GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF INSURANCE AND SECURITIES REGULATION
810 First Street, N.E., Suite 701
Washington, D.C. 20002

IN THE MATTER OF THE APPLICATION	)	
OF ACLI ACQUISITION COMPANY FOR	)	**CASE NUMBER**
THE ACQUISITION OF CONTROL OF	)	**HC#-99-01**
AAA LIFE INSURANCE COMPANY	)	

Proposed Joint Decision and Order

Jurisdiction

This matter came before the District of Columbia Department of Insurance and Securities Regulation (hereinafter DISR) on August 26, 1999 pursuant to the Holding Company System Act of 1993, D.C. Law 10-44, D.C. Code, Title 35, Section 35-3703, et seq. (HCS Act), and the D.C. Administrative Procedures Act, D.C. Code Section 1-1501 et seq. (1992 Repl.) (APA) for the purpose of considering whether the proposed acquisition of control of AAA Life Insurance Company (AAA Life), a D.C. domiciled stock life insurance company subject to the insurance laws of the District of Columbia, by ACLI Acquisition Company (ACLI), a Delaware corporation, should be approved.

Procedural History

The above-captioned Application, Case Number HC-99-01, was filed by ACLI with DISR on June 14, 1999. The filing was composed of a Form A, Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer, dated April 30, 1999 (Form A). ACLI submitted two amendments to the original Form A filing application. (See ACLI Exhibit 2 and ACLI Exhibit 3).

After notice was duly given, a public hearing was held on August 26, 1999 in the above-captioned matter before Leslie E. Johnson, Hearing Officer. The hearing was conducted for the purpose of considering whether the District of Columbia Department of Insurance and Securities Regulation Commissioner should approve the proposed acquisition of control of AAA Life by ACLI.

Participating at the hearing on behalf of ACLI Acquisition Company were Michael D. Daubenmier, President and Chief Executive Officer of ACLI; Jeff Dillon, Chief Financial Officer of ACLI; William J. Toman of Quarles & Brady LLP, Madison, Wisconsin, counsel for ACLI. Participating on behalf of DISR were Thomas Hampton, Assistant Deputy Commissioner; Rhonda Davis, Attorney Advisor; and Lilah Blackstone, Legal Analyst.

AAA Life and its Affiliates were mailed notice of the Hearing, together with a copy of the Form A filing submitted by ACLI. Notice of the Public Hearing was published in the D.C. Register on July 30, 1999, 46 DCR 6232 (DISR Exhibit 1).

No AAA Life policyholders, other members of the public, or other persons appeared at the hearing or presented evidence in opposition to the application for acquisition of control. Neither ACLI nor DISR received letters offering substantive commentary in relation to the subject matter of the hearing.

Issues Considered

1. Whether, after the change of control, AAA Life 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 pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(A)?

2. Whether the effect of the acquisition of control would be substantially to lessen competition in insurance in the District of Columbia or tend to create a monopoly pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(B)?

3. Whether the financial condition of any acquiring party is such as might jeopardize the financial stability of AAA Life, or prejudice the interest of its policyholders pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(C)?

4. Whether any plans or proposals ACLI Acquisition Company has to liquidate AAA Life, 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 or unreasonable to the policyholders of AAA Life and are not in the public interest pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(D)?

5. Whether the competence, experience, and integrity of those persons who would control the operation of AAA Life are such that it would not be in the interest of policyholders of AAA Life and of the public to permit the acquisition of control pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(E).

6. Whether the acquisition is likely to be hazardous or prejudicial to the insurance buying public pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(F)?

Evaluation and Analysis of the Evidence

1. **Whether, after the change of control, AAA Life 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 pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(A)?**

D.C. Code, Title 35, Section 35-3703(g)(1) states:

> The Mayor shall approve any merger or other acquisition of control referred to in subsections (a) and (b) of this section unless, after a public hearing, the Mayor finds that:
>
> (A) After the change of control, the domestic insurer referred to in subsections (a) and (b) of this section 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.

Michael Daubenmier, President and Chief Executive Officer of ACLI testified that there will be no substantive change in AAA Life after the acquisition, except the addition of business currently conducted by Auto Club Life and the availability of additional capital, neither of which will change the ability of AAA Life to hold a license to write life insurance in the District of Columbia. (Transcript p. 10, Lines 16 – 21).

Section 35-608 of the D.C. Code requires that domestic life insurance companies have paid-up capital stock of not less than $1 million and paid up surplus of at least 50% of such paid-up capital stock. AAA Life Insurance Company reported in its June 30, 1999 financial statement, paid-up capital stock of $2.5 million, paid-up surplus of $1.2 million, and unassigned surplus of $12.6 million for a total Surplus balance of $16.35 million. (DISR Exhibit 3) He further testified that these figures will not change after the change of control except, as indicated, AAA Life's surplus will increase substantially. (Transcript p. 11, Lines 3-5). Under the Stock Purchase Agreement, these clubs will pay a total of $16.2 million for those shares. (Transcript 8, Lines 15 - 17)

Section 35-601 of the D.C. Code sets forth the required contents of a domestic life insurer's articles of incorporation. Mr. Daubenmier testified that AAA Life's current articles of incorporation will not change in connection with the proposed acquisition. (Transcript p. 11, Lines 6 – 9).

ACCORDINGLY, the Hearing Officer does not find based upon the testimony presented by ACLI that, after the change of control, AAA Life 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.

2. Whether the effect of the acquisition of control would be substantially to lessen competition in insurance in the District of Columbia or tend to create a monopoly pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(B)?

D.C. Code, Title 35, Section 35-3703(g)(1) states:

> The Mayor shall approve any merger or other acquisition of control referred to in subsections (a) and (b) of this section unless, after a public hearing, the Mayor finds that:
>
> (B) The effect of the merger or other acquisition of control would be substantially to lessen competition in insurance in the District or tend to create a monopoly.

Michael Daubenmier testified that ACLI's acquisition of AAA Life will not affect competition in the District of Columbia. (Transcript p. 11, Lines 13-14). Mr. Daubenmier further testified that the District of Columbia reflects the very competitive life insurance marketplace that exists nationwide. (Transcript p.11, Lines 22-24). He stated that there are 563 life and health insurers licensed to do business in the District of Columbia, and those insurers collected over $1.9 billion in premium in 1997, and that the $600,000 in premiums AAA Life collected in the District in 1997 amounts to far less than 1% of the total. (Transcript p. 11, Line 23 to p. 12 Line 5.). AAA Life collected in premiums 623,034 in 1998, which is less than 1% of the total life and health premiums written. (See DISR Exhibit 2, DISR Exhibit 3).

Mr. Daubenmier stated that the only other direct life insurer that is affiliated with ACLI is Auto Club Life. Additionally, Mr. Daubenmier testified that Auto Club Life is not licensed in the District of Columbia, so there is no existing competition between Auto Club Life and AAA Life that would be affected by the acquisition. (Transcript p. 11, Lines 14 – 19).

Mr. Daubenmier stated that the nationwide figures also clearly show that this acquisition will not tend to create a monopoly or even come close to doing so. Life and health premium nationwide totaled almost $340 billion in 1997. (Transcript p. 12, Lines 6-9). The combined total for AAA Life and Auto Club Life was less than $85 million, which, again, is far less than 1% of the total. (Transcript p. 12, Lines 9-11). Including AAA Life and Auto Club Life in the same holding company system will have only a negligible affect on concentration of life insurance in the District of Columbia. (Transcript p. 12, Lines 6 – 16).

ACCORDINGLY, the Hearing Officer does not find based upon ACLI's testimony, that the effect of the acquisition of control would be substantially to lessen competition in insurance in the District of Columbia or tend to create a monopoly.

3. Whether the financial condition of any acquiring party is such as might jeopardize the financial stability of AAA Life, or prejudice the interest of its policyholders pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(C)?

D.C. Code, Title 35, Section 35-3703(g)(1) states:

> The Mayor shall approve any merger or other acquisition of control referred to in subsections (a) and (b) of this section unless, after a public hearing, the Mayor finds that:
>
> (C) 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.

Michael Daubenmier testified that ACLI is owned by three of the largest auto clubs in the United States with over $11 billion in assets and, after the acquisition, AAA Life's current owner, AAA, will also own a quarter of ACLI. (Transcript p. 12, Lines 21– 24). Mr. Daubenmier further stated that the acquisition, AAA Life will have four financially strong owners instead of one. (Transcript p. 12, Line 25 through p. 13, Line 1). Finally, Mr. Daubenmier testified that, these owners plan to bolster AAA Life's capital and surplus as described above. (Transcript p. 13, Lines 1 – 3).

Jeff Dillon, Chief Financial Officer of ACLI, testified to the history of ACLI Acquisition Company. Mr. Dillon stated that ACLI was formed in 1998. At the time that it was formed, $200,000 was contributed from each of the three partners. (Transcript p. 37, Lines 19-22). Mr. Dillon testified that in 1999 [ACLI] requested and received additional funding for that company of $200,000 from each partner. Again in July of 1999, the company requested and received one-half million dollars from each of the three partners. (Transcript p. 37, Line 23 to p. 38, Line 1).

Jeff Dillon testified that "to date, there has been total contributions to ACLI from each of the partners of $900,000, for a total of $2.7 million." (Transcript p. 38, 2-4). As to the capital contribution in ACLI to date, Mr. Dillon testified that there have been expenses incurred by ACLI in locating and acquiring a life insurance company of approximately $800,000. (Transcript p. 38, Lines 5-8).

Jeff Dillon testified that ACLI anticipated and the partners planned to contribute capital contributions as follows: " The two California companies, CSAA, ASCA, and Michigan ACL, plan to contribute $3.7 million each of capital. The National AAA plans to contribute $200, 000 of capital. And in addition to that, each of the partners, the two California clubs in Michigan, will contribute stock in AAA Life worth $5.4 million, and then AAA National will contribute the remaining stock to AAA Life into ACLI. On the basis under generally accepted accounting principles that will leave ACLI with a value of approximately $39 million. On a statutory basis, the company should be worth approximately, as measured on statutory accounting practices, $26 to $27 million. And that would be AAA Life." (Transcript p. 38, Lines 11-22)

ACCORDINGLY, the Hearing Officer does not find, based on the testimony of ACLI witnesses, that the financial condition of any acquiring party is such as might jeopardize the financial stability of AAA Life, or prejudice the interest of its policyholders.

4. **Whether any plans or proposals ACLI Acquisition Company has to liquidate AAA Life, 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 or unreasonable to the policyholders of AAA Life and are not in the public interest pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(D)?**

D.C. Code, Title 35, Section 35-3703(g)(1) states:

> The Mayor shall approve any merger or other acquisition of control referred to in subsections (a) and (b) of this section unless, after a public hearing, the Mayor finds that:
>
> (D) 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.

Michael Daubenmier testified that ACLI has no plans to have AAA Life declare an extraordinary dividend, to liquidate AAA Life, to sell AAA Life's assets, to merge AAA Life with any person, or to make any other material change in AAA Life's corporate structure. (Transcript p. 13, Lines 13-17). Mr. Daubenmier further testified that ACLI's only plan to make a material change in AAA Life's business is to combine its operations with those of Auto Club Life, and this change will allow the parties to realize economies of scale and access larger markets and greater financial resources, and thus be able to offer more products and services specially designed for AAA members. (Transcript p. 13, Lines 18 – 25)

ACCORDINGLY, the Hearing Officer does not find based upon testimony from ACLI witness Michael Daubenmier, that any plans or proposals ACLI has to liquidate AAA Life, 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 or unreasonable to the policyholders of AAA Life and are not in the public interest.

5. **Whether the competence, experience, and integrity of those persons who would control the operation of AAA Life are such that it would not be in the interest of policyholders of AAA Life and of the public to permit the acquisition of control pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(E).**

D.C. Code, Title 35, Section 35-3703(g)(1) states:

> The Mayor shall approve any merger or other acquisition of control referred to in subsections (a) and (b) of this section unless, after a public hearing, the Mayor finds that:
>
> (E) 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.

Michael Daubenmier testified that he was the Chief Operating Officer of Auto Club Life, and will become the Chief Executive Officer of AAA Life. (Transcript p. 14, Lines 6 – 10). Mr. Daubenmier further testified that Peter Young was the chief operating officer of AAA Life, and will become the Senior Vice President for marketing at AAA Life after the acquisition. Additionally, Mr. Daubenmier stated that Jeff Dillon, who was also present at the hearing, would be AAA Life's Chief Financial Officer. (Transcript p. 14, Lines 13-14) Finally, Mr. Daubenmier testified that together, the [management of AAA Life] have 64 years of experience in the life insurance industry, and that the competence, experience and integrity of the rest of the proposed management team is similar and is described in Form A. (Transcript p. 14, Lines 14 – 17).

Prior to the close of the record, the Department of Insurance and Securities Regulation introduced a "ACLI Acquisition Company/Background Report". That report included a background inquiry of the officers and directors of ACLI and the respective insurance companies that are associated with said officers and directors. The report also included 13 biographical affidavits regarding thirteen officers and directors who would control the operation of AAA Life. The Department offered no objection to the competence, experience, and integrity of those persons who would control the operation of AAA Life.

ACCORDINGLY, the Hearing Officer does not find based on the testimony and evidence presented, that the competence, experience, and integrity of those persons who would control the operation of AAA Life are such that it would not be in the interest of policyholders of AAA Life and of the public to permit the acquisition of control.

6. Whether the acquisition is likely to be hazardous or prejudicial to the insurance buying public pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(F)?

D.C. Code, Title 35, Section 35-3703(g)(1) states:

> The Mayor shall approve any merger or other acquisition of control referred to in subsections (a) and (b) of this section unless, after a public hearing, the Mayor finds that:

(F) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.

Michael Daubenmier testified that ACLI is owned by three of the largest auto clubs in the United States, all of which have operated insurance companies for many years in a responsible and financially sound manner. (Transcript p. 15, Lines 13 – 16). Mr. Daubenmier further testified that by this acquisition, this experience will be added to the similar track record of AAA. (Transcript p. 15, Lines 16 – 17). He further testified that the business plan for AAA Life is not a mere projection, it is based on the combination of two currently successful operations, and that this alliance will only be beneficial to the insurance-buying public. (Transcript p. 15, Lines 17 - 21).

ACCORDINGLY, based upon the testimony presented, the Hearing Officer does not find that the acquisition is likely to be hazardous or prejudicial to the insurance buying public.
In support of approval of the proposed acquisition, ACLI offered the following exhibits and moved their introduction into the hearing record:

ACLI Exhibit 1	Form A, Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer, dated April 30, 1999
ACLI Exhibit 2	Changes No. 1 to the Form A dated July 12, 1999
ACLI Exhibit 3	Changes No. 2 to the Form A dated August 17, 1999
ACLI Exhibit 4	Biographical affidavits of proposed AAA Life directors and officers Larry Baker, Chris Bauer, John Boyle, Mark Brown, Ken Johnson, Terry McElroy, Tom McKernan, Terry Shea, John Schaffer, Mike Daubenmier, Jeff Dillon, Peter Young, Leo Juip, Laura Quinn, Laura Varney, and Yvonne Alford
ACLI Exhibit 5	Shareholder Agreement dated June 30, 1999
ACLI Exhibit 6	Certificate of Incorporation and Bylaws (including proposed amendments) of ACLI
ACLI Exhibit 7	Hearing testimony of Michael D. Daubenmier
ACLI Exhibit 8	Pro forma post-closing Organizational Chart of AAA Life
ACLI Exhibit 9	Letter from Quarles & Brady to the Federal Trade Commission confirming inapplicability of the Hart-Scott-Rodino Act to the proposed acquisition

Subsequent to the hearing, and before the record closed, ACLI offered the following exhibits and moved their introduction into the hearing record:

ACLI Exhibit 10	Financial statements of Auto Club Life Insurance Company for the years ended December 31, 1998 and 1997
ACLI Exhibit 11	Financial statements of Auto Club Life Insurance Company for the years ended December 31, 1997 and 1996
ACLI Exhibit 12	Draft Transition Support Agreement between The American Automobile Association and AAA Life

ACLI Exhibit 13	ACLI Form E analysis
ACLI Exhibit 14	Affidavit of mailing to AAA Life
ACLI Exhibit 5A	Executed version of the Shareholder Agreement dated June 30, 1999

Subsequent to the hearing, DISR reviewed the exhibits and has no objections to the introduction of ACLI Exhibits 10, 11, 12, 14, and 5A in the record.

DISR offered the following exhibits and moved their introduction into the record:

DISR Exhibit 1	Notice of Public Hearing
DISR Exhibit 2	AAA Life Insurance Company 1998 Annual Statement
DISR Exhibit 3	AAA Life Insurance Company 1998 Quarterly Statement as of June 30, 1998

In further support of the proposed acquisition, ACLI presented the following: Testimony that AAA Life is currently owned by The American Automobile Association (AAA), which will ultimately transfer ownership of 100% of the outstanding shares of the stock of AAA Life to ACLI. (Transcript 8, Lines 5 - 8).

Michael Daubenmier offered an explanation of the proposed merger process, stating that in the first step of this transaction, AAA transfers approximately 21% of the AAA Life shares to each of ACLI's current shareholders. (Transcript 8, Lines 9 - 11). Those shareholders are ultimately three of the largest of AAA's member clubs: AAA Michigan/Wisconsin, Inc.; the Automobile Club of Southern California; and the California State Automobile Association. (Transcript 8, Lines 11-14) Under the Stock Purchase Agreement, which is attached Changes No. 1 to the Form A as Exhibit 1A, these clubs will pay a total of $16.2 million for those shares. (Transcript 8, Lines 15 - 17). The source of the funds for the payments by the clubs will be cash they have on hand, and no part of the purchase price will be borrowed. (Transcript 8, Lines 17-19).

In a second step, each of the clubs and AAA will contribute all of their AAA Life shares to ACLI in return for ACLI stock. (Transcript 8, Lines 20-22) After the closing, each of the clubs and AAA will own 25% of ACLI. (Transcript 8, Lines 22-23) At closing, the four shareholders will also contribute a total of $11.3 million to ACLI, approximately $8 million of which will be used to increase AAA Life's surplus. (Transcript 8, Line 22 to p. 9, Line 1). This will give AAA Life a risk based capital ratio of approximately 800% after closing. (Transcript 9, Lines 1-3). The shareholders have also committed to contributing a total of up to another $10 million to AAA Life over the next two and a half years to maintain AAA Life's risk based capital ratio at not less than 300%. (Transcript 9, Lines 3-7). In addition, ACLI and AAA each plan to offer 5% of ACLI's stock, or a total of 10% of ACLI's stock, to other AAA clubs after the closing, and any shares sold by ACLI will make additional capital available to AAA Life. (Transcript 9, Lines 7-10)

Mr. Daubenmier testified that, as noted in the business plan attached to the Form A as Exhibit 5, AAA and the Michigan club have been offering life insurance and related products to members since 1965 and 1974, respectively, through their affiliated life insurance companies, AAA Life and Auto Club Life Insurance Company (Auto Club Life). (Transcript 9, Lines 16-18). The California clubs began offering such products to their members in 1997 and 1998, respectively, through an agency agreement with Auto Club Life. By combining forces, the parties anticipate realizing economies of scale and accessing larger markets and greater financial resources. As a result, they anticipate being able to offer more products and services specially designed for AAA members. (Transcript 9, Lines 21-23).

Michael Daubenmier testified that ACLI plans to combine the operations of Auto Club Life in the three clubs' marketing territories with the operations of AAA Life elsewhere. (Transcript 9, Line 24 to p. 10, Line 1) The administration of AAA Life will be merged with the administration of Auto Club Life, and the Florida and Michigan home offices will be consolidated in Michigan. (Transcript 10, 2-4). As noted in the Form A, ACLI has no plans to have AAA Life declare an extraordinary dividend, to liquidate AAA Life or to sell AAA Life's assets. (Transcript 10, Lines 4-7)

Michael Daubenmier testified that ACLI "is only going to act as an entity that holds AAA Life", and that ACLI "does not have plans to file as a life insurance company." (Transcript p. 18, Lines 15 – 17.)

Therefore, the Hearing Officer finds based upon the above testimony and evidence that the proposed acquisition by ACLI of AAA should be approved.

Findings of Fact

The Hearing Officer makes the following findings of fact based on the record as a whole:

1. The above-captioned Application, Case Number HC-99-01, was filed by ACLI with DISR on June 14, 1999.

2. The filing was composed of a Form A, Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer, dated April 30, 1999 (Form A). ACLI submitted two amendments to the original Form A filing application. (See ACLI Exhibit 2, and ACLI Exhibit 3.)

3. After notice was duly given, a public hearing before Leslie E. Johnson, Hearing Officer, for the purpose of considering whether the District of Columbia Department of Insurance and Securities Regulation Commissioner should approve the proposed acquisition of control of AAA Life by ACLI.

4. AAA Life and its Affiliates were mailed notice of the Hearing, together with a copy of the Form A filing submitted by ACLI. Notice of the Public Hearing was published in the

D.C. Register on July 30, 1999, 46 DCR 6232 (DISR Exhibit 1).

5. No AAA Life policyholders, other members of the public, or other persons appeared at the hearing or presented evidence in opposition to the application for acquisition of control. Neither ACLI nor DISR received letters offering substantive commentary in relation to the subject matter of the hearing.

6. Subsequent to the hearing, DISR indicated no objection to the introduction of each of these exhibits, which were accepted by the Hearing Officer.

7. Michael Daubenmier, President and Chief Executive Officer of ACLI testified that there will be no substantive change in AAA Life after the acquisition, except the addition of business currently conducted by Auto Club Life and the availability of additional capital, neither of which will change the ability of AAA Life to hold a license to write life insurance in the District of Columbia. (Transcript p. 10, Lines 16 – 21).

8. Section 35-608 of the D.C. Code requires that domestic life insurance companies have paid-up capital stock of not less than $1 million and, in addition, not less than $500,000 in surplus paid-up. Transcript p. 10, Lines 22-25).

9. Mr. Daubenmier testified that at June 30, 1999, AAA Life's capital stock was $2.5 million, its paid-in surplus was $1.25 million, and its other surplus approximately $12.7 million. (Transcript p. 10 - 11). He further testified that these figures will not change after the change of control except, as indicated, AAA Life's surplus will increase substantially. (Transcript 11, Lines 3-5).

10. Section 35-601 of the D.C. Code sets forth the required contents of a domestic life insurer's articles of incorporation. Mr. Daubenmier testified that AAA Life's current articles of incorporation will not change in connection with the proposed acquisition. (Transcript p. 11, Lines 6 – 9).

11. Michael Daubenmier, President and Chief Executive Officer of ACLI testified that ACLI's acquisition of AAA Life will not affect competition in the District of Columbia. He stated that the only other direct life insurer that is affiliated with ACLI is Auto Club Life. (Transcript 11, Lines 13-16).

12. Additionally Mr. Daubenmier testified that Auto Club Life is not licensed in the District of Columbia, so there is no existing competition between Auto Club Life and AAA Life that would be affected by the acquisition. (Transcript p. 11, Lines 16 – 19).

13. Mr. Daubenmier testified that the District of Columbia reflects the very competitive life insurance marketplace that exists nationwide. He stated that there are 563 life and health insurers licensed to do business in the District of Columbia, and those insurers collected over $1.9 billion in premium in 1997, and that the $600,000 in premiums AAA Life

collected in the District in 1997 amounts to far less than 1% of the total. (Transcript pp. 11 - 12).

14. Mr. Daubenmier stated that the nationwide figures also clearly show that this acquisition will not tend to create a monopoly or even come close to doing so. Life and health premium nationwide totaled almost $340 billion in 1997. The combined total for AAA Life and Auto Club Life was less than $85 million, which, again, is far less than 1% of the total. ACLI has not crossed the Form E filing threshold in any state. Including AAA Life and Auto Club Life in the same holding company system will have only a negligible affect on concentration in the industry. (Transcript p. 12, Lines 6 – 16).

15. Michael Daubenmier testified that ACLI is owned by three of the largest auto clubs in the United States with over $11 billion in assets and, after the acquisition, AAA Life's current owner, AAA, will also own a quarter of ACLI. (Transcript p. 12 , Lines 21– 24).

16. Further Mr. Daubenmier stated that the acquisition, AAA Life will have four financially strong owners instead of one. (Transcript p. 12, Line 25 through p. 13, Line 1).

17. Mr. Daubenmier testified that, these owners plan to bolster AAA Life's capital and surplus as described above. (Transcript p. 13, Lines 1 – 3).

18. Michael Daubenmier testified that ACLI has no plans to have AAA Life declare an extraordinary dividend, to liquidate AAA Life, to sell AAA Life's assets, to merge AAA Life with any person, or to make any other material change in AAA Life's corporate structure. (Transcript 13, Lines 13-17).

19. ACLI's only plan to make a material change in AAA Life's business is to combine its operations with those of Auto Club Life, and this change will allow the parties to realize economies of scale and access larger markets and greater financial resources, and thus be able to offer more products and services specially designed for AAA members. (Transcript p. 13, Lines 13 – 25).

20. Michael Daubenmier testified that he was the Chief operating officer of Auto Club Life, and will become the Chief Executive Officer of AAA Life. (Transcript p. 14, Line 6 – 10) Mr. Daubenmier further testified that Peter Young was the chief operating officer of AAA Life, and will become the Senior Vice President for marketing at AAA Life after the acquisition. (Transcript 14, Lines 10-12).

21. Additionally, Mr. Daubenmier stated that Jeff Dillon, who was also present at the hearing, would be AAA Life's Chief Financial Officer. Finally, Mr. Daubenmier testified that together, the [management of AAA Life] have 64 years of experience in the life insurance industry, and that the competence, experience and integrity of the rest of the proposed management team is similar and is described in Form A. (Transcript p. 14, Lines 14 – 17).

22. ACLI also offered testimony that AAA Life is currently owned by The American Automobile Association (AAA), which will ultimately transfer ownership of 100% of the outstanding shares of the stock of AAA Life to ACLI. (Transcript p. 8, Lines 5-8).

23. Michael Daubenmier offered an explanation of the proposed merger process, stating that in the first step of this transaction, AAA transfers approximately 21% of the AAA Life shares to each of ACLI's current shareholders. (Transcript p. 8, Lines 9-11).

24. Those shareholders are ultimately three of the largest of AAA's member clubs: AAA Michigan/Wisconsin, Inc.; the Automobile Club of Southern California; and the California State Automobile Association. (Transcript p. 8, Lines 11-14).

25. Under the Stock Purchase Agreement, which is attached Changes No. 1 to the Form A as Exhibit 1A, these clubs will pay a total of $16.2 million for those shares. (Transcript p. 8, Lines 15 – 17).

26. The source of the funds for the payments by the clubs will be cash they have on hand, and no part of the purchase price will be borrowed. (Transcript p. 8, Lines 17-19).

27. In a second step, each of the clubs and AAA will contribute all of their AAA Life shares to ACLI in return for ACLI stock. (Transcript p. 8, Lines 20-22).

28. After the closing, each of the clubs and AAA will own 25% of ACLI. (Transcript p. 8, Lines 22-23).

29. At closing, the four shareholders will also contribute a total of $11.3 million to ACLI, approximately $8 million of which will be used to increase AAA Life's surplus. (Transcript p. 8, Line 22 to p. 9, Line 1).

30. This will give AAA Life a risk based capital ratio of approximately 800% after closing. The shareholders have also committed to contributing a total of up to another $10 million to AAA Life over the next two and a half years to maintain AAA Life's risk based capital ratio at not less than 300%. (Transcript p. 9, Lines 3-7).

31. In addition, ACLI and AAA each plan to offer 5% of ACLI's stock, or a total of 10% of ACLI's stock, to other AAA clubs after the closing, and any shares sold by ACLI will make additional capital available to AAA Life. (Transcript p. 9, Lines 7-10).

32. Mr. Daubenmier testified that, as noted in the business plan attached to the Form A as Exhibit 5, AAA and the Michigan club have been offering life insurance and related products to members since 1965 and 1974, respectively, through their affiliated life insurance companies, AAA Life and Auto Club Life Insurance Company (Auto Club Life). (Transcript p. 9, Lines 16-18).

33. The California clubs began offering such products to their members in 1997 and 1998, respectively, through an agency agreement with Auto Club Life. By combining forces, the parties anticipate realizing economies of scale and accessing larger markets and greater financial resources. As a result, they anticipate being able to offer more products and services specially designed for AAA members. (Transcript p. 9, Lines 21-23).

34. Michael Daubenmier testified that ACLI plans to combine the operations of Auto Club Life in the three clubs' marketing territories with the operations of AAA Life elsewhere. (Transcript p. 9, Line 24 to p. 10, Line 1). The administration of AAA Life will be merged with the administration of Auto Club Life, and the Florida and Michigan home offices will be consolidated in Michigan. (Transcript p. 10, Lines 2-4).

35. As noted in the Form A, ACLI have no plans to have AAA Life declare an extraordinary dividend, to liquidate AAA Life or to sell AAA Life's assets. (Transcript p. 10, Lines 4-7).

36. Michael Daubenmier testified that ACLI "is only going to act as an entity that holds AAA Life", and that ACLI "does not have plans to file as a life insurance company." (Transcript p. 18, Lines 15 – 17.)

Conclusions of Law

After a careful evaluation of the evidence and findings of fact, the Hearing Officer concludes, as a matter of law pursuant:

1. The Commissioner has jurisdiction over the parties and the subject matter herein, pursuant to the Holding Company System Act of 1993 (D.C. Law 10-44, D.C. Code, Title 35, Section 3703 et seq.)

2. Notice of the public hearing was given in a manner consistent with D.C. Administrative Procedures Act, D.C. Code Section 1-1501 et seq. (1992 Repl.).

3. Pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(A), it is not the case that, after the change of control, AAA Life 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.

4. Pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(B), it is not the case that the effect of the acquisition of control would be substantially to lessen competition in insurance in the District of Columbia or tend to create a monopoly.

5. Pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(C), it is not the case that the

financial condition of any acquiring party is such as might jeopardize the financial stability of AAA Life, or prejudice the interest of its policyholders.

6. Pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(D), it is not the case that any plans or proposals ACLI has to liquidate AAA Life, 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 or unreasonable to the policyholders of AAA Life and are not in the public interest.

7. Pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(E), it is not the case that the competence, experience, and integrity of those persons who would control the operation of AAA Life are such that it would not be in the interest of policyholders of AAA Life and of the public to permit the acquisition of control.

8. Pursuant to D.C. Code, Title 35, Section 35-3703(g)(1)(F), it is not the case that the acquisition is likely to be hazardous or prejudicial to the insurance buying public.

9. None of the preclusions to approval specified in the District of Columbia Holding Company System Act in the District of Columbia Mutual Holding Company Act Holding Company System Act of 1993, (D.C. Law 10-44, D.C. Code, Title 35, Section 35-3703, et seq.) exist, and therefor no reason exists why the Commissioner should not approve the proposed acquisition of control of AAA Life Insurance Company by ACLI Acquisition Company.

JOINT PROPOSED ORDER

It is therefore ORDERED that the proposed acquisition of control of AAA Life Insurance Company by ACLI Acquisition Company, is hereby APPROVED, subject to the following CONDITIONS, each of which shall be supplementary to, and not in derogation of, existing applicable statutes, regulations, orders and contractual undertakings.

CONDITIONS

1. ACLI shall file closing documents with the Commissioner and specifically notify the Commissioner of changes in these documents.

2. ACLI and AAA Life shall notify the Commissioner immediately should there be amendments, deletions, or additions to the Form A application or its amendments.

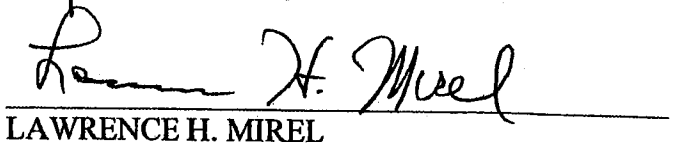
3. ACLI should notify the Commissioner immediately should their plan of operation change from those stated in this Order.

ACCEPTING AND RECOMMENDING JOINT PROPOSED ORDER as consistent with the weight of the evidence and applicable law.

Leslie E. Johnson 9/14/99

LESLIE E. JOHNSON
Hearing Officer
Department of Insurance and Securities Regulation

ACCEPTED AND SO ORDERED, this 14 day of September, 1999.



LAWRENCE H. MIREL
Acting Commissioner,
Department of Insurance and Securities Regulation

Released September 14, 1999