MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

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OFFICE OF
INSURANCE COMMISSIONER

In the Matter of **NORTH COAST LIFE INSURANCE COMPANY,** A Domestic Stock Insurer.	)))	No. G 01 - 31 CONSENT ORDER

BACKGROUND

1. In 1992, North Coast Life Insurance Company applied for and received permission to issue a series of 10% preferred stock.
2. The issuance of approximately 72.5% of that preferred stock was completed in early 1993.
3. In 1993, the Washington State Legislature amended RCW 48.08.030 to prohibit the payment of dividends by stock insurers from any source other than "earned surplus." Also in 1993, the Insurance Commissioner adopted WAC 284-13-160, which defines "earned surplus."
4. Since at least 1995, North Coast Life Insurance Company has had a negative amount of "earned surplus" as defined by WAC 284-13-160.
5. RCW 48.31B.030 provides a mechanism by which the Insurance Commissioner, upon application, may approve as "extraordinary dividends" dividends which would not be otherwise statutorily authorized.
6. A disagreement exists between North Coast Life Insurance Company and the Office of the Insurance Commissioner over whether North Coast Life Insurance Company can legally pay dividends on its 10% preferred stock or any other stock issue as long as its earned surplus is less than payable dividends.
7. Regulations in Washington and other states in which the Company is admitted to do business have substantially changed since the time the 10% preferred stock was issued, including increases in prescribed minimum levels of capital and surplus.

FINDINGS

1. North Coast Life Insurance Company sought and received permission to issue a series of 10% preferred stock pursuant to laws in force at the time of the application.
2. North Coast Life Insurance Company, in good faith, issued to the public a significant number of 10% preferred shares and has consistently paid quarterly dividends on those shares.
3. North Coast Life Insurance Company has negative "earned surplus" as defined by WAC 284-13-160.
4. North Coast Life Insurance Company and its policyholders and stockholders could be adversely financially impacted if North Coast Life Insurance Company is not allowed to pay dividends on its issued and outstanding 10% preferred stock.

CONCLUSIONS

1. RCW 48.31B.030 provides a mechanism by which the Insurance Commissioner may authorize as "extraordinary dividends" dividends which would not otherwise be legally payable.

2. It is in the best interest of North Coast Life Insurance Company and its policyholders and stockholders to authorize payment of dividends on its currently issued and outstanding 10% preferred stock as "extraordinary dividends," subject to certain restrictions defined below.

CONSENT

On behalf of North Coast Life Insurance Company, I have examined the foregoing BACKGROUND, FINDINGS, and CONCLUSIONS and the following ORDER. I have made an independent assessment of the issues presented and consulted counsel of my choice.

In order to negotiate a settlement of the disagreement between North Coast Life Insurance Company and the Office of the Insurance Commissioner, without admitting any knowing violation of any law, and to preserve the best interests of North Coast Life Insurance Company, its stockholders, and its policyholders, I have been authorized by North Coast Life Insurance Company to consent to the entry of the following order.

Gavin Cooley. Treasurer
North Coast Life Insurance Company

ORDER

Based on the foregoing BACKGROUND, FINDINGS, CONCLUSIONS, and CONSENT, IT IS MY ORDER THAT North Coast Life Insurance Company, while possessed of insufficient "earned surplus" as defined by WAC 284-13-160 to comply with RCW 48.08.030, may pay dividends on its currently issued and outstanding 10% preferred stock as extraordinary dividends pursuant to RCW 48.31B.030, subject to the following conditions:

1. North Coast Life Insurance Company must comply with RCW 48.31B.030 and apply for authority to pay extraordinary dividends. Each quarterly payment will require a new application.
2. North Coast Life Insurance Company will maintain its total capital and surplus at not less than the amount required by RCW 48.05.340, at the date of this order, that amount being $4,800,000.
3. North Coast Life Insurance Company will manage its operations in a prudent manner designed to generate net profits into the future.

IT IS FURTHER ORDERED that the Office of the Insurance Commissioner will act on all applications for payment of extraordinary dividends within fifteen business days of receipt of such applications, subject to the following provisos:

- If at the time of any application for payment of extraordinary dividends the total capital and surplus of North Coast Life Insurance Company is below the amount required by RCW 48.05.340, at the date of this order, the application will be denied.

- If at the time of any application for payment of extraordinary dividends, North Coast Life Insurance Company's net income, cumulative from the quarter ending December 31, 2000 , as reflected by filed annual and quarterly statutory financial statements, is less than the cumulative total amount of dividends paid since February 1, 2001, including the dividends covered by the current application, the application will be denied.
- If at the time of any application for payment of extraordinary dividends, North Coast Life Insurance Company has reported negative net income in four or more consecutive quarters, including the most recent quarter, the application will be denied.
- Net income, as used in this order, is defined as the amount derived according to NAIC instructions for quarterly and annual financial statements, and reported on page 4, line 33 of quarterly financial statements for 2001 and page 4, line 31 of the annual financial statement for 2000.
- In all other cases, properly completed and documented applications will be approved.

This order applies only to North Coast Life Insurance Company's currently issued and outstanding 10% preferred stock. This order does not authorize payment of dividends on any other class or series of stock.

This order does not prejudice North Coast Life Insurance Company's right to submit new applications for solicitation permits for subsequent financing, with the understanding that, until further order of the Commissioner, the proceeds of any such subsequent financing will be used only for the purpose of calling currently issued and outstanding 10% preferred stock. This order does not relieve North Coast Life Insurance Company from any filing or reporting requirement currently in place or authorized by law.

This order is effective immediately, and until further order of the Commissioner.

ENTERED at Olympia, Washington, this 31st day of July, 2001.

Michael G. Watson
Chief Deputy Insurance Commissioner

OFFICE OF INSURANCE COMMISSIONER

MEMORANDUM

G01-43

TO: Mike Watson
Patricia Peterson
Carol Sureau
Lee Roussel

FILED

JUL 11 2001

Hearings Unit, OIC
Patricia D. Petersen
Chief Hearing Officer

FROM: Jim Odiorne

DATE: July 10, 2001

RE: Notice of Appeal
The Order of United Commercial Travelers of America
(A foreign fraternal benefit society)

Attached is a written demand for hearing from the referenced fraternal. This demand for hearing was received at about 12:15pm on July 10, 2001. Also attached is a copy of my notice that generated this demand.

I have not presented the suspension order to the Commissioner for signature.

I represented to the attorneys for this fraternal that I would not present the order if they could assure me that the June 30, 2001 quarterly financial statement (due August 15, 2001) will show the fraternal meets the minimum financial standards.

Counsel's representation to me today suggests that it will be about two weeks before the company's actuary completes work necessary for completing the June 30, 2001 quarterly financial statement. My impression developed from telephone discussions with counsel is that the greater likelihood is that the June 30, 2001 quarterly statement will not report at least minimum financial levels.

I respectfully request that a hearing be set, and that all necessary preliminary actions be taken to allow this matter to be finally heard and decided as soon as the June 30, 2001 quarterly statement is received.

cc: Managers