STATE OF CONNECTICUT

INSURANCE DEPARTMENT

In the Matter of:	
PROPOSED ACQUISITION OF CONTROL OF:	
THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY ("HSB"), a Connecticut corporation, which is a wholly owned subsidiary of HSB Group, Inc. and THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY OF CONNECTICUT ("HSB-CT"), a Connecticut corporation and a wholly owned subsidiary of HSB	Docket No. EX 00-95
by	
AMERICAN INTERNATIONAL GROUP, INC. ("AIG"), a Delaware corporation	

PROPOSED FINAL DECISION

I. INTRODUCTION

On August 31, 2000, American International Group, Inc. ("AIG or "Applicant") a Delaware corporation, filed an application with the Connecticut Insurance Department ("Department") pursuant to section 38a-130 of the Connecticut General Statutes requesting approval for the acquisition of The Hartford Steam Boiler Inspection and Insurance Company ("HSB"), a Connecticut corporation, which is a wholly owned subsidiary of HSB Group, Inc. and The Hartford Steam Boiler Inspection and Insurance Company of Connecticut ("HSB-CT") (together, the "Insurers"), a Connecticut corporation which is a wholly owned subsidiary of HSB.[1]

AIG proposes to acquire control of the Insurers pursuant to the merger of HSB Group, Inc. with and into Engine Acquisition Corporation ("EAC"), a Delaware corporation that is a wholly owned subsidiary of AIG formed for the purpose of effecting the proposed transaction. The terms and conditions of the Merger are set forth in an Agreement and Plan of Merger dated as of

August 17, 2000. The parties to the Agreement are the Applicant, EAC and HSB Group, Inc. In accordance with the terms of the Agreement, HSB Group, Inc. will be merged with and into EAC. EAC will be the surviving corporation, but the name of EAC will be changed to HSB Group, Inc. following the consummation of the Merger. As a result of the Merger, all of the issued and outstanding shares of HSB common stock, including each attached right (other than shares held by stockholders asserting dissenter rights or shares held by HSB Group, Inc. or AIG or any direct or indirect subsidiary of HSB Group, Inc. or AIG) which are not held in the investment portfolio of any such direct or indirect subsidiary of HSB Group, Inc. or AIG will be exchanged for shares of AIG common stock. The consideration to be paid by AIG to HSB Group, Inc. stockholders for each share of HSB common stock will consist of a portion of a share of AIG common stock (or in certain instances at the option of AIG, a portion of a share of AIG common stock and cash) with a value equal to $41.00. Total aggregate consideration to be paid by the Applicant will be approximately $1.2 billion. The Insurers will thereafter become wholly owned, indirect subsidiaries of AIG.

The proposed merger is subject to, among other conditions, obtaining required U.S. and foreign insurance and other regulatory approvals, expiration of applicable waiting periods and approval by the stockholders of HSB Group, Inc.

In accordance with section 38a-132 of the Connecticut General Statutes, and pursuant to the Notice of Public Hearing, dated October 17, 2000, the undersigned presided at the public hearing in connection with the proposed change of control of the Insurers on November 8, 2000. Notice of the public hearing was published in *The Hartford Courant* on October 23, 2000 and on October 30, 2000. In addition, the Notice of Public Hearing was filed with the Office of the Secretary of State on October 18, 2000, and the notice was duly posted on the Insurance Department's Internet web site on October 19, 2000. In the October 17, 2000 Notice of Public Hearing, and during the November 8, 2000 public hearing, the Department invited comments from members of the public on the proposed acquisition of control of the Insurers. In addition, the

---

[1] The Department's review process commenced on August 31, 2000 when AIG filed a Form A statement with the Department, dated August 30, 2000, pertaining to the proposed acquisition of control of the Insurers (the "Form A" application).

record of the proceeding was held open until November 13, 2000, to allow for additional written comments from the public.

In accordance with the section 38a-8-48 of the Regulations of Connecticut State Agencies, the following were designated parties to this proceeding: AIG, HSB Group, Inc. and the Insurers.

At the November 8, 2000 public hearing, the following individuals testified in support of the Form A Application filed by AIG: Howard I. Smith, Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer), AIG International Group, Inc., Ernest T. Patrikis, Senior Vice President and General Counsel, American International Group, Inc., Kristian P. Moor, Executive Vice President – Domestic General Insurance, American International Group, Inc., Richard H. Booth, Chairman, President and Chief Executive Officer, HSB Group, Inc. and Saul L. Basch, Senior Vice President, Treasurer and Chief Financial Officer, HSB Group, Inc.

FINDINGS OF FACT

Upon review of the exhibits entered into the record of this proceeding, and based upon the testimony of witnesses at the November 8, 2000 public hearing, the following findings of fact are hereby made:

1. AIG, a Delaware corporation, is a holding company, through which its subsidiaries write property, casualty, marine, life and financial lines insurance in approximately 130 countries and jurisdictions. AIG's primary activities include general and life insurance operations. Other significant activities include financial services and asset management. AIG's principal executive offices are located at 70 Pine Street, New York, New York 10270.

AIG's general insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance. One or more of these companies is licensed to write substantially all of these lines in all states of the United States, the District of Columbia and in approximately 70 foreign countries. AIG's general insurance operations are the largest underwriters of commercial and industrial insurance in the United States. AIG's life insurance subsidiaries offer a wide range of traditional insurance and financial and investment products. One or more of these subsidiaries is licensed to write life insurance in all states of the United States, the District of Columbia, and over 70 foreign countries. Traditional products consist of individual and group life, annuity, endowment and accident and health policies. Financial and investment products consist of single premium annuity, variable annuities, guaranteed investment contracts, universal life and pensions.

AIG's financial services engage in diversified financial products and services including aircraft, consumer and premium financing and banking services. AIG's asset management operations offer a wide variety of investment vehicles and services, including variable annuities, and investment asset management. Such products and services are offered to individuals and institutions both domestically and internationally.

2. EAC, a Delaware corporation, is a wholly owned subsidiary of AIG. EAC conducts no operations, has no employees and was formed solely for the purpose of effecting this proposed transaction.

3. HSB Group, Inc., a Connecticut corporation, is the parent holding company for The Hartford Steam Boiler Inspection and Insurance Company and its subsidiaries. HSB Group, Inc. is a multi-national company operating primarily in the North American, European and Asian markets. The company has four operating units – Commercial insurance, Global Special Risks insurance, Engineering Services and Investments. HSB Group, Inc.'s principal office address is One State Street, Hartford, Connecticut 06102-5024.

4. HSB is a Connecticut domiciled property and casualty insurance company which is a wholly owned subsidiary of HSB Group, Inc. HSB is the world's leading provider of equipment breakdown insurance and is a global provider of specialty insurance, engineering services and management consulting. HSB markets its products and services to businesses, industries, institutions and governmental entities worldwide. HSB's primary business is providing insurance against losses from breakdown to a wide range of equipment, such as machinery, electrical systems, heating and cooling systems and electronics. HSB's principal office address HSB is One State Street, Hartford, Connecticut 06102-5024.

5. HSB-CT is a Connecticut domiciled property and casualty insurance company, which is a wholly owned subsidiary of HSB. HSB-CT's principal office address HSB is One State Street, Hartford, Connecticut 06102-5024.

6. On August 18, 2000, AIG and HSB Group, Inc. issued a press release announcing that they had entered into a definitive agreement whereby AIG would acquire 100 percent of the outstanding common stock of HSB Group, Inc. HSB Group, Inc. stockholders would receive AIG common stock (or in certain circumstances at the option of AIG, AIG common stock and cash) with a value equal to $41.00 for each share of HSB common stock. The total value for the transaction was approximated at $1.2 billion. The Boards of Directors of both companies have approved the transaction.

7. AIG proposes to acquire control of the Insurers pursuant to the merger of HSB Group, Inc. with and into EAC, a Delaware corporation which is a wholly owned subsidiary of AIG, formed for the purpose of effecting the proposed transaction. The terms and conditions of the Merger are set forth in an Agreement and Plan of Merger dated as of August 17, 2000. The parties to the Agreement are the Applicant, EAC and HSB Group, Inc. In accordance with the terms of the Agreement, HSB Group, Inc. will be merged with and into EAC. EAC will be the surviving corporation, but the name of EAC will be changed to HSB Group, Inc. following the consummation of the Merger. As a result of the Merger, all of the issued and outstanding shares of HSB Group, Inc. common stock, including each attached right (other than shares held by stockholders asserting dissenter rights or shares held by HSB Group, Inc. or AIG or any direct or indirect subsidiary of HSB Group, Inc. or AIG, which are not held in the investment portfolio of any such direct or indirect subsidiary of HSB Group, Inc. or AIG) will be exchanged for shares of AIG common stock. The total aggregate consideration to be paid by AIG to HSB Group, Inc. in the Merger will be approximately $1.2 billion. The Insurers will thereafter become wholly owned, indirect subsidiaries of AIG.

8. In connection with the Agreement and Plan of Merger, the Applicant and HSB Group, Inc. entered into a Stock Option Purchase Agreement dated as of August 17, 2000. The Option Agreement grants the Applicant the right to acquire up to 19.9% of the issued and

outstanding shares of HSB Group, Inc. common stock, upon the occurrence of a triggering event. The Applicant requested the Department's approval for the Applicant to exercise their rights under this Agreement, if necessary. At the Public Hearing, the Applicant withdrew the request for this approval.

9. On August 17, 2000, Goldman, Sachs & Co. rendered to the HSB Group, Inc.'s Board of Directors its opinion to the effect that, based upon and subject to the considerations set forth in its opinion, as of that date, the merger consideration to be received by the holders of HSB Group, Inc. common stock, other than AIG and its subsidiaries, under the merger agreement was fair from a financial point of view to those holders. The nature and amount of such consideration was arrived at through arms-length negotiations between representatives of the Applicant and HSB Group, Inc. and their respective financial advisors.

10. No part of the transaction is represented or to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding or trading securities.

11. As of June 30, 2000, December 31, 1999 and December 31, 1998, AIG and its subsidiaries reported the following GAAP balance sheet and income statement accounts (in millions):

	June 30, 2000	December 31,1999	December 31, 1998
Assets	$ 281,214	$ 268,238	$ 233,676
Liabilities	245,164	234,037	202,658
Capital Funds	34,805	34,201	31,018
Net Income	2,753	5,055	4,282

12. As of December 31, 1999 and December 31, 1998, AIG reported the following general insurance (property and casualty)premiums written (in millions):

	1999	1998
Gross Premiums	$ 22,569	$ 20,684
Ceded Premiums	6,345	6,098
Net Premiums	16,224	14,586

13. Mr. Smith testified that there is goodwill associated with the proposed transaction and that it will be shown in the consolidated financial statements, amortized over a period utilizing GAAP principles. The goodwill will not be dropped down to the Insurer level. The approximate amount of goodwill is $.8 billion which constitutes the excess of the $1.2 billion purchase price over HSB Group, Inc.'s stockholder's equity.

14. HSB's financial rating from A.M. Best is "A+" (SUPERIOR) as testified to by Mr. Booth. A.M. Best assigns "A+" (SUPERIOR) ratings to those companies that show a very strong ability to meet ongoing obligations to policyholders. A.M. Best forms its opinions through a comprehensive review of a company's operating performance and market profile.

Mr. Smith testified that AIG holds Triple-A financial and debt ratings, the highest rating awarded by the principal rating services from Standard & Poors and Moody's, as do a number of their operating businesses worldwide. In addition, Mr. Smith testified that AIG carries an A++ financial rating from A.M. Best.

15. AIG's current debt to capital ratio on a consolidated basis is in the area of 10% according to testimony provided by Mr. Smith. Mr. Smith further testified that the typical ratio employed by an entity such as Standard & Poors, to maintain a Triple A rating is approximately 15%, so they are well within the acceptable range.

16. HSB, a Connecticut domiciled property and casualty insurance company, has its statutory home office in Hartford, Connecticut, and is licensed to write the following lines of business: Fire, Extended Coverage, and Other Allied Lines, Homeowners Multiple Peril, Commercial Multiple Peril, Earthquake, Growing Crops, Ocean Marine, Inland Marine, Liability Other Than Auto (B.I. and P.D.), Auto Liability (B.I. and P.D.), Auto Physical Damage, Aircraft (All Perils), Fidelity and Surety, Glass, Burglary and Theft, Boiler and Machinery, and Reinsurance in Connecticut pursuant to section 38a-41 of the Connecticut General Statutes.

17. HSB-CT, a Connecticut domiciled property and casualty insurance company, has its statutory home office in Hartford, Connecticut, and is licensed to write the following lines of insurance: Fire, Extended Coverage, and Other Allied Lines, Commercial Multiple Peril, Earthquake, Inland Marine, Liability Other Than Auto (B.I. and P.D.), Glass, Burglary and Theft,

Boiler and Machinery and Reinsurance in Connecticut pursuant to section 38a-41 of the Connecticut General Statutes.

18. As of June 30, 2000, December 31, 1999 and December 31, 1998 HSB reported the following statutory balance sheet and income statement accounts (thousands):

	June 30, 2000	December 31, 1999	December 31, 1998
Assets	$ 875,033	$ 1,082,062	$ 880,302
Liabilities	470,122	469,478	451,554
Capital	10,000	10,000	10,000
Surplus	349,911	602,584	418,748
Net Income	61,729	200,185	79,870

19. As of June 30, 2000, December 31, 1999 and December 31, 1998, HSB-CT reported the following statutory balance sheet and income statement accounts (thousands):

	June 30, 2000	December 31, 1999	December 31, 1998
Assets	$ 9,926	$ 9,636	$ 10,240
Liabilities	73	32	118
Capital	1,000	1,000	1,000
Surplus	8,854	8,603	9,122
Net Income	251	481	573

20. As of June 30, 2000 and December 1, 1999, HSB reported the following written premiums (thousands):

	June 30, 2000	December 31, 1999
Direct	$ 82,092	$ 343,071
Assumed	114,571	346,656
Ceded	21,776	360,091
Net	174,887	329,636

21. As of June 30, 2000 and December 30, 1999, HSB-CT reported the following written premiums (thousands):

	June 30, 2000	December 31, 1999
Direct	$ 2,969	$ 237,833
Assumed	0	0
Ceded	2,969	237,833
Net	0	0

22. Following the consummation of the proposed transaction, the surplus funds of each Insurer will continue to bear a reasonable relationship to their liabilities based upon the type, volume and nature of their business according to testimony provided by Mr. Smith.

23. Risk-based capital ratios for the Insurers as of December 31, 1999 were as follows:

Insurer	RBC ratio
HSB	768%
HSB-CT	26,865%

24. Upon completion of the proposed acquisition of control of the Insurers, the Applicant has no plans to declare an extraordinary dividend or make other distributions, to liquidate HSB Group, Inc. or the Insurers, to sell their respective assets to or merge (with the exception of the merger of HSB Group, Inc.) or consolidate any of them with any person or persons or to make any other material change in their respective business operations or corporate structure or management or to cause the Insurers to enter into material contracts, agreements arrangements, understandings or transactions of any kind with any party, other than certain standard inter-affiliate agreements for the provision of specific services, subject to the applicable requirements of Connecticut's Insurance Holding Company statute. The Insurers will maintain their separate corporate existences.

25. HSB and HSB-CT have approximately 359 employees in Connecticut and based on current financial and staffing projections, AIG expects that nearly all of these positions will remain in Connecticut through at least December 31, 2003. The jobs will continue to represent a fair cross-section of executive, professional, middle management and non-exempt positions. AIG has approximately 520 employees in Connecticut. AIG maintains offices in Farmington, Glastonbury, Greenwich, Norwalk, Ridgefield and Westport. Furthermore, AIG is contemplating the transfer to Hartford of certain of its support operations, which would consist primarily of administrative and back office support positions, including professional and managerial personnel. These jobs are currently located outside of Connecticut.

26. Neither the stock nor the assets of the Insurers will be pledged as a result of this proposed acquisition of control according to testimony from Mr. Smith.

27. The books and records for the Insurers are located in Hartford, Connecticut and Mr. Smith testified that the books and records will be maintained in Hartford following the proposed transaction.

28. Assets of HSB are currently held in the custody of several banks outside the State of Connecticut with the Insurance Commissioner's approval. Mr. Patrikis testified that the assets will remain where they are currently.

29. There are no plans to redomesticate the Insurers according to testimony given by Mr. Moor.

30. The Applicant has no plans to change the senior officers of HSB Group, Inc. or the Insurers following the merger. The Applicant intends to have HSB and HSB-CT retain their respective Boards of Directors following the merger. In addition, Edward E. Matthews and Howard I. Smith, who are officers of AIG, will be the initial directors of the surviving renamed HSB Group, Inc.

The current directors and senior officers of HSB are as follows:

Susan Woodring Aherns, Human Resource Officer, HSB Group, Inc.;

Saul Louis Basch, Senior Vice President, Treasurer & CFO, HSB Group, Inc.;

Richard Henry Booth, President, Chief Executive Officer and Chairman of the Board, HSB Group, Inc.;

Nathaniel Charles Brinn, Business Development Officer, HSB Group, Inc.;

Colin Goetze Campbell, Director, HSB Group, Inc.;

Michael Lee Downs, Senior Vice President, Special Risk Division, HSB Group, Inc.;

John William Frank, Vice President of Strategic Development, HSB Group, Inc.;

William Mackay Heckles, Vice President, Reinsurance, HSB Group, Inc.;

John Joseph Kelly, Senior Vice President, Commercial, HSB Group, Inc.;

William Arnold Kerr, Senior Vice President, Engineering, HSB Group, Inc.;

Theodore David Kmiecik, Corporate Controller, HSB Group, Inc.;

Normand Mercier, Senior Vice President, HSB Group, Inc.;

Jeanne Bennett Merola, Vice President Commercial Division, HSB Group, Inc.;

Roberta Ann O'Brien, Vice President and Counsel, HSB Group, Inc.;

Richard Kevin Price, Senior Vice President and Secretary, HSB Group, Inc.;

James Clark Rowan, Jr., Vice President, Investments, HSB Group, Inc.;

William Joseph Rucci, Chief Information Officer, HSB Group, Inc.;

William Stockdale, Senior Vice President, HSB Group, Inc.; and

Robert Carleton Walker, Senior Vice President and General Counsel, HSB Group, Inc.

The current senior officers and directors of HSB-CT are as follows:

Richard Henry Booth, President, Chief Executive Officer and Chairman of the Board, HSB Group, Inc.;

William MacKay Heckles, Vice President, Reinsurance, HSB Group, Inc.;

John Joseph Kelley, Senior Vice President, Commercial, HSB Group, Inc.;

Roberta Ann O'Brien, Vice President and Counsel, HSB Group, Inc.; and

Richard Kevin Price, Senior Vice President and Secretary, HSB Group, Inc.

The current senior officers & directors of AIG are the following:

M. Bernard Aidinoff, Director;

Michael Joesph Castelli, Vice President & Comptroller;

Pei-Yun Chia, Director;

Marshall Albert Cohen, Director;

Barber Benjamin Conable, Jr., Director;

William Naughton Dooley, Senior Vice President;

Lawrence William English, Senior Vice President;

Martin Stuart Feldstein, Director;

Axel Ivan Freudmann, Senior Vice President;

Ellen Victoria Futter, Director;

Leslie Ladislas Gonda, Director;

Maurice Raymond Greenberg, Director, Chairman and Chief Executive Officer;

Carla Anderson Hills, Director;

Frank Joseph Hoenemeyer, Director;

Robert Edward Lewis, Vice President;

Charles Mark Lucas, Vice President;

Edward Easton Matthews, Director & Vice Chairman – Investment and Financial Services;

Carol Ann McFate, Vice President & Treasurer;

Kristian Philip Moor, Executive Vice President;

Win Jay Neuger, Senior Vice President;

Robinson Kendall Nottingham, Executive Vice President;

Ernest Theodore Patrikis, Senior Vice President & General Counsel;

Frank Petralito II, Vice President;

John Joseph Roberts, Senior Advisor;

Robert Michael Sandler, Executive Vice President;

Kathleen Eshelemann Shannon, Vice President, Secretary and Associate General Counsel;

Howard Ian Smith, Executive Vice President, Chief Financial Officer, Comptroller and Director;

Ernest Edwards Stempel, Senior Advisor;

Martin John Sullivan, Executive Vice President;

Thomas Ralph Tizzio, Senior Vice Chairman & Director;

Jay Wintrob, Director;

Frank George Wisner, Director & Vice Chairman; and

John Torrence Wooster, Jr., Vice President.

31. The biographical affidavits, included as exhibits to the Form A application for key officers and directors of AIG, describe each individual's educational background, professional credentials and employment history. The information in the biographical affidavits attests to the competence, experience and integrity of those individuals who would control the operations of the

Insurers. None of the affidavits contain any information that reflects negatively on the integrity of any of these individuals.

In addition, the biographical affidavits confirm, that during the last ten years none of the directors or officers of AIG: (a) have been convicted in a criminal proceeding (excluding minor traffic violations); (b) have been the subject of any proceeding under the Federal Bankruptcy Code or been a director, officer, trustee, partner, owner, manager or other official of any business or organization subject to a proceeding under the Federal Bankruptcy Code; and (c) none of such persons has, during the last 10 years, been enjoined by a court of competent jurisdiction from violating any federal or state law regulating the business of insurance, securities or banking.

32. The following figures represent the market share in Connecticut for Boiler & Machinery insurance and Fire insurance for AIG and HSB Group, Inc., respectively.

		AIG	HSB Group, Inc
Boiler & Machinery	(1999)	14.2472 %	16.7405 %
	(1998)	4.6941	27.3439
	(1997)	1.5112	24.2505
	(1996)	0.2623	21.9333
	(1995)	1.6327	18.5406
Fire	(1999)	4.5301 %	3.3388 %
	(1998)	5.9030	3.67
	(1997)	4.8793	1.34
	(1996)	13.1827	0.79
	(1995)	11.6544	0.0277

With regard to the Boiler & Machinery line of business, the combination of the Applicant and HSB Group, Inc. would result in a market share of 31%. There would remain 38 competitors other than the Applicant competing in such line, with FM Global Group and Travelers PC Group having a market share of 17.4% and 11.4%, respectively. In addition, there are a total of 5 competitors (FM Global Group, Travelers PC Group, Chubb Group of Insurance Companies, CNA Insurance Companies and Zurich U.S. Group), each having a market share in excess of 6%. Overall, there are a total of nine entities each having a market share in excess of 2%.

With regard to the Fire line, the combination of the Applicant and HSB Group, Inc. would result in a market share of 7.9% for the combined entity. Other than the Applicant, there would be a number of competitors in this line of business. FM Global Group, NLC Insurance

Companies and CNA Insurance Companies each have a market share in excess of 7%. In addition, there are 7 companies, each having a market share in excess of 4% and a total of 16 entities each having a market share in excess of 2%. Following the merger, there will be three competitors who will have approximately the same market share as the Applicant in the Fire line of business.

33. The boards of directors of AIG and HSB Group, Inc. have approved this proposed transaction. On November 6, 2000, HSB Group, Inc.'s shareholders met and approved the proposed transaction according to testimony given by Mr. Booth.

34. The proposed acquisition of control by AIG requires submission of certain materials and the completion of a waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976. On September 18, 2000, AIG and on September 19, 2000, HSB furnished the information and materials necessary to the United State Department of Justice ("DOJ") and the United States Federal Trade Commission. On September 29, 2000, the Federal Trade Commission ("FTC") granted an early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976.

35. At the public hearing, AIG requested a waiver of certain provisions within section 38a-136(i) of the Connecticut General Statutes, namely, the waiver of the financial examination and market conduct examination provisions as they pertain to the change of control of the Insurers (section 38a-136(i)(1)).

36. AIG expressed its intentions with respect to its principal Connecticut office, employment, engineering services, Connecticut stock insurance subsidiaries and charitable giving in a formal commitment letter dated November 6, 2000 and signed by Howard I. Smith, Executive Vice President and Chief Financial Officer of AIG.

The letter provides, inter alia, that the current level of Connecticut charitable giving by HSB and HSB-CT will be maintained by AIG, its affiliates or charitable foundations associated with it. HSB and HSB-CT's charitable contributions in Connecticut during 1999 totaled $669,616 and are expected to be approximately $700,000 for the year 2000.

III. DISCUSSION

Section 38a-132(b) of the Connecticut General Statutes specifically requires the approval of the proposed acquisition of control of the Insurers unless it is determined that:

(A) After the change of control, the Insurers would not be able to satisfy the requirements for the issuance of a license to write the lines of business for which they are presently licensed.

(B) The effect of the merger or other acquisition of control would be to substantially lessen competition of insurance in this state or tend to create a monopoly in Connecticut.

(C) The financial condition of the acquiring party is such as might jeopardize the financial stability of the Insurers or prejudice the interests of the policyholders.

(D) The plans or proposals which the acquiring party has to liquidate the Insurers, sell their assets or consolidate or merge them with any person, or make any other material change in their business or corporate structure or management, are unfair and unreasonable to policyholders of the Insurers and not in the public interest.

(E) The competence, experience and integrity of those persons who would control the operation of the Insurers are such that it would not be in the interest of the policyholders of the Insurers and of the public to permit the merger or other acquisition of control.

(F) The acquisition of control of the Insurers is likely to be hazardous or prejudicial to those buying insurance.

A. The Insurers ability to satisfy the requirements for the issuance of a license to write the line or lines of business for which they are presently licensed following the proposed acquisition of control.

HSB is currently licensed to write the following lines of business: Fire, Extended Coverage, and other Allied Lines, Homeowners Multiple Peril, Commercial Multiple Peril, Earthquake, Growing Crops, Ocean Marine, Inland Marine, Liability other than Auto (B.I. and P.D.), Auto Liability (B.I. and P.D.), Auto Physical Damage, Aircraft (All Perils), Fidelity and Surety, Glass, Burglary and Theft, Boiler and Machinery, and Reinsurance in Connecticut pursuant to section 38a-41 of the Connecticut General Statutes.

HSB-CT, is currently licensed pursuant to section 38a-41 of the Connecticut General Statutes to write the following lines of business: Fire, Extended Coverage, and Other Allied Lines, Commercial Multiple Peril, Earthquake, Inland Marine, Liability Other Than Auto (B.I. and P.D.), Glass, Burglary and Theft, Boiler and Machinery and Reinsurance in Connecticut pursuant to section 38a-41, Aircraft, Fidelity & Surety, Boiler & Machinery and Credit.

Section 38a-72(b) of the Connecticut General Statutes requires domestic stock property and casualty companies to have a minimum of $2.0 million in capital, and $2.0 million in paid-in surplus. Each of the Insurers currently satisfies the requirements for the issuance of a license to write the lines of business for which they are licensed. As of June 30, 2000, the Insurers had capital and surplus exceeding the minimum requirements necessary for the issuance of a license to write the lines of business for which they are currently licensed as follows: (thousands)

Insurer	Capital	Surplus
HSB	$ 10,000	$ 394,911
HSB-CT	1,000[2]	8,854

[2] Although the capital is below the minimum requirement, the combined capital and surplus far exceeds the statutorily required minimum. A technical correction is expected to be made prior to consummation of the proposed transaction.

Following consummation of the proposed acquisition of control of the Insurers, AIG has no plans or proposals to liquidate the Insurers, to sell their assets or merge or to consolidate the Insurers with any other person or entity. There are no plans for the Insurers to enter into any material contract, agreement, arrangement or transaction of any kind with any person or entity other than inter-affiliate agreements. Accordingly, Mr. Patrikis testified that after the change of control the Insurers will continue to be able to satisfy the requirements of Section 38a-72 of the Connecticut General Statutes, as they apply to the lines of business for which the Insurers are currently licensed.

In addition to the criteria set forth in section 38a-72 of the Connecticut General Statutes, the Department considers the following criteria when evaluating an insurance company's ability to maintain a license issued pursuant to section 38a-41 of the Connecticut General Statutes to write insurance in Connecticut: (1) the location of the company's books, records and assets; (2) whether there is a reasonable relationship of the company's surplus funds to liabilities based on the type, volume and nature of insurance business transacted; (3) the management of the company; and (4) whether the company's risk-based capital as related to total adjusted capital is adequate for the types of business transacted.

Certain of the Insurer's assets are currently held, with the permission of the Insurance Commissioner, in banks outside of Connecticut. The books and records of the Insurers are located in Connecticut. Mr. Smith's testimony indicated that the Insurers do not plan to change the location of the books and records from Connecticut following the consummation of the proposed transaction.

In addition, as of June 30, 2000, December 31, 1999 and December 31, 1998 each of the Insurer's surplus funds bore a reasonable relationship to its liabilities based on business written as set forth below.

HSB reported the following statutory balance sheet and income statement accounts (thousands):

	June 30, 2000	December 31, 1999	December 31, 1998
Assets	$ 875,033	$ 1,082,062	$ 880,302
Liabilities	470,122	469,478	451,554
Capital	10,000	10,000	10,000
Surplus	349,911	602,584	418,748
Net Income	61,729	200,185	79,870

HSB-CT reported the following statutory balance sheet and income statement accounts (thousands):

	June 30, 2000	December 31, 1999	December 31, 1998
Assets	$ 9,926	$ 9,636	$ 10,240
Liabilities	73	32	118
Capital	1,000	1,000	1,000
Surplus	8,854	8,603	9,122
Net Income	251	481	573

Furthermore, the Insurers' risk-based capital ("RBC") as it relates to the total adjusted capital is adequate for the business conducted and compares favorably to similar companies in Connecticut. RBC ratios as of December 31, 1999 were as follows:

Insurer	RBC ratio
HSB	768%
HSB-CT	26,865%

Finally, there are currently no plans to change the direct management of the Insurers, and the management of the ultimate parent of the Insurers will be comprised of individuals possessing considerable experience in the insurance industry.

Accordingly, it is the conclusion of the Insurance Department that the evidence contained in the record supports a finding that the Insurers will be able to continue to satisfy the requirements for the issuance of the necessary licenses to write the line or lines of business for which they are presently licensed following the proposed acquisition of control of the Insurers.

B. The effect of the proposed acquisition of control on competition in Connecticut.

Competitive impact information (market share) for year end 1999, as well as the preceding four years, was provided for both AIG and HSB Group, Inc. with regard to their Boiler & Machinery and Fire lines of business. The following is the 1999 year end information regarding market share percentages:

	AIG	HSB Group, Inc.	Combined
Boiler & Machinery (1999)	14.2472 %	16.7405 %	30.9877 %
Fire (1999)	4.5301 %	3.3388 %	7.8689 %

Specifically, the competitive impact statement indicates that the Boiler & Machinery combined market share will be 30.9877% following the acquisition of the Insurers. Although this high ratio may be an indicator of a potential decrease in competition following the proposed acquisition, this ratio should not be the sole factor in determining the competitive impact on this line of business. While the combination of the Applicant and the Insurers results in an almost 31% market share for Boiler & Machinery insurance, there would remain 38 additional insurers to compete for business in this line of insurance. With 38 competitors, other than the Applicant in such line, there appears to be minimal barriers to entry in the Connecticut market. In addition, the large number of competitors that exist may well provide competitive pressure in the market place resulting in competitive pricing in Connecticut. Based upon the market share ratio of the combined entities, coupled with the number of competitors existing in the market place, the Department believes that that the proposed acquisition will not substantially lessen competition in Connecticut.

As for the Fire market, the combination of the Applicant and the Insurers would result in a market share of 7.9% for the combined entity. There would remain a large number of competitors other than the Applicant competing in such line. In addition to three other competitors with approximately the same market share as the combined entity, there are four companies with a market share in excess of 4% and 9 companies with a market share in excess of 2%. Therefore, the conclusion may be made that there will be little effect on competition with regard to the Fire line of business of the combined entity in the Connecticut market place.

Furthermore, on September 18, 2000, AIG and on September 19, 2000, HSB filed information with the Federal Trade Commission ("FTC") and the Department of Justice ("DOJ"), as required by the Hart-Scott-Rodino Antitrust Improvement Act ("Act"), 15 U.S.C. §18. Under the Act and the implementing regulations, 16 C.F. R. Part 801 et seq., proposed acquisitions of stock or assets having a market value in excess of $15 million by a company having annual net sales or total assets of $100 million or more must, with certain exceptions, be reported to the DOJ and the FTC. Accordingly, the proposed acquisition of control of the Insurers and AIG may not be consummated unless the waiting periods prescribed by the Act have either been shortened by the enforcement agencies or expired without government action. On September 29, 2000 the FTC granted an early termination of the waiting period. Such early termination of the waiting period is evidence that there was no finding that the acquisition will substantially lessen competition or create a monopoly.

Based upon the grant of early termination by the FTC and the review of the competitive market share information provided by the Applicant and the Insurers to the Department, it is hereby concluded that the effect of the acquisition of control of the Insurers will not substantially lessen competition of insurance or tend to create a monopoly in Connecticut.

C. The financial condition of AIG.

Substantial evidence contained in the Form A application indicates that the financial condition of AIG will not jeopardize the financial condition of the Insurers following consummation of the acquisition. Moreover, the record reveals that the proposed acquisition of the Insurers will enhance the financial stability of the Insurers.

As of June 30, 2000, December 31, 1999 and December 31, 1998, AIG and its subsidiaries reported the following balance sheet and income statement accounts (in millions):

	June 30, 2000	December 31,1999	December 31, 1998
Assets	$ 281,214	$ 268,238	$ 233,676
Liabilities	245,164	234,037	202,658
Capital Funds	34,805	34,201	31,018
Net Income	2,753	5,055	4,282

The addition of the Insurers to AIG's U.S. operations will provide specialty products that will complement the products currently offered by AIG. As part of the insurance operations of the Applicant, the Insurers will be able to take advantage of the Applicant's relationships and global network to build their business of specialized insurance and inspection services. Overseas, the Applicant should be able to provide increased business opportunities for the Insurers. The acquisition should permit HSB Group, Inc. to leverage the financial strength, market position and international reach of the Applicant. Policyholders of the subsidiaries of both the Applicant and HSB Group, Inc. should benefit from the expanded product portfolio and the greater geographical scope of the combined operations. Although the primary impetus for the proposed transaction is AIG's belief that HSB Group, Inc. will enjoy expanded business opportunities, Mr. Patrikis testified that there may be some small efficiencies gained by the proposed transaction. In addition, Mr. Smith testified that AIG holds Triple-A financial ratings from Standard & Poors and Moody's, as well as an A++ financial rating from A.M. Best. AIG's financial statements attest to its financial strength and there is no evidence contained in the record of this proceeding that would indicate that the financial condition of AIG is such as might jeopardize the financial condition of the Insurers, or prejudice the interest of the policyholders.

D. Plans or Proposals for the Insurers.

The record reveals that AIG has no plans or proposals to cause the Insurers to declare any extraordinary dividend or to make any other distribution, to liquidate the Insurers, to sell their assets or to consolidate or merge them with any other entity. Furthermore, there are no plans to cause the Insurers to enter into any material contract, agreement, arrangement or transactions of any kind with any person or entity. In addition, AIG does not have any plans to make material changes in the business operations, corporate structure or general management of the Insurers or to redomesticate the Insurers. The Insurers will continue to maintain their separate corporate existence, and will continue to be wholly owned indirect subsidiaries of AIG. AIG has no plans to discontinue any products currently offered by the Insurers or to relocate any of the operations of the Insurers, or any plans or proposals for any affiliates of AIG or the Insurers which may have a material affect on the Insurers.

AIG has formally pledged to have approximately all of the 359 HSB and HSB-CT jobs remain in Connecticut through at least December 31, 2003. AIG contemplates transferring additional jobs to Connecticut from their current locations out of state. In addition, AIG has expressed its intention to have the principal offices of HSB and HSB-CT be in Hartford, Connecticut. Furthermore, AIG has made assurances that the current level of charitable giving in Connecticut by the Insurers will be maintained following the change of control of the Insurers.

Accordingly, the record supports the conclusion that there are no plans or proposals for the Insurers that are unfair and unreasonable to policyholders of the Insurers or which are not in the public interest.

E. The competence, experience and integrity of those persons who would control the operations of the Insurers are such that it would not be in the interest of the policyholders of the Insurers and of the public to permit the acquisition of control.

The record includes the biographical affidavits of those individuals who will serve as the directors and key officers of the Insurers following the acquisition of control. AIG will have the current directors and senior officers of HSB and HSB-CT remain in these positions following the proposed transaction. It is also AIG's intention to have the senior officers of HSB Group, Inc. stay in such capacity following the proposed transaction. In addition, Edward E. Matthews and Howard I. Smith of AIG will serve as the first two appointed directors of the HSB Group, Inc. following the proposed merger.

The biographical affidavits disclose each individual's educational background, professional credentials and their employment history. In addition, AIG has represented, and the biographical affidavits confirm, that during the last ten years none of the proposed directors or officers of AIG (1) have been convicted in a criminal proceeding (excluding minor traffic violations); (2) have been the subject of any proceeding under the Federal Bankruptcy Code, (or in the case of an alien person, such equivalent provision as applicable) or have been affiliated with a business or organization which has been subject to such proceeding; and (3) have been enjoined from violating any federal or state law regulating the business of insurance securities or banking, (or in the case of an alien person, such equivalent provision as applicable).

Furthermore, no director or officer of AIG has had a revocation, suspension or disciplinary proceedings brought against him or her by a governmental agency. None of the filed biographical affidavits contain any information that reflects negatively on the integrity of these individuals. It is noteworthy that the competence, experience and integrity of those persons who would control the operations of the Insurers after the proposed acquisition of control is such that it would be in the interest of policyholders of the insurance companies, and in the public interest to permit the merger.

F. The effect of the proposed Acquisition of Control of the Insurers on those buying insurance.

Based on the financial strength of AIG, the affirmation that there will be no substantive change to the current plans of operation of the Insurers, the potential growth opportunities and operating efficiencies, as well as the combination of strong management teams from AIG and the Insurers, it is reasonable to conclude that the proposed acquisition of control of the Insurers is not likely to be hazardous to those buying insurance.

Mr. Booth testified that based upon his experience, as well as his observations regarding the marketplace, he believes that the substantial financial, managerial and other resources, together with the worldwide presence of AIG will enhance the financial performance and growth opportunities of the Insurers. According to Mr. Booth, the financial security of AIG will enhance the stability of the Insurers and this will directly benefit the policyholders of the Insurers.

In addition, section 38a-8-103 of the Regulations of Connecticut State Agencies sets forth the Standards of Hazardous Financial Condition. Those standards, either singularly or in combination of two or more, may be considered by the Insurance Commissioner to determine whether the continued operations of any insurer transacting an insurance business in this state might be deemed hazardous to the policyholders, creditors, or the general public. Of the sixteen standards set forth in the Regulation, none apply to the Insurers, and the proposed acquisition of control of the Insurers should have no impact on those standards.

Accordingly, assuming compliance with all of Connecticut’s statutes and regulations, it is reasonable to conclude that the proposed acquisition of control of the Insurers is not likely to be hazardous to those buying insurance.

IV. CONCLUSION AND RECOMMENDATION

Based on the foregoing findings of fact and discussion, the record of the November 8, 2000 public hearing which was held open until November 13, 2000, and the recommendation of the Insurance Department staff, the undersigned concludes that AIG has satisfied the statutory criteria as provided in section 38a-132(b) of the Connecticut General Statutes. Accordingly, the undersigned recommends that the Insurance Commissioner find, pursuant to section 38a-132(b) of the Connecticut General Statutes that after the proposed acquisition of control (a) the Insurers will be able to satisfy the requirements for the issuance of a license; (b) the effect of the acquisition of control will not be to substantially lessen competition in this state or tend to create a monopoly therein; (c) the financial condition of AIG is not such as might jeopardize the financial stability of the Insurers, or prejudice the interest of their policyholders; (d) the plans or proposals for the Insurers are not unfair and unreasonable to their policyholders, and are in the public interest; (e) the competence, experience and integrity of the management of AIG and the Insurers is such that it would be in the interest of policyholders of the Insurers, and of the public to permit the proposed acquisition of control; and (f) the acquisition of control of the Insurers is not likely to be hazardous or prejudicial to those buying insurance.

Accordingly, the undersigned recommends the following orders, TO WIT:

1. The application of AIG in which it seeks approval to acquire control of The Hartford Steam Boiler Inspection and Insurance Company and The Hartford Steam Boiler Inspection and Insurance Company of Connecticut is hereby approved.

2. For a period of three (3) years, the Insurers shall file semiannually with the Insurance Department, commencing six months from consummation of the transaction, a report of its business operations in Connecticut, including but not limited to, changes to the business of the Insurers, employment levels, changes in officers or directors of the Insurers or any changes in the location of operations in Connecticut for the Insurers.

3. AIG shall provide the Insurance Department with written confirmation of the consummation of the acquisition of control by AIG of HSB and HSB-CT.

4. Within fifteen (15) days after the end of the month in which the proposed acquisition is consummated, the Insurers shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulation of Connecticut State Agencies.

5. Certain provisions within section 38a-136(i) of the Connecticut General Statutes, namely, the financial examination and market conduct examination provisions as they pertain to the change of control of the Insurers, are waived.

Dated at Hartford, Connecticut, this 17th day of November 2000.

John M. Purple

John M. Purple, Hearing Officer