

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF THE ACQUISITION	)	
OF CONTROL OF NEW JERSEY	)	HEARING OFFICER'S
SKYLANDS INSURANCE ASSOCIATION	)	REPORT
AND NEW JERSEY SKYLANDS	)	
MANAGEMENT, LLC BY THE ALLSTATE	)	
CORPORATION AND ALLSTATE	)	
INSURANCE HOLDINGS, LLC	)	

Procedural History

In accordance with N.J.S.A. 17:27A-2, by a filing dated August 18, 2020, as supplemented through December 23, 2020, The Allstate Corporation (“Allstate”) and Allstate Insurance Holdings, LLC (“Allstate Holdings”), a Delaware limited liability company that is a direct, wholly-owned subsidiary of Allstate (collectively “the applicants”), filed with the Department of Banking and Insurance (“the Department”) an application to acquire control (“the Form A filing”) of New Jersey Skylands Insurance Association (“NJSIA”), a New Jersey domestic reciprocal insurance company and New Jersey Skylands Management, LLC (“NJSM”), a Delaware limited liability company that manages NJSIA as its attorney-in-fact (collectively “the Companies”).

Allstate proposes to acquire control of NJSIA and NJSM by way of a merger, pursuant to a definitive Agreement and Plan of Merger (“the Merger Agreement”) with National General Holdings Corp. (“National General”) and Bluebird Acquisition Corp. (“Merger Sub”), a direct, wholly-owned subsidiary of Allstate Holdings. Allstate and Merger Sub have agreed to acquire National General through the merger of Merger Sub with and into National General (“the Proposed Merger”), with National General surviving the Proposed Merger (“the Surviving Company”) as a wholly-owned, direct subsidiary of Allstate Holdings. As a result, following the completion of the

transactions contemplated by the Merger Agreement, Allstate will become the ultimate controlling entity of NJSM and NJSIA, as described in detail below.

Pursuant to N.J.S.A. 17:27A-2(d) and after notice was provided in papers of general circulation and on the Department's website, a public hearing was held on the Form A filing on December 23, 2020. 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-2(b). Public comments were allowed to be submitted to the Department through the close of business on December 23, 2020, and no comments were received. The record was closed on December 23, 2020.

#### Findings of Fact

NJSIA is a New Jersey domestic reciprocal insurance company engaged in providing property and casualty insurance, incorporated since November 12, 1982.

The Allstate Corporation was incorporated under the laws of the State of Delaware on November 5, 1992, to serve as the holding company for Allstate Insurance Company. Its business is conducted principally through Allstate Insurance Company, Allstate Life Insurance Company and other subsidiaries (collectively, including The Allstate Corporation, "Allstate Corp.").

National General is a publicly traded entity directly and wholly-owns NJSIA. NJSIA has no voting shares, and is managed by NJSM, which is its attorney-in-fact and direct controlling entity. National General is the ultimate controlling entity of NJSIA. NJSM is a manager-managed limited liability company, whose sole member is National General.

Pursuant to the terms of the Merger Agreement, included as a part of the Form A Filing, National General's issued and outstanding shares of common stock ("National General Common

Stock”), par value \$0.01 per share, will be automatically cancelled and converted into the right to receive \$32.00 in cash for each share of National General Common Stock (“the Merger Consideration”). The Merger Agreement also contemplates payment by National General, immediately prior to the effective time of the Proposed Merger, of a special pre-closing dividend of up to \$2.50 in cash for each share of National General Common Stock to holders of record of National General Common Stock at such time (“the Special Dividend” and, together with the Merger Consideration, “the Total Consideration”), of which up to \$1.00 per share is subject to the increase in National General’s retained earnings per share from January 1, 2020 to the business day prior to closing of the Proposed Merger, subject to and in connection with the closing of the Proposed Merger. With the assumption that, the amount of the Special Dividend will be \$2.50 in cash for each share of National General Common Stock, or approximately \$290 million, plus the Merger Consideration estimate of \$3.7 billion, the applicants currently anticipate that the aggregate Total Consideration will be approximately \$4.0 billion.

The consideration for the transaction is comprised of combined cash resources and new senior debt of Allstate as follows. The applicants expect to fund the Merger Consideration by deploying \$2.2 billion in combined cash resources and, subject to market conditions, issuing \$1.5 billion of new senior debt of Allstate (“the Senior Debt”). Subject to market conditions, the applicants anticipate that the Senior Debt will be similar to previous Allstate debt offerings, including that the Senior Debt will have long-term durations (e.g., 5 years, 10 years and 30 years), will rank equally in right of payment with all of Allstate’s existing and future unsecured and unsubordinated indebtedness, and will be priced at a relatively low cost, which will allow the applicants to fund the Senior Debt cost from their existing operations and financial resources.

NJSM's and NJSIA's stock or assets will not be pledged under the Senior Debt, and neither NJSM nor NJSIA will be a guarantor under the Senior Debt. Following completion of the Proposed Merger, the applicants do not currently anticipate that any extraordinary dividends from NJSIA will be required in order to service the Senior Debt. The Merger Agreement does not contain a financing condition.

Other than as described above, the applicants have no present plans for NJSIA to declare an extraordinary dividend, to liquidate NJSM or NJSIA, to sell any of NJSM's or NJSIA's assets other than asset sales in the ordinary course of business, or to merge NJSM or NJSIA with any person or persons. The applicants have no current plans to make any material changes in the business operations or corporate structure or management of NJSM or NJSIA other than as may arise in the ordinary course of business.

Based on the consolidated financial statements filed by the applicants, Allstate Corp. had shareholders' equity of approximately \$26.00 billion in 2019; \$21.3 billion in 2018; and \$22.5 billion in 2017. Allstate Corp. reported a net income of \$4.8 billion in 2019, and \$2.16 billion in 2018.

#### Analysis

N.J.S.A. 17:27A-2(d)(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% 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.

First, after the acquisition, NJSIA 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. There is nothing in the record to indicate that after the proposed transaction the Company would not be able to continue to satisfy the requirements to transact the business for which they are presently licensed.

Second, it does not appear that the proposed transaction will substantially lessen competition in the New Jersey insurance market or tend to create a monopoly therein. N.J.S.A. 17:27A-2(d)(1)(ii) provides that in applying this competitive standard, the standard set forth in N.J.S.A. 17:27A-4.1(d) shall apply. That statute utilizes a complex formula based on the market shares of the insurers involved in the transaction. 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-4.1(b)(2)(d). In all lines of business, except Homeowners Multiple Peril, the transaction meets these exemption standards because the applicants and the Company do not compete in any other lines of business.

Regarding Homeowners Multiple Peril, applying the standards set forth in N.J.S.A. 17:27A-4.1(d)(2)(a) and (b), prima facie evidence of a violation of the competitive standard would exist if (a) in a highly concentrated market, Insurer A has a market share of 4% and Insurer B has a market share of 4% or more, (b) in a non-highly concentrated market, Insurer A has a market share of 5% and Insurer B has a market share of 5% or more, or (c) a significant trend toward increased concentration exists and certain other criteria are satisfied. Here, the market for Homeowners Multiple Peril insurance is not, and after the closing of the transaction will not be, highly concentrated, as the market share of the four largest insurers is, and will remain, less than 75% of the market.

In this non-highly concentrated market, prima facie evidence of a violation of the competitive standard would exist if both the applicants and National General had a market share of 5% or more. While the applicants' market share is 9.32%, National General's market share is only 3.12%, for a combined total market share of 12.44%. Accordingly, the proposed transaction will not violate the competitive standard set forth in N.J.S.A. 17:27A-4.1 because it does not 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 Company. As reported in the applicable financial statements filed by the applicants, the applicants had shareholders' equity of approximately \$26.00 billion in 2019; \$21.3 billion in 2018; and \$22.5 billion in 2017.

Fourth, it appears that the financial condition of the applicant is such that it has been solvent on a basis of generally accepted accounting principles for the three-year period immediately prior to the date of the proposed acquisition. The applicants reported a net income of \$4.8 billion in 2019, and \$2.16 billion in 2018. Further, the consideration for the transaction is comprised of combined cash resources and new senior debt of Allstate as the applicants expect to deploy \$2.2 billion in combined cash resources and, subject to market conditions, issue \$1.5 billion of new senior debt of Allstate. Accordingly, the requirement that the acquisition debt may not exceed 50 percent of the purchase price is satisfied.

Fifth, the applicant does not propose to liquidate the Company or sell its assets. As set forth above, the applicant does not intend to change the business operations, corporate structure, management, or general plan of operations other than may arise in the ordinary course of business.

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 Company are such

that it would not be in the best interest of the policyholders and of the public to permit the acquisition of control. Following the transaction, the applicants will attain ultimate control of the Company and there are no anticipated changes to the NJSM Board of Directors or executive officers. Following the transaction, the applicants intend to maintain the Companies' business operations, corporate structure, and management.

Seventh, there is nothing in the record from which it may be concluded that the proposed transaction 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 transaction 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 transaction be approved.

12/24/2020  
Date

s/ Lynn Certo  
Lynn Certo  
Hearing Officer

## Exhibits List

IN THE MATTER OF THE ACQUISITION OF CONTROL OF NEW JERSEY SKYLANDS  
INSURANCE ASSOCIATION; and NEW JERSEY SKYLANDS MANAGEMENT, LLC by  
THE ALLSTATE CORPORATION and ALLSTATE INSURANCE HOLDINGS, LLC.

Exhibit 1 – Form A application dated August 18, 2020

Exhibit 2 – Response to request for information dated December 9, 2020

Exhibit 3 – Response to request for information dated December 15, 2020

Exhibit 4 – Waiver of 20–day notice of hearing submitted by Michael A. Pedraja, Senior Vice President and Treasurer, The Allstate Corporation and Allstate Insurance Holdings, LLC, for the Applicant

Exhibit 5 – Waiver of 20–day notice of hearing submitted by Jeffrey A. Weissmann, Secretary, New Jersey Skylands Management, LLC, for New Jersey New Jersey Skylands Insurance Association and its attorney-in-fact, New Jersey Skylands Management, LLC

Exhibit 6 – Affidavit of Publication of Notice of Hearing in The Record, reflecting publication on December 16, 2020

Exhibit 7 – Affidavit of Publication of Notice of Hearing in Courier Post, reflecting publication on December 16, 2020

Exhibit 8 – Affidavit of Publication of Notice of Hearing in Star Ledger, reflecting publication on December 16, 2020