



### **NATURE OF PROCEEDING**

On May 16, 2011, PEMCO Mutual Insurance Company and PEMCO Insurance Company filed with the Washington State Insurance Commissioner their joint request for approval of their proposed merger. Specifically, PMIC and PIC propose to merge their corporations with PIC merging with and into PMIC. At the time of the merger, PIC's separate corporate existence will cease; PMIC will assume all liabilities of PIC and will be substituted for PIC in any proceeding against PIC since PIC will no longer exist after the merger is consummated. On June 23, 2011, the OIC transferred this matter to the undersigned with the request that she review this matter, conduct the proceeding herein, and render a final decision either approving or disapproving this plan of merger. PMIC and PIC request that a decision be entered by August 1, 2011 if possible, with an effective date of October 1, 2011.

### **PARTIES AND SUBJECT MATTER**

PEMCO Mutual Insurance Company (PMIC) is a Washington domiciled mutual insurance company. PMIC was duly organized and incorporated under the laws of the State of Washington, and on July 1, 1958 received its Certificate of Authority (No. 603) from the Washington State Insurance Commissioner (OIC) to conduct property, marine and transportation, vehicle, general casualty, and surety insurance in the State of Washington.

PEMCO Insurance Company (PIC) is a Washington domiciled stock insurance company which is wholly owned by PMIC. PIC was duly organized and incorporated under the laws of the State of Washington, and on August 22, 1972 received its Certificate of Authority (No. 923) from the OIC to conduct property, vehicle, general casualty, and surety insurance business in the State of Washington. Since its formation, PIC has focused on serving the automobile insurance needs of those working in the field of education.

At this time PIC has no employees of its own. PMIC's staff provides the human resources for PIC to sell, service, and otherwise support its policies. Further, PMIC and PIC already share the same directorates, officers, and management.

PMIC and PIC advise that both insurers offer automobile insurance to Washington policyholders. At this time, the OIC has given PMIC regulatory approval to offer PIC-qualified policyholders equivalent rates for similar automobile insurance issued by PMIC, and therefore the cost of maintaining a separate subsidiary company to offer those discounts is no longer necessary. Further, PMIC and PIC advise that their plan to merge PIC into PMIC has been approved by the directorates of both companies, and that the merger will serve the policyholders of each company by supporting the same high service standards and insurance protections that exist today while allowing them to be delivered in a simpler and more cost efficient manner.

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Copies of the Agreement and Plan of Merger; pre- and post-merger diagram of the PEMCO organizational structure; certified copy of the PMIC and PIC boards' consent approving the transaction; Affidavits of PMIC and PIC as required by RCW 48.31.010(1)(c) and all other correspondence filed in this matter are included in the hearing file, are by this reference incorporated herein, and can be found on line at [http://www.insurance.wa.gov/orders/hearings\\_proceedings6.shtml](http://www.insurance.wa.gov/orders/hearings_proceedings6.shtml). PMIC and PIC request that approval, if granted, be made by August 1, 2011 with an effective date of October 1, 2011.

Pursuant to RCW 48.31B.015(5), the proposed merger which is the subject of this proceeding is exempt from the requirements of RCW 48.31B.015 including the requirement that a Form A Statement be filed. This proceeding is instead governed by RCW 48.31.010. RCW 48.31.010(1) provides that a domestic insurer may merge with another insurer provided that (a) the plan of merger must be submitted to and approved by the OIC in advance of the merger; (b) the OIC shall not approve any such plan unless, after a hearing, he or she finds that it is fair, equitable, consistent with law, and that no reasonable objection exists; (c) no director, officer, member, or subscriber of any such insurer, except as is expressly provided by the plan of merger, shall receive any fee, commission, other compensation or valuable consideration whatsoever, for in any manner aiding, promoting or assisting in the merger; and (d) any merger as to an incorporated domestic insurer shall in other respects be governed by the general laws of this state relating to business corporations except that as to domestic mutual insurers, approval by two-thirds of its members who vote thereon (pursuant to such notice and procedure as was approved by the OIC) shall constitute approval of the merger as respects the mutual insurer's members.

Toward this end, the parties are advised that the Insurance Commissioner is expected to testify as to whether he has given reasonable advance notice to the public of the hearing scheduled herein and whether he has received any objections or other input relative to this proposed transaction. The Commissioner is also expected to testify as to the conclusions he has reached during his examination of the subject filing insofar as they relate to the above stated issues (a) through (d). A duly authorized representative of PMIC is expected to testify as to the above stated issues and as to whether PMIC or any of its affiliates or representatives have received any objections to the proposed transaction.

Finally, a duly authorized representative of PIC is expected to testify as to the above stated issues and as to whether PIC or any of its affiliates or representatives have received any objections to the proposed transaction. While live testimony from the parties will be taken during the hearing as to the above identified issues, written declarations from those parties are also required. Further, oral opening statements and closing arguments from the Applicants are expected and a written closing argument is required.

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**YOU ARE HEREBY NOTIFIED that a hearing will be held commencing at 3:00 p.m., Pacific Standard Time, on July 21, 2011** in the Office of the Insurance Commissioner, 5000 Capitol Boulevard, Tumwater, Washington 98501, to consider the proposed merger of PIC with and into PMIC. The required filings, as specified directly above, shall be filed with the undersigned by close of business on July 18, 2011. 2011.

The hearing will be held under the authority granted the Insurance Commissioner by Chapter 48.04 RCW and specifically, RCW 48.31.010 and shall have as its purpose consideration of PMIC's and PIC's mutual request for approval of its proposed merger of PIC with and into PMIC. The Insurance Commissioner has not taken, and will not take, any position on this matter prior to entry of the Findings of Facts, Conclusions of Law and Final Order to be entered after hearing.

**YOU ARE FURTHER NOTIFIED that all interested individuals and entities may submit comments on, or objections to, this proposed acquisition to Shellie Savage, assistant to the undersigned. Said comments, or objections, which will be included in the hearing record and will be considered by the undersigned prior to her making her final decision, must be submitted by 5:00 p.m., Pacific Standard Time, on July 19, 2011, by fax, U.S. Mail, personal delivery, or email. Ms. Savage's telephone number is (360) 725-7002, her fax number is (360) 664-2782, her mailing address is P.O. Box 40255, Olympia, WA 98504-0255, her delivery address is 5000 Capitol Boulevard, Tumwater, Washington 98501, and her e-mail address is [hearings@oic.wa.gov](mailto:hearings@oic.wa.gov). Further, pursuant to Title 48 RCW and Title 34 RCW, any person whose interest is determined by the undersigned to be affected may present evidence, examine and cross-examine witnesses, and offer oral and written arguments, and in connection therewith may conduct discovery proceedings as authorized by Title 34 RCW. To request to be included in this proceeding, either by telephone or in person, please contact Ms. Savage at the above address, email, telephone or fax numbers.**

**Finally, all parties, and any interested individual(s) or entities, may participate in the hearing and may request to be included, either by telephone or in person, by contacting Shellie Savage at the above address, email, telephone or fax numbers.**

The hearing will be governed by the Administrative Procedure Act, Chapter 34.05 RCW, and the model rules of procedure contained in Chapter 10-08 WAC. A party who fails to attend or participate in any stage of the proceeding may be held in default in accordance with Chapter 34.05 RCW. The Commissioner will appear pro se, by and through Robin Aronson, Staff Attorney in his Legal Affairs Division, Office of the Insurance Commissioner, 5000 Capital Blvd., Tumwater, WA 98501. Ms. Aronson can be reached at (360) 725-7181. PMIC and PIC, the Applicants, will be represented by William M. Clumpner, Assistant General Counsel for both PMIC and PIC. His address

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is 325 Eastlake Avenue East, Seattle, WA 98111-0778. His telephone number is (206) 628-6331 and his email address is bill.clumpner@pfcenter.com.

Based upon a delegation of authority from the Insurance Commissioner, the undersigned will conduct the hearing and will make the final decision and enter the final order relative to this matter without input from the Insurance Commissioner or his staff or any other individual who has knowledge of the issues herein, except as will be presented as evidence in the hearing. Her address is Office of the Insurance Commissioner, P.O. Box 40255, Olympia, WA 98504-0255 and her telephone number is (360) 725-7105. All questions or concerns should be directed to Shellie Savage, assistant to the undersigned, who may be reached at the telephone, e-mail and fax numbers specified above.

On July 6, 2011, the undersigned held a first prehearing conference in this matter. The Commissioner appeared pro se, by and through Robin Aronson, Esq. PMIC and PIC were represented by William M. Clumpner, Esq. Of significance, the parties and the undersigned discussed the requirements of RCW 48.31B.015 and the exemption provided for under RCW 48.31B.015(5) and the applicability of RCW 48.31.010, as discussed above. Also during said first prehearing conference, the undersigned identified the parties and statutes involved, reviewed procedure to be expected at hearing, and responded to all questions and concerns of the parties. As stated above, should any party have any further questions or concerns prior to the hearing date, they are advised to telephone, fax or e-mail Shellie Savage, assistant to the undersigned, at the above numbers and addresses for assistance or to schedule a second prehearing conference if necessary.

Pursuant to WAC 10-08-040(2) and in accordance with Chapter 2.42 RCW, if a limited English-speaking or hearing impaired or speech impaired party or witness needs an interpreter, a qualified interpreter will be appointed. There will be no cost to the party or witness therefore, except as may be provided by Chapter 2.42 RCW. Following this Notice is a form you may use to advise the Chief Hearing Officer of your need for an interpreter.

**ENTERED** at Tumwater, Washington, this 6<sup>th</sup> day of July, 2011, pursuant to Title 48 RCW and specifically RCW 48.31.010, Title 34 RCW, and regulations applicable thereto.



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**PATRICIA D. PETERSEN**

Presiding Officer

Chief Hearing Officer

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Declaration of Mailing

I declare under penalty of perjury under the laws of the State of Washington that on the date listed below, I mailed or caused delivery through normal office mailing custom, a true copy of this document to the following people at their addresses listed above: Mike Kreidler, Michael G. Watson, James T. Odiome, Esq., Robin Aronson, Esq., Carol Sureau, Esq., William M. Clumpner, Esq., Stan W. McNaughton, Ronald J. Pastuch, CPA.

DATED this 6<sup>th</sup> day of April, 2011.

  
Shellie Savage

**HEARINGS UNIT**  
Fax: (360) 664-2782

Patricia D. Petersen  
Chief Hearing Officer  
(360) 725-7105

Hearings Unit  
Paralegal  
(360) 725-7002  
[Hearings@oic.wa.gov](mailto:Hearings@oic.wa.gov)

To request an interpreter, complete and mail this form to:

Chief Hearing Officer  
Office of Insurance Commissioner  
P.O. Box 40255  
Olympia, WA 98504-0255

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**REQUEST FOR INTERPRETER**

I am a party or witness in Matter No. 10-0236, before the Insurance Commissioner.. I NEED AN INTERPRETER and request that one be furnished.

Please check the statements that apply to you:

I am a non-English-speaking person. I cannot readily speak or understand the English language. My primary language is \_\_\_\_\_ (insert your primary language). I need an interpreter who can translate to and from the primary language and English.

I am unable to readily understand or communicate the spoken English language because:

- I am deaf.
- I have an impairment of hearing.
- I have an impairment of speech.

[Please state below or on the reverse side any details which would assist the Commissioner or Presiding Officer in arranging for a suitable interpreter or in providing appropriate mechanical or electronic amplification, viewing, or communication equipment.]

Date: \_\_\_\_\_ Signed: \_\_\_\_\_

Please print or type your name: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone: \_\_\_\_\_