

MAR 25 2014

BEFORE THE DEPARTMENT OF INSURANCE
STATE OF NEBRASKA

FILED

IN THE MATTER OF THE)	FINDINGS OF FACT, CONCLUSIONS
ACQUISITION OF CONTROL OF)	OF LAW, RECOMMENDED ORDER, AND
LINCOLN BENEFIT LIFE COMPANY)	ORDER
)	
)	CAUSE NO.: C-2031

On August 14, 2013, a Statement Regarding the Acquisition of Control of Lincoln Benefit Life Company (“Form A”) was filed by Resolution Life, Inc., Resolution Life Holdings, Inc., Resolution Life L.P., Resolution Life GP LTD., Resolution Capital Limited, and Clive Cowdery (“Applicants”) seeking approval to acquire control of Lincoln Benefit Life Company (“LBL”), a Nebraska domestic insurer. The application was filed pursuant to the Insurance Holding Company System Act, Neb. Rev. Stat. §§ 44-2120 to 44-2153. The filing was subsequently supplemented multiple times, with the final supplement being received by the Department on March 7, 2014. A Notice of Public Hearing was issued on February 21, 2014.

On November 25, 2013, the Director of the Nebraska Department of Insurance signed an order appointing Robert Nefsky as hearing officer for this matter. On March 19, 2014, a public hearing was held before the Nebraska Department of Insurance (“Department”). Robert Nefsky presided over the hearing. Lisa G. Grimminger, a licensed Notary Public and court reporter, was present and recorded the hearing.

Applicants were present and represented by Ann Frohman, Edwin Schallert and Terrienne Patnode. Applicants presented testimony in favor of the acquisition through Clive Cowdery, Chairman, Resolution Capital Insurance; and Weldon Wilson, Chief Executive Officer of Resolution Life Holdings, Inc. Exhibits were offered by Applicants and received into the record. Applicants provided LBL with timely notice of the hearing as required pursuant to

Neb. Rev. Stat. § 44-2127(2).

The Department was present and represented by Christine Neighbors, Deputy Director and General Counsel; Justin Schrader, Chief Financial Examiner; Rhonda Ahrens, Life and Health Actuarial Examiner; and Matthew Holman, Legal Counsel. The Department offered testimony through Justin Schrader and Rhonda Ahrens. Exhibits were offered by the Department and received into the record. The Department supports the acquisition, contingent upon the imposition of certain additional solvency protection measures on Applicants and LBL. The proposed solvency protection measures were submitted as evidence into the record as part of the testimony of Weldon Wilson and the testimony and affidavit of Justin Schrader. The Department also offered into the record a collection of written comment letters and inquiries submitted to the Department by interested parties since the proposed acquisition was announced.

Interested parties in attendance at the hearing were given the opportunity to testify in support, opposition, or a neutral capacity. Interested parties were also given an opportunity to ask questions of the Applicants and the Department during the hearing. Theodore L. Kessner, an LBL policyholder, and John Roe, a former LBL employee and a relationship manager for diversified brokerage services involving LBL, testified at the hearing.

LBL and its owner, Allstate Life Insurance Company (“ALIC”), were present at the hearing through their representatives, Jay Kallas, Sonya Ekart and Jess Merten. No questions were asked of ALIC and ALIC did not testify.

On the basis of the testimony and written evidence submitted at the hearing, the hearing officer recommends approval of the application and finds, concludes, and recommends as follows:

FINDINGS OF FACT

1. On August 14, 2013, the Department received a Form A application from the Applicants for approval to acquire control of LBL through a stock purchase agreement. The application and subsequent amendments were filed pursuant to the Insurance Holding Company System Act, Neb. Rev. Stat. §§ 44-2120 to 44-2153, specifically § 44-2126. The stock purchase agreement will result in Applicants gaining control of LBL as control is defined in the Act.

2. LBL is a domestic insurer organized under and governed by the laws of the State of Nebraska. LBL obtained its Certificate of Authority to transact the business of life and health insurance in this state on November 15, 1938. LBL is currently a stock-based life insurance company and a wholly-owned subsidiary of ALIC, an Illinois life insurance company.

3. Applicants are: Clive Cowdery, in his individual capacity; Resolution Life Inc., a Delaware corporation incorporated on July 2, 2013 for the purpose of acquiring, holding, and disposing of businesses and assets in the U.S. life insurance industry; Resolution Life Holdings, Inc., a Delaware corporation incorporated on April 5, 2013 in order to establish and hold all outstanding securities of Resolution Life, Inc., and to facilitate the financing activities of Resolution Life, Inc.; Resolution Life L.P., a Bermuda exempted limited partnership registered on June 13, 2013 for the purpose of pooling investments from multiple third-party investors and investing in businesses and assets in the U.S. life insurance industry; Resolution Life GP Ltd., a Bermuda exempted company incorporated on June 7, 2013 for the purpose of acting as the general partner of Resolution Life L.P. and Resolution Life Management L.P.; and Resolution Capital Limited, a private limited company incorporated in England and Wales on October 17, 2008 in order to sponsor the investment opportunities of Clive Cowdery.

4. On July 17, 2013, Applicants and ALIC executed a Stock Purchase Agreement.

The Stock Purchase Agreement provides for the transaction to close following, among other things, the proper regulatory approval of each state where approval is necessary.

5. As consideration for the transaction and pursuant to the Stock Purchase Agreement:

a) ALIC and LBL shall enter into a Recapture Agreement, pursuant to which LBL will commute from ALIC the reinsurance of: all fixed deferred annuity, value adjusted deferred annuity, and indexed deferred annuity business; all life insurance business originated through independent producers (other than certain specified life business); and all of the net liability of ALIC with respect to the accident and health and long-term care business written by LBL;

b) ALIC shall cause LBL to enter into certain restructuring agreements, including an Amended and Restated Reinsurance Agreement, Administrative Services Agreement, and a Reinsurance Trust, under which ALIC will continue to reinsure and administer LBL's insurance and annuity business other than the recaptured business, business reinsured by Lincoln Benefit Reinsurance Company, a Vermont captive insurance company and an affiliate of ALIC, and business reinsured to third party reinsurers;

c) ALIC and Applicant Resolution Life Holdings, Inc. shall enter into a Transition Services Agreement, under which ALIC will continue to perform substantially all of the administrative functions for LBL with respect to recaptured business for a 12 to 24 month period;

d) Allstate Insurance Company and LBL shall enter into an Intellectual Property License Agreement covering LBL's use of Allstate Insurance Company's intellectual property in connection with certain insurance products sold by LBL;

e) Allstate Distributors, LLC and LBL shall enter into an Amended and Restated Principal Underwriting Agreement, pursuant to which Allstate Distributors, LLC will continue to serve as the principal underwriter for LBL's registered products;

f) ALIC and LBL shall enter into an Agent Servicing Agreement pursuant to which ALIC will continue to provide appointment and commission payment services with respect to agents that are part of the ALIC exclusive agency channel;

g) Applicants will pay to ALIC a base price of \$600,000,000, which may be adjusted pursuant to the mechanisms set forth in sections 2.4, 2.5, and 2.6 of the Stock Purchase Agreement; and

h) Applicants have obtained equity capital from equity investment partners for approximately \$509 million and are entering into a bank loan facility to provide about \$175 million in senior secured indebtedness.

6. Applicant Resolution Life Holdings, Inc. assigned its right to purchase LBL to Applicant Resolution Life, Inc.

7. Applicant Resolution Life, Inc. will acquire all of the issued and outstanding shares of LBL, making LBL a wholly owned subsidiary of Applicant Resolution Life, Inc.

8. Following the closing of the acquisition, LBL has committed to comply with all statutory requirements for licensure of the LBL business, and in particular LBL has committed to have common capital stock of \$2.5 million and surplus of more than \$350 million, in each case in excess of the capital and surplus requirements of the Nebraska Insurance Code.

9. Prior to execution of the Stock Purchase Agreement, LBL's share of the Nebraska market was less than one percent based on direct premiums written. Resolution does not currently conduct any business in the State of Nebraska.

10. Resolution has obtained additional financing for the proposed Nebraska domiciled special purpose financial captive insurer, Lancaster Re Insurance Company (“Captive”) with Hannover Reinsurance America (Bermuda), Ltd., and Hannover Reinsurance America, Inc.

11. Post acquisition, LBL will be managed by experienced professionals from the U.S. life insurance and annuity industry.

12. There is no prior demutualization at issue for the parties in this transaction.

13. Applicants have no current plans to liquidate LBL, sell its assets, or merge it with any person. Applicants do not intend to make any other material change to LBL’s business, corporate structure or management that would be unfair or unreasonable to LBL’s policyholders or contrary to the public interest.

14. Under the proposed transaction, Applicants plan to make certain material changes in LBL’s business operations. Specifically, LBL will cease marketing new business. On July 18, 2013, LBL ceased the sale and marketing of new products through its independent marketing channel, but has continued to sell new policies through the ALIC exclusive agency channel. All policies sold through the ALIC exclusive agency channel will be 100 percent reinsured to ALIC. The complete cessation of selling and marketing new products is scheduled to occur within 30 months after the closing of the proposed transaction. LBL’s business will consist primarily of the in-force life business written by the independent marketing channel and in-force deferred annuities written by LBL. Applicants plan to manage the in-force policies and grow LBL through future acquisitions of life companies or blocks of in-force policies.

15. Applicants intend to cause LBL to form Captive as a wholly-owned subsidiary. Applicants propose to cause LBL to finance certain AXXX/XXX business (universal life business with no-lapse guarantees and level premium term life business) through a reinsurance

agreement with Captive.

16. Applicants intend to cause the Captive to enter into a reinsurance agreement covering certain universal life insurance policies and annuity contracts and a monthly or yearly renewable term reinsurance agreement covering certain universal life and term life insurance policies with Hannover Life Reassurance Company of America (Bermuda) Ltd. and Hannover Life Reassurance Company of America.

17. Applicants plan to seek approval from the Department of Insurance to pay extraordinary dividends beginning in 2015, as deemed prudent. Applicants plan at all times to maintain a Risk Based Capital calculation of at least 350% company action level.

18. Applicants have filed all the documents and information required by law and requested by the Department.

19. The Department's life and health actuarial examiner reviewed all documents related to the Form A filing, including those specifically focused on the development of reserves that will be transferred from LBL to the Captive, and the Form D filing for the commutation of business to LBL from ALIC which was previously ceded to ALIC from LBL. The actuarial examiner is of the opinion that (1) the reserves being commuted from ALIC to LBL are adequate to support the underlying policy obligations; (2) there is no reason to believe that events subsequent to the transaction would impact LBL's ability to maintain this adequacy; and (3) the economic reserves underlying the reinsurance provided by the Captive are reasonable and do not appear to be hazardous to policyholder protection.

20. The Department's Chief Financial Examiner also reviewed all documents related to the Form A application, the Form D reinsurance filing, and all documentation submitted to the Department regarding the formation and operation of the proposed Captive. He oversaw and

coordinated the review of the aforementioned documents by other Department examination division staff and contracted with the outside actuarial firm of Lewis and Ellis to aid the Department's review of the transaction.

21. The Chief Financial Examiner worked closely with the Applicants to fully analyze the transaction. The Chief Financial Examiner is of the opinion that in light of the complexity of the proposed transaction and the Applicants' lack of operating experience in the U.S. life insurance industry, certain additional solvency measures should be imposed on LBL and the Applicants and the Applicants have agreed to the same. Unless and until such time as modified by the Nebraska Director of Insurance (Director), LBL shall not, without prior approval of the Director:

a. Pay or declare the payment of any dividend, distribution, or remove capital or surplus, other than through the ordinary course of business, if immediately after giving effect to such dividend or distribution, LBL's Company Action Level Risk-Based Capital would reasonably be expected to drop below 350% (700% of Authorized Control Level) and the Director has approved the payment of such dividend, distribution or removal of capital or surplus.

b. Pay or declare the payment of any ordinary dividend until LBL has provided the Department its 3rd quarter 2014 statement filing and the Director has approved the payment of such ordinary dividend after review of LBL's proposal to pay the same.

c. Pay or declare the payment of any extraordinary dividend or distribution until LBL has provided the Department its 2014 Annual Statement filing and 2014 Actuarial Opinion and Supporting Memorandum and the Director has approved the payment of such extraordinary dividend after review of LBL's proposal to pay the same.

d. Pay any ordinary dividends for five years after Applicants' acquisition of LBL (similar to the requirement for notice and approvals of extraordinary dividends and distributions pursuant to Neb. Rev. Stat. § 44-2134(1)).

e. Acquire or enter into an agreement or understanding to acquire control of any insurer, assumptively acquire policies, merge or otherwise combine with any person, or bulk reinsure business during the period of three years after the acquisition.

f. Provide or propose to provide directly or indirectly any loans, advances, guarantees, pledges, or other financial assistance (excluding policy loans or investment portfolio transactions) during the period of three years after the acquisition.

g. Engage in any material transaction during the period of three years after the acquisition. "Material transaction" shall mean any transfer or encumbrance of assets that, together with all other transfers or encumbrances made within the preceding twelve months, exceeds in value the greater of five percent (5%) of LBL's surplus as of the December 31st last preceding, or the net gain from operations of LBL for the twelve-month period ending the December 31st last preceding. For the purposes of this clause, "Material Transaction" shall exclude (i) investment portfolio transactions (ii) settlement of balances due to policyholders, agents or third party reinsurers under existing reinsurance agreements or (iii) settlement of ordinary course payables including but not limited to taxes, third party administrators, suppliers or other ordinary course creditors, and intercompany payables arising under any approved intercompany services agreement.

22. The Department's Chief Financial Examiner is of the opinion that the transaction as structured, with the imposition of the additional solvency measures, will not jeopardize the financial stability of LBL or prejudice the interests of LBL's policyholders. He is of the further opinion that the Applicants' proposed transaction and operational plans are not unfair or unreasonable to LBL's policyholders or prejudicial to the public.

23. ALIC will continue to perform all administrative functions for LBL for the first twelve months after the acquisition and anticipates completing its administrative role within two years following the acquisition. Resolution intends to rely on the independent agents who generated LBL's retained business to continue to participate materially in in-force policy administration to ensure that policyholders are getting the same quality customer service. Resolution has committed that independent agents will continue to collect commissions with respect to in-force business and expects to retain the level of nonvested commissions even in cases where LBL may be entitled to reduced commission payments under agent contracts.

24. The Applicants are committed to maintaining LBL's capital levels equivalent to a level that would support an A rating from A.M. Best.

25. The Applicants are committed to maintaining LBL's administrative arrangement with the provider that administers its long-term care policies such that there is no change in the administration of those policies. The Applicants are further committed to use competent and experienced providers of administrative services for any other administration which is outsourced.

26. The Applicants are committed to informing all policyholders of their acquisition of LBL promptly upon completing the transaction and in any event within approximately forty-five days (45) following the effective date of the acquisition.

27. The Applicants have worked with ALIC to learn LBL's "desk drawer rules" for policy administration and intend to follow the same rules following the acquisition.

CONCLUSIONS OF LAW

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

2. On the basis of the materials filed, correspondence received and evidence presented at the hearing, I conclude as follows as to the requirements of Neb. Rev. Stat. § 44-2127(1):

a. After the change of control, LBL will 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;

b. The acquisition of control would not substantially lessen competition in insurance in this state or tend to create a monopoly therein;

c. The financial condition of any of the Applicants, including equity and financing commitments obtained from third parties, will not jeopardize the financial stability of the insurer or prejudice the interest of policyholders of the insurer;

d. The Applicants have no current plans or proposals to liquidate LBL, to sell its assets or consolidate or merge it with any person, or to make any other material change in its

business or corporate structure of management which would be unfair and unreasonable to policyholders of the insurer and not in the public interest;

e. The competence, experience, and integrity of those persons who would control the operation of LBL is sufficient to reasonably assure that permitting the acquisition of control would not adversely affect the interest of policyholders of the insurer and of the public;

f. The requirements of Neb. Rev. Stat. § 44-6115 are not applicable to this application; and

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

3. I conclude that the Assumption Reinsurance Act, Neb. Rev. Stat. § 44-6201 *et seq.*, does not apply to this application:

a. Upon approval, this Application will involve a transfer of control of LBL.

b. The Assumption Reinsurance Act by its terms applies to any insurer authorized to transact business in this state which either assumes or transfers the obligations or risks on contracts of insurance owned by policyholders residing in this state pursuant to an assumption reinsurance agreement. Neb. Rev. Stat. § 44-6203(1).

c. LBL is the sole direct issuer of its policies. Under the transaction, LBL will remain directly liable for its insurance obligations or risks under the contracts of insurance subject to the reinsurance agreement. No transfer of any obligations or risk under any insurance policies will occur. No other insurer is liable to the policyholders of LBL for LBL's insurance obligations or risks either as an issuer of the policies or as a result of another mechanism, such as cut-through reinsurance.

d. The Assumption Reinsurance Act by its express terms does not apply to "[a]ny . . . transaction in which the ceding insurer continues to remain directly liable for its insurance obligations" Neb. Rev. Stat. § 44-6203(2)(a).

RECOMMENDED ORDER

Based on the Findings of Fact and Conclusions of Law, it is recommended that Applicants' application to acquire Lincoln Benefit Life Company be approved, subject to the following conditions:

1. LBL shall not, without the prior approval of the Director:

a. Pay or declare the payment of any dividend, distribution, or remove capital or surplus, other than through the ordinary course of business, if immediately after giving effect to such dividend or distribution, LBL's Company Action Level Risk-Based Capital would reasonably be expected to drop below 350% (700% of Authorized Control Level) and the Director has approved the payment of such dividend, distribution or removal of capital or surplus.

b. Pay or declare the payment of any ordinary dividend until LBL has provided the Department its 3rd quarter 2014 statement filing and the Director has approved the payment of such ordinary dividend after review of the same.

c. Pay or declare the payment of any extraordinary dividend or distribution until LBL has provided the Department its 2014 Annual Statement filing and 2014 Actuarial Opinion and Supporting Memorandum and the Director has approved the payment of such extraordinary dividend after review of the same.

d. Pay any ordinary dividends for five years after Applicants' acquisition of LBL (similar to the requirement for notice and approvals of extraordinary dividends and distributions pursuant to Neb. Rev. Stat. § 44-2134(1)).

e. Acquire or enter into an agreement or understanding to acquire control of any insurer, assumptively acquire policies, or bulk reinsure business during the period of three years after the acquisition.

f. Provide or propose to provide directly or indirectly any loans, advances, guarantees, pledges, or other financial assistance (excluding policy loans or investment portfolio transactions) during the period of three years after the acquisition.

g. Engage in any material transaction during the period of three years after the acquisition. "Material transaction" shall mean any transfer or encumbrance of assets that, together with all other transfers or encumbrances made within the preceding twelve months, exceeds in value the greater of five percent of LBL's surplus as of the December 31st last preceding, or the net gain from operations of LBL for the twelve-month period ending the December 31st last preceding. For the purposes of this clause, "Material Transaction" shall exclude (i) investment portfolio transactions (ii) settlement of balances due to policyholders, agents or third party reinsurers under existing reinsurance agreements or (iii) settlement of ordinary course payables including but not limited to taxes, third party administrators, suppliers or other ordinary course creditors, and intercompany payables arising under any approved intercompany services agreement.

To the extent of any difference between any documents submitted as part of LBL's Form A application and the foregoing, the foregoing shall control.

2. Prior to making any material change in the investment strategy from that historically followed by LBL, LBL shall notify the Department and shall discuss with the

Department the reasons for such change; and in all events LBL shall comply with the Insurers Investment Act, Neb. Rev. Stat. § 44-5101 et seq.

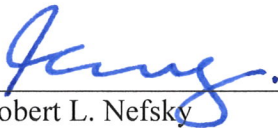
3. The Applicants and LBL shall ensure that the directors, officers, employees and investors in LBL understand and comply with the laws, regulations and bulletins of Nebraska, including all other regulatory standards.

4. The Applicants and LBL shall ensure that any and all future interactions, either with LBL or other insurers, will not cause any such insurers to be out of compliance with the laws, regulations, bulletins or other standards of their respective domiciliary jurisdictions.

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

Dated this 25th day of March, 2014.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE



Robert L. Nefsky
Hearing Officer

CERTIFICATE OF ADOPTION

I have reviewed the foregoing Findings of Fact, Analysis, Conclusions of Law, and Recommended Order and hereby certify that the Recommended Order is adopted as the official and final Order of this Department in the matter of the Acquisition of Control of Lincoln Benefit Life Company.

Dated this 25 day of March, 2014.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE



Bruce R. Ramage
Director of Insurance

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Order was sent to Ann M. Frohman, Esq., Frohman Law Office, LLC, US Bank Building, 233 South 13th Street, Suite 1200A, Lincoln, Nebraska 68508; and to Nicholas F. Potter, Esq., Debevoise & Plimpton LLP, 919 Third Avenue, New York, New York 10022, by U.S. Mail, postage prepaid, on this 25th day of March, 2014.