



Frances R. Roggenbaum

Phone: (717) 257-7526

Fax: (717) 257-7596

froggenbaum@saul.com

www.saul.com

February 6, 2015

VIA HAND DELIVERY

Cressinda E. Bybee, PIR
 Senior Insurance Company Licensing Specialist
 Bureau of Company Licensing & Financial Analysis
 Office of Corporate and Financial Regulation
 Pennsylvania Insurance Department
 1345 Strawberry Square
 Harrisburg, PA 17120

RE: Saucon Mutual Insurance Company ("Saucon Mutual") – Response to January 12, 2015 Letter Regarding Conversion from Mutual to Stock Form of Organization

Dear Ms. Bybee:

Saucon Mutual appreciates the review by the Pennsylvania Insurance Department (the "Department") of its proposed conversion from a mutual to stock insurance organization and the opportunity to respond to the Department's January 12, 2015 letter requesting additional information. As part of this response, Saucon Mutual is filing an Amended Plan of Conversion (as unanimously adopted by Saucon Mutual's Board of Directors on February 4, 2015) and related documents as indicated below. To assist in the Department's review, we also are filing redlines of each document showing the revisions from the documents filed with the Department on September 2, 2014 (the "Original Filing"). Please note that all documents submitted with the Original Filing that are not included with this response remain as part of Saucon Mutual's Conversion and corresponding Form A filing as originally filed.

Please note that Saucon Mutual asserts confidentiality of certain documents provided with this response. Such documents are designated as confidential in this response and will be filed under separate cover.

RECEIVED
 Corporate & Financial Regulation

FEB - 6 2015

Pennsylvania
Insurance Department

2 North Second Street, 7th Floor ♦ Harrisburg, PA 17101-1619 ♦ Phone: (717) 257-7500 ♦ Fax: (717) 238-4622

Plan of Conversion

1. Section I. Provide copies of board minutes and board presentations in which the proposed transaction was discussed/presented in addition to discussions/presentations of alternative options.

Copies of relevant board minutes and presentations are provided in Exhibit 1. Note that board minutes and presentation materials for the February 4, 2015 meeting will be filed later under separate cover when the minutes have been finalized.

2. Section II.B. Saucon Mutual, upon conversion (hereinafter referenced as “Saucon Stock”), will be required to maintain a minimum capital of \$950,000 and paid-in and contributed surplus of \$475,000 for the lines of authority for which it is presently licensed. The current plan does not provide for the required surplus.

The Plan of Conversion submitted in the Original Filing has been revised in the Amended and Restated Plan of Conversion (the “Plan”) to provide that Saucon Holding Company (“Saucon Holding”) will purchase from Saucon Insurance Company (“Saucon Stock”) 1,000 shares of capital stock of Saucon Stock on the effective date of the Conversion, such shares constituting all of Saucon Stock’s issued and outstanding shares of capital stock. Those authorized and outstanding shares will have a par value of \$950.00 per share. Saucon Holding will pay an aggregate purchase price of \$1,425,000 for those shares and Saucon Stock will record the proceeds as follows: \$950,000 as paid-in capital and \$475,000 as paid-in surplus. See Exhibit 2.

3. Section II.B. Saucon Mutual should make a formal request for Department approval of the intended name. Such an approval is necessary for filing with the Department of State along with the amended Articles of Incorporation.

Saucon Mutual is filing a formal request for the Department’s approval of the intended name contemporaneously with this response.

4. Section III.A. What is Saucon Mutual’s interest in using both “Eligible Policyholders and/or Eligible Members” when the Mutual-to-Stock Conversion Act defines “Eligible Member”?

The Plan and related documents now reference only “Eligible Members” or “members” and no longer reference “Eligible Policyholders.” See Exhibit 2 (Plan), Exhibit 3 (Member Information Statement), and Exhibit 4 (Form of Notice to Members to Vote on Plan & Form of Proxy).

5. Section III.A. The filing notes that “Saucon Mutual will not issue any policies between the date that the Plan was approved by the Board of Directors and the closing date of the

Conversion.” This commitment is also made in Section IX. Please confirm that this is still the intent of Saucon Mutual in light of the fact that a decision on the filing was not made in order for Saucon Mutual to reach its target closing date of December 31, 2014.

Confirmed. Saucon Mutual has not issued any new policies from August 27, 2014, the date its Board of Directors adopted the Plan, through the present date. Saucon Mutual has no intention of issuing any new policies through the effective date of the Plan or, alternatively, the abandonment of the Plan in accordance with the Conversion Act.

6. Explain how the amount of cash and other consideration to policyholders was determined.

The Saucon Mutual Board of Directors determined consideration to eligible members through a thoughtful and iterative process that was designed to meet their understanding of the standards of the Pennsylvania Conversion Act (the “Act”), specifically: that the plan “does not prejudice the interests of the members, is fair and equitable, and is not inconsistent with the purpose and intent of this act.”

The Board determined that consideration to eligible members would consist of the following:

- Perpetual Policyholders:
 - A cash payment computed by multiplying (i) the actual number of calendar days that a perpetual policy has been in effect from its issuance until the closing date of the Conversion, by (ii) \$0.1644 per day, then rounding that amount to the nearest whole dollar. For example, a member who is a perpetual policyholder whose policy had been in effect for 10 years (i.e., 3650 days) would receive a cash payment of \$600; and a member who is a perpetual policyholder whose policy had been in effect for 10 years plus 120 days (i.e., 3770 days) would receive a cash payment of \$620. The estimated aggregate amount of cash payments to all members who are perpetual policyholders would be \$704,249, assuming a closing date of June 30, 2015;
 - A return of 15% of an eligible member’s deposits held by Saucon Mutual, if any. Based on the aggregate amount of deposits as of February 4, 2015, the date of the Board’s adoption of the Plan, the estimated amount of deposits to be returned to members who are perpetual policyholders will be approximately \$340,000 (this amount may change due to changes in deposits between February 4, 2015 and the date of closing of the Conversion); and
 - Provision of the amount of the annual increase in limits under the existing inflation adjustment endorsements with no additional deposit charge to the policyholder. The estimated aggregate cost to Saucon Stock for the provision of the increased limits with no deposit charge to perpetual policyholders is \$500,000 as further described in Exhibit 5.

- Non-Perpetual Policyholders
 - A cash payment computed by multiplying (i) the actual number of calendar days that a non-perpetual policy has been in effect (including all renewals) from its issuance until the closing date of the Conversion, by (ii) \$0.1644 per day, then rounding that amount to the nearest whole dollar. For example, a member who is a non-perpetual policyholder whose policy had been issued and then renewed from time to time for a total period of 10 years (i.e., 3650 days) as of the closing date would receive a cash payment of \$600; and a member who is a non-perpetual policyholder whose policy had been issued and then renewed from time to time for a period of 10 years plus 120 days (i.e., 3770 days) as of the closing date would receive a cash payment of \$620. The estimated aggregate amount of cash payments to all members who are non-perpetual policyholders will be \$18,739, assuming a closing date of June 30, 2015; plus
 - An additional one-time cash payment equal to 15% of the current premium of the policy. Based on the aggregate amount of premium as of February 4, 2015, the date of the Board's adoption of the Plan, the estimated amount of cash payments to be made to members who are non-perpetual policyholders will be approximately \$1,800 (this amount may change due to changes in premium between February 4, 2015 and the date of closing of the Conversion).

As described above, the value of the total consideration to eligible members exceeds \$1.5 million in the aggregate.

Since the Act does not provide specific guidance regarding consideration to eligible members, the consideration noted above was compared, as best as practical, to other "Alternative Plan Conversions" and considered in light of specific attributes of Saucon Mutual, which the Board acknowledged was almost unique among insurers and insureds.

Other Alternative Plan Conversions Considered:

Est. Date	Company Name	Surplus	Approx. Number of Policyholders	Consideration			Other Information
				Estimated Value Per Policy Holder	Cash Consideration	Charitable Foundation Contribution	
1997	Hanover Mutual Fire	849,454	12,000	~\$29.50	\$0	\$0	Up to \$2,500 of coverage for one year for free
2008	Philanthropic Mutual Fire Insurance Company	2,923,749	5,400	~\$75.00	\$0	\$0	Dwelling and Contents Only policies up to \$4,000 and Tenant Only Fire Coverage up to \$5,000 per policyholder free for one year
1997	Select Risk Mutual	6,265,000	16	Not Determinable	\$0	\$0	Each policyholder to receive 68 shares in MBIC Holdings, Inc. (Policyholders will own 18% of MBIC Holdings, Inc.; illiquid)

The Board believed the cash and other consideration offered to eligible members as summarized above compared favorably to that which was offered in the other alternative plan conversions examined.

- Relative to the precedent transactions, Saucon Mutual’s proposed compensation to eligible members appears more valuable based on:
 - form of consideration (cash and other consideration),
 - aggregate value to be received by the eligible members, and,
 - value to be received per eligible member.
- Importantly, capital and surplus on a consolidated basis would not be diminished because the capital offering will replenish any surplus used in the Conversion.
- Benefits to eligible members include:
 - Cash;
 - Value per eligible member far in excess of that offered in precedent transactions;
 - Enhancement of available surplus;
 - Return of cash deposits; and,
 - Continuation of insurance policies (perpetual, no-ongoing deposits for increases in limits under inflation endorsements).
- Financial compensation appears to be more valuable than simply a credit for a year’s worth of a portion of coverage as offered in two of the three previous transactions.

Other Considerations:

In determining eligible member consideration, the Board noted the following as other considerations:

- Long-term nature of the perpetual insurance relationship versus that of annually renewable insurance products;
- Differences between longer term perpetual policyholders and simple term policyholders;
- Benefits to policyholders from the transaction exceed simply the cash and other consideration but encompass potential improvements to the company's operations from the transaction and the ability to raise capital externally;
- The opinion of Boenning & Scattergood, Inc. that, among other things, the Financial Consideration to Saucon Mutual's policyholders pursuant to the Plan is fair and equitable, from a financial point of view, to the policyholders of Saucon Mutual taken as a whole.

7. Section IV.A.1.A and 2.A – Consider clarifying that payment is based on number of full years in which the policy has been in effect.

The payment would be based on the number of days (not just full years) that the policy has been in effect, with the result that the payment to a member would take into account fractions to a full year.

Saucon Mutual's policy base is comprised primarily of perpetual insurance policies (369 (94%) perpetual and 25 (6%) term policies as of the date of adoption of the Plan). Because perpetual policies are not annually renewed, their longevity is calculated in time expired since initial issue, not in the number of annual renewals. Consequently, Saucon Mutual determined that a logical calculation of each policy's longevity would consist of counting actual days since policy inception rather than the number of full years of coverage. Further, as shown in the chart below, this method results in a higher payment to all eligible members (except those with inception dates on or about January 1 which would be paid the same under each calculation method), both perpetual and term, as no eligible member is denied consideration for any portion of a year that transpires since the most recent policy anniversary date. For purposes of identification we refer to this method as the "actual days method" versus the "full years method." As indicated above, the payment is computed by multiplying (i) the actual number of calendar days that the member's policy had been in effect from its issuance until the closing date of the Conversion, by (ii) \$0.1644 per day, and then rounded to the nearest dollar. This is arithmetically equivalent to a payment of \$60 per 365-day year, but takes fractional years into account. This clarification is indicated in Sections IV.A.1.A and IV.A.2.A of the Plan as provided in Exhibit 2.

To demonstrate the difference in payment by applying the actual days method rather than the full years method (and using a June 30, 2015 calculation date solely for purposes of

the examples), please see the chart below. If the full years method were used, the total reduction in payments to eligible members would be \$11,748, or an average of \$30 per policy.

Sample Policy	Inception Date	Actual Days Method	Full Years Method	Difference
A	02/15/1891	\$7,464	\$7,440	(\$24)
B	11/30/1956	\$3,518	\$3,480	(\$38)
C	03/21/1992	\$1,398	\$1,380	(\$18)
D	09/19/1994	\$1,248	\$1,200	(\$48)
E	07/01/1941	\$4,443	\$4,443	\$0

8. Section IV.A.1.C. – What is the projected financial impact? Explain whether the changes outlined in this section constitute a change to the terms of the policies in contravention to 40 PS 914-A(a)(2)(i).

The Plan included herewith no longer provides for an amendment/replacement to inflation adjustment endorsements as part of the Conversion. Nonetheless, the Plan continues to provide that, as part of the Conversion consideration, perpetual policyholders who are eligible members will no longer be charged an additional deposit for the increase in policy limits under the existing inflation adjustment endorsements. With respect to the financial impact of the consideration to Saucon Mutual, please see Exhibit 5.

9. Section XIII.A. – Amendment of the plan requires the affirmative vote of not less than two thirds of the board of directors of Saucon Mutual. See 40 P.S. 913-A(a).

The Plan included herewith no longer includes the statement that “[t]he Chief Executive Officer may also make such additions, changes or modifications to this Plan as he deems necessary, appropriate or convenient, consistent, with the Conversion Act, other applicable law and orders of the Department” and provides solely that amendment of the Plan requires the affirmative note of not less than two thirds of the Board.

10. Consider amending the filing to remove all references/requests to target a December 31, 2014 closing.

The filing no longer references a target closing of December 31, 2014.

11. Identify the proposed independent directors of Saucon Stock and the proposed members of the audit committee and nominating & compensation committee.

After the conversion, Saucon Stock’s independent directors are expected to be:

Susan Cooper Drabic
Richard Ellis Santee, Jr.
Bernard Joseph Story

Donna Jean Goss

The members of Saucon Stock's Audit and Nominating & Compensation Committees are expected to be:

Audit

Bernard Joseph Story, Chair
Susan Cooper Drabic
Richard Ellis Santee, Jr.

Nominating & Compensation

Donna Jean Goss, Chair
Susan Cooper Drabic
Richard Ellis Santee, Jr.

All of the above individuals meet the qualifications for independence as set forth in the Pennsylvania Insurance Holding Companies Act.

12. Tab B – The bylaws of Saucon Holding Company appear to be a duplicate of those intended for Saucon Stock containing provisions not applicable to the holding company (i.e. IV.1.A discussion of president duties re: policies & endorsements).

The bylaws of Saucon Holding have been revised to remove provisions not applicable to the holding company. See Exhibit 2.

13. The proxy voting instructions (1 vote per member per policy) is in conflict with the current bylaws of Saucon Mutual. (See Article VII. Section 2. – each member in good standing shall be entitled to one (1) vote at any regular or special meeting of policyholders.)

The amended proxy voting instructions now state that “each policyholder with a policy of insurance that was in effect on the Record Date . . . has one (1) vote.” See Exhibit 4.

14. Page 3, paragraph 3 – The first sentence is incomplete.

The sentence has been corrected, and now provides: “Policies of insurance issued by Saucon Mutual that are in force at the time of closing of the Demutualization Transactions would remain in full force and effect.” See Exhibit 3.

15. Page 7, chart, “Financial Benefits of Membership in the Company” – The “Mutual Insurance Companies” column should discuss benefits as a member of a mutual insurance company and not “upon demutualization.”

The chart has been amended to remove the row captioned “Financial Benefits of Membership in the Company” since the relevant information that relates to the benefits of

a member of an ongoing mutual insurance company, as distinct from the impact of the mutual insurance company's demutualization, are set forth in the remaining portions of the chart. *See Exhibit 3.*

16. Page 15, A., paragraph 2 – The second sentence contains a typo.

The sentence has been corrected. *See Exhibit 3.*

Form A Statement

17. Item 4.A. Nature, Source and Amount of Funds – Explain how Saucon Stock will be capitalized provided “no consideration will be paid by Saucon Holdings for these shares.”

As set forth in the Plan (Exhibit 2) and the Amended and Restated Form A (Exhibit 6), Saucon Holding will purchase from Saucon Stock 1,000 shares of capital stock of Saucon Stock on the effective date of the Conversion, such shares constituting all of Saucon Stock's issued and outstanding shares of capital stock. Those authorized and outstanding shares will have a par value of \$950.00 per share. Saucon Holding will pay an aggregate purchase price of \$1,425,000 for those shares and Saucon Stock will record the proceeds as follows: \$950,000 as paid-in capital and \$475,000 as paid-in surplus.

18. Item 4.B Criteria Used in Determining the Nature and Amount of the Consideration – Discuss the rationale for this decision.

As indicated in the Form A, the nature and amount of consideration to be paid for by the investors for the purchase of the Saucon Holding stock were determined so that the aggregate amount of consideration to be paid for the Saucon Holding stock would exceed the sum of the cash payments to be made to Saucon Mutual's eligible members, the amount of the charitable contribution to be made at closing by Saucon Mutual, and the estimated costs and expenses of the Conversion transactions, with the result that, after closing of the Conversion transactions, the total assets of Saucon Holding on a consolidated basis would be greater than the total assets of Saucon Mutual before the closing.

As described in the Plan, the Conversion is being undertaken in furtherance of the following objectives: (i) to reward the members of the Company for their loyalty to the Company; (ii) to make a charitable contribution in furtherance of the Company's ongoing commitment to the community; (iii) to modernize the Company's governance structure; (iv) to enable the issuance of stock and other financial instruments in order to raise capital, facilitate potential acquisitions of other businesses, and incentivize employees; (v) to re-enter the insurance underwriting business; and (vi) to maintain the independence of the Company. Further, the Plan provides that Saucon Holding will use the proceeds of the stock offering as follows: (i) to purchase the capital stock of the Saucon Stock for \$1,425,000; (ii) to pay the costs and expenses related to the Plan and the transactions

contemplated hereby; and (iii) to retain the balance of the proceeds as a cash reserve. Thus, the rationale for the consideration to be paid for the Saucon Holding stock was to assure both that, post-Conversion, Saucon Stock would remain more than adequately capitalized and that the enterprise as a whole would have the capital resources and options to begin to effect the objectives of the Conversion and its business plans and strategies.

General

19. Provide copies of any comments received on the Proposed Transaction that are not already on file with the Department.

Saucon Mutual has received no comments on the Proposed Transactions other than those already on file with the Department.

20. Describe A.M. Best's reaction to the Proposed Transaction.

Please see Exhibit 7.

21. Provide a pro forma balance sheet at closing for Saucon Holding Company, Saucon Stock and Saucon Insurance Agency.

Please see Exhibit 8.

22. Provide a status on policyholder search efforts.

Saucon Mutual has undertaken a multi-tiered effort to confirm the location of the owners of its 394 policies of record. The initial effort was a certified, return receipt requested mailing that included a "survey" to be completed and returned to the Company to identify current ownership of the property, addresses, etc. as well as seven day classified ads placed in newspapers of dominant circulation in the areas of policyholder concentration. Next, phone calls were placed to policyholders for whom mailings were returned by the United States Postal Service as unclaimed by the addressee. The final step was a campaign of in-person visits to addresses of record. At present a total of 4 policies remain unconfirmed. For one unconfirmed policy, the Company was just recently advised of policyholder's death, surviving relatives of the policyholder have been identified and the Company has been communicating with such individuals seeking to obtain a request for cancellation and estate information for later issuance of compensation check. For two of the unconfirmed policies, the policyholders have not returned completed surveys but the Company has been in contact with each and expect to receive completed surveys in the near future. For the remaining unconfirmed policy, the Company obtained a copy of the policyholder's obituary, but, until recently, all efforts to identify current ownership, heirs or surviving relatives have been unsuccessful;

nonetheless, the Company has recently obtained an address for the deceased policyholder's daughter and are pursuing communications with her.

Enclosed herewith are the following documents for the Department's review and approval for the proposed Conversion and change of control of the Company:

- Exhibit 2 - Amended and Restated Plan of Conversion (as unanimously adopted by the Company's Board of Directors on February 4, 2015), including proposed Amended and Restated Articles of Incorporation for Saucon Insurance Company, revised Bylaws for Saucon Holding Company and revised form of Shareholders Agreement)
- Exhibit 3 - Revised Member Information Statement
- Exhibit 4 - Revised Form of Notice to Members to Vote on Plan & Form of Proxy
- Exhibit 6 - Amended and Restated Form A Statement Regarding the Acquisition of Control of a Domestic Insurer

We are filing under separate cover those Form A exhibits for which the Form A Applicants are seeking confidential treatment pursuant to the Department's protocol and practice on confidentiality as set forth in the Department's "Confidentiality of Filed Documents" notice. The Applicants are asserting confidentiality for the following information and exhibits as protected from disclosure under provisions of the Pennsylvania Insurance Holding Companies Act, 40 P.S. § 991.1401 *et seq.*, and supporting regulations (31 PA Code Chapter 25); provisions of the Pennsylvania Right-to-Know law, 65 P.S. § 67.101 *et seq.*, including but not limited to § 67.102 and § 67.707, as containing personally sensitive information or being of a confidential, proprietary and/or trade secret nature, the disclosure of which would cause material harm to the competitive position of the Applicants and the Company; and information that falls within the definition of "trade secret" of 12 Pa. C.S. § 5302.

- Exhibit 1 – Copies of Board Minutes & Presentations
- Exhibit 5 - Response to Comment 8 – Projected Financial Impact
- Exhibit 7 - Response to Comment 20 – A.M. Best Reaction
- Exhibit 8 - Response to Comment 21 – Pro Forma Balance Sheets
- Exhibit 9 - Amended and Restated Business Plan for the Converted Insurance Company, including 3-year financial projections

The above exhibits should be maintained as confidential and not be made available for public inspection or copying. We request that the Department provide written notification of any request for access to such exhibits and information and advance written notification of release of any exhibit or information due to a determination by the Department that it should not be accorded confidential treatment. Any communications relating to such a request or determination should be directed to Fran Roggenbaum, Saul Ewing LLP, 2 North Second Street, 7th Floor, Harrisburg, PA 17101, froggenbaum@saul.com.

Cressinda E. Bybee, PIR
Senior Insurance Company Licensing Specialist
February 6, 2015
Page 12

Please feel free to contact me if you have any questions or if I can be of further assistance.

Sincerely,

SAUL EWING LLP



Frances R. Roggenbaum

Enclosures

Cc: Stephen Bajan, Chief Executive Officer, Saucon Mutual Insurance Company
Brian T. Regan, President & Chairman of the Board, Saucon Mutual Insurance Company