

**BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS**

**PROPOSED ACQUISITION OF
CONTROLLING INTEREST OF THE
VOTING STOCK OF AMERICAN HEALTHCARE
SPECIALTY INSURANCE COMPANY, A WHOLLY-
OWNED SUBSIDIARY OF SCPIE
INDEMNITY COMPANY,
BY KINSALE CAPITAL GROUP, INC.**

A.I.D. NO. 2010- 018

ORDER

On January 11, 2010 at 1:00 p.m., in the Hearing Room of the Arkansas Insurance Department (the "Department"), in accordance with the provisions of Ark. Code Ann. §§ 23-61-109, 23-61-303, 23-63-510, and other pertinent provisions of the Arkansas Insurance Code, a public hearing was held pursuant to an Acquisition Statement filed pursuant to Ark. Code Ann. §23-63-506 (the "Acquisition Statement") dated October 20, 2009 by Kinsale Capital Group, Inc. (the "Applicant"), seeking approval of the acquisition of control of American Healthcare Specialty Insurance Company ("AHSIC"), as detailed in the Acquisition Statement. The hearing was held before Ms. Lenita Blasingame, Chief Deputy Commissioner, acting as the Hearing Officer ("Hearing Officer") so designated by Jay Bradford, Arkansas Insurance Commissioner ("Commissioner"). The Department was represented by Ms. Ashley Fisher, Associate Counsel, Ms. Brenda Haggard, Manager of Financial Analysis and Mr. Mel Anderson, Deputy Commissioner Financial Regulation. Present on behalf of AHSIC was Mr. Ed Marley, Vice President and Treasurer of AHSIC and SCPIE Indemnity Company and Regional Vice President of The Doctors Company. Representing the Applicant was Mr. Michael P. Kehoe, Chief Executive Officer of Applicant and Edward Desch, Chief Financial Officer of the Applicant, and Mr. Nick Thompson, of Mitchell Williams, Selig, Gates and Woodyard, P.L.L.C.,

its counsel.

Procedural History

1. On October 20, 2009, in a letter dated the same date from Nick Thompson, the Applicants filed the Form A with the Department together with exhibits.
2. At various times throughout the process the Department requested and the Applicants provided additional information supplementing the Form A.
3. The Form A is in compliance with and satisfies the requirements of Ark. Code Ann. §23-63-506 and the regulations promulgated thereunder.
4. Pursuant to Ark. Code Ann. §§ 23-61-304 and 23-63-510, the Commissioner issued a Notice of Public Hearing for January 11, 2010 to consider the proposed acquisition.

The Hearing

1. All persons attending the Hearing were provided the opportunity to present evidence, examine witnesses, and/or offer argument. The Applicants presented evidence and argument through counsel and through the testimony of Mr. Kehoe. Mr. Marley presented evidence on behalf of AHSIC.
2. No objections were made at the Hearing to the proposed acquisition.

FINDINGS OF FACT

From the Acquisition Statement, testimony of witnesses, and other evidence adduced at the hearing, including exhibits admitted in connection therewith, reports, correspondence, financial information, business plans, statements on file with the Department, representations of counsel, and other matters and things considered, the Hearing Officer finds as follows:

1. AHSIC, NAIC No. 38920, is an Arkansas domiciled property and casualty insurer and is eligible to write as an excess and surplus lines insurer in over twenty (20)

states and the District of Columbia.

2. The Applicant is a corporation formed for the purpose of capitalizing a management company and acquiring an insurance company with authorization to write property and casualty insurance on an excess and surplus lines (“E&S”) basis and its principle place of business is Richmond, Virginia.
3. The testimony presented by Mr. Kehoe at the hearing, and the biographical affidavits filed as part of the Acquisition Statement, provided evidence that the Applicant has extensive prior experience in the insurance industry, especially in the area of E&S lines.
4. Mr. Kehoe testified that control of AHSIC is to be acquired pursuant to a Stock Purchase Agreement (the “Purchase Agreement”), dated September 29, 2009, by and between SCPIE Indemnity Company, a California-domiciled insurance company, and Kinsale Capital Group, Inc., the Applicant, whereby Applicant will purchase, for the aggregate amount (the “Purchase Price”) equal to the sum of (i) the Closing Surplus, as determined in accordance with applicable accounting principles, and (ii) \$2,300,000, from SCPIE Indemnity 3,750,000 shares of AHSIC, which constitutes 100% of the outstanding capital stock of AHSIC. The Applicant is funding the Purchase Price through funds provided by its parent company; no funds will be borrowed.
5. Mr. Kehoe further testified that pursuant to the Purchase Agreement, as of the closing date AHSIC will consist only of its corporate franchise, its license to transact insurance as a property and casualty insurance company pursuant to the Arkansas Insurance Code and only those assets and liabilities as contemplated by

the Purchase Agreement.

6. Mr. Marley testified that in order to achieve this result by the closing date, AHSIC and its affiliates via an Assumption Reinsurance and Commutation Agreement took action to (i) commute and extinguish certain Affiliate insurance liabilities, (ii) cause one hundred percent (100%) of AHSIC's other existing insurance liabilities and claims to be assumed and reinsured, and (iii) provide for AHSIC's remaining liabilities. AHSIC's existing insurance liabilities and claims are to be assumed and reinsured by SCPIE Indemnity Company, a California insurance company.
7. Mr. Marley further testified that all the necessary regulatory approvals had been obtained in regards to the Assumption Reinsurance and Commutation Agreement.
8. Mr. Kehoe testified that subsequent to the proposed acquisition, Applicant intends to file a request for name change for AHSIC to Kinsale Insurance Company.
9. Mr. Kehoe testified as to a Management Services Agreement ("Services Agreement") between AHSIC and Kinsale Management, Inc., an affiliate of applicant, whereby Kinsale Management Inc. would provide underwriting, claims and administrative services.
10. Mr. Kehoe testified that the Applicant had submitted a written request to remove the books and records of AHSIC to 6802 Paragon Place, Suite 120 Richmond, VA 23230 following the proposed acquisition. Mr. Kehoe also testified that Applicant had submitted a written request to remove the assets from the state of Arkansas. Mr. Kehoe testified that AHSIC's operating funds will be held in Wachovia Bank at 1021 East Cary Street, Two James Center Richmond, Virginia

23219. All other assets other than statutory deposits will be maintained in a custodial account with U.S. Bank Institutional Trust Company which is located at 1025 Connecticut Avenue N.W., Washington, D.C. 20036.

11. Mr. Kehoe and Mr. Marley each testified that, in their respective opinions, the terms of the acquisition are fair and reasonable to AHSIC because the proposed transaction was negotiated at arms-length.
12. Mr. Kehoe testified that the acquisition would have a positive financial impact by increasing AHSIC's surplus to approximately \$55 million. Mr. Kehoe further testified that the capital infusion would be a one-time capital infusion that he expected to occur on February 15, 2010, the expected closing date.
13. Mr. Kehoe testified that he has no plans at this time to merge, consolidate, or dissolve AHSIC, nor to re-domesticate AHSIC to any other state.
14. Mr. Kehoe and Mr. Marley each testified that the proposed transaction is not contrary to law, in each of their respective opinions.
15. Mr. Kehoe and Mr. Marley each testified that there are currently no policyholders of AHSIC, and as such, the proposed transaction would not substantially reduce the security of and service to be rendered to policyholders of AHSIC in this state or elsewhere.
16. Both Mr. Kehoe and Mr. Marley testified that no director, officer, agent or employee of AHSIC will receive any fee, commission, compensation or other valuable consideration whatsoever for in any manner acting, promoting or assisting in the proposed acquisition except as set forth in the Settlement Agreement and Purchase Agreements.

17. Mr. Kehoe and Mr. Marley both testified that they will conform to their obligations under Ark. Code Ann. § 23-62-201 with regard to any upcoming examination and to produce all necessary and appropriate responses and filings to any reports of examination or audits and to coordinate and cooperate with each other with respect to responding to such examination. These obligations are further set forth in the terms of the Stock Purchase Agreement executed by the parties and submitted with the Form A filing with the Department.

CONCLUSIONS OF LAW

Based upon the foregoing Findings of Fact, and other matters and facts before him, the Hearing Officer concludes as follows:

1. The Commissioner has jurisdiction over the subject matter and parties herein.
2. The acquisition of control of the Domestic Insurer by the Applicant would not tend to affect adversely the contractual obligations of the Domestic Insurer or its ability and tendency to render service in the future to its policyholders and the public.
3. The effect of the acquisition of control of the Domestic Insurer would not be substantially to lessen competition in any line of insurance business in any section of the State of Arkansas or tend to create a monopoly therein.
4. The financial condition of the Applicant is not such as might jeopardize the financial Domestic Insurer or prejudice the interests of its policyholders.
5. Other than as described in the Form A, the Applicant has no plans or proposals to: liquidate the Domestic Insurer, sell its assets or consolidate or merge the assets with any person; or to make any other material change in the investment policy, business, corporate structure, or management of the Domestic Insurer.

6. The plans or proposals of the Applicant with respect to the Domestic Insurer as set forth in the Form A and as presented at the Hearing are not unfair and unreasonable to policyholders of the Domestic Insurer and in the public interest.
7. Based upon the information previously provided to the Department, the competence, experience, and integrity of those persons who would control the operation of the Domestic Insurer are such that the acquisition of control would not tend to affect adversely the general capacity or intention of the Domestic Insurer to transact the business of insurance in a safe and prudent manner.
8. The Form A is properly supported by the required documents and meets all the requirements of law for its approval.
9. Pursuant to Ark. Code Ann. § 23-69-134(c), the Applicant has properly requested permission to remove the books and records of AHSIC to Richmond, Virginia and the assets of AHSIC to Richmond, Virginia and Washington, D.C. after the approval of the proposed acquisition.

RECOMMENDATIONS OF THE HEARING OFFICER

WHEREFORE, based upon the foregoing Findings of Fact, Conclusions of Law, and other matters before him, the Hearing Officer recommends:

1. That the proposed acquisition by the Applicant, pursuant to the Acquisition Statement dated October 20, 2009 should be approved.
2. That the request to remove the books, records and assets of AHSIC should be granted pursuant to the provisions of Ark. Code Ann. §§ 23-69-134(c)(1).
3. The Applicant and AHSIC shall coordinate and produce all information requested by the Department as required by Ark. Code Ann. § 23-62-201 and the terms of

the Stock Purchase Agreement.

Lenita Blasingame
LENITA BLASINGAME
HEARING OFFICER

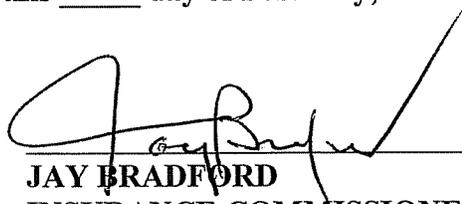
CERTIFICATION

I, Jay Bradford, Insurance Commissioner for the State of Arkansas, do hereby certify that the above and foregoing matter was the subject of a hearing conducted by Lenita Blasingame, Chief Deputy Commissioner for the Department, acting as the Hearing Officer, by and under my authority and supervision. I hereby adopt the Findings of Fact, Conclusions of Law, and Recommendations of the Hearing Officer set forth above as my official action.

NOW, THEREFORE, IT IS ORDERED AS FOLLOWS:

1. The acquisition of control of AHSIC by the Applicant, Kinsale Capital Group, Inc., as described in the Acquisition Statement and exhibits thereto, is hereby APPROVED.
2. The Applicant's request to remove books, records and assets from this state, pursuant to Ark. Code Ann. § 23-69-134(c), is hereby APPROVED.
3. The Applicant and AHSIC shall coordinate and produce all information requested by the Department as required by Ark. Code Ann. § 23-62-201 and the terms of the Stock Purchase Agreement.

IT IS THEREFORE ORDERED this 3 day of February, 2010.



**JAY BRADFORD
INSURANCE COMMISSIONER
STATE OF ARKANSAS**