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**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

March 12, 2010

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
5000 Capitol Blvd.
Tumwater, WA 98501

Re: Chapter 48.13 RCW – possible amendment

Dear Mr. Odiorne:

Thank you for inviting comments on the Office of the Insurance Commissioner (OIC) draft investment law, based on the National Association of Insurance Commissioner's Investment of Insurers Model Act (Defined Standards Version). We support the goal of modernizing and simplifying the investment provisions of the Washington Insurance Code. We will continue to study the proposal, but we wanted to provide our initial comments within the time frame suggested.

The proposed act, which emphasizes governance, investment policies, the skill of the investment staff, prudent investment practices and the capital strength of the company, has the express purpose of protecting the interests of insureds, creditors, and the general public, with "minimum interference with management initiative and judgment." We have included a table that compares the aggregate and individual limitations in Section 7 (Authorization of Investments) and Section 8 (Limitations Generally Applicable) of the NAIC model act with the OIC's suggested modifications to those limits. Where proposed investment limits are lower, we would suggest returning them to at least the model act's limits. We believe this serves the express purpose of minimizing interference with management initiative and judgment.

In addition to the comments contained on the draft proposal itself, we offer these thoughts on the following sections:

Introduction to Section 7: We recommend retaining the introductory language found in the model act referring to partnerships, joint ventures, and limited liability companies. This can help to

clarify that investments held through these entities will be treated according to their underlying risk. For example, investment real estate owned through a limited liability company provides liability protection to the insurer, and the investment has characteristics of real estate, not equity. We believe removing the introductory statement in Section 7 changes the context of Sections 7 and 8. We read the model act to emphasize the classes of investments that are held and not the vehicle through which they are held.

Section 7(4): The aggregate limit for insurance company subsidiaries is reduced from current limits to the lesser of 10% of admitted assets or 50% of surplus. The model act's provisions allow greater flexibility than this for an insurer to hold subsidiary entities. If there were to be a reduced limit on an insurer's subsidiaries, we strongly believe there needs at least to be a distinction between insurance company subsidiaries (with a higher limit, if any) and those subsidiaries that support the operations of an insurance company. The paragraph could be broken down into separate subsections, for example, one for common stock and equity interest in an U.S. business entity, another for equity-like preferred stock, another for mutual funds, and another for insurance company and other subsidiaries.

The 20%/25% limits in the model act and OIC draft may be too restrictive, depending on how mutual funds are analyzed against those limits. The Securities Valuation Office (SVO) shows only one bond fund that is eligible to be treated as a bond fund. In order to place, for example, the PIMCO Total Return fund into an insurer's investment portfolio, the insurer has to treat it as equity according to the act. We would recommend that the 20%/25% limits be higher. We also recommend that mutual funds be identified in a separate paragraph with their own limits identified in Section 8.

Section 7(7): We suggest removing the insertion "NAIC SVO 1 Debt" as unnecessary in light of Section 5(7).

Section 8(2): The individual limitation to securities of a single issuer and its affiliates is potentially confusing for mutual fund holdings. Is a single fund considered an issuer, or is an entire fund family considered an issuer? For example, if an insurer holds a Vanguard S&P 500 index fund and a Vanguard World Market fund, and a Vanguard High-Yield fund, each at 4%, is it in violation of the individual limitations on a single issuer? The funds themselves are diversified. We believe language should be inserted to clearly identify that a fund is an issuer, not the fund family (e.g. Vanguard or Fidelity or T. Rowe Price). There is also a difference in risk characteristics between active and passive funds that can be considered for individual limitations.

Section 8(5): We understand the theory for looking through a mutual fund to its underlying assets. We also recognize the inherent limitations in performing a look through, including the transparency of, and timeliness in reporting, the portfolio holdings. Fund families, by nature, closely guard their current asset allocations. We suggest that looking through a mutual fund should be done to determine if a mutual fund is holding true to its defined style, not to deconstruct the entire fund and reallocate the assets to the other sections of the act. For example, if an insurance company purchases a diversified international stock fund that may have a small allocation to emerging markets, would this fund be disqualified based on section 7(7) with the insertion of "NAIC SVO 1 Debt Rated"? We believe a fund should be reviewed to confirm that it is being managed to its stated objectives, not to disqualify it if it contains some holdings that are below NAIC SVO 1 Debt Rated.

Thank you again for the opportunity to submit initial comments on the OIC proposal. If you

would like to have any further discussions or if you have questions regarding our comments, please feel free to contact me (206-628-5860) or Kevin Morris, Investment and Treasury Director (425-744-8569).

Sincerely,

PEMCO Mutual Insurance Company
PEMCO Insurance Company
PEMCO Life Insurance Company

A handwritten signature in black ink, appearing to read 'S. Ricco', with a long horizontal flourish extending to the right.

Steven A. Ricco
Vice President, Treasurer
and Chief Financial Officer

Enclosure

LIMITS MATRIX

		Section 7		Defined Standards Model Act - Section 8										OIC Proposed Act - Section 8							
Class	Sub-Class	Model	OIC	Aggregate		Credit (rated by the SVO) Aggregate					Individual Limitations *		Aggregate		Credit (rated by the SVO) Aggregate					Individual Limitations *	
				Life	Non-Life	3-6	4, 5 or 6	5 or 6	6	Low Inc.	Life	Non-Life	Life	Non-Life	3-6	4, 5 or 6	5 or 6	6	Low Inc.	Life	Non-Life
Cash	Cash	A.	1.	No Limit							3%	5%	No Limit							3%	5%
Bonds	Bonds (general)	B.	2.	No Limit	No Limit	Includes foreign bonds					3%	5%	No Limit	No Limit	Includes foreign bonds					3%	5%
	Debt-like preferred stock	B.	2.								3%	5%								3%	5%
	Indebtedness of governmental units	B.	2.								No Limit									No limit	
	Instrumentalities of the governmental units	B.	2.			20%	10%	5%	1%	1%	No Limit									No limit	
	Private business entities	B.	2.								3%	5%								3%	5%
	Asset-backed securities	B.	2.								3%	5%								3%	5%
	SVO listed mutual funds	B.	2.						3%	5%						3%	5%				
Loans	Secured loans in real property (Mortgages, trusts deeds, or other security interests)	C.	3.	45%	25%						3%	5%	45%	25%						3%	5%
Equities	Common stock	D.	4.	20%	25%						3%	5%	20% (Voting interest limited to 10%)	25% (Voting interest limited to 10%)						3%	5%
	Equity-like preferred stock	D.	4.								3%	5%								3%	5%
	Equity interests in any business entitie	D.	4.								3%	5%								3%	5%
	Mutual funds (other than SVO listed mutual funds)	D.	4.								3%	5%								3%	5%
	LLC, Partnerships & Joint Ventures	Underlying Risk	4.	N/A							3%	5%	20% (V.I. <+10%)	25% (V.I. <+10%)						3%	5%
	Subsidiaries - Insurers	N/A	4.	No Limit							No Limit		10%							No Limit	
Subsidiaries - Insurance Support Entities	N/A	4.	No Limit							No Limit							No Limit				
Real Estate	Real property (home office)	E.	5.	10%							3%	5%	10%							3%	5%
	Real property (investment)	F.	6.	20%	10%						3%	5%	20%	10%						3%	5%
Foreign (Par. A-F)	Cash	G.	7.	20%							3%	5%	10%							3%	5%
	Bonds	G.	7.			20%	10%	5%	1%	1%	3%	5%								3%	5%
	Secured loans	G.	7.								3%	5%								3%	5%
	Equities	G.	7.								3%	5%								3%	5%
	Real Estate	G.	7.								3%	5%								3%	5%
Other	International Development organizations	H.	8.	2%							3%	5%	2%							3%	5%
	Policy Loans	I.	9.	No Limit							3%	5%	No Limit							3%	5%
	Tangible Personal Property	J.	10.	2%							3%	5%	2%							3%	5%
	Other investments authorized by reg./rule	K.	11.	No Limit							3%	5%	No Limit							3%	5%
	Basket investments	L.	12.	5%							3%	5%	5%							3%	5%

* Single Issuer limited in aggregate across classes unless noted