THE INSURANCE DEPARTMENT OF THE STATE OF DELAWARE

IN THE MATTER OF:	)	
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The Proposed Acquisition of Royal Indemnity Company, a Delaware domiciled property/casualty insurance company, Security Insurance Company of Hartford, a Delaware domiciled property/casualty insurance company, Guaranty National Insurance Company, a Delaware domiciled property/casualty insurance Company, and Royal Surplus Lines Insurance Company, a Delaware-domiciled property/casualty insurance company by Arrowpoint Capital Corp., a Delaware Corporation, and Arrowpoint Capital, LLC, a Delaware limited liability company, John Tighe, Sean Beatty and Dennis W. Cahill	)	**Docket No. 313**

DECISION AND FINAL ORDER

Today I enter a Decision and Final Order in connection with the above-captioned Application. I have not approved the Application as it was submitted, because I believe that approval as submitted would be prejudicial to the insurance-buying public, claimants and policyholders. Instead, I have imposed a number of conditions upon my approval of the Application, satisfaction of which will resolve the defects in the Application. Upon satisfaction of those conditions, the proposed transaction is approved.[1] With those

[1] There has been some suggestion made, based upon dicta in *In re BCBSD, Inc.*, C.A. No. 04A-07-004 (Del. Super., Oct. 4, 2004) (Slights, J.), that I must either approve the pending Application precisely as submitted or reject it, *i.e.*, that I am barred from imposing any conditions upon approval other than those that were included in the Applicants' Form A submission. It has long been the law in Delaware, though, that if an administrative agency has a right to license, it generally has the additional right to attach conditions to that license. *Carroll v. Tarburton*, 209 A.2d 86, 90 (Del. Super. 1965). *See also Application of Wonstelholme*, C.A. No. No. 92M-04-006, (Del. Super., Aug. 20, 1992) (Bifferato, J.) (If there is express or implied authority to revoke a license then, in respect of that authority, an agency may impose reasonable conditions on the license). *Cf. Medical Malpractice Joint Underwriting Assoc. v. Marques*, C.A. No. PC/05-5253 (R.I. Super., Nov. 3, 2006) (upholding right of Insurance Commissioner to impose conditions on effective date of rate filing). In the context of this case, Title 18, Chapter 50 gives me express responsibility for protecting the rights of policyholders and the insurance buying public, and gives me the authority to approve or disapprove a transaction based solely upon its impact upon the insurance buying public. In a circumstance such as this one, where policyholders and the insurance buying public are best protected by neither approval nor disapproval of the Application as submitted, this legal responsibility must imply that I have the authority to impose conditions upon approval designed to protect policyholders and the insurance buying public. *See* 18 *Del.C.* § 310(b). To read the law otherwise would require that I affirmatively act in a manner that I know to be contrary to the best interests of policyholders.

conditions, consummation of the transaction will be in the best interests of policyholders—including those smaller policyholders who were not represented by counsel in these proceedings, but who deserve the same protection from my office as the large, commercial entities represented by lawyers.

I adopt Professor Hamermesh's summary of the evidence and proposed findings of fact in their entirety. I also adopt, except where specifically noted herein, his conclusions of law and recommended decision, attached hereto as Exhibit A. I want to thank Professor Hamermesh for the extraordinary service that he rendered to the state in acting as the hearing officer for this time-consuming and contentious matter. Delaware is lucky to have someone of his caliber willing to serve the public.[2]

Before addressing the specific statutory factors implicated by this Application, I will briefly explain my view of my responsibility in this case. In this transaction and in all matters I undertake as Insurance Commissioner, I view the protection of insurance policyholders as my overriding responsibility. In this case, I have a responsibility not just to the policyholders who have the resources to hire skilled legal counsel to represent them, but also to the much larger group of policyholders—many of them workers compensation policyholders and beneficiaries around the country—who do not.

Although this case is complex in its details, the broad issue before me is easily explained. Royal and Sun Alliance Insurance Group plc ("Royal UK"), a British insurance holding company, is seeking to sever its legal relationship with its American subsidiaries. It has offered to infuse $287.5 million into those American subsidiaries as one of the conditions of consummating that transaction. Conversely, it has stated that it will not continue its practice of infusing capital into the American subsidiaries if the transaction is not approved. There appears to be no disagreement that Royal UK has no legal duty to provide more capital to the American subsidiaries.[3] Therefore, a primary issue in this case is whether Royal UK is being candid when it claims that it will not

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[2] In general, I am also grateful to the attorneys for all of the interested persons in this case for providing me with the background necessary to reach a decision in the best interest of policyholders. But I am compelled to comment upon the appalling conduct of some of the attorneys of record. While this case has been pending, my staff has received dozens of press inquiries generated by inflammatory statements made outside of the formal proceedings by these attorneys, and received advocacy letters from nationally known public officials days after those letters were provided to the press. The effort by these attorneys to intimidate me into making a decision based on something other than the facts and law was shameful. For the benefit of persons who may appear before the Department in future matters, let me be clear: I make decisions based upon my obligation to protect insurance policyholders—*all* insurance policyholders, not just those wealthy enough to hire lawyers to represent their interests. I do not make decisions in reaction to publicity stunts or demands from political celebrities. This is not American Idol, where the people who generate the most phone calls win. And future conduct of this type will generate a more formal response from the Department. I have not undertaken a formal investigation in this case only because I know and respect the law firms in question, and I do not wish to see them embarrassed by what I assume was the conduct of unsupervised subordinates.

[3] A separate issue of whether the British company has made past representations that render it legally liable for some claims against the American companies is addressed below.

continue to subsidize the American companies. A number of large commercial policyholders who oppose approval of this Application (collectively "the objectors") argue that Royal UK is "bluffing," and that it will continue to subsidize its American subsidiaries even if the Application is denied. Were I convinced that Royal UK would continue subsidizing its American subsidiaries indefinitely, in spite of its unequivocal statements to both the Department and its own shareholders that it will not, I would deny the Application. But after reviewing all of the evidence, including the submissions of the objectors, I am not convinced that Royal UK will continue funding American subsidiaries that it has no legal obligation to subsidize. For that reason, I have concluded that approval of the Application with sufficient conditions to protect policyholders is the action that best protects the interests of those policyholders.

I do have sufficient concerns about the manner in which the Applicants will handle policyholders' claims going forward that I am imposing a number of additional conditions upon my approval of the Application. Those conditions are designed to ensure that the Applicant's managers have no financial incentive to handle claims improperly, and to ensure that those policyholders who believe that their claims are being improperly handled have a swift, effective, and inexpensive way to have the Delaware Insurance Department address their concerns. I have also imposed conditions to ensure that Royal UK will continue to be subject to the jurisdiction of American courts and the Delaware Insurance Department for the purpose of answering claims that policyholders may have against it. A complete list of the Conditions of this Order is attached hereto as Exhibit B, which I incorporate in its entirety.

Professor Hamermesh's Conduct of the Hearing

Before addressing the substance of the Application, I will address the objectors' argument that Professor Hamermesh should have permitted them to take discovery, cross-examine witnesses, and engage in other activities commonly associated with parties to traditional civil litigation.

I agree with Professor Hamermesh that there is no way reasonably to interpret 18 *Del.C.* § 5003(d)(2) to allow every policyholder the right to a traditional civil trial with accompanying discovery, given that the same code section also requires that an application be brought to a hearing within 30 days of filing. I also agree with Professor Hamermesh that the statute contemplates a thorough pre-hearing investigation by the Department of Insurance staff designed to protect policyholders, and I agree with his conclusion (undisputed by any of the objectors) that the Department staff carried out that investigation in utmost good faith. I therefore adopt and incorporate his decision with respect to the objectors' pre-hearing applications and his analysis supporting that decision.

As Professor Hamermesh noted, the objectors have not lacked for the opportunity to comment upon the Application. I have reviewed hundreds of pages of materials from the objectors in connection with my decision, and some of them have been helpful in rendering my opinion.

Application of Section 5003

Section 5003(d) of the Insurance Code requires that I approve an application for merger or change of control unless, after conducting a public hearing, I conclude that the application fails to satisfy any of the six statutory factors contained in that section. Because none of the Applicants, the Department or the objectors has raised serious issues with respect to Section 5003(d)(1)(b) or Section 5003(d)(1)(d), I address only four of those conditions herein and adopt all of Professor Hamermesh's findings and conclusions with respect to the two undisputed statutory factors.

Satisfaction of Requirements for Issuance of License

I am required to reject the Application if, after the change of control, the Applicant would not be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed. 18 *Del.C.* § 5003(d)(1)(a). The only provision related to licensure which is disputed in this case is the Delaware Code's surplus requirements for licensure.

The surplus requirements for licensure under the Delaware Code are objective and relatively unambiguous. First, there is a requirement for initial capital and surplus. 18 *Del.C.* § 511(a). Second, on a going-forward basis, the Department has an obligation to ensure that the carrier maintains reasonable surplus, and to make that determination while giving "due consideration to any applicable standards approved or adopted by the National Association of Insurance Commissioners and to the desirability of substantial uniformity as to such requirements among the respective states." 18 *Del.C.* § 511(a)(2). Professor Hamermesh analyzed both prongs of Section 511 (along with other non-surplus provisions affecting licensure eligibility), and determined that the Applicants would be eligible for licensure after the transaction was completed. I agree with his conclusions. Hamermesh Report at ¶¶ 129-148.

The objectors have attempted to superimpose requirements and definitions from other portions of the Insurance Code to question Professor Hamermesh's conclusion with respect to surplus. For example, the objectors have attempted to argue that because factors other than Risk Based Capital can be considered by the Department in determining whether a domestic insurer subject to Chapter 50 has sufficient capital to pay dividends, Professor Hamermesh was barred from relying upon Risk Based Capital and measures of statutory capital in assessing whether the Applicant would be qualified for licensure under 18 *Del.C.* § 511. But the objectors cite no statutory or case law to support their argument. If anything, Delaware law requires that the Department focus almost exclusively for purposes of 18 *Del.C.* § 5003(d)(1)(a) on the sufficiency of the Applicants' initial capitalization. *Levinson v. First Delaware Ins. Co.*, 549 A.2d 296 (Del. 1988) (initial licensure of applicant must be based upon Section 511(a), whereas ongoing regulation of licensed insurer is subject to more discretionary standard of Section 511(a)(2)). Beyond that, 18 *Del.C.* § 511 allows only for an ongoing analysis using a broader measure of policyholder surplus based upon applicable NAIC and other uniform

standards. Risk Based Capital is the only standard that meets that description with respect to uniformity. Section 511 (and, as a consequence, Section 5003(d)(1)(a)) does not support the objectors' demand for a different measurement of surplus.

Similarly, the objectors argue that because Deputy Commissioner Vild concluded that the Applicant, absent a capital infusion, would be unable to pay its claims over the long term, the Applicant was per se ineligible for licensure. In addition to being a mischaracterization of Deputy Commissioner Vild's testimony, this contention is a straw man: the required analysis is the Applicant's status after the transaction is complete, and that transaction involves an infusion of $287.5 million, which Deputy Commissioner Vild testified would allow the Applicant to pay unresolved claims. Moreover, as Professor Hamermesh noted, the technical application of 18 *Del.C.* § 511 involves a wholly different analysis than the one the Department staff conducted in connection with analyzing whether the transaction would be prejudicial to policyholders.

Financial Condition of Acquirer

The second statutory factor that I am required to examine is whether the financial condition of the acquiring party is such as might jeopardize the financial stability of the insurer or prejudice the interest of its policyholders. Professor Hamermesh has thoroughly examined the facts under this standard, and I concur with his conclusions. Hamermesh Report at ¶¶ 157-168.

The objectors dispute Professor Hamermesh's interpretation of 18 *Del.C.* § 5003(d)(1)(c); they effectively claim that it should be synonymous with 18 *Del.C.* § 5003(d)(1)(f), but with a higher hurdle for approval ("might be" prejudicial rather than "likely to be" prejudicial). This interpretation of the statute, of course, is directly contradictory to long-standing rules of statutory interpretation in Delaware and elsewhere. *Oceanport Indus., Inc. v. Wilmington Stevedores, Inc.*, 636 A.2d 892, 900 (Del.1994).

Once the objectors' effort to create an artificially high legal barrier is eliminated, their objections to approval with respect to this provision of the Code are essentially identical to their objections to approval under Section 5003(d)(1)(f), and I address them below.

Change in Business/Corporate Structure/Management

The third factor I am required to examine is whether the Applicant's plans to make any material change in Royal USA's business or corporate structure or management are unfair and unreasonable to policyholders of the insurer and not in the public interest. I agree with Professor Hamermesh that the commitments in the Applicants' Form A Application provide reassurance that changes in structure will not be unfair or unreasonable to policyholders.[4] However, given the Department's conclusion

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[4] As the testimony has indicated, the Department has had examiners on site at the Insurance Companies, reviewing all matters, including claims handling practices and procedures. While the

that, in the event of continued adverse development beyond that projected by the Applicants (but consistent with the stressed financial conditions considered by the Department in its financial analysis), the British parent's $287.5 million capital infusion may be barely sufficient to cover all outstanding claims, I believe that additional safeguards on management conduct are necessary to ensure that every dime intended for policyholders actually reaches the policyholders.

Accordingly, my approval of the Application is subject to the following additional conditions, all of which are reflected in this Final Order. First, the insurers shall not pay any dividends or other distributions to the holding company until the Delaware Insurance Department has determined, in a formal case decision conducted under the Administrative Procedures Act, that all policyholder claims reasonably capable of resolution have been paid and that sufficient additional funds exist to pay timely and properly all claims that by their nature cannot be resolved in a timely fashion. Second, no management personnel will receive any compensation beyond his or her base salary until the aforementioned determination has been made. Management compensation must be approved by the Delaware Insurance Department, which shall approve it based upon comparable industry compensation packages. Third, I will name a Claims Monitor to be available to the Policyholders to receive all complaints, and to continually monitor indemnity reserve adequacy, litigation management, claims denials, and all other aspects of sound claims practice. The Claims Monitor will encourage and monitor the insurers' good faith participation in alternative dispute resolution forums. The Claims Monitor will report to the Insurance Commissioner on a monthly basis, and the Claims Monitor's reports shall specifically indicate whether any regulatory action against the insurers is warranted.

The imposition of these conditions will ensure that the Applicants treat the claims of current Royal USA policyholders in a fair, prompt fashion. Additional conditions that I impose below will ensure that Royal UK cannot escape any responsibilities it may have to American policyholders from conduct predating the consummation of this transaction.

Except as noted above, I accept all of Professor Hamermesh's fact findings and recommendations with respect to this statutory provision.

Hazard/Prejudice to the Insurance Buying Public

The final factor that I am required to review in evaluating this Application is whether it is likely to be hazardous or prejudicial to the insurance buying public. 18 *Del.C.* § 5003(d)(1)(f).

Department has reviewed a large percentage of claims, and litigation arising from those claims, including those of the objectors, and has found the procedures to be within industry norms, the Department will continue to monitor these areas to assure faithfulness to the best practices of resolving policyholder disputes.

Professor Hamermesh correctly noted that an actuarial review performed by INS Consultants, Inc., an actuarial firm retained by the Department of Insurance[5], determined that with the capital influx associated with the transaction, the insurers are likely to continue to operate as a solvent and viable run-off insurance company, with the ability to withstand stress and adversity while still meeting policyholder obligations. Hamermesh Opinion at ¶ 200. I adopt Professor Hamermesh's findings found at ¶¶ 186-200 of his opinion, and his findings in ¶ 201 subject to the additional condition imposed below.

The objectors raise two funding issues with respect to Professor Hamermesh's report, which would only be relevant if they were both true. Those arguments are: (a) that the capital infusion will not be sufficient to pay all outstanding claims, and (b) that the British parent will continue pouring capital into its American subsidiaries even if the Application is denied. Based upon this two-part argument, the objectors seek rejection of the Application.

As I indicated at the outset of this opinion, if there were evidence sufficient to allow me to accept both of the objectors' funding arguments, I would deny the Application. But there is no evidence whatsoever in the record that Royal UK will—contrary to its sworn testimony, contrary to its public statements, and contrary to its commitments to its own shareholders—continue funding the American subsidiaries if the Application is denied. The only materials submitted by the objectors to support their argument are opinions from persons that they have offered as experts stating that Royal UK would not dare cut off the subsidies, because doing so would impugn its reputation with respect to funding its other core subsidiaries and thereby damage its other global business. That argument strikes me as incongruous in light of the existence of these

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[5] The World Trade Center lessees, in their post-hearing submission, breathlessly describe circumstances that they claim call into question the "independence" of the "independent actuary" upon whose opinions Professor Hamermesh relied. But to claim that Professor Hamermesh assumed the existence of an independent actuarial report is to twist his words. Professor Hamermesh specifically rejected a pre-hearing motion seeking the appointment of an independent actuary in this case ("independent" meaning an additional actuary beyond the one hired and charged by the Department of Insurance with analyzing the transaction on behalf of policyholders). And in his report, Professor Hamermesh accurately describes the actuarial witness in this case as "actuarial consultants to the DID [Delaware Department of Insurance]," Hamermesh Report at ¶ 108. (The statute specifically contemplates the Department hiring an actuary for this purpose. 18 *Del.C.* § 5003(d)(3)) In the testimony of the actuarial witness, the witness specifically described for Professor Hamermesh the ongoing relationship between his actuarial firm and the Delaware Department of Insurance—that the firm reviews rate applications submitted by insurers to the Department (Tr. At 252), and that the firm had performed past examinations of Royal and SunAlliance USA on behalf of the Delaware Department of Insurance and other state insurance departments. *Id.* at 253-254. In short, both Professor Hamermesh's report and the evidence he heard indicate that he was aware of precisely who the actuary was and to whom the actuary reported, *i.e.*, a consultant regularly retained by the Department of Insurance, responsible to the Department of Insurance. The objectors have correctly noted that Professor Hamermesh may have been unaware that John Tinsley, another contractor with the Insurance Department who testified in this case, and the principles of INS Consultants, Inc. have ownership interests in another business that provides regulatory and actuarial services to other state insurance departments. But I fail to see how this information alters the actuary's role or casts doubt upon his conclusions. The actuary reported to the Department of Insurance staff, which is charged with protecting policyholders and—as Professor Hamermesh has noted throughout his report and even the objectors do not dispute—has carried out its policyholder protection duties with utmost good faith.

proceedings. By proclaiming to the world in connection with this Application that its $287.5 million capital infusion is the end of its subsidies for the American subsidiaries, Royal UK has already demonstrated that it is willing to, in the words of the objectors' expert, "abandon[ ] a formerly core subsidiary" and "fail[ ] to step in and provide sufficient capital to assure that all outstanding claims would be paid...." So to a significant degree, Royal UK has already done precisely what the objectors' experts claim it would never dare to do.

The truth of the matter, after sifting through the rhetoric, is that no one—not the Insurance Department staff, not the objectors' experts, and not me—knows with certainty what Royal UK would do if I denied the Application. The Insurance Department staff negotiated with Royal UK and the Applicants, to obtain a capital contribution in connection with the Application that the staff believes sufficient to pay outstanding claims. The objectors—all of them large, sophisticated, well-funded commercial entities—would like me to gamble that I can get an even better deal by rejecting the Application. They may be right, they may be wrong. The evidence suggests that they are much more likely wrong than right, but there is no definitive proof either way. Nevertheless, the objectors are not the only policyholders with whom I must be concerned in this case. There are a vast number of other policyholders, many of them smaller businesses and (indirectly) working people injured on the job—who stand to lose everything if I accept the objectors request to 'roll the dice' and end up being wrong. The most vociferous objectors to this Application, the business entities leasing the World Trade Center sites, have claims against the Royal subsidiaries that, according to press reports, amount to about 3% of the rebuilding costs of the World Trade Center properties. New York Times, Feb. 8, 2007 at page B3. Rolling the dice may make economic sense for them—if they lose, they still have at least 97% of what they need. But for a small business that may suddenly be without the resources to pay its legal obligations to its injured workers, or worse for injured workers who may suddenly be without money to pay mortgages or seek necessary medical care, rolling the dice does not make economic sense.[6] Those smaller policyholders have not been heard from in this case, because they do not have the resources to hire expensive attorneys and experts to represent their interests. I have a duty to protect them. I decline to accept the objectors' offer to gamble those smaller policyholders' futures based on what the evidence suggests is a long-shot bet that denial of the Application could result in additional capital funds from the British parent.[7]

With respect to the portion of the objectors' argument relating to the adequacy of the $287.5 million capital infusion, I agree with Professor Hamermesh's analysis at paragraphs 204-225 of his report. The Department's staff was quite candid with

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[6] Of course, some of the claims that would be asserted against the Royal US companies in the event of their insolvency would be entitled to coverage by various state guaranty funds. But such coverage would effectively impose a broad-based rate increase on insurance policyholders across the country.

[7] Professor Hamermesh has ably summarized the evidence with regard to this issue at paragraphs 226 – 237 of his report. In so doing, he has also addressed an additional question raised by the objectors as to why the British parent was willing to accede to the Department's demand that it contribute $287.5 million to its American subsidiaries as part of this Application rather than abandoning them outright.

Professor Hamermesh in indicating that the $287.5 million was a "close call," but it is one supported by the Department's actuary. One significant fact has changed since the hearing before Professor Hamermesh: the most significant potential claim against the Royal USA subsidiaries, a lawsuit in which General Motors asserted a claim against Royal USA of upwards of $1 billion, has been dismissed by a Michigan trial court. *See General Motors Corp. v. Royal and Sun Alliance Ins. Group, plc*, Case No. 05-063-863-CK (Jan. 18. 2007, Mich. Cir. Ct. County of Oakland). In the initial economic analysis prepared by the objectors' economic experts, those experts concluded that the $287.5 million capital infusion would leave the Royal USA subsidiaries almost $1 billion short of reserves, with that entire $1 billion consisting of the General Motors claim. Now that the General Motors claim has been dismissed (subject, obviously, to appeal), even the economic analysis originally presented by the objectors' own experts suggests (once the inevitable caveats and reservations are stated) that the $287.5 million capital infusion is sufficient.

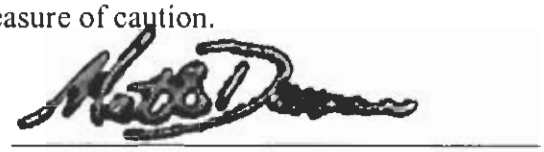
All that said, there are two issues that require that additional conditions be placed upon approval of this Application. First, the objectors have claimed that Royal UK is legally liable for payment of policies issued by the American subsidiaries because it directly or indirectly suggested to customers that it would 'back' those policies. Professor Hamermesh correctly concluded that this Application is not the forum in which 'veil piercing' claims of this nature should be resolved. Nevertheless, I do want to ensure that such a forum is available to policyholders, and that Royal UK does not attempt to resist appearing in American courts to answer to American policyholders with respect to this issue. Therefore, a condition of my approving this transaction is agreement from Royal UK and its relevant subsidiaries and affiliates to submit to personal jurisdiction in the courts of this state for the purpose of resolving any legal claims brought by policyholders. Second, although one of the commitments made by the Applicants as part of their Form A Application is the continued cooperation of Royal UK in making reinsurance claims, Hamermesh Report at ¶ 40, there is no means of enforcing that obligation against Royal UK. Therefore, a final condition of my approving this transaction is that Royal UK and its relevant subsidiaries and affiliates submit to the ongoing jurisdiction of the Delaware Department of Insurance, including but not limited to application of the state's unfair insurance practices statute, with respect to the obligations it has made as part of this transaction.

Conclusion

As I noted at the outset, I am extraordinarily grateful to Professor Hamermesh for the outstanding work he did on this case, and except in those few instances where I have specifically noted otherwise I adopt all of his factual findings and legal conclusions. I am also very grateful for the work of the Department of Insurance staff, who strived to obtain the best outcome possible for policyholders of the American subsidiaries. I have also stayed this order for a period of five business days, so that any persons wishing to seek judicial relief from it may do so in an orderly way. If appeals from this order are filed and the parties to those appeals wish to discuss resolution of their differences while those

appeals are pending, I will make myself available to assist with those discussions to the extent the parties find it useful and appropriate.

Although I am approving this transaction with conditions because doing so is in the best interest of policyholders in the face of the existing facts and law, my approval should not be mistaken for an endorsement of the business practices of the British parent company. The actions of Royal UK, though legal, are unfortunate and not the actions of fair businesspeople. I intend to use all of the power of my office to ensure that policyholders of the American subsidiaries are paid their claims in a prompt, fair fashion, and I trust that persons who do future business with affiliates of Royal and Sun Alliance Group plc will do so with an appropriate measure of caution.



Matthew Denn
Insurance Commissioner

Date: February 20, 2007

THE INSURANCE DEPARTMENT OF THE STATE OF DELAWARE

IN THE MATTER OF:	)	
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The Proposed Acquisition of Royal Indemnity Company, a Delaware domiciled property/casualty insurance company, Security Insurance Company of Hartford, a Delaware domiciled property/casualty insurance company, Guaranty National Insurance Company, a Delaware domiciled property/casualty insurance Company, and Royal Surplus Lines Insurance Company, a Delaware-domiciled property/casualty insurance company by Arrowpoint Capital Corp., a Delaware Corporation, and Arrowpoint Capital, LLC, a Delaware limited liability company, John Tighe, Sean Beatty and Dennis W. Cahill	)	**Docket No. 313**

EXHIBIT B

CONDITIONS OF APPROVAL OF FINAL ORDER

1. Closing of the transaction shall not occur before five business days following the date of this FINAL ORDER;

2. $287.5 million in cash must be received by Royal Indemnity Company at or before closing of the transaction;

3. No dividends and/or other distributions may be paid by the Insurers to the acquirers without prior Department approval;

4. Management compensation must be approved by the Department;

5. Any changes to existing agreements with current affiliated entities must be approved by the Department;

6. The sale or distribution of insurance subsidiary assets, not in the ordinary course of business, must be approved by the Department;

7. Any changes to the existing letters of credit must be approved by the Department;

8. Any arrangements to engage in administrative or management activities with third parties requires approval by the Department;

9. After the transaction closes, any proposed commutations of existing aggregate excess of loss agreements to which the insurers are party must be on terms favorable to RIC;

10. The stock of the insurance companies may not be pledged without Department approval;

11. The applicants may not change the terms of the subordinated notes payable without Department approval;

12. Any proposed changes to the current business plan, including entering into new reinsurance arrangements requires prior Department approval;

13. Any changes to existing reinsurance agreements must be approved by the Department.

14. The Companies will reimburse the Department for employment of a Department appointed Claims Monitor, who, will among other responsibilities, be available to receive and act upon Policyholder complaints. Additionally, the Claims Monitor will, among other responsibilities, track indemnity reserve adequacy, monitor litigation management, review claims denials, monitor claims staffing levels, perform ongoing analysis and measurement of claims initiatives, monitor benchmark projected versus actual statistical data, identify and assess new exposures, and assess all extra contractual and bad faith claims. Additionally, the Claims Monitor will encourage and oversee the Companies good faith participation in alternative dispute resolution forums for disputed Policyholder claims.

15. All applicable Royal UK affiliates shall not interpose the defense of lack of personal jurisdiction, in any action commenced in Delaware Courts by Policyholders seeking to resolve claims arising from those policys;

16. All applicable Royal UK affiliates shall consent to and not oppose the continued jurisdiction of the Delaware Department of Insurance, including with respect to the imposition and applicability of the State's unfair insurances practices statutes, with respect to policyholder obligations and obligations it has made as a part of this transaction;

17. These conditions and the Final Order are subject to further orders, sanctions and proceedings as circumstances may require and are subject to further modification, amendment or supplementation and further review either sua sponte by the Commissioner or by motion of a Party;

18. Applicants and Royal UK affiliates shall continue to be subject to the jurisdiction of the Delaware Department of Insurance for the purpose of implementing and enforcing the terms of the these conditions and this Final Order.