STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF THE ACQUISITION OF CONTROL OF PRESERVER INSURANCE COMPANY BY ACP Re, LTD	)))	HEARING OFFICER'S REPORT

Procedural History

In accordance with N.J.S.A. 17:27A-2, by a filing dated April 4, 2014, as supplemented through September 8, 2014. ACP Re, Ltd. ("ACP Re" or "the Applicant") filed with the Department of Banking and Insurance ("the Department") an application to acquire control ("the Form A filing") of Preserver Insurance Company ("PIC" or "Insurer"), a New Jersey-domiciled and California commercially 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 on September 12, 2014. Pursuant to N.J.A.C. 11:1-35.6(g), 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. Public comments were allowed to be submitted through the close of business on September 11, 2014. No comments were received. No other documents were required and the record was closed on September 12, 2014 at 4 p.m. and this report was issued thereafter.

Finding of Facts

ACP Re plans to acquire PIC, a New Jersey-domiciled and California commercially domiciled property and casualty insurance company. PIC is a wholly owned subsidiary of

Tower Group International, Ltd., a publicly-traded Bermuda-based insurance holding company, which owns, among other entities and assets, two Bermuda reinsurers, eleven U.S.-domiciled and casualty insurance companies, including PIC, and the Attorneys-in-Fact for two reciprocal insurers. ACP Re is a privately owned Bermuda domiciled reinsurer which historically reinsured a portion of the property and casualty business of National General Holdings Corp. ("National General"). ACP Re is also the parent company of London Acquisition Company Limited which is the party to the merger. ACP Re is currently rated A- (Excellent) by A.M. Best.

This Acquisition is part of a series of transactions (the "Tower Transactions") by which ACP Re has agreed to acquire Tower Group International, Ltd. ("TWGP"), which presently includes the following New Jersey domestic insurance entities: PIC (the Insurer that is the subject of this Form A filing), 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 insurance subsidiary New Jersey Skylands Insurance Company ("NJSIC"), and Kodiak Insurance Company. ACP Re has applied for approval from the Commissioner in a separate Form A filing to initially acquire NJSIA and NJSIC in the Tower Transactions, and then immediately transfer ownership of same to National General ("Skylands Form A"). The Skylands 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 Insurance Company prior to the closing of the Tower Transactions.[1]

ACP Re has stated that after acquisition of PIC, National General, a Delaware corporation, 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 reinsurer all business written by PIC and the other TWGP insurers. Specifically, pursuant to the Tower Transaction Agreements: (i) ACP Re will acquire TWGP and its subsidiaries, (ii) AmTrust and National General will administer the run-off of TWGP's pre-closing liabilities, commercial lines by AmTrust and personal lines by National General, (iii) National General, prospectively, will manage and reinsure all TWGP's personal lines business, and (iv) AmTrust, prospectively, will manage and reinsure all TWGP commercial lines business.

National General 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. Similarly, 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 on a going forward basis.

ACP Re will acquire TWGP through the merger of TWGP into an ACP Re subsidiary, London Acquisition Company Limited pursuant to the Agreement and Plan of Merger (the "Merger Agreement") dated January 3, 2014, as amended and supplemented through September

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[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.

8, 2014, by and among TWGP, ACP Re and London Acquisition Company Limited, including all exhibits thereto. Pursuant to the amended Merger Agreement, ACP Re will pay $2.50 per share for all issued and outstanding shares of TWGP, for an approximate payment of $143 million in cash.

As a result of the Merger, ACP Re, through TWGP, will indirectly own 100% of the issued and outstanding stock of PIC, CastlePoint National Insurance Company ("CNIC"), an Illinois domiciled property and casualty insurance company, Tower Insurance Company of New York ("TICNY"), a New York domiciled property and casualty insurance company, Hermitage Insurance Company ("HIC"), a New York domiciled property and casualty insurance company, CastlePoint Insurance Company ("CPIC"), a New York domiciled property and casualty insurance company, Massachusetts Homeland Insurance Company ("MHIC"), a Massachusetts property and casualty insurance company, Tower National Insurance Company ("TNIC"), a Massachusetts property and casualty insurance company, North East Insurance Company ("NEIC"), a Maine property and casualty insurance company, York Insurance Company ("YIC"), a Maine property and casualty insurance company and CastlePoint Florida Insurance Company ("CPFL"), a Florida property and casualty insurance company.[2] PIC, CNIC, TICNY, HIC, CPIC, MHIC, TNIC, NEIC, YIC and CPFL are hereinafter collectively referred to as the "U.S. Insurers." ACP Re also will indirectly own 100% of the issued and outstanding stock of CastlePoint Reinsurance, Ltd. ("CP Re"), a Bermuda reinsurer.

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[2] By two letters dated September 12, 2014, the New York State Department of Financial Services approved the acquisitions of TICNY, HIC, CPIC and Adirondack, AIF, LLC, Attorney-in-Fact of Adirondack Insurance Exchange, which memorialized certain actions AmTrust has indicated to New York Department of Financial Services that it will take post the Tower Transactions.

Furthermore, pursuant to a loss portfolio transfer agreement ("LPTA"), CP Re will assume all insurance liabilities of the U.S. Insurers and cash and invested assets equal to the assumed liabilities as of the closing date, and it will also assume all remaining unearned premium liabilities of the U.S. Insurers. Upon closing of the Tower Transactions, ACP Re projects that PIC will have no liabilities and a surplus of approximately $12 million. ACP Re stated that CP Re's obligations to the U.S. Insurers under the LPTA will be fully secured through a combination of funds withheld and reinsurance trust accounts.

Based on the filed consolidated financial statements, prepared on a GAAP basis and filed by the Applicant, 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.

Upon acquisition of PIC, ACP Re has stated that it has no plans to affect or cause the liquidation or merger of PIC, to sell the Insurer's assets, or make or cause any other major change in PIC's business operations, corporate structure or management.

Analysis

N.J.S.A. 17:27A-2d(1) provides that the Commissioner shall approved 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 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 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 insurers, 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, 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.

First, after the acquisition, the insurer will continue to meet the requirements to transact the business for which it is presently licensed pursuant to Title 17 of the New Jersey Statutes. 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 also is the parent company of London Acquisition Insurance Company Limited which is party to the merger. Applicant is currently rated A- by A.M. Best.

As noted above, ACP Re will acquire TWGP through the merger of TWGP into an ACP Re subsidiary, London Acquisition Company Limited. As a result of the merger, ACP Re, through TWGP, will directly own 100% of the issued and outstanding stock of the U.S. Insurers, including PIC. ACP Re has stated that it has no plans to make or cause any major change in PIC's business operations, corporate structure or management, other than the management functions being assumed by AmTrust and National General with regard to the commercial and personal lines, respectively, as discussed above. Overall, there is nothing in the record to indicate that after the proposed acquisition the insurer would not be able to continue to satisfy the requirements to transact the business for which it is presently licensed.

Second, it does not appear that the acquisition of the insurer will substantially lessen competition in the New Jersey insurance market or tend to create a monopoly therein. N.J.S.A. 17:27A-2d(l)(ii) provides that in applying this competitive standard, the standard set forth in

N.J.S.A. 17:27A-4.ld shall apply. The statute utilizes a complex formula based on the market shares of the insurers involved in the transaction. In the present matter, 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 actively write any lines of insurance business in New Jersey. The statute by its terms does not apply, if as an immediate result of 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 currently 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 competitive 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 create a monopoly therein.

Third, it does not appear that the financial condition of the Applicant will jeopardize the financial condition of the Insurer. Based on the filed consolidated financial statements, ACP Re had total shareholder's equity of approximately $302.9 million in 2013, $256 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. Additionally, the Tower Transactions provide that CP Re will reinsure the liabilities of the U.S. insurers as of the closing date and that the prospective liabilities of the U.S. Insurers will be reinsured by either AmTrust or National General depending upon the line of business. In totality, ACP Re has demonstrated through its presentation of the Tower Transactions that it has adequate capitalization and equity, and sufficient reinsurance, such that it does not appear that its financial condition will jeopardize that of the Insurer.

Fourth, it appears that, based on the financial information filed, the Applicant has been solvent for the three-year period immediately prior to the date of the proposed acquisition as discussed above. Pursuant to the amended Merger Agreement, ACP Re will pay $2.50 per share for all issued and outstanding shares of TWGP, for an approximate payment of $143.0 million in cash, of which approximately $5.7 million represents New Jersey’s portion. Accordingly, the requirement that the acquisition debt not exceed 50% of the purchase price is not violated by the proposed acquisition.

Fifth, the Applicant does not propose to liquidate the insurer or sell its assets. The Applicant intends that PIC’s business will be restructured and managed by National General and AmTrust as discussed above.

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 Insurer 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 serve as officers and directors of the Insurer 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.

Recommendations

Based on the foregoing analysis, the hearing panel and the Department staff recommend that the proposed acquisition be approved.

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

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

DHT14-06/INOORD

EXHIBITS LIST

ACP Re Ltd. ("ACP Re")
Acquisition of control of Preserver Insurance Company
Form A Hearing on the Papers
September 12, 2014

The following documents were submitted into the record on behalf of ACP Re pursuant to its application to acquire control of Preserver Insurance Company:

- DOBI 1 - Form A Filing dated April 4, 2014, together with Exhibits 1 through 16 (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 (LPTA), Commercial/Personal lines LPTA Administrative Services Agreement, Commercial/Personal lines MGA Agreement Commercial/Personal lines Quota Share Reinsurance Agreement, Stock Purchase Agreement, Pre- and Post-Acquisition Organizational Charts, Audited Consolidated Financial Statements, 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, letter dated July 11, 2014 from Barry W. Moses, Esq. (on behalf of ACP Re to Tanveer Ahmed, Insurance Examiner, New Jersey Department of Banking and Insurance ("the Department") with attachments;

    - Credit Agreement to be entered by ACP Re, Ltd, by and among AmTrust and National General.
    - Amended and restated master agreements between, respectively, ACP Re and AmTrust and ACP Re and National General.
    - Restated Aggregate Stop Loss Agreement with proposed premium.
    - Retrocession Contract by which ACP Re will reinsure AmTrust and National General for losses, if any, to be paid under the Aggregate Stop Loss Agreement.

- DOBI 4 E-mail dated August 19, 2014 from Steve Ungar, regarding the allocation of New Jersey portion of the price for Preserver Insurance Company.

- DOBI 5 - Letter dated September 8, 2014 from Jeffrey Weissmann, Esq. (on behalf of ACP Re, Ltd.) 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 Publications on September 5, 2014 from the Star-Ledger and Asbury Park Press.