



INDUSTRIAL ALLIANCE PACIFIC
INSURANCE AND FINANCIAL SERVICES™

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Industrial Alliance Pacific Insurance and Financial Services Inc.
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Patricia D. Petersen
Chief Hearing Officer

January 19, 2012

Honorable Patricia D. Petersen
Chief Hearing Officer
State of Washington, Office of Insurance Commissioner
5000 Capitol Boulevard
Tumwater, WA 98501

**RE: Redomestication of Industrial Alliance Pacific Insurance and Financial Services Inc.
Docket No. 11-0261**

Dear Judge Petersen:

Enclosed for your review, please find an original, executed Pre-Filed Direct Testimony of Karen R. Davies which has been prepared for the hearing scheduled for Wednesday, February 1, 2011 at 1:00pm PST. A signed original was also retained for our files.

Please contact me directly if you have any additional questions or need anything further. I can be reached toll free at (888) 473-5540, extension 5553 or via email at greg.morris@iaamerican.com. Thank you for your assistance in this matter.

Regards,

Industrial Alliance Pacific Insurance and Financial Services Inc.


Gregory D. Morris
Chief Legal Counsel & Assistant Secretary

Enclosure

Cc: Robin Aronson, Staff Attorney, Legal Affairs Division

7. Q. Please describe your educational background.

A. I have a Bachelor of Science from University of Calgary and a Masters of Science from University of British Columbia.

8. Q. Are you authorized to speak on behalf of IAP with regard to its Application for its Redomestication and Change of Port of Entry at this hearing?

A. Yes, in my position as Vice President, Operations, I am authorized to speak on behalf of IAP with regard to what I shall refer to as its Application.

9. Q. Would you briefly describe the Application and your involvement with its preparation and in the proposed redomestication and change of port of entry?

A. On October 28, 2011, IAP filed a Uniform Certificate of Authority Application with the state of Washington and Texas which is its application for redomestication and request to change its port of entry. The application requests permission to redomesticate IAP from the state of Washington to the state of Texas, subject to the approval of and acceptance by Texas. In my position as Vice President, Operations, I personally participated in the strategic decision to apply for redomestication. I prepared financial projections and prepared business plans and provided other input for the application.

10. Q. Have you had occasion to review the Application that is the subject of this proceeding and the supplemental materials provided to the Office of Insurance Commissioner for the State of Washington?

A. Yes.

11. Q. Do you believe that the Application and subsequently provided materials are complete, true and current in all material respects?

A. Yes.

12. Q. What changes have there been with respect to the information contained in the Application?

A. There have been no material changes to the information contained in the Application.

B. Corporate Structure

13. Q. Would you describe the parent and ultimate controlling person of IAP?

A. IAP is part of a holding company structure and is 99.9% owned by the ultimate controlling person in that structure, Industrial Alliance Insurance and Financial

Services Inc. ("IA"), a Canadian corporation. IA is publicly traded and has been listed on the Toronto Stock Exchange since 2000. As of June 30, 2011 it had \$71.5 billion in assets under management and administration. It is the fourth largest life and health insurance company in Canada. It is rated A (Excellent) by A. M. Best Company and A+ (Strong) by Standard & Poors. IA has subsidiaries in a number of financial services sectors including life and health insurance, auto and homeowners insurance, mutual fund management, investment advisory services, trust services and mutual fund and securities brokerage. Its U.S. operations consist of the branch of IAP, which is the subject of this Application, and IA American Life Insurance Company, Pioneer Security Life Insurance Company, American-Amicable Life Insurance Company of Texas, Pioneer American Life Insurance Company and Occidental Life Insurance Company of North Carolina.

C. IAP Background

14. Q. Would you describe IAP and how it became domiciled in the state of Washington?

A. On April 29, 1967, Industrial-Alliance Pacific Life Insurance Company was incorporated under Canadian law with the name of The North West Life Assurance Company of Canada and commenced business on June 22, 1967. In 1971, the Company was granted a Certificate of Authority for the Company to use the state of Washington as its port of entry to transact the business of insurance in the United States, thus creating an alien branch. In 1973 it commenced business in the U.S. On July 8, 1982, The North West Life Assurance Company of Canada was purchased by Industrial Alliance Life Management Corporation which was ultimately controlled by Industrial-Alliance Life Insurance Company of Quebec, Canada. In September of 2000, The North West Life Assurance Company of Canada changed its name to Industrial-Alliance Pacific Life Insurance Company. In 2007 it changed its name to Industrial Alliance Pacific Insurance and Financial Services Inc.

D. IAP's Business, Jurisdictions and Commercial Domiciliary States

15. Q. Would you describe the nature of IAP's business please?

A. Up until 2011, IAP wrote individual life insurance products and annuities. The products included universal life insurance, term insurance, tax-sheltered annuities and non-qualified annuities. Over the past years, the mix of products sold has changed as a result of changes to IRS 403(b) regulations. Because of that, the changes eliminated our sales of tax-qualified life insurance but not the annuities. IAP currently writes annuity business, consisting of fixed annuities and fixed indexed annuities, the sales of which are focused primarily in the niche market of 403(b) and 457 qualified plans. IAP recruits and contracts with non-exclusive Managing General Agents and General

Agents who have agents under them. This business plan for IAP will not change as a result of the redomestication and change of its port of entry state to Texas.

16. Q. Would you identify where IAP conducts its business?

- A. IAP is licensed to conduct business in 46 states. It does not conduct business in the states of Connecticut, Florida, Minnesota, New York and North Carolina. It does conduct business in all other states and the District of Columbia. This can be seen from Schedule T on page 11 of the 3rd Quarter Statement for 2011 that has been provided with the pre-filed testimony as **Applicant's Exhibit 1**.

17. Q. How much of IAP's premium comes from the states of Washington, California and Texas and what impact does that have on where it is considered to be domiciled.

- A. Schedule T also shows the premium volume for each state as of the end of that 3rd Quarter. Washington had 0.4416%, California had 32.2033% and Texas had 60.105%. A three year average of 33% of our written premium comes from the state of California. Pursuant to California Insurance Code Section 1215.13, we are considered to be commercially domiciled in that state. It is very possible that this will again be the case at year end for 2011. The same is true in Texas under V.T.C.A. Insurance Code Section 823.004. We are commercially domiciled there because of the even larger percent of business in that state.

E. Rationale for Redomestication

18. Q. What happens as a result of being domiciled in Washington and Commercially Domiciled in California and Texas?

- A. The result of being commercially domiciled in two states in addition to being actually domiciled in the state of Washington means we are regulated as if we were domiciled in three states. The following is an example of what can result from this. When we wish to enter into an agreement between or among affiliates, we are required to obtain approval by the domiciliary states for such an intercompany agreement under the holding company acts. Such an agreement can be a reinsurance treaty or an administrative agreement between affiliates. Because of the geographical location of our business, which causes us to be commercially domiciled in two states, we need to obtain the approval of three states rather than one. In addition, if the affiliate on the other side of the agreement is an insurance company domiciled in another state, there can be four states involved. Each of the states may have state specific changes it requires to be made to the agreement documents, resulting in a long process of going back and forth to ensure that each state's changes are approved by the other states before we can execute the final version of the document. There is the potential for

approval by two and disapproval by the other. There are numerous other situations in which more than one state becomes involved.

19. Q. What is the business reason for and benefit obtained by IAP for such a redomestication?

A. IAP will have one domiciliary state. If IAP has one true domiciliary state it would require only one state's review and approval. As noted earlier, IAP has five affiliated companies in the U.S. IA American is one of those companies and it was domiciled in the state of Georgia. A Uniform Certificate of Authority Application was filed with Georgia and Texas on October 4, 2011, to change its domicile to Texas. A "No Objection" letter was received by the Georgia Department of Insurance on January 11, 2012. In discussions with the Texas Department of Insurance, formal approval of the redomestication to Texas is expected very soon. IA American will soon become a Texas company. The other four affiliated U.S. companies as mentioned in our response to Question B (13) are already domiciled in the state of Texas. It is IA's and IAP's desire to have all of the U.S. operations under one domiciliary state, Texas, and thus under one primary regulator. If accomplished, it should improve the speed with which IAP can react to regulatory requirements while reducing the number of such requirements and the costs associated to respond and comply.

F. Impact on IAP and its Policyholders

20. Q. What is the general effect of the redomestication on IAP's operations and policyholders?

A. The operations of IAP are currently directed from the office in Scottsdale, Arizona. Washington has permitted the records of IAP to be held and maintained in Scottsdale and it is the intent of IAP to continue to do so, with the permission of Texas and consequently with no impact on IAP or policyholders. Part of the administration of IAP's business is conducted at the Scottsdale site and part is handled by IBM Business Transformation Outsourcing Insurance Services Corporation, a TPA, in Greenville, South Carolina. While the use of these administrative services may change over time, the redomestication will not affect the overall operations of IAP or the manner in which services are provided to the policyholders. The same current high level of service will be provided to the policyholders after the redomestication and the move is intended to be seamless to them.

G. Impact on Washington

21. Q. What will the impact be on Washington policyholders and the state of Washington?

- A. As of December 6, 2011, IAP had 782 life and annuity policies in force in the state of Washington generating a total of \$ 2,715,402 in premium. There will be no impact on these policyholders. They will continue to receive benefits, access to their policies as well as proper and expeditious responses to their requests and administration of their policies. They may notice the mention of the state of Texas rather than the state of Washington on some occasions, but that should be rare, if at all. It is the intent of IAP to remain licensed as an alien branch and to conduct business as usual in accordance with its business plan in the state of Washington. We have been no administrative activity or employees in the state of Washington so there will be no jobs lost nor any negative economic impact of that nature.

H. Impact on the Public

22. Q. Will there be any impact on the public and have you had any complaints with regard to the application and potential redomestication and change of port of entry?

- A. We do not see any impact on the general public and we have received no complaints from anyone to date.

I. Concluding Statement

23. Q. Could you please summarize in a concluding statement the reason and justification for Washington granting approval of this application?

- A. IAP believes that it has presented sufficient evidence in the application and in this testimony to show that the granting of the redomestication and change of port of entry state are in the best interests of the company and therefore its policyholders, including those in the state of Washington, as well as the general public. We believe approval under RCW 48.07.210 is fully warranted.

Verification

I, Karen R. Davies, declare under penalty of perjury of the laws of the State of Washington that the foregoing answers are true and correct.

Dated this 19th day of January, 2012, at Scottsdale, Arizona.



Karen R. Davies
Vice President, Operations