIF with NYAIF will provide an attractive market to agents and will result in an expansion of its writings and a diversification of its personal lines book of business. National General stated it has no present intention to change the day-to-day management of the business and operations of the Insurers and its offices will not be relocated; however, certain changes will be made to the Board of Managers of NJAIF and the Board of Directors of NJSIC.

Analysis

N.J.S.A. 17:27A-2d(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.[3]

First, after the acquisition, the insurers will continue to meet the requirements to write the lines of business for which they are presently licensed pursuant to Title 17 of the New Jersey Statutes. The initial buyer, ACP Re, is a privately owned Bermuda domiciled reinsurer which historically reinsured a portion of the property and casualty business of National General and is currently rated A- by A.M. Best, and there is no evidence that its temporary ownership of the Insurers will jeopardize their ability to satisfy the requirements to transact the business of insurance in this State. The ultimate purchaser, National General is a Delaware corporation insurance holding company that underwrites and provides property and casualty insurance and accident and health insurance in the United States and internationally, National General stated that it intends to continue the operations of the Insurers so as to broaden and diversify its current personal lines offerings. As is further supported by the

[3] Although ACP Re's acquisition of the Insurers is temporary and it is anticipated that transfer to National General will occur immediately upon closing of the ACP Re and TWGP merger, the following will analyze the seven factors with regard to both acquiring parties as is required by N.J.S.A. 17:27A-2.

financial information below, there is nothing in the record to indicate that after the proposed acquisition the Insurers would not be able to continue to satisfy the requirements to write the lines of business for which they are presently licensed.

Second, it does not appear that the acquisition of the insurers will substantially lessen competition in the New Jersey insurance market or tend to create a monopoly therein. N.J.S.A. 17:27A-2d(1)(ii) provides that in applying this competitive standard, the standard set forth in N.J.S.A. 17:27A-4.1d shall apply. That statute utilizes a complex formula based on the market share of the insurers involved in the transaction. In the present mater, based on the countrywide data available at the time of the filing, the applicant and its subsidiaries, and the insurer and its affiliates, do not compete in any lines of business in New Jersey. The statute by its terms does not apply if, as an immediate result of the acquisition, there would be no increase in the overall market share of the involved insurers after the acquisition. See N.J.S.A. 17:27A-4.1b(2)(d). As the applicant and insurer do not compete in New Jersey, there would be no increase post-acquisition in the market share of the involved insurers in the New Jersey insurance market. Accordingly, the acquisition will not violate the completive 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 crease a monopoly therein.

Third, it does not appear that the financial condition of either applicant will jeopardize the financial condition of the Insurers. With regard to the initial acquiring party, ACP Re reported total shareholder’s equity of approximately $302.9 million in 2013, $256.0 million in 2012, and $209.7 million in 2011. Additionally, it had total comprehensive income of $56.2 million in 2013, $56.0 million in 2012 and $45.1 million in 2011 and net income before income tax expense of approximately $17.0 million in 2013, $21.4 million in 2012, and $15.1 million in 2011. ACP Re has demonstrated adequate capitalization for this initial acquisition. With regard to the ultimate purchaser, National General reported Total Stockholders' equity of approximately $642.9 million in 2013, $413.0 million in 2012, and $361.6 million in 2011. Additionally, National General generated net income before income tax expense of approximately $52.0 million in 2013, $46.0 million in 2012, and $48.6 million in 2011. Accordingly, National General has demonstrated adequate capitalization and equity such that it does not appear that its financial condition will jeopardize that of the Insurers.

Fourth, it appears that the financial condition of the Applicants is such that both ACP Re and National General have been solvent on a generally accepted accounting principles basis for the three-year period immediately prior to the date of the proposed acquisition. Finally, no debt will be incurred by either applicant in connection with the New Jersey portion of the proposed acquisition. Accordingly, the requirement that the acquisition debt may not exceed 50% of the purchase price is satisfied.

Fifth, the applicant does not propose to liquidate the insurer or sell its assets. National General indicated that the purchase of NJAIF and NYAIF, and the underlying personal lines business of each, will allow the company to significantly broaden its personal lines capabilities in New York and New Jersey. The applicant indicated that it expected that these offerings will provide an attractive market to agents and will result in an expansion of its writings and provide for a stronger diversification of its personal lines book of business.

National General also indicated that the Tower Transactions and the Acquisition will result in the acquisition of new staff, including claims, underwriting, operations and managerial staff that are experienced in personal lines. National General indicated that it has no current plans to relocate the home office or corporate records of NJAIF or the Insurers. National General stated that as it continues to grow its business and increase its employee base, it will consider from time to time whether efficiencies and other business benefits may be achieved by changing the business operations or corporate structure of its subsidiaries and affiliates, including NJAIF and the Insurers.

National General indicated that it will offer employment to TWGP personal lines employees who will be assigned to both administer the run-off of the pre-closing personal lines business and manage the post-closing business on a going forward basis (including NJAIF and the Insurers) and AmTrust will offer employment to TWGP commercial lines employees who will be assigned to both administer the run-off of the TWGP pre-closing business and manage the post-closing business on a going forward basis.

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 Insurers 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 ultimately serve as officers and directors of the Insurers on behalf of National General as the ultimate acquiring party have had substantial experience in the property/casualty insurance business.

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, the hearing panel and Department staff recommend that the proposed acquisitions be approved.

Upon a thorough review of the foregoing, I concur with the findings, analysis and recommendations of the hearing panel and Department staff. I therefore recommend that the proposed acquisitions be approved.

September 12, 2014	/s/ DeWayne H. Tolbert
Date	DeWayne H. Tolbert
	Hearing Officer

DHT14-08/inoord

EXHIBITS LIST

ACP Re Ltd. ("ACP Re") and National General Holdings Corp. ("National General") Acquisition of control of New Jersey Skylands Management, LLC, Attorney-In-Fact of New Jersey Skylands Insurance Association and its subsidiary, New Jersey Skylands Insurance Company

Form A Hearing on the Papers
September 12, 2014

The following documents were submitted into the record on behalf of ACP Re and National General pursuant to their application to acquire control of New Jersey Skylands Management, LLC,, Attorney-In-Fact of New Jersey Skylands Insurance Association and its subsidiary, New Jersey Skylands Insurance Company:

- DOBI 1 - Form A Filing dated April 9, 2014, together with Exhibits 1 through 18 (including, but not limited to) Agreement and Plan of merger by and among Tower Group International, LTD., ACP Re and London Acquisition Company Limited, Commercial Lines Master Agreement by and between ACP Re and AmTrust Financial Services Inc., Personal Lines Master Agreement by and between ACP Re and National General Holding Corporation, Loss Portfolio Transfer Agreement, Commercial/Personal lines LPTA Administrative Services Agreement, Commercial/Personal lines MGA Agreement, Commercial/Personal lines Quota Share Reinsurance Agreement, Interest and Liabilities Contract, Stock Purchase Agreement, Pre- and Post-Legal entity Charts, ACP Re, Ltd. Audited Consolidated Financial Statements, National General Holding Corp. financial information, and Biographical Affidavits for Directors and Executive Officers.

- DOBI 2 - Amendment 1 to Form A Filing, dated May 16, 2014.

- DOBI 3 - Amendment 2 to Form A Filing, dated July 28, 2014.

- DOBI 4- E-mail dated August 19, 2014 from Steve Ungar, regarding the allocation of the New Jersey portion of the price for New Jersey Skylands Management, LLC, Attorney-In-Fact of New Jersey Skylands Insurance Association and its subsidiary, New Jersey Skylands Insurance Company.

- DOBI 5 - Letter Dated September 8, 2014 from Jeffrey Weissmann, Esq. (on behalf of ACP Re and National General) expressly waiving the twenty (20) day notice period requirement.

- DOBI 6 - Letter Dated September 8, 2014 from Adam B. Perri, Esq. (on behalf of Tower Group) expressly waiving the twenty (20) day notice period requirement.

- DOBI 7 - Affidavit of Publication on September 5, 2014 from the Star-Ledger and Asbury Park Press.