

JUN 26 2012

FILED

BEFORE THE DEPARTMENT OF INSURANCE  
STATE OF NEBRASKA

IN THE MATTER OF THE	)	FINDINGS OF FACT, CONCLUSIONS
ACQUISITION OF CONTROL OF	)	OF LAW, AND ORDER
SURETY LIFE INSURANCE	)	
COMPANY.	)	CAUSE NO.: C-1953

On April 23, 2012, Government Employees Health Association, Inc. (“Applicant”) filed an application (“Form A”) seeking approval to acquire control of Surety Life Insurance Company (“Surety Life”), a Nebraska domestic insurer. The application was filed pursuant to the Insurance Holding Company System Act, *Neb. Rev. Stat.* §§ 44-2120 to 44-2153 (Reissue 2010). The filing was subsequently supplemented on May 10, 2012. Applicant waived the notice requirements set forth in *Neb. Rev. Stat.* §§ 44-2120 to 44-2153, including but not limited to the notice provisions of *Neb. Rev. Stat.* § 44-2127. A Notice of Public Hearing was issued on May 16, 2012.

On June 4, 2012, a public hearing was held at the Nebraska Department of Insurance (“Department”). Director of the Nebraska Department of Insurance, Bruce R. Ramage presided over the hearing. Tracy Gruhn, a licensed Notary Public, was present and recorded the hearing. Matt Holman, Counsel, and James Nixon, Chief Examiner, represented the Department.

Applicant was present and represented by Laurie Briggs, Senior Regulatory Consultant, Rector & Associates, Inc. Applicant presented testimony in favor of the acquisition through Eileen Hutchinson, Chief Financial Officer for Applicant. Exhibits were offered by Applicant and by the Department, and received into the record. Applicant provided Surety Life with notice of the hearing, and Surety Life waived the

notice requirement as set forth in *Neb. Rev. Stat.* §44-2127(2) in an effort to expedite the review and hearing process. No testimony or documentary evidence was offered in opposition to the proposed acquisition.

On the basis of the filings, correspondence and information provided to the Department, the Director approves the application and finds, concludes, and recommends as follows:

#### FINDINGS OF FACT

1. On April 23, 2012, the Department received a verified Form A from the Applicant for approval to acquire control of Surety Life through a stock purchase agreement. The application and subsequent amendments were filed pursuant to the Insurance Holding Company System Act, *Neb. Rev. Stat.* §§ 44-2120 to 44-2153, specifically §44-2126. The stock purchase agreement will result in Applicant gaining control of Surety Life as control is defined in the Act.

2. Surety Life is a domestic insurer organized under and governed by the laws of the State of Nebraska. Surety Life obtained its Certificate of Authority to transact the business of life and health insurance in this state on November 19, 1960. Surety Life is currently a stock-based life insurance company and a wholly-owned subsidiary of Allstate Life Insurance Company (“Allstate”), an Illinois life insurance company.

3. Applicant is a Missouri domiciled voluntary employees’ benefit association, organized as a non-profit corporation. Applicant operates in the Federal Employees Health Benefit market and in the Federal Employees Dental and Vision Insurance Program, offering multiple health and dental plans. GEHA Holdings is a

wholly-owned subsidiary of Applicant. Applicant plans to acquire Surety Life through GEHA Holdings, and therefore, Applicant will be the ultimate controlling party of Surety Life.

4. On March 12, 2012, Applicant and Allstate executed a Stock Purchase Agreement. The Stock Purchase Agreement provides for the transaction to close following, among other things, the approval of the Board of Directors of each company, and the proper regulatory approval of each state where approval is necessary.

5. As consideration for the transaction, the Stock Purchase Agreement provides that Applicant will (1) acquire all of the issued and outstanding shares of Surety Life, making Surety Life a wholly owned subsidiary of Applicant, (2) enter into an Administrative Service Agreement and an Amended and Restated Coinsurance Agreement with Allstate such that Allstate will continue to coinsure and administer the business of Surety Life presently in force, which will remain in run-off, (3) Applicant will cause GEHA Holdings to purchase the shares of Surety Life for an aggregate purchase price of \$3,875,000 plus an amount equal to the Statutory Capital of Surety Life, minus a \$500,000 deposit. Applicant will fund the purchase through cash on hand.

6. Notwithstanding the transfer of control of its Board of Directors to Applicant and subject to the terms of the Stock Purchase Agreement, Amended and Restated Coinsurance Agreement, and Administrative Services Agreement, the current active business operations of Surety Life will continue unchanged. This business will remain in run-off following the acquisition. Applicant has no current plans to (a) declare an extraordinary dividend; (2) to liquidate Surety Life; (3) to sell or merge it with any

person or persons; or (4) to make any other material change in Surety Life's current active business operations other than as otherwise disclosed in the previously referenced agreements.

7. Regarding new business, Applicant does seek to position itself, through Surety Life, to become the non-profit Multi-State Plan to be offered through the American Health Benefit Exchanges under the Affordable Care Act, beginning in 2014. The acquisition of Surety Life will also allow Applicant to continue to provide insurance to its federal employee members in the event that the Federal Employee Health Benefit Program is disbanded. Finally, Surety Life would provide a mechanism for the Applicant to offer its existing federal employee members additional insurance products not included in the FEHB program, such as life and disability insurance.

8. Applicant has filed all the documents and information required by law and requested by the Department.

#### CONCLUSIONS OF LAW

1. The Department and Director have jurisdiction over the subject matter of this proceeding.

2. On the basis of the materials filed, correspondence received and evidence presented at the hearing, the Director concludes as follows:

a. After the acquisition, Surety Life will satisfy the requirements for a Certificate of Authority to conduct business of insurance in the State of Nebraska and write the lines of insurance for which it is presently licensed.

b. The effect of the acquisition will not substantially lessen the competition in insurance in the State of Nebraska nor tend to create a monopoly therein nor violate the laws of the State of Nebraska.

c. The financial condition of Applicant is such that it would not jeopardize the financial stability of Surety Life or prejudice the interest of the policyholders of Surety Life.

d. The Applicant has no plans or proposals to liquidate Surety Life, to sell the assets of Surety Life without the approval of the Department, to consolidate or merge Surety Life with any person or persons without approval of the Department, or to make any other material change in the business operations or corporate structures of management which would be unfair and unreasonable to policyholders of Surety Life and not in the public interest.

e. The competence, experience and integrity of those persons who would control the operation of Surety Life are such that it would be in the interest of the policyholders of Surety Life and the public to allow the acquisition.

f. Applicant is not subject to the provisions of *Neb. Rev. Stat. §44-6115* under the Demutualization Act; and

g. The acquisition is not likely to be hazardous or prejudicial to the public.

ORDER

IT IS THEREFORE ORDERED that the Agreement and Plan of Merger be approved subject to the following condition:

Within fifteen (15) days after closing, Applicant shall file with the Department an Insurance Holding Company System Registration Statement, and any other filings required, in accordance with *Neb. Rev. Stat. §44-2132, et seq.*

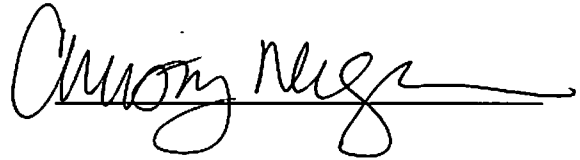
Dated this 26<sup>th</sup> day of June, 2012

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

  
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BRUCE RAMGE  
Director of Insurance

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Order was sent to Cynthia L. Butler, Research & Development Manager, Government Employees Health Association, Inc., 201 N.E. Mulberry, Lee's Summit, MO 64086, and to Laurie A. Briggs, Senior Regulatory Consultant, Rector & Associates, Inc. 724 Lafayette Ave. #2, Cincinnati, OH 45220, by U.S. Mail, postage prepaid, on this 20<sup>th</sup> day of June, 2012.

A handwritten signature in black ink, appearing to read "Anthony Nege", with a long horizontal line extending to the right from the end of the signature.