



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

September 27, 2021

Via email (eretersdorf@daypitney.com)

Elizabeth P. Retersdorf, Esq.
Day Pitney LLP
242 Trumbull Street
Hartford, CT 06103

Re: Proposed acquisition of control of Patrons Mutual Insurance Company controlled through affiliation by State Automobile Mutual Insurance Company by Liberty Mutual Holding Company, Inc., LMHC Massachusetts Holdings Inc., and Liberty Mutual Group Inc.

Docket # 21-77

Dear Attorney Retersdorf:

The Connecticut Insurance Department (“Department”) has completed a preliminary review of the Form A Statement regarding the proposed acquisition of control (“Proposed Acquisition”) of Patrons Mutual Insurance Company (the “Domestic Insurer”) controlled through affiliation by State Automobile Mutual Insurance Company by Liberty Mutual Holding Company Inc., LMHC Massachusetts Holdings Inc., and Liberty Mutual Group Inc. As a result of review, it was determined that the information requested below is necessary to complete the filing. Please provide in hard copy and on a thumb drive amended and restated clean and black lined versions of the Form A rather than standalone amendments. This should include any new exhibits resulting from the amendments and restatements. You should also reflect any amendments to the Application resulting from any discussions with the Department which you may have subsequent to this letter being issued.

This is a preliminary review by the Department. As there are several areas of Application deficiency, review by the Department will only commence when all of the following questions have been adequately addressed.

ITEM 1. INSURER AND METHOD OF ACQUISITION

The Department has no questions but please update the information as appropriate.

ITEM 2. INDENTITY AND BACKGROUND OF EACH OF THE APPLICANTS

The Department has no questions at this time but please update the information as appropriate.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANTS

1. Please provide charts in the following format for officers and directors for the Domestic Insurer on a post-acquisition basis.

Company Name

Directors

| Name | Title |
|------|-------|
| | |
| | |
| | |

Officers

| Name | Title |
|------|-------|
| | |
| | |
| | |

2. Please have third-party verifications submitted to the Department, in accordance with the procedures set forth in the Checklist, concerning the officers and directors of the Applicants, and the officers and directors of the Domestic Insurer on a post-acquisition basis.

3. The Domestic Insurer has several independent Directors on the current board. Please identify the post transaction independent Directors listed in the above chart.

4. While we have not requested them, the Department reserves the right to receive credit histories for all individuals associated with the Applicants.

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

1. Please provide all schedules and exhibits to the Agreement and Plan of Merger Combination including, but not limited to, Government Consents (Schedule I) and Advisory Board Members (Schedule II).

2. Please verify that the Agreement and Plan of Merger and Combination constitutes the entire Agreement and no other documents have been omitted.

3. The Agreement and Plan of Merger and Combination document states that “the SAM Members shall immediately become LMHC Members” (exhibit A, page 23, section 2.05); please verify that the term “SAM Members” includes all of the Domestic Insurer’s members.

3. Item 4 (a) of the Form A states that potential available lines of credit may be used to fund the cash consideration of approximately \$1 billion. Please provide the potential effect of any future capital or liquidity concerns this may pose from a risk perspective.

4. Please provide a copy of the two independent fairness opinions received by the board of directors of LMHC referred to in Item 4 (b) of the Form A, along with the fairness opinion received by the special committee of independent SAM directors from BofA Securities, Inc.

ITEM 5. FUTURE PLANS OF INSURER

With respect to both Item 5 of the Form A and Exhibit J (Plan of Operations)

1. The Applicants state that there will be change in the Domestic Insurer's reinsurance program. Specifically, on Page 10 of the Form A it is stated that currently all of the pool members (other than LMIC) cede 100% of their underwriting activity to LMIC, net of third party reinsurance. LMIC in turn retrocedes 50% of the entirety of the pool's underwriting activity to five pool members. Please verify that post acquisition 100% of net of reinsurance underwriting activity will be ceded to LMIC and nothing will be ceded back to the Domestic Insurer.
2. Upon reviewing the Domestic Insurer's projections in Exhibit I, the following is noted. There appears to be a discrepancy when reviewing Item 5 of the Form A (see question 1 above). The key assumption provided states "assumes existing State Auto Group Pooling structure through 2023". Please reconcile the difference as net premium projections are identified in the Pro Forma Statutory Profit & Loss Statement. If appropriate provide the Department with a revised set of projections.
3. Exhibit I, the Pro Forma Statutory Profit & Loss Statement, projects premium growth in years 2021-2023. Please provide details regarding in which lines of business growth is anticipated.
4. The Domestic Insurer has a five year history reporting negative underwriting gains. However, projections in Exhibit I, the Pro Forma Statutory Profit & Loss Statement details underwriting gains in 2022 and 2023. Please provide details regarding the change in strategy to achieve the underwriting gains projected.
5. The current location of the Domestic Insurer in Connecticut is Hartford. Please describe any changes anticipated.
6. Currently the Domestic Insurer has approximately 15 employees. Is it the intent to retain all current employees? If not, please provide details.
7. The Form A states that it is anticipated that an affiliated Investment Management Agreement may be entered into. Please describe any changes anticipated for the Domestic Insurer's investment strategy.

8. The Form A states that the transaction is a good fit for the Applicants as it will enhance the personal lines and small commercial insurance book of business. Please describe why this is a good fit from a governance and risk perspective. Do you anticipate the newly formed Board of Directors and Executive Officers to materially change the Domestic Insurer's risk appetite and tolerance levels?

Please acknowledge and provide updates regarding continued compliance with investment statute limitations.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

The Department has no questions but please update the information as appropriate.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

The Department has no questions but please update the information as appropriate.

ITEM 8. CONTRACT, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

The Department has no questions but please update the information as appropriate.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

The Department has no questions but please update the information as appropriate.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

The Department has no questions but please update the information as appropriate.

ITEM 11. AGREEMENTS WITH BROKER-DEALERS

The Department has no questions but please update the information as appropriate.

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS

The Department has no questions but please update the information as appropriate.

ITEM 13. AGREEMENT REQUIREMENTS FOR ENTERPRISE RISK MANAGEMENT

The Department has no questions but please update the information as appropriate.

ITEM 14. OTHER INFORMATION

1. Please provide a copy of the Applicants' Hart-Scott Rodino filing and any federal responses associated with such filing.
2. On page 16 of the Form A the long-term issuer credit rating from A.M. Best for LMHC is "bbb". Please describe any mitigation efforts discussed with A.M. Best to improve this rating.
3. Please provide the Department with any rating agency updates throughout the duration of the review of the Form A application.
4. Please provide updated filings to supplement the Application as warranted, including, but not limited to, quarterly and year-end financial statements for the Domestic Insurer.

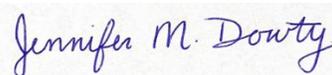
ITEM 15. SIGNATURES AND CERTIFICATION

The Department has no questions but please be aware of the requirement that all persons who signed the Form A Application are required to be present at the hearing.

We look forward to receiving this information at your earliest opportunity. If you feel it beneficial, we are agreeable to meeting by phone or video conference to discuss this letter or your proposed responses. Please be aware that further information may be requested as we continue to review and evaluate your submissions therefore, we recommend that you provide detailed and complete responses to avoid our having to seek further information which may delay the process.

If you have any questions, or would like to discuss, please let me know.

Sincerely,



Jennifer M. Dowty
Counsel, Connecticut Insurance Department

cc: Kathy Belfi, CID
Kenneth Cotrone, CID