



PEMCO
Insurance

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Hearings Unit, DIC
Patricia D. Petersen
Chief Hearing Officer

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July 15, 2011

The Honorable Patricia D. Petersen
Presiding Officer
Chief Hearing Officer
Office of the Insurance Commissioner
5000 Capitol Boulevard
Tumwater, Washington 98501

Ronald Pastuch
Holding Company Manager, Company Supervision
Office of the Insurance Commissioner
5000 Capitol Boulevard
Tumwater, Washington 98501

Robin Aronson
Staff Attorney
Office of the Insurance
Commissioner
5000 Capitol Boulevard
Tumwater, Washington 98501

Re: G11-0161

Request for Approval of the Proposed Merger of PEMCO Insurance Company With
and Into PEMCO Mutual Insurance Company

Dear Judge Petersen, Mr. Pastuch, and Ms. Aronson:

Enclosed please find the following documents which are submitted on behalf of PEMCO
Mutual Insurance Company and PEMCO Insurance Company in the matter noted above:

- Pre-filed Opening Statement of William M. Clumpner
- Declaration of Steven A. Ricco
- Pre-filed Closing Argument of William M. Clumpner

Sincerely,

PEMCO Mutual Insurance Company
PEMCO Insurance Company

William M. Clumpner

William M. Clumpner
Assistant General Counsel

Enclosures

OPENING STATEMENT

I am Bill Clumpner, Assistant General Counsel of PEMCO Mutual Insurance Company (PMIC) and its affiliates, including PEMCO Insurance Company (PIC). It is my honor to represent both companies in the matter before you, namely their joint request for approval of their proposed merger.

PMIC and PIC have also asked that a decision approving their merger be entered by August 1, 2011, if possible, with the merger becoming effective on October 1, 2011.

PIC is a stock insurance company domiciled in Washington. It was formed in 1972 as a wholly-owned subsidiary of PMIC, a mutual insurance company and also a Washington domiciliary. Among other personal lines of business, PMIC offers Washington consumers automobile insurance protection, as does its subsidiary, PIC. Since its formation, PIC has focused on serving the automobile insurance needs of those working in the field of education.

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

Since PMIC has received regulatory approval to offer PIC-qualified policyholders the same rates for the same automobile insurance, the cost of maintaining a separate subsidiary company to offer those discounts is no longer necessary. The merger of PIC into PMIC, which has been approved by the directorates of both companies, will serve the companies' policyholders by supporting the same high service standards and insurance protections that exist today, doing so in a simpler and more cost efficient manner.

Upon PIC's merging with and into PMIC, the separate corporate existence of PIC will cease, and PMIC will be the surviving entity. The title of all assets of PIC will be vested in PMIC. PMIC will assume all liabilities of PIC, and will be substituted for PIC in any proceeding against PIC since it will no longer exist after the merger is consummated.

The following documents were included in the original application, filed along with my May 10, 2011 letter to the Deputy Commissioner for Company Supervision, Mr. Odiorne:

- Attachment A: The Agreement and Plan of Merger;
- Attachment B: A pre- and post-merger diagram of the PEMCO organization;
- Attachment C: A certified copy of the PMIC and PIC boards' consent approving the transaction;
- Attachment D: Affidavits of PMIC and PIC pursuant to RCW 48.31.010(1)(c).

In addition to these documents, we have also submitted the following documents to the Holding Company Manager, Mr. Pastuch, under my cover letter of July 11, 2011:

Attachment E: An unsigned copy of the Articles of Merger to be filed with the Washington Secretary of State;

Attachment F: 2010 Annual Statement of PEMCO Mutual Insurance Company;

Attachment G: 2010 Annual Statement of PEMCO Insurance Company;

Attachment H: 2010 Combined Annual Statement of PEMCO Mutual Insurance Company and PEMCO Insurance Company.

The proposed merger of PIC with and into PMIC is governed by RCW 48.31.010. Subsection (1) of that statute allows the merger of a domestic insurer with another insurer, subject to the following conditions:

- (a) The plan of merger or consolidation must be submitted to and be approved by the commissioner in advance of the merger or consolidation.
- (b) The commissioner shall not approve any such plan unless, after a hearing, pursuant to such notice as the commissioner may require, he or she finds that it is fair, equitable, consistent with law, and that no reasonable objection exists. If the commissioner fails to approve the plan, he or she shall state his or her reasons for such failure in his or her order made on such hearing. The insurers involved in the merger shall bear the expense of the mailing of the notice of hearing and of the order on hearing.
- (c) No director, officer, member, or subscriber of any such insurer, except as is expressly provided by the plan of merger or consolidation, shall receive any fee, commission, other compensation or valuable consideration whatsoever, for in any manner aiding, promoting or assisting in the merger or consolidation.
- (d) Any merger or consolidation 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 commissioner shall constitute approval of the merger or consolidation as respects the insurer's members.

The evidence presented through testimony and written documentation will show:

- With regard to RCW 48.31.010(1)(a), a Plan of Merger has been duly authorized by both the PMIC and PIC boards of directors and submitted to the OIC as part of this application.
- With regard to RCW 48.31.010(1)(b), the merger is fair, equitable, and consistent with applicable law, and there is no reasonable objection to approving the merger.

Honorable Patricia D. Petersen – Presiding Judge
July 14, 2011

- With regard to RCW 48.31.010(1)(c), without exception, no director, officer, member or subscriber of any insurer involved in this proposed merger, except as expressly provided by the plan of merger, shall receive any fee, commission, other compensation or valuable consideration for aiding, promoting or assisting in the merger.
- With regard to RCW 48.31.010(1)(d), under the general laws of Washington relating to business corporations, specifically RCW 23B.11.040(1), “a parent corporation owning at least ninety percent of the outstanding shares of each class of a subsidiary corporation may merge the subsidiary into itself without approval of the shareholders of the parent or subsidiary.” The Washington Insurance Code provides that the state’s laws relating to private corporations shall govern the corporate powers, duties, and relationships of incorporated domestic insurers formed under the laws of Washington, except where inconsistent with the express provisions of the insurance code. RCW 48.07.030. RCW 48.31.010(d), which establishes the threshold for approval by a mutual insurer’s members in the event a vote were required, does not require a vote, and Washington’s general business laws relating to mergers expressly omit the requirement for shareholder approval when the parent owns at least ninety percent of the outstanding shares of each class of the subsidiary, which PMIC does. As a wholly-owned subsidiary of PMIC, PIC’s merger into PMIC falls within the exception found in RCW 23B.11.040(1), and no vote is needed by PMIC’s membership or PIC’s sole shareholder, PMIC (whose board has formally approved the merger).

We look forward to presenting evidence on this matter and addressing any issues related to the application.

July 14, 2011


William M. Clumpner
Assistant General Counsel
PEMCO Mutual Insurance Company
PEMCO Insurance Company

DECLARATION OF STEVEN A. RICCO

Steven A. Ricco, under penalty of perjury under the laws of the State of Washington, declares as follows in his answers to the following questions:

Question 1: Please state your name and position of employment with PEMCO Mutual Insurance Company (PMIC) and PEMCO Insurance Company (PIC).

Answer: My name is Steven A. Ricco. I am the Vice President, and CFO of both PEMCO Mutual Insurance Company (PMIC) and PEMCO Insurance Company (PIC).

Question 2: What is PMIC?

Answer: PMIC is a mutual insurance corporation, domiciled in Washington. It was duly organized and incorporated under Washington law. Its statutory home office is located at 325 Eastlake Avenue East, Seattle, Washington 98109-5466. It provides property and casualty insurance in both Washington and Oregon. PMIC is licensed in Washington under the Certificate of Authority No. 603, NAIC Company Code 24341. PMIC received its certificate of authority in Idaho in 2009 although it does not currently write insurance in that state.

Question 3: What is PIC?

Answer: PIC is a stock insurance corporation, also domiciled in Washington. It, too, was duly organized and incorporated under Washington law, and its statutory home office is also located at 325 Eastlake Avenue East, Seattle, Washington 98109-5466. It provides property and casualty insurance to Washington residents, specifically personal lines automobile insurance to those working in the field of education. PIC is licensed in Washington under the Certificate of Authority No. 923, NAIC Company Code 18805. It is a wholly-owned subsidiary of PMIC.

Question 4: Do you hold any other positions with any companies affiliated with PMIC?

Answer: Yes.

Question 4: Do you hold any other positions with any companies affiliated with PMIC?

Answer: Yes.

Question 5: What are they?

Answer: Vice President & CFO of PEMCO Life Insurance Company, PEMCO Insurance Agency, PEMCO Corporation, and PCCS, Inc. I am also the CFO of School Employees Credit Union of Washington, an unofficially allied company of PMIC that shares some common management.

Question 6: Please provide your educational background.

Answer: I received my BA in accounting from Central Washington University in 1986.

Question 7: Please provide your professional background.

Answer: Prior to coming to PEMCO in 1998, I worked for ten years as the finance manager for School Employees Credit Union of Washington and two years as assistant controller of Group Health Credit Union. I also serve as a director on the boards of the PMIC affiliates.

Question 8: Please describe the structure of PMIC.

Answer: As a mutual insurance company, PMIC is owned by its member policyholders. PMIC is the sole owner of a number of affiliated companies, including PIC, and also including PEMCO Life Insurance Company, PEMCO Insurance Agency, and PEMCO Corporation. PEMCO Corporation is the sole owner of PCCS, Inc. With regard to PIC, PMIC's staff provides the human resources for PIC to sell, service, and otherwise support the automobile insurance policies that PIC issues to Washington insurance consumers.

Question 9: Please describe the structure of PIC.

Answer: PIC has 200,000 shares of authorized common stock, with par value of \$10, of which 100,000 shares are issued and outstanding, all in the name of PMIC. PIC has no preferred stock authorized, issued, or outstanding. PIC has no employees of its own. As I mentioned, PMIC's staff provides the human resources needed to operate PIC's business. PIC's officers, managers, and board of directors are identical to PMIC's.

Question 10: Please describe PMIC's interest in these proceedings.

Answer: PMIC is interested in and committed to maintaining high service standards in the sale, service, and support of both PMIC and PIC insurance policies. The merger of PIC into PMIC supports that commitment to policyholders in both companies while doing so in a simpler and more cost efficient manner. The same highly-trained staff will continue to service the policies issued by PIC, as they do today. PMIC's automobile insurance protections will remain the same as those in PIC's automobile policies, as they are today. With the OIC having recently approved PMIC's rate filings that now allow PMIC to offer the same rates to those working in the field of education, PIC policyholders will become PMIC policyholders without change in premium, rate or coverages. It is worth noting that approximately 76% of PIC automobile policyholders are already PMIC policyholders. Merging PIC into PMIC will produce cost savings to PMIC by eliminating duplicate corporate, regulatory and other overlapping efforts and expenses that ultimately impact PMIC as the sole owner of PIC.

Question 11: Please describe PIC's interest in these proceedings.

Answer: Under the circumstances, the interests of PIC and its parent, PMIC, are essentially the same: delivery of top quality service with the same insurance protections, provided more efficiently and with cost savings that result primarily from reduced duplication.

Question 12: Please describe the legal steps that have been taken regarding the proposed merger.

Answer: At their March 24, 2011 board meetings, the PMIC and PIC boards of directors discussed the proposed merger of those two companies. After full consideration, each board concluded that a merger of the two companies would result in important advantages, including operating efficiencies and cost savings that would result from the elimination of duplicate corporate, regulatory, and other overlapping efforts and expenses, and that the merger would be in the interest of the policyholders of both companies. Each of the boards unanimously authorized and approved an Agreement and Plan of Merger substantially in the form presented in the filing with the OIC. In mid-May, PMIC and PIC filed with the Washington Office of the Insurance Commissioner a joint request to approve PIC's merger into PMIC.

Question 13: What effect will the merger have on the structure of the two entities?

Answer: Once the merger is effective, PIC will cease to exist, and all of the outstanding stock certificates of PIC will be canceled without consideration. As more fully described in the terms and conditions of the Agreement and Plan of Merger that was filed in the merger application, PMIC will continue as a Washington domestic mutual insurance company, and PIC's corporate identity and existence, its property and debts and other interest will transfer to and become vested in PMIC. The boards of directors, officers, and managers are the same for both companies, so the merger will not result in a change in leadership. The Articles of Incorporation and Bylaws of PMIC will not change as a result of the merger.

Question 14: Please describe PMIC's current financial position.

Answer: As of March 31, 2011, the quarterly financial statements on file with the Washington Office of the Insurance Commissioner identify PMIC's assets at \$535,501,630, liabilities at \$273,347,376, and surplus as regards policyholders at \$244,073,106. PMIC has a financial strength rating from A.M. Best of "A-."

Question 15: Please describe PIC's current financial position.

Answer: As of March 31, 2011, the quarterly financial statements on file with the Washington Office of the Insurance Commissioner identify PIC's assets at \$137,650,493, liabilities at \$87,806,539, and surplus as regards policyholders at \$49,802,268. PIC has a financial strength rating from A.M. Best of "A-."

Question 16: How would you describe the financial impact of the proposed merger on PMIC?

Answer: The primary financial impact would be the improved operating efficiencies and cost savings we expect from the proposed merger; there is no likely adverse financial impact. The Combined Annual Statements of PMIC and PIC, which have been filed with the Washington Office of the Insurance Commissioner, present the operations of both companies on a consolidated basis. Using the surplus as regards policyholders as a measure of strength, the Combined Annual Statement and PMIC's Annual Statement for the period ending December 31, 2010 show a constant value of \$238,918,548.

Question 17: How would you describe the financial impact of the proposed merger on PIC?

Answer: PIC's business will be completely absorbed into PMIC, which will become the surviving and continuing corporation. As noted in the Agreement and Plan of Merger, PIC will cease to exist; its outstanding stock certificates will be canceled without consideration; PMIC will assume PIC's outstanding legal liabilities and obligations.

Question 18: Are there any plans or proposals to liquidate, sell PMIC assets, consolidate or merge it into any person, or structure, or management, which are unfair and unreasonable to policyholders of PMIC or not in the public interest either before or after the proposed merger?

Answer: No. There are no such plans or proposals.

Question 19: Would the proposed merger have any impact on competition in the Washington insurance market?

Answer: No. Together, PMIC and PIC have approximately a 5.9% share of the personal lines automobile market in Washington. The merger of PIC and PMIC will clearly have no negative impact on competition in the Washington insurance market.

Question 20: Will the proposed merger be fair, equitable, and consistent with applicable law?

Answer: Yes. The merger is fair and equitable to the general public, to PMIC and PIC, and to their policyholders. The proposed merger is consistent with, and meets the requirements of applicable law. This is supported by the terms and conditions of the Agreement and Plan of Merger that has been filed as part of the merger application and duly reviewed, authorized, and approved by the PMIC and PIC boards, as well as the matters I have described previously, including: (a) the structure of PMIC and PIC; (b) the legal steps taken previously as part of this process; (c) the financial impact of the proposed merger on PMIC and PIC; (d) the favorable financial impact on their combined operations; (e) the continued operation of PMIC as a Washington-domiciled property and casualty insurer; and (f) the continuity of leadership.

Question 21: Has PMIC or any of its affiliates or representatives received any objections from policyholders or members of the public with respect to the proposed merger?

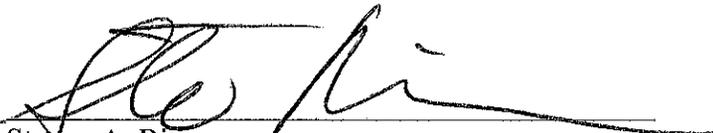
Answer: Not to my knowledge. I have reviewed the formal hearing notice dated July 6, 2011. I am not aware of PMIC or PIC or any other affiliates or representatives of PMIC or PIC receiving any objection from any PMIC or PIC policyholders, or the general public, about the proposed merger.

Question 22: Will any director, officer, or member of either PMIC or PIC, or any other person, receive any fee, commission or other compensation, or other valuable consideration whatsoever, except as expressly provided by the plan of merger, for in any manner aiding, promoting or assisting in the proposed merger?

Answer: No. No director, officer or member of either PMIC or PIC, or any other person, will receive any such valuable consideration for in any manner aiding, promoting or assisting in the proposed merger.

I declare under penalty of perjury of the State of Washington that the foregoing answers to the foregoing questions are true and correct to the best of my knowledge and belief.

Signed July 15, 2011


Steven A. Ricco

BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF WASHINGTON

In the Matter of the Proposed Merger of:)
)
PEMCO INSURANCE COMPANY,)
A Washington Domestic Stock)
Insurance Company)
with and into)
PEMCO MUTUAL INSURANCE)
COMPANY,)
A Washington Domestic Mutual)
Insurance Company,)
)
)
Applicants)

G11-0161

PRE-FILED CLOSING ARGUMENT

PRE-FILED CLOSING ARGUMENT OF:

William M. Clumpner
Assistant General Counsel
PEMCO Mutual Insurance Company
PEMCO Insurance Company

July 14, 2011

CLOSING ARGUMENT

Thank you, your honor, and thank you to the Office of the Insurance Commissioner for your time and consideration of the proposed merger of PEMCO Insurance Company with and into PEMCO Mutual Insurance Company.

The purpose in merging these two companies can be simply stated: PIC policyholders will receive through PMIC the same rates, insurance protections, and high-level service they enjoy today, and PMIC will be able to deliver those benefits in a simpler and more cost-efficient way. The evidence that has been filed and presented fully satisfies the applicable legal requirements found in RCW 48.31.010(1), which governs this request to merge.

The evidence presented supports the conclusion that, as required by RCW 48.31.010(1)(a), a plan of merger has been submitted to the Office of the Insurance Commissioner as part of the merger application. That plan was duly authorized by the boards of directors of PMIC and PIC. Also on file are the 2010 Combined Annual Statement of both PMIC and PIC, in addition to their individual 2010 Annual Statements. These financial statements provide both an individual and a consolidated view of the companies.

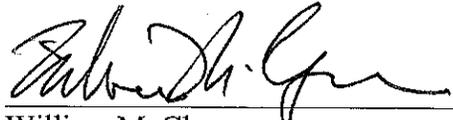
The evidence presented supports the conclusion that, as required by RCW 48.31.010(1)(b), the merger is fair, equitable, consistent with law, and there is no reasonable objection to approving the merger.

The evidence presented supports the conclusion that, as required by RCW 48.31.010(1)(c), no director, officer, member, or any other person, 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.

The evidence presented supports the conclusion that, as required by RCW 48.31.010(1)(d), the merger complies with the applicable general laws of Washington relating to business corporations. PMIC owns all of PIC's issued and outstanding shares of stock. Under these circumstances, the Washington Insurance Code as well as Washington's general business corporation laws, specifically RCW 23B.11.040(1), allow for the merger of a wholly-owned subsidiary to be approved in the manner presented, with the approvals that have been secured and documented.

Again, thank you for your consideration. I will look forward to any additional assistance I can provide in your and the commissioner's review at the hearing on this matter.

July 14, 2011



William M. Clumpner
Assistant General Counsel
PEMCO Mutual Insurance Company
PEMCO Insurance Company