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September 11, 2015

VIA ELECTRONIC MAIL

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: Response to Public Comments Made at the September 1, 2015 Public Informational Hearing on the Saucon Mutual Insurance Company Plan of Conversion

Dear Ms. Bybee:

We appreciate the opportunity to respond to presentations made by commenters and their representatives and to questions posed by the Pennsylvania Insurance Department (the "Department") at the September 1, 2015 Public Informational Hearing (the "Hearing") on the Saucon Mutual Insurance Company ("Saucon" or "the Company") proposed Plan of Conversion.

INTRODUCTION / BACKGROUND

Saucon's Board adopted a Plan of Conversion (the "Plan" or the "Conversion") on August 27, 2014 (the "Record Date") to convert Saucon from a mutual property insurance company to stock property insurance company under provisions of the Pennsylvania Insurance Company Mutual-to-Stock Conversion Act. On September 2, 2014 Saucon filed with the Department its proposed Plan. In conjunction with the conversion filing with the Department, Saucon Holding Company ("Saucon Holding") and three Saucon Board members proposing to acquire a controlling interest in Saucon Holding, filed with the Department a request for approval to acquire control of all of the capital stock of Saucon upon consummation of the conversion.

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Upon the filing of its initial Conversion and acquisition of control documents with the Department, Saucon sent a notice to all of its members advising of the filing and the right to provide comments to the Department and the Company, the Department published notice in the Pennsylvania Bulletin to advise of the filing and invite written comments to the Department on the filing, and the Department posed on its website all of the nonconfidential documents included in the filing.

The Department received three written comments on the Conversion from policyholders over the course of the last year. As discussed in more detail below, the Department forwarded the comments to Saucon for response to the commenters and posted Saucon's responses on the Department's website.

After the filing of its initial Conversion documents and subsequent discussions with the Department, Saucon made several revisions to its proposed Plan of Conversion (again, these revisions are posted on the Department's website).

The Department then scheduled the Hearing at which several additional commenters or their representatives made presentations on the Conversion and the Department posed several questions to Saucon. At the conclusion of the Hearing, the Department requested that Saucon respond to the presentations and inquiries and advised that Saucon's response would be posted on the Department's website.

Saucon's responses to the Hearing presentations and questions are set forth below. We have organized the responses by subject matter.

SAUCON'S RESPONSES TO HEARING COMMENTS & INQUIRIES

Background to the Conversion

As described in the Company's written and oral testimony at the Hearing, Saucon began business in 1832 and has operated as a property insurance company for over 180 years. Saucon is approved to write homeowners and dwelling property coverages in Pennsylvania, and has written primarily perpetual insurance policies. Since December 2005, the Company has written no new perpetual insurance policies and has written only a few term policies since that time.

1. **The impact of interest rates on perpetual business and Saucon's business model, the impact of the Greentree Perpetual Insurance Company insolvency on Saucon, and the decision to place a moratorium on writing new perpetual policies.**

   Perpetual policies are a unique product and, to Saucon's knowledge, it is one of three existing insurers in Pennsylvania that has written perpetual policies. The unique nature of perpetual policies is that, in lieu of annual premium payments, the policyholder makes one up-front payment (the deposit) and then no further payments throughout the life of the policy unless there is an increase in or addition of coverage. Upon termination of a perpetual policy, the deposit is returned in full to the policyholder. Because policyholder deposits are returnable at the end of the policy, they are treated as liabilities of the Company. Accordingly, the only source of revenue to pay claims and administrative costs under perpetual policies is the investment return on policyholder deposits.

Saucon has not written any new perpetual insurance policies since December 2005 and has written only a very limited number of term policies since that time because Saucon found – as have other insurers that have offered perpetual coverage – that it is difficult to maintain financial viability in a low interest rate environment.

In addition to the challenges presented by a low interest rate environment, there were a number of events that occurred in the 2004-2005 timeframe that caused the Company to declare a moratorium on writing new perpetual policies:

- First, in September of 2004, Saucon was informed by the IRS that, due to a tax law change, the Company would no longer be tax exempt. Saucon realized that this change would have an impact on the profitability and policyholder surplus growth of the Company in future years.

- Second, during 2004 and 2005 the Company had a significant increase in business as a result of the Greentree Perpetual Insurance Company insolvency and Saucon's writing of many Greentree perpetual clients (Saucon reported an increase in deposits as a result of this new business in the range of $1.5 million during 2005). A consequence of writing these new policies for former Greentree clients was a reinsurance premium quote that was $124,000 higher than the prior year. Saucon was able to lessen the increase to only approximately $81,000 by negotiating differing limits of reinsurance coverage and increased retention levels. However, even with this lesser reinsurance premium increase, the investment return on the total deposits then held by Saucon would not be able to cover the increased cost of reinsurance, let alone losses, overhead or profit. As a result, the Company questioned the profitability of its perpetual product and commissioned an actuarial study by Grace Actuarial Consulting Inc. to review Saucon's product and pricing. The conclusion of the actuary was that "the product loses significant amounts of money" and that the only way to try to reverse the perpetual product losses for new business was to charge a significantly higher deposit – which Saucon felt was not a feasible solution since it was unlikely that prospective perpetual policyholders would pay the amount of deposit necessary to achieve profitability.

- Third, in mid-2005, Saucon was informed by A.M. Best that, due to the Company's declining surplus trend over the previous five years, Saucon would have to demonstrate significant changes in its business to maintain its A rating.

Each of these events also presented significant challenges to Saucon entering the insurance underwriting business for other products, i.e. term policies. For example, Saucon had minimal personnel and infrastructure needed to service its perpetual policies and, due to offering the coverage directly, had no producer relationships in place. In addition, Saucon had difficulty attracting and retaining qualified management for the Company (four CEOs have been with the Company since 2006 and it is only since Stephen Bajan's hiring in 2012 that the Company has stable management). Due to its challenges and a continued low interest rate environment, Saucon identified and met with several potential merger partners to see if it could address its challenges via merger; however, none of these discussions led to a viable merger proposal. As a result, the Board began the process of considering alternatives – including a conversion – for the Company to be able to pursue its objective of re-entering the insurance business. The Board's objectives and how they will be met via the Conversion are discussed in more detail below.

2. The history of the inflation endorsement.

Saucon's initially issued homeowner's policies included an inflation endorsement which made an annual adjustment of limits with no additional deposit. In 2008, with the Department's approval, the Company changed policy forms to modernize its policies. The new policy form provided an inflation endorsement that included a charge (an additional deposit) for the increase in coverage under the inflation endorsement. As part of this change in policy forms, Saucon provided extensive documentation and conducted four public meetings with policyholders to describe the changes. The process of the transition included the following:

- An Act 205 cancellation notice was provided to all affected policyholders cancelling the existing policy.
- The cancellation notice was accompanied by a replacement policy issued under the new policy forms and detailed comparisons of the old and new policy documents.
- If the new policy was accepted by a policyholder, the policyholder's existing deposit was transferred to support the new policy.

3. Saucon has not historically paid policyholder dividends.

Due to the nature of perpetual policies as described above, Saucon has focused on making sure surplus would be sufficient to meet regulatory requirements and all future obligations of the Company (for payment of policyholder claims, return of policyholder deposits and the cost of Company operations). For the period of 2000 through 2005, Saucon had a five year declining surplus trend (as noted by A.M. Best). Further, based upon the events described above that occurred during the 2004 – 2005 timeframe, the Company stopped writing new perpetual policies in 2005 and realized that significant investment would be required to re-enter the insurance market. It should be noted that the surplus at the end of 2007 was $16.1 million and the surplus as of August 31 2015 was approximately $16.1 million. Thus, the surplus of the Company for the past eight years has essentially remained the same and payment of dividends would have resulted in a lower level of policyholder surplus.

The Conversion

1. The Board's objectives in pursuing a conversion and how the filed Plan of Conversion meets each objective.

As set forth in the materials filed with the Department and publicly available on the Department's website, the Board established the following objectives for a conversion to a stock insurer: (i) rewarding Saucon's members for their loyalty to the Company; (ii) making a charitable contribution in furtherance of the Company's ongoing commitment to the community (including people who once were, but no longer are, policyholders of Saucon and, thus, would not receive direct compensation under a conversion); (iii) modernizing the Company's governance structure; (iv) enabling the issuance of stock and other financial instruments in order to raise capital, to facilitate potential acquisitions of other businesses, and to incentivize employees; (v) preparing the Company to re-enter the insurance underwriting business; and (vi) maintaining the independence of the Company.

Saucon's Board believes that its adopted Plan of Conversion meets its objectives listed above as well the requirements and standards of Pennsylvania law in the following ways:

- Rewarding Members for their Loyalty to the Company. The consideration that members of Saucon as of the Record Date would receive upon the closing of the Conversion would depend, in part, upon the number of years that the member's policy had remained in force as well as the premium or deposit paid by the member (details on the consideration is set forth below). This permits Saucon to reward members for their loyalty to the Company in maintaining their policies. The aggregate amount of the payments to members was estimated to be approximately $1,564,839 assuming a July 31, 2015 closing date and will be slightly higher with a later closing date. Further, the aggregate value of consideration to perpetual policyholders, not in the form of cash payments, is approximately $500,000 higher as described below.

- Making a charitable contribution in furtherance of the Company's ongoing commitment to the community. Upon the closing of the Conversion, the Company would make a $500,000 cash contribution to the Lehigh Valley Community Foundation, a public charitable organization operating since 1967 for the purposes of stewarding philanthropic resources from institutional and individual donors to community-based organizations to serve the Lehigh Valley. The contributions committee of Saucon Insurance Company's board of directors will then make recommendations as to how those funds should be disbursed by the Foundation for charitable purposes. The members of the contribution committee will not be compensated for their service on the committee. In addition, the Company has committed to making additional charitable contributions to the Foundation of $100,000 per year for 5 consecutive calendar years beginning with the first full calendar year after closing of the Conversion. As mentioned above, the Board believes that such a charitable contribution will benefit not only the community in general, but also people in the community who once were, but no longer are, policyholders of Saucon and, thus, will not receive direct compensation in the Conversion.

- Enabling the Issuance of Stock and Other Financial Instruments in order to Raise Capital, to Facilitate Potential Acquisitions of Other Businesses, and to Incentivize Employees. A mutual company cannot issue stock. A stock corporation, on the other hand, can issue shares of its stock and other financial instruments:
    1. To sell the shares to investors to raise capital for the company;
    2. To secure debt and other instruments issued to financing sources;
    3. To acquire another business, by using the stock or other financial instruments that it issues as some or all of the purchase price for the business; and
    4. To incentivize employees through the issuance of stock grants, stock options and other similar equity compensation strategies, because those strategies can give the employees who receive those grants the opportunity to share in the economic benefits of the growth of the company. This can help the company attract and retain suitable employees.

- Re-entering the Insurance Underwriting Business. While Saucon is in a stable position from a financial point of view, it has written very few new insurance policies since 2005. Saucon's personnel and business systems are adequate to continue to maintain the existing insurance policies and their renewals in full force and effect, but it does not presently have sufficient personnel and infrastructure to enable it to issue new insurance policies. The Board believes that converting the Company to a stock insurer would permit the Company to implement steps to attract and retain suitable personnel and to develop appropriate infrastructure to assist the Company in re-entering the business of underwriting new insurance. As described below, upon closing of the Conversion, the Company will begin work on developing infrastructure for underwriting insurance, including systems, claims, underwriting, documentation, and development of a distribution network. While this infrastructure is being developed, the Company intends to re-enter insurance underwriting in an indirect and measured way by initially exploring reinsurance opportunities where Saucon would be the quota share reinsurer of compatible products of another insurer.

- Maintaining the Independence of the Company. Upon the closing of the Conversion, the converted Saucon (Saucon Insurance Company) will become a wholly-owned subsidiary of Saucon Holding Company. The stock of Saucon Holding Company in turn will be purchased by investors in a concurrent stock offering. The investors in that stock offering are individuals who are Board members or members of management of Saucon, rather than being other persons or entities, including other insurance companies, thus, maintaining the independence of the Company. The stock offering is expected to raise a total of $3,250,000. This will provide a cash reserve for future investments and needs of both Saucon Holding Company and Saucon Insurance Company. Saucon will continue to be located in the Lehigh Valley offering local employment and serving Pennsylvania consumers.

- Modernizing the Company's Governance Structure. The Board believes that it is in the Company's interest to align the interests of its constituents with the growth and success of the Company, and that organization as a stock corporation via the Conversion is a more appropriate structure to accomplish this goal than as a mutual company. For example, the authority to elect directors and make certain other decisions with respect to a Pennsylvania mutual insurance company such as Saucon lies with its members (*i.e.*, its policyholders). But each member is entitled to cast one vote — regardless of the type of policy or the amount of coverage — with respect to a matter that is submitted to the members for approval, which means that there is no particular relationship between a member's commercial relationship with the Company and the weight of that member's vote. By way of contrast, in the case of a stock corporation, each stockholder is entitled to cast one vote per share, which means that a stockholder who wishes to enjoy a greater degree of control over the corporation can do so by acquiring more shares. The Board believes that it is in the Company's interest to adopt a governance structure where the voting power of a constituent of the Company is more closely aligned to that constituent's economic interest in the Company, as represented by that constituent's investment in the Company to acquire shares.

2. The Board adopted the Plan of Conversion after considering various alternatives.

In consideration of its objectives for a conversion, the Board examined other mutual-to-stock conversions in Pennsylvania under the various alternatives for mutual insurer conversions in Pennsylvania law, including:

- Subscription rights conversions (where, in exchange for the extinguishment of their membership rights in the mutual insurer, members of the mutual insurer (i.e. its policyholders) are given the right to purchase stock in the converted insurer and, if there is insufficient member interest in the purchase of such stock, the right to purchase is opened to others);

- Mutual holding company conversions (where a mutual holding company is formed with members of the mutual insurer obtaining "mutual rights" in the mutual holding company and their rights under the insurance contract remaining with the converted insurance company; and, in some mutual holding company conversions, where a stock holding company is formed in between the mutual holding company and the converted insurance company, and capital is raised for the stock holding company directly and the converting insurer indirectly by giving members and others the right to purchase stock in the stock holding company); and

- Alternative conversions (where, typically, members receive consideration for the extinguishment of their membership rights in the form of cash or coverage benefits, e.g. a specified amount of coverage at no cost for a specified period of time).

In its examination and evaluation of prior conversions, the Board observed that, in prior subscription rights conversions and mutual holding company conversions that provided subscription rights in a stock holding company, very few members of the mutual insurers chose to purchase stock in the converting insurer or the stock holding company (possibly because of a lack of ability or desire to invest in such stock and/or, while the purchase of stock allows for the acquisition of an asset, it may be illiquid to the member and of no immediate value). Historically, subscription rights conversions benefit the sophisticated few with the vast majority of policyholders receiving nothing.

For mutual holding company conversions where the sole consideration is membership rights in the mutual holding company, there is nothing of immediate value given to the mutual insurer's members in consideration for extinguishment of their membership rights in the converting insurer. The Board also observed that mutual holding company conversions raise no capital unless the "second step," a stock holding company, is formed; that prior mutual holding company conversions resulted in subsequent conversion of the mutual holding company; and that few mutual holding company conversions have been pursued in recent years due to adverse litigation in prior conversions, the significant cost and timeframe for the two-step process, and the resulting policyholder confusion.

After consideration of the available options for converting to a stock insurer, Saucon's Board determined that its objectives were best met via an alternative conversion.

3. Policyholder Consideration.

Saucon's Plan of Conversion provides for consideration to be paid to all policyholders who were members on the Record Date. As set forth below and in the Conversion documents posted on the Department's website, this consideration differs slightly for perpetual and term policies based upon the differences between perpetual and term policies as previously described. The aggregate cash payments to all policyholders would be approximately $1,564,839 assuming a closing date of July 31, 2015 and will be slightly higher with a later closing date. In addition, for perpetual policyholders with policies with inflation adjustment endorsements, the aggregate value of the consideration is approximately $500,000 higher. In determining that amount of consideration to be paid to policyholders, the Saucon Board, in conjunction with its financial advisors, determined that the consideration would exceed policyholder consideration paid in previous alternative plan conversions. Further, it should be noted that, while the initial proposed aggregate cash consideration to policyholders was $1,000,000, the Company increased it to $1,564,839 after discussions with the Department.

Specifics of the policyholder consideration are as follows:

- **Consideration: Perpetual Policyholders**

A. Cash Payment. A cash payment equal to (i) the actual number of calendar days that the policy had been in effect from its issuance until the closing date of the

Conversion, multiplied by (ii) $0.2787 per day, and 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 $1,017; 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 $1,051. The aggregate amount of cash payments to all members who are perpetual policyholders under this cash payment was estimated to be approximately $1,197,061 assuming a closing date of July 31, 2015 and will be slightly higher with a later closing date.

B. Return of Deposits. A return of 15% of each member's deposits held by Saucon at the time of the closing of the Conversion. Coverage under each policy subject to a return of deposit will continue, unreduced, and will simply be supported by a lesser deposit going forward. The aggregate amount of deposits to be returned to members who are perpetual policyholders is estimated to be approximately $334,000, less any deposits that are returned before the closing of the Conversion in accordance with policy terms. The balance of a member's deposit (the remaining 85%) will be returned in accordance with policy terms.

C. Removal of Charges for Increases in Policy Limits Under Inflation Adjustment Endorsements. Many of the perpetual insurance policies issued by Saucon have inflation adjustment endorsements, which are either "Annual Adjustment of Limits" endorsements or "Automatic Increase in Insurance" endorsements (the "Inflation Adjustment Endorsements"). The Inflation Adjustment Endorsements generally cause the policy limit of the perpetual policy to be increased each year to offset the effects of inflation and require the perpetual policyholder to pay an additional deposit to Saucon because of that annual increase in the policy limit. Commencing on the anniversary date of the issuance of a perpetual policy that first follows the closing date of the Conversion, the converted insurance company (Saucon Insurance Company) would no longer require perpetual policyholders to pay the additional annual deposits for the increases in policy limits under the Inflation Adjustment Endorsements.

For example, for a member who is a perpetual policyholder whose policy had been in effect for 10 years as of the closing of the Conversion and for whom Saucon holds a deposit of $11,535, the policyholder would receive (1) a cash payment of $1,017 under Paragraph A, above, plus (2) a return of deposit of $1,730 under Paragraph B, above, for a total payment of $2,747. In addition, the perpetual policyholder would no longer be charged an additional deposit for the increase in policy limit under either of the Inflation Adjustment Endorsements.

- **Consideration: Term Policyholders**

A cash payment equal to the sum of:

A. A cash payment equal to (i) the actual number of calendar days that the policy had been in effect (including all renewals) from its issuance until the closing date of the Conversion multiplied by (ii) $0.2787 per day, then rounding that amount to the nearest whole dollar. For example, a member who is a term 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 $1,017; and a member who is a term 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 $1,051. The aggregate amount of cash payments to all members who are term policyholders under this cash payment was estimated to be $31,978 assuming a closing date of July 31, 2015 and will likely be slightly higher with a later closing date;

Plus

B. An additional one-time cash payment equal to 15% of the current premium of the policy. The aggregate amount of cash payments to be made to members who are term policyholders under this provision is estimated to be $1,800.

For example, a member who is a term policyholder whose policy had been issued and then renewed from time to time for a total period of 10 years as of the closing date of the Conversion and whose current annual premium is $500 would receive (1) a cash payment of $1,017 under Paragraph A, above, plus (2) an additional cash payment of $75 under Paragraph B, above, for a total payment of $1,092.

4. Set forth the stock purchase price and how it was determined.

As described in the Conversion filing made with the Department and set forth on the Department's website, the investors in the Saucon Holding stock offering will subscribe for 3,250,000 shares of Saucon Holding common stock at a subscription price of $1.00 per share, resulting in Saucon Holding receiving $3,250,000 in gross proceeds. Of that amount, Saucon Holding will purchase the stock of the converted Saucon (Saucon Insurance Company) for $1,425,000 (the amount required under Pennsylvania insurance law for Saucon Insurance Company to meet the statutory minimum paid in capital and surplus requirements), with the remainder ($1,125,000) to be used as a cash reserve for future investments and needs of both Saucon Holding Company and Saucon Insurance Company.

The Saucon Holding share price was set to exceed the sum of the cash payments to be made by Saucon to its eligible members, the amount of the charitable contribution and the estimated costs and expenses of the Conversion transactions, with the result that, after the closing of the Conversion transactions, the total assets of Saucon Holding (on a consolidated basis with Saucon Insurance Company) would be greater than the total assets of Saucon prior to the Conversion.

It should be noted that the individuals who will be investing $3.25 million of their personal funds in Saucon Holding are members of the Board and management of Saucon. Each of the investors is deeply committed to Saucon, have worked for many years to ensure Saucon's financial viability, and believe in its future. Because the process of rebuilding insurance operations for continued financial viability is likely to take a number of years to fully implement, Saucon wanted investors who are fully committed to the direction of the Company and accept and understand both the possibility for any return on that investment is long-term in nature and is subject to oversight by the Department to assure the well-being of the insurance company and the protection of its policyholders.

5. The charitable contribution.

The Company has been a part of the local community for over 180 years. In evaluating a conversion, the Board recognized that many former policyholders that helped establish the company would not receive any direct consideration in the Conversion and determined that the best way to recognize and acknowledge these former policyholders was by establishing a charitable fund to benefit the local community.

6. A.M. Best Rating action.

A.M. Best was informed of the Plan of Conversion when it was filed with the Department in September of 2014. A.M. Best was satisfied that Saucon's financial strength would not be compromised by the Conversion, hence the continuation of the Company's "A" rating. However, the unknowns surrounding the risk involved in re-entering the insurance underwriting business after consummation of the Conversion led to the assignment of a negative outlook

7. Conflicts of interest for both Saucon's Board and Boenning & Scattergood ("Boenning").

Board: A commenter at the Hearing noted that the Board of Saucon has a conflict of interest because Board members are purchasing the Company. The Board recognized this conflict and has taken steps throughout the process to ensure that the conflict is appropriately disclosed and resolved. As detailed more fully above and at the Hearing, the Board began this process by working with outside industry experts to determine objectives for the Company. It then reviewed available options against those objectives to determine which option it believed was best for the company and the policyholders. Because the Board elected to proceed with the current proposal, the Board obtained a fairness opinion from Boenning which opined that the Plan of Conversion is fair and equitable, from a financial point of view, to the members of Saucon taken as a whole. A fairness opinion is not required by the Mutual-to-Stock Conversion Act.

Once the Board decided to pursue the Conversion, the Company filed an application with the Department, and made full and complete disclosure of all financial aspects of the transaction, including that the stock would be purchased by the Saucon Board and management, the purchase price for the stock, and the consideration to be paid to policyholders. Policyholders have already been provided with a notice of the proposed Conversion which advised that the filed Conversion documents are available for review on the Department's website. Policyholders will be provided with additional information in the form of a Policyholder Information Statement if the Conversion is approved by the Department. Further, if the Department approves the proposed Conversion, Saucon policyholders will have the final authority power to either approve the Conversion by a two-thirds majority, or reject it. Thus, Saucon's policyholders will ultimately determine whether the Conversion is in the best interests of the Company.

Boenning: A commenter at the Hearing questioned whether there was a conflict for Boenning in being compensated for both providing financial advice to the Board and for providing the Fairness Opinion for the Conversion. In entering the engagement with Boenning, the Saucon Board managed the potential for conflicts from the outset in their negotiation of the Boenning engagement letter. Such engagement provided access to Boenning's expertise and included provision of a fairness opinion, i.e. 25% of the fee is associated with the fairness opinion and only 25% of the fee (i.e. $75,000) is contingent upon closing of the Conversion. In this way, and unlike larger fee transactions where significant portions and meaningful dollar amounts are contingent upon the fairness opinion and/or closing, the Board reduced any incentive for a fairness opinion conflict on fees owned. We also note that the Fairness Opinion letter itself contains the basic Securities Exchange Commission requirements for investment banker fairness opinions and that fees for the Fairness Opinion provided by Boenning as well as the contingent fees do not exceed standard practice nor are they substantial.

Policyholder/Member Rights

1. Members and how they will change post-conversion.

As set forth in Saucon's Conversion filing on the Department's website, members of a mutual insurer have certain voting rights, such as the right to elect directors of the insurer and the right to approve a conversion to a stock insurer. In addition, members have the right to participate in any dividends declared by the mutual insurer's Board.

Upon conversion of a mutual insurer, these rights are extinguished. In consideration for the loss of membership rights upon a conversion, members are provided consideration described above.

2. Members do not own the company or its surplus.

Several commenters at the Hearing suggested that, in lieu of the Conversion, Saucon's Board should liquidate the Company and distribute the Company's surplus to its policyholders. As set forth in the Conversion documents filed with the Department and posted on its website, such an action is prohibited under Pennsylvania law which provides that, upon the liquidation of a mutual fire insurance company, the remaining proceeds (after satisfaction of liabilities and claims) would be escheated to the Commonwealth of Pennsylvania. Thus, upon liquidation of a mutual insurer, policyholders would have the right only to unpaid claims under their policies and to the amount of the unearned cash premium last paid to the company for the current policy term. As a result, Saucon's policyholders are receiving substantially more consideration under the Conversion than they would receive if Saucon were to be liquidated.

Policyholder Comments to the Pennsylvania Insurance Department & Saucon Responses

Prior to the Hearing, three comments were submitted to the Department and, as is the practice of the Department, the comments were forwarded to Saucon for response. (Each of the comments and Saucon's responses are posted on the Department's website.)

These comments included questions on the effects of the Conversion on the commenter's policyholder status, any changes to premium and other changes to the member's relationship to the Company after implementation of the Conversion as well as objections to the Conversion and a request that the Department holding a hearing on the conversion, and, in one instance (from Mr. Anthony Stellar, a commenter at the Hearing), a request for a list of all policyholders (consistent with past conversions, the Department permitted Saucon to contract with an independent third party to send communications to Saucon's policyholders on behalf of the requester in lieu of providing the policyholder list).

In each instance, Saucon prepared a written response, sent the written response via Certified Mail – Return Receipt Requested or tracked Priority Mail, and provided a copy of the written response to the Department. (It should be noted that, for the responses to Mr. Stellar in three separate mailings via Certified Mail – Return Receipt Requested, only one was accepted by a member of Mr. Stellar's household and the other two were returned to Saucon by the U.S. Postal Service and marked "unclaimed, unable to forward.")

Future Plans for the Company

In light of the A.M. Best's concern about the unknown risks involved in re-entering the insurance underwriting business, the Company has a conservative business plan that provides for the Company to deliberately and methodically take the steps necessary to re-enter the insurance underwriting business while preserving its surplus, Upon closing of the Conversion, the Company will immediately begin work on developing infrastructure for underwriting insurance, including systems, claims, underwriting (including hiring of an underwriter), documentation, and development of a distribution network. While this infrastructure is being developed, the Company intends to re-enter insurance underwriting in an indirect and measured way by initially exploring reinsurance opportunities where Saucon would be the quota share reinsurer of compatible products of another insurer. The Company will begin to engage in direct underwriting only when the necessary infrastructure and personnel are in place. The Company has already conducted research of the market and believes there is an unmet need for additional capacity for property insurance for churches, which is a market to which Saucon feels a certain affiliation because of it Moravian roots.

When Will The Conversion Take Place

As indicated in the Notice of Hearing published in the Pennsylvania Bulletin and provided by Saucon to its members, the Hearing conducted by the Department provided an additional opportunity for members and others to comment on the proposed Conversion – either in person at the hearing or by submitting written comments to the Department. At the Hearing, the Department requested that Saucon provide this response to the commenter presentations and Department inquiries, and that, after receipt and posting of both the Hearing transcript and Saucon's responses, the Department will allow a 15-day public comment period. At the conclusion of this additional public comment period, the Department may ask for additional revisions to the Plan or issue its decision on the Plan as currently filed.

If, after evaluation of Saucon's filing and comments made at the Hearing or otherwise submitted to the Department, the Department approves Saucon's Conversion, following are additional steps that are required before the Conversion may be implemented:

- Saucon will mail to its members as of the Record Date a Member Information Statement and Proxy Statement advising of a Special Meeting of Members to vote on the Conversion. As required under Pennsylvania law, the Conversion may be effected only if it is approved by an affirmative vote, in present or by proxy, of at least two-thirds of the members that are cast at this Special Meeting of Members, if a quorum is present.

- If the Conversion is approved by members at the Special Meeting of Members, Saucon will then be converted to a stock insurer (Saucon Insurance Company). Saucon Insurance Company will then issue checks to its eligible policyholders for the consideration described in detail above. At the same time, the investors in the stock offering for Saucon Holding Company will purchase their stock and Saucon Holding Company will purchase the stock of Saucon Insurance Company.

Again, we appreciate the opportunity to respond to presentations made by commenters and their representatives and to questions posed by the Department at the Hearing. 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

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