

FILED

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CLERK OF SUPERIOR COURT
COUNTY OF KING

BEFORE THE STATE OF WASHINGTON
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Proposed Acquisition
and Control of:

PEMCO LIFE INSURANCE COMPANY,
a Washington Domestic Stock Insurance
Company,

by

SAGICOR LIFE INSURANCE
COMPANY, a Texas corporation

the Applicant.

NO. 12-0203

DECLARATION OF
RONALD J. PASTUCH

Ronald J. Pastuch, under penalty of perjury under the laws of the State of Washington,
declares as follows:

1. I am the Holding Company Manager in the Company Supervision Division of
the Washington State Office of Insurance Commissioner ("OIC"). I am over the age of
eighteen years old and I am competent to testify in this matter. I make this Declaration based
upon my personal knowledge.

2. I am a graduate of Pacific Lutheran University, where I earned a Bachelor of
Arts Degree in Business Administration in 1988. I received my CPA license in 2003.

1 3. My previous state employment includes the Washington Department of
2 Veterans Affairs from 1980 to 1987 in accounting and human resource positions, and the
3 Office of the Insurance Commissioner from 1987 to 1991 as a staff accountant, from 1991 to
4 1993 as a field Insurance Examiner in the OIC Company Supervision Division, and from
5 1993 to 2006 as a Financial Analyst at various levels within the same division.

6 4. On February 16, 2006, I was appointed the Holding Company Manager in the
7 same division. As the Holding Company Manager, my primary duties consist of reviewing
8 and approving holding company transactions, which include reviewing and recommending
9 OIC staff's position on proposed requests for insurance company acquisitions and mergers,
10 including disclaimers of control.

11 5. On March 13, 2012, Sagicor Life Insurance Company ("the Applicant") filed
12 an application for approval of the proposed acquisition of control of PEMCO Life Insurance
13 Company ("PLIC"). PLIC is a Washington domiciled stock insurance company incorporated
14 on May 27, 1963, and began writing business on May 1, 1968. PLIC has been licensed to
15 write life and disability coverages in Washington State since its inception. PLIC is a wholly
16 owned corporation of PEMCO Mutual Insurance Company ("PMIC"). PMIC is a Washington
17 domiciled mutual insurance company incorporated on October 6, 1948 under the name Public
18 Employees Mutual Insurance Company, began writing business on February 9, 1949, and
19 based in Seattle, WA. PMIC later changed its name to its current title on February 3, 1989.

20 6. The Applicant is a Texas life insurance corporation and has been licensed in
21 Washington State since September 1961. The Applicant was originally incorporated in 1954
22 under the name American Founders Life Insurance Company, and later adopted its current
23 title during 2006 after Sagicor Financial Corporation acquired the Applicant during 2005.
Sagicor Financial Corporation is a Barbados publicly traded insurance holding corporation
and is primarily listed on the Barbados Stock Exchange and secondly on the Trinidad and
London Stock Exchanges. According to its website, Sagicor Financial Corporation provides

1 financial services with operations in more than 22 countries, mainly Latin America and the
2 Caribbean.

3 6. The Applicant and PMIC entered into a Stock Purchase Agreement dated
4 February 22, 2012, where the Applicant would acquire 100 percent of the outstanding capital
5 stock of PLIC, subject to the approval of regulatory authorities. That agreement was filed with
6 the application for acquisition filing as Exhibit A of that filing. The agreed price would be the
7 sum of PLIC's capital and surplus determined on a statutory accounting principles basis plus
\$1.7 million at the closing date.

8 7. The Applicant submitted an amendment to its Stock Purchase Agreement,
9 various Exhibits in their application of acquisition filing, including but not limited to, the fore
10 mentioned Stock Purchase Agreement, its corporate organization chart, its financial
11 statements including Sagicor Financial Corporation, biographical affidavits of its directors
12 and executive officers. The Applicant filed subsequent materials to support information about
its directors and executive officers.

13 8. On April 6, 2012, the OIC sent a letter to the Applicant's counsel advising the
14 Applicant's application of acquisition filing did not have all information within that filing,
15 requested additional information about the Applicant and its affiliates, and revise some
16 information provided its application of acquisition filing.

17 9. On April 20, 2012, the Applicant provided its response to the OIC's April 6,
18 2012, deficiency letter.

19 10. On June 5, 2012, the OIC received a copy of a letter addressed to the
20 Applicant's counsel located in Texas from the Texas Department of Insurance indicating the
21 proposed acquisition transaction was reviewed and the Texas commissioner will take no
22 further action on the transaction at this time. On June 6, 2012, the Applicant submitted its
23 latest audited statutory financial statement on its financial position as of December 31, 2011
and 2010, and the results of its operations and its cash flows for the years then ended.

1 11. On June 28, 2012, OIC sent a letter to the Chief Hearing Officer regarding this
2 application for acquisition filing as being complete and requested a hearing to decide on such
3 matter.

4 12. On August 22, 2012 and August 24, 2012, the Applicant and PLIC,
5 respectively, submitted their latest quarterly unaudited statutory financial statements reporting
6 their balance sheet, operations and cash flows as of June 30, 2012.

7 13. On August 28, 2012, the Applicant submitted its second amendment to Stock
8 Purchase Agreement dated August 27, 2012 which extends the closing date on the proposed
9 acquisition.

10 14. I have reviewed and analyzed these submittals. My analysis was performed
11 under the criteria set forth in RCW 48.31B.015(4). From my analysis,

12 a. The domestic insurer would be able to satisfy the requirements for the
13 issuance of a license to write its current lines of business from which it is presently licensed.
14 As stated previously, PLIC is presently licensed to write life and disability coverages. PLIC's
15 minimum capital and surplus as of the date of the Declaration is \$4.8 million (\$4,800,000). As
16 of its latest financial statement as of June 30, 2012, PLIC reportedly has \$6.0 million in
17 capital and surplus. Also, PLIC's latest risk-based capital exceeded its company action level
18 as defined under RCW 48.05.430 and RCW 48.05.440. Since PLIC's current financial
19 condition exceeds the minimum capital and surplus with the current authorized lines of
20 business as proscribed by RCW 48.05.340(3), PLIC would continue to maintain its license for
21 life and disability coverages in Washington State.

22 b. The effect of the proposed acquisition of control would not lessen
23 competition in this state or tend to create a monopoly therein. We performed a market
analysis on the Applicant and PLIC's direct writings in the Washington life market. The
Applicant is the only US entity within its holding company system operating in Washington.
PLIC is licensed in Oregon and Washington, but only has writings in only Washington. The

1 combined writings of the Applicant and PLIC would be less than one half percent of one
2 percent (0.5%) of the life market in Washington. There would be no effect in the disability
3 market since PLIC no longer writes disability coverages. Our conclusion is there is no
4 evidence indicating a violation of the competitive standards or situations meeting the criteria
5 set forth in 48.31B.020(4) exist.

6 c. The financial condition of the Applicant appears that it would not
7 jeopardize the financial stability of the domestic insurer or prejudice the interest of its
8 policyholders. ~~As of June 30, 2012, the Applicant's unaudited financial condition had~~
9 reportedly \$935 million in assets and \$56 million in capital and surplus. The Applicant's AM
10 Best rating is A- (Excellent) and has reportedly maintained that rating since 2008. The
11 Applicant is required to maintain a certain RBC level according to an agreement with the
12 Texas Department of Insurance. Its parent company, Sagicor USA, Inc., acquires through the
13 Applicant's surplus notes, and therefore provides the necessary capital in order for the
14 Applicant to meet its agreed-upon capital and surplus level with the Texas Department of
Insurance. Based on these facts, the financial condition of the Applicant would not jeopardize
the financial stability of PLIC or the interest of PLIC's policyholders.

15 d. We are not aware of any plans or proposals by the Applicant to
16 liquidate the domestic insurer, sell its assets, or make any other material changes other than
17 what the Applicant has stated in its application of acquisition filing. The Applicant would, in
18 the future, propose to merge PLIC with and into the Applicant after the approval of the
19 acquisition and control of PLIC. After the approval of this acquisition, PLIC operations would
20 be transferred to the Applicant's existing offices located in Scottsdale, Arizona. PLIC
reportedly has no employees.

21 e. We verified the competence, experience, and integrity of those persons
22 who would control the operation of the domestic insurer with the federal, state, and local
23 officials through a third party verification firm. That firm provides background checks on

1 information provided in each person's biographical affidavit. We also had the criminal
2 background verified of those individuals who would directly control the operations of PLIC.
3 As to these background checks, we did not detect any representation that would question the
4 integrity of those individuals listed in the acquisition filing.

5 f. We are not aware that the acquisition is likely to be hazardous or
6 prejudicial to the insurance buying public. PLIC is currently not selling any new policies since
7 February 2011; however, PLIC is providing quality services to its existing policyholders. We
8 expect that quality service continue to be provided to those PLIC policyholders after the
9 acquisition is approved and the PLIC operations are transferred to the Applicant's offices. The
10 Applicant has a history of acquiring blocks of business and merging companies; however, this
11 is its first acquisition under its current owners and leadership. We expect the new owners and
12 leadership to provide services that would not be hazardous to prejudicial to PLIC or the
13 insurance buying public.

14 15. According to this analysis and review of the subject acquisition filing and its
15 attachments, we recommend to the presiding officer to approve the acquisition of PLIC by the
16 Applicant.

17 16. From a procedural standpoint, the OIC requires that notice of this proposed
18 acquisition be given to the public via the Internet (on the Insurance Commissioner's website).
19 On August 16, 2012, the OIC posted a notice on the Insurance Commissioner's website
20 concerning the proposed acquisition of PLIC and information about the OIC's hearing
21 process, a true and correct copy of which is attached hereto as Exhibit "A". Such notice
22 included information regarding the hearing, via the Notice of Hearing and announcement
23 posted on the website. On August 30, 2012, the Notice of Hearing was amended in title and
the nature of the proceeding as to the hearing itself. On September 4, 2012, that amended
notice of the hearing was presented on the front page of the website, a true and correct picture

1 of that website which is attached hereto as Exhibit "B". We understand that notice will remain
2 posted on the website from the date of this Declaration to the date of the hearing.

3 17. The Notice of Hearing informs and advises all interested parties that any
4 individual or entity is permitted to submit comments on, or objections to, this proposed
5 acquisition. The Notice of Hearing states that any questions or concerns should be directed to
6 Kelly Cairns, Paralegal to the OIC Chief Hearing Officer.

7 18. As of the date of this Declaration, I personally have not received any
8 comments, questions, or objections through letter, correspondence, email, or phone, nor am I
9 aware of any comments, questions, or objections having been received by the OIC Chief
10 Hearing Officer.

11 SIGNED this 4th day of September, 2012.

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13 Ronald J. Pastuch
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EXHIBIT "A"

**2012 Public notices****August 2012**

Hearing set to consider Sagacor Life's request to acquire PEMCO Life - 08/16/2012

March 2012

Hearing set to consider Humana's request to acquire Arcadian Health Plan - 03/13/12

2011 Public notices**December 2011**

Industrial Alliance Pacific Insurance and Financial Services Inc. requests approval to change their port of entry from Washington State to Texas - Hearing set for February 1, 2012. - 12/23/2011

Humana has applied to acquire Arcadian Health Plan, Inc. and its parent company, Arcadian Management Services, Inc. - 12/22/11

Safeco Companies seek approval to move their state of incorporation from Washington State to New Hampshire - 12/12/11

October 2011

Hearing scheduled for disclaimer of control of Commonwealth Insurance Company of America - 10/14/2011

September 2011

Hearing set for disclaimer of control of Commonwealth Insurance Company of America - 09/09/2011

Notice of filing for disclaimer of control of Commonwealth Insurance Company of America - 09/07/2011

July 2011

Hearing set for merger of PEMCO Insurance Company - 7/11/2011

June 2011

PEMCO Insurance Company has applied to merge with its parent company, PEMCO Mutual Insurance Company - 6/10/2011

April 2011

Hearing set for acquisition of Contractors Bonding & Insurance Company - 4/5/2011

February 2011

Hearing set for redomestication of National Merit - 2/10/2011

Hearing set for redomestication of Unigard companies - 2/7/2011

2010 public notices**December 2010**

Hearing set for acquisition of Columbia United Providers - 12/20/2010

August 2010

PeaceHealth has applied to acquire Columbia United Providers and its parent company, Southwest Washington Health Systems - 9/14/2010

June 2010

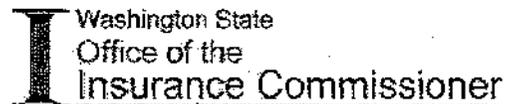
Hearing set for merger of Pacific Northwest Title Insurance Company - 6/15/2010

May 2010

Pacific Northwest Title has applied to merge with its parent company, First American Title - 5/6/2010

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EXHIBIT "A"

**Notice**

Mike Kreidler
Washington Insurance Commissioner
Website: www.insurance.wa.gov

For more information, contact:
Public Affairs: 360-725-7055
Office of the Insurance Commissioner

Hearing set to consider Sagicor Life's request for approval to acquire PEMCO Life Insurance Company

Olympia, Wash. – The Insurance Commissioner has scheduled a hearing for September 13, 2012 at 10:00 a.m. Pacific Time, in his Tumwater, Washington office to consider whether he should approve or deny Sagicor Life Insurance Company's request to acquire Washington-based PEMCO Life Insurance Company. Sagicor Life is proposing to acquire all outstanding stock of PEMCO Life Insurance Company, and is also proposing to merge PEMCO Life with and into Sagicor Life at a later date after receiving approval of the acquisition.

PEMCO Life Insurance Company, which has been a Washington-based insurer since 1963, provides life and disability products to approximately 15 thousand Washington individual and group policyholders, and is wholly owned by its parent company, PEMCO Mutual Insurance Company. PEMCO Mutual Insurance Company is a mutual property and casualty insurer located in Seattle, WA and is licensed in Idaho, Oregon, and Washington.

Sagicor Life is a Texas-based insurer licensed in Texas to offer accident, health and life insurance and has been authorized to conduct life and disability insurance in Washington since 1961. Sagicor Life operates primarily in the US and is wholly-owned by Sagicor Financial Corporation. Sagicor Financial Corp. is a Barbados corporation which operates internationally in various European and Caribbean countries, and is publicly traded on the Barbados, Trinidad and Tobago, and London Stock Exchanges. Sagicor Financial Corp. had \$142.6 million in US revenue in 2011, \$1.35 billion in total revenue (both US and international) and 632,123 individual life policies in-force overall. As of December 31, 2011, Sagicor Financial Corp.'s consolidated stockholders' equity was \$797.5 million.

The public is notified that all interested parties may submit letters of support or objections and/or may participate in the hearing by appearing in person or by telephone. The Notice of Hearing includes how to participate and other related documents.

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Tell a friend |

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EXHIBIT "B"

Public Notice regarding September 13th Hearing

Washington State Office of the Insurance Commissioner - Microsoft Internet Explorer provided by Office Of Insurance Commissioners

http://www.insurance.wa.gov

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Washington State Office of the Insurance Commissioner

Washington State Office of the Insurance Commissioner

Home Consumers Agents/Brokers Companies Contact Us

For consumers

Call our Insurance Consumer Hotline at 1-800-562-6900 or email us for help.

- Search health insurance rate increases
- Compare company complaints
- Look up agents and companies
- How to get health insurance
- Can't afford health care coverage?

More topics

Updates, insurance tips, and more...

- Insurance fraud: Medical worker sentenced to jail and \$472k restitution
- Sept. 13 hearing set for Sagor Life Insurance request to acquire PENCO Life
- Health care reform: Will you pay the tax penalty? (For most, life insurers too.)
- More updates

We're here to help!

I am grateful beyond words that you have assisted me in this resolution. Thank you. -- A.R.

Highlights

- Health plans by county
- Medicare choices
- Health care reform
- Health-appeals guide

For agents & brokers

- Renew or apply for a license online
- What do I have to do to get my license?

More topics

For insurance companies

- Company licensing topics
- Rates and forms topics
- Financial reporting and tax requirements topics

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