



OFFICE OF THE
INSURANCE COMMISSIONER

In the Matter of)	No. 10-37
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
PEMCO MUTUAL INSURANCE)	AND ORDER ADOPTING REPORT
COMPANY)	OF FINANCIAL EXAMINATION

A Domestic Insurer.

BACKGROUND

An examination of the financial condition of **PEMCO MUTUAL INSURANCE COMPANY** (the Company) as of December 31, 2008, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a mutual insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on January 22, 2010. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 11 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **PEMCO MUTUAL INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions and Comments and Recommendations prior to the date of this order. The Instructions and Comments and Recommendations in the report are appropriate responses to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-3.

1. The Company is ordered to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is also ordered to execute a revised or amended custodial agreement that complies with the FCEH. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.12.010 and report only assets that belong wholly and exclusively to the insurer. The Company is also ordered to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affair and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.31B.030 and adhere to the inter-company agreement approved by the Board of Directors and filed with the OIC. Instruction 3, Examination Report, page 2.
4. In order to demonstrate compliance with RCW 48.05.370, it is ordered that the Company consider obtaining and reviewing conflict of interest declarations from appropriate personnel and reporting the results to the Company's Board of Directors, as required by the Company's conflict of interest policy. Comments and Recommendations 1, Examination Report, page 3.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 25th day of February, 2010.

A handwritten signature in black ink, appearing to read "Mike Kreidler", written in a cursive style.

MIKE KREIDLER
Insurance Commissioner



325 Eastlake Avenue East
PO Box 778
Seattle, WA 98111-0778

February 11, 2010

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
State of Washington
Office of the Insurance Commissioner
P.O. Box 40259
Olympia, WA 98504-0259

RE: PEMCO Mutual Insurance Company (NAIC# 24341)
Report of Examination as of December 31, 2008

Dear Deputy Commissioner Odiorne:

We have received the draft of the referenced report of examination and completed our review of the material presented. Overall, we are pleased with the report and look forward to its formal adoption.

In response to your request for our comments on the draft, the following responses are offered in regards to the INSTRUCTIONS listed on pages 1 through 3. Please include them with the final examination report that will be made publicly accessible.

1. **Investment Custodial Agreements**

The Company is instructed to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions, and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is also instructed to execute a revised or amended custodial agreement that complies with the FCEH

RESPONSE

The Company will work with its Custodian to ensure the Custodial Agreement meets the requirements of RCW 48.13.480 by June 30, 2010.

2. **Annual Statement Errors**

- a. The Company is instructed to comply with RCW 48.12.010 and report only assets that belong wholly and exclusively to the insurer.

RESPONSE

Although the final report noted that the error in the financial statements is not material, and no examination adjustments were necessary, the Company has corrected its financial statements. The 2010 annual statement will include only those premium receivables related to its own policies and not those of its subsidiary.

- b. The Company is instructed to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions, and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2)

RESPONSE

Although the final report noted that the error in the financial statements is not material, and no examination adjustments were necessary, the Company is developing improved systems reporting that will resolve this issue. The project is expected to be complete in 2010. The new reporting will include a detailed premiums receivable report which accurately reflects the premiums on an individual company basis

3. **Cost and Service Sharing Agreement**

The Company is instructed to comply with RCW 48.31B.030 and adhere to the inter-company agreement approved by the Board of Directors and filed with the OIC.

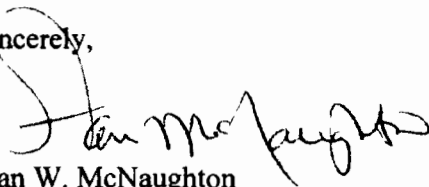
RESPONSE

The Company is in the process of amending the PEMCO Mutual Insurance Company/PEMCO Insurance Company Cost Sharing Agreement to reflect our current practices regarding the collection of premiums, and the agreement will be filed with the OIC in accordance with RCW 48.31B.025.

Mr. James T. Odiorne, CPA, JD
State of Washington
Office of the Insurance Commissioner
February 11, 2010
Page 3 of 3

If you have further questions regarding these items or anything else in regards to our report of examination for the period ended December 31, 2008, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Stan W. McNaughton". The signature is written in a cursive style with a large initial "S" and "M".

Stan W. McNaughton
President
PEMCO Mutual Insurance Company