

STATE OF INDIANA) BEFORE THE COMMISSIONER OF THE
) SS:
COUNTY OF MARION)

IN RE THE PROPOSED ACQUISITION OF CONTROL OF:

MERIDIAN SECURITY INSURANCE COMPANY,
AN INDIRECT SUBSIDIARY OF STATE AUTOMOBILE
MUTUAL INSURANCE COMPANY

by

LIBERTY MUTUAL HOLDING COMPANY INC.,
LMHC MASSACHUSETTS HOLDINGS INC.,
AND
LIBERTY MUTUAL GROUP INC.

**FINDINGS OF FACT,
CONCLUSIONS OF LAW AND FINAL ORDER**

The proposed acquisition of control of Meridian Security Insurance Company (the “Domestic Insurer”), an indirect subsidiary of State Automobile Mutual Insurance Company (“SAM”), by Liberty Mutual Holding Company Inc. (“LMHC”), LMHC Massachusetts Holdings Inc. (“MHI”), and Liberty Mutual Group Inc. (“LMGI”) (LMHC, MHI and LMGI, each an “Applicant” and collectively the “Applicants”), came before Amy L. Beard, Commissioner (the “Commissioner”) of the Indiana Department of Insurance (the “Department”), at a public hearing held by video conference (the “Hearing”) on Monday, December 20, 2021, commencing at approximately 10:00 a.m. Eastern time.

After considering all the evidence and arguments, and being fully advised, the Commissioner hereby enters the following Findings of Fact, Conclusions of Law and Order:

Findings of Fact

The Parties

1. Meridian Security Insurance Company is a “domestic insurer” as that term is defined in Indiana Code § 27-1-23-1(g) and used in Indiana Code § 27-1-23-2, with its statutory home office located at 12900 North Meridian Street Suite 200, Carmel, Indiana 46032.
2. LMHC was formed in 2001 as part of the mutual holding company reorganization of Liberty Mutual Insurance Company, a Massachusetts stock property and casualty insurance company founded in 1912 (“LMIC”). LMHC is a Massachusetts mutual

holding company and, through its direct, wholly owned subsidiary, MHI, the ultimate parent company of LMGI and its subsidiaries, including insurance operating subsidiaries. The Liberty Mutual group is a diversified global insurer and the fourth largest property and casualty insurer in the U.S. based on 2020 direct written premium.

3. MHI is a Massachusetts stock holding company and was formed in 2001 as part of the mutual holding company reorganization of LMIC, and it is a direct, wholly owned subsidiary of LMHC. As a holding company, MHI has no operations of its own and its assets consist primarily of investments in subsidiaries.
4. LMGI is a Massachusetts stock holding company and was formed in 2001 as part of the mutual holding company reorganization of LMIC, and it is a direct, wholly owned subsidiary of MHI. As a holding company, LMGI has no operations of its own and its assets consist primarily of investments in subsidiaries.
5. The Applicants are “acquiring parties” as that term is defined in Indiana Code § 27-1-23-1(a) and used in Indiana Code § 27-1-23-2.

Procedural History

6. On August 5, 2021, the Applicants filed a Form A Statement regarding the proposed acquisition of control of the Domestic Insurer, together with exhibits, with the Commissioner.
7. On August 5, 2021, the Applicants also filed a Form E concurrently with the Form A Statement pursuant to Indiana Code § § 27-1-23-2(g) and 27-1-23-2.5 with respect to the following proposed combined line of business: “Inland Marine” (the “Competitive Line of Business”).
8. On September 17, 2021, the Applicants filed a draft Form D under Item 15 of the Form A Statement with respect to the following proposed affiliate agreements to be entered into with the Domestic Insurer at closing: Management Services Agreement, Cash Management Agreement, Investment Management Agreement and an existing Federal Tax Sharing Agreement to be joined by the Domestic Insurer at closing.
9. On September 22, 2021, the Department sent questions and requests for additional information to the Applicants.
10. The Applicants submitted responses to these questions and requests for additional information to the Department (in two separate letters) on October 8, 2021.
11. On October 22, 2021, the Applicants filed an unexecuted Form D under Item 15 of the Form A Statement with respect to the following additional proposed affiliate agreements to be effective on the first day of the calendar quarter immediately following closing of the Proposed Acquisition, pending receipt of the last required regulatory approval therefor: the Commutation Agreement and the Second Pooling Amendment (collectively with the affiliate agreements described in paragraph 8 above, the “Affiliate Agreements”).

12. On October 22, 2021, the Applicants also filed an executed Form D with respect to the entrance of the insurers currently in the Liberty Mutual insurance holding company group into the Second Pooling Amendment.
13. The Applicants seek non-disapproval of the Form Ds described in paragraphs 8, and 11, and 12 above.
14. On October 28, 2021, the Department sent supplemental questions and requests for additional information to the Applicants.
15. The Applicants submitted responses to these supplemental questions and requests for additional information to the Department on November 9, 2021 and November 11, 2021.
16. On December 15, 2021, the Department sent additional supplemental questions and requests for additional information to the Applicants.
17. The Form A Statement, as amended and supplemented by the Applicants' responses to the Department's questions and requests for additional information (the "Form A Statement"), is in compliance with and satisfies the requirements of Indiana Code § 27-1-23-2 and the regulations promulgated thereunder.
18. At the Hearing, the Applicants confirmed there had been no material change in the facts set forth in the Form A Statement as filed with the Commissioner and as subsequently supplemented.
19. The Applicants delivered copies of the Form A Statement to the Domestic Insurer in accordance with Indiana Code § 27-1-23-2(a).
20. Due to the on-going restrictions due to the COVID-19 pandemic in the State of Indiana, and upon agreement of all of the parties, the Commissioner set the date of the virtual public Hearing to consider the proposed acquisition of control of the Domestic Insurer for December 20, 2021.
21. The Domestic Insurer, SAM, and the Applicants each provided Waivers of Prior Written Notice of the Hearing required by Indiana Code § 27-1-23-2(h).
22. Pursuant to Indiana Code § 27-1-23-2(i), the Commissioner provided public notice of the Hearing by publishing such notice on December 11, 2021 in the *Indianapolis Star*, a newspaper of general circulation in Indianapolis, Indiana and Carmel, Indiana, the location of the principal office of the Domestic Insurer. The public notice given by the Commissioner was adequate and consistent with the requirements of Indiana Code § 27-1-23-2(i).
23. Pursuant to Indiana Code § 27-1-23-2(j), the Commissioner retained outside counsel in connection with the Form A proceeding and Hearing. The Applicants have agreed to pay all of the Commissioner's expenses as required by Indiana Code § 27-1-23-2(j), including, but not limited to, attorneys' fees and costs.

The Hearing

24. Consistent with Indiana Code § 27-1-23-2(k), all interested parties participating in the Hearing were provided the opportunity to present evidence, examine witnesses, and/or offer arguments.
25. The Applicants submitted evidence at the Hearing, including written and oral testimony and exhibits identified and admitted into evidence at the Hearing, a list of which is attached hereto as Exhibit A.
26. No objection was made at the Hearing or otherwise to the proposed acquisition of control of the Domestic Insurer by the Applicants.

The Proposed Acquisition

27. On July 12, 2021, LMHC, Pymatuning, Inc., a wholly owned indirect subsidiary of LMHC ("Merger Sub I"), and Andover, Inc., a wholly owned direct subsidiary of LMHC ("Merger Sub II"), entered into an Agreement and Plan of Merger and Combination (the "Merger Agreement") with State Auto Financial Corporation, a publicly traded Ohio corporation ("STFC"), and SAM, pursuant to which LMHC has agreed to acquire SAM and STFC (the "Proposed Acquisition").
28. Under the terms of the Merger Agreement, the parties will effectuate the Proposed Acquisition through a mutual transaction which will entail the reorganization of SAM effectuated through a merger of Merger Sub II with and into SAM, with SAM surviving as an Ohio domiciled reorganized stock insurance subsidiary of LMHC (SAM, as so reorganized, "Reorganized SAM"), and the merger of Merger Sub I with and into STFC, with STFC surviving such merger as the surviving corporation (the "STFC Merger").
29. Pursuant to the Merger Agreement, each share of STFC's common stock, no par value per share, that is issued and outstanding immediately prior to the effective time of the STFC Merger (other than (i) shares owned by SAM, STFC (as treasury shares or otherwise) or that may be owned by LMHC and (ii) dissenting shares) will be converted into the right to receive an amount in cash, without interest, equal to \$52.00, and will be automatically cancelled and retired and cease to exist.
30. After the consummation of the Proposed Acquisition, Merger Sub I and Merger Sub II, each an acquisition vehicle formed for the purpose of effecting the Proposed Acquisition, will no longer exist or function independently from STFC and Reorganized SAM, respectively (into which they will have been respectively merged).
31. In the days following the closing of the Proposed Acquisition (the "Closing"), LMHC intends to contribute all of the common stock of Reorganized SAM to its direct, wholly owned subsidiary, MHI, which will, in turn, immediately contribute all of such common stock to its direct, wholly owned subsidiary, LMGI. In addition, in the days following the Closing, LMGI intends to contribute all of the common stock it holds in STFC as a result of the STFC Merger to Reorganized SAM.

32. Following the consummation of the Proposed Acquisition and such subsequent contributions, (i) LMGI will directly own 100% of the issued and outstanding shares of capital stock of Reorganized SAM, and (ii) Reorganized SAM will directly own 100% of the issued and outstanding shares of capital stock of STFC. As a result, each of Reorganized SAM and the Domestic Insurer will become wholly owned indirect subsidiaries of LMHC, and LMHC will become the new ultimate controlling person of each of Reorganized SAM and the Domestic Insurer.
33. The Proposed Acquisition's cash consideration is approximately \$1 billion. Consummation of the Proposed Acquisition is not conditioned on receipt of financing by LMHC. LMHC intends to fund the cash consideration for the Proposed Acquisition using available funds, including cash on hand and, potentially, available lines of credit. Other than available lines of credit, no new third party loans or other external financing will be utilized for the sole purpose of funding the purchase price. The stock and assets of the Domestic Insurer will not be pledged or hypothecated in any way as part of the funding of the purchase price of the Proposed Acquisition by LMHC.
34. The terms and conditions of the Proposed Acquisition were determined through arm's length negotiation.

Future Plans for the Domestic Insurer

35. Except as otherwise provided in the Form A Statement, the Applicants do not have any plans or proposals to cause the Domestic Insurer to pay any extraordinary dividends, to liquidate the Domestic Insurer, to sell the assets of the Domestic Insurer (except for transactions, such as investment portfolio transactions, in the ordinary course of business), to merge the Domestic Insurer with any person or persons or to make any other material change in the Domestic Insurer's business operations or corporate structure or management, or to cause the Domestic Insurer to enter into material agreements, arrangements, or transactions of any kind with any affiliated party.

Competitive Impact

36. The Department reviewed all lines of business in which the Domestic Insurer competes, including the Competitive Line of Business, and has concluded that the Proposed Acquisition will exceed the safe harbor exemptions set forth in Indiana Code § 27-1-23-2.5(c)(5) because immediately following the Proposed Acquisition, none of the following exemptions will apply in the Competitive Line of Business: (a) in no market would the combined market share of the involved insurers exceed 5% of the total market; (b) there would be no increase in any market share; or (c) in no market would the combined market share of the involved insurers exceed 12% of the total market nor would the combined market share of the involved insurers increase by more than 2% of the total market.
37. Based on the information submitted in the Form E, the Competitive Line of Business is not a highly concentrated market pursuant to Indiana Code § 27-1-23-2.5(h).

38. With respect to the Competitive Line of Business, since the Applicants' insurance companies' and the Domestic Insurer's combined market shares do not exceed the values set forth in Indiana Code § 27-1-23-2.5(h)(1)(B), there is no prima facie evidence that there is a violation of the competitive standard in this line of business.
39. While the Competitive Line of Business has experienced a "significant trend toward increased concentration," based on the Applicants' insurance companies' and the Domestic Insurer's market shares, there is no prima facie evidence of a violation of the competitive standard set forth in Indiana Code § 27-1-23-2.5(h)(2). As a result, there is not substantial evidence of a violation of the competitive standard as set forth in Indiana Code § 27-1-23-2.5(g).
40. Accordingly, based on the above analysis and the information set forth in the Form E (filed August 5, 2021), the Department has concluded that the effect of the acquisition of control of the Domestic Insurer by the Applicants will not be to substantially lessen competition in any line of insurance business in any section of Indiana or tend to create a monopoly therein.

Conclusions of Law

Proposed Acquisition

1. The acquisition of control of the Domestic Insurer by the Applicants would not tend to adversely affect the contractual obligations of the Domestic Insurer or its ability and tendency to render service in the future to its policyholders and the public. I.C. § 27-1-23-2(f)(1).
2. The effect of the acquisition of control of the Domestic Insurer would not be substantially to lessen competition in any line of insurance business in any section of the State of Indiana or tend to create a monopoly therein. I.C. § 27-1-23-2(f)(2).
3. The financial condition of the Applicants is not such as might jeopardize the financial stability of the Domestic Insurer or of any corporation controlling the Domestic Insurer, or prejudice the interests of its policyholders. I.C. § 27-1-23-2(f)(3).
4. The Applicants do not currently have any plans or proposals to liquidate the Domestic Insurer or any such controlling corporation, sell its assets or consolidate or merge the Domestic Insurer with any person. The plans or proposals which the Applicants have to make any other material change in the Domestic Insurer's investment policy, business, corporate structure, or management are fair and reasonable to policyholders of the Domestic Insurer and in the public interest. I.C. § 27-1-23-2(f)(4).
5. The competence, experience and integrity of those persons who would control the operation of the Domestic Insurer are such that the acquisition of control would not tend to adversely affect the general capacity or intention of the Domestic Insurer to transact the business of insurance in a safe and prudent manner. I.C. § 27-1-23-2(f)(5).
6. The Form A Statement is properly supported by the required documents and meets all

of the requirements of law for its approval.

7. The Form D statements described in paragraphs 8, 11 and 12 above are not disapproved.

ORDER

IT IS THEREFORE ORDERED THAT:

The Proposed Acquisition, pursuant and subject to the terms and conditions of the Form A Statement and these Findings of Fact and Conclusions of Law, is hereby approved, subject to the conditions set forth below.

It is FURTHER ORDERED that:

1. The Applicants are to provide the Department with written notice of the closing of the Proposed Acquisition promptly (but in any event within five (5) business days) following the closing date.
2. As soon as reasonably practicable after the date of this Order, third party verification reports (“TPVRs”) shall be provided to the Department for the biographical affidavits of those directors and executive officers of the Applicants for whom TPVRs have not yet been delivered to the Department as of the date hereof and any outstanding questions or requests for additional information by the Department with respect to any such TPVRs shall also be provided.

Based upon the information disclosed in the TPVRs and responses, the Department reserves the right to challenge any such person’s service as a director or officer with the Applicants and/or Domestic Insurer (or any affiliate thereof), under the Indiana insurance laws and regulations.



Amy L. Beard, Commissioner
Indiana Department of Insurance

Dated this 28th day of December, 2021

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