

STATE OF WASHINGTON

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MIKE KREIDLER
STATE INSURANCE COMMISSIONER



OFFICE OF
INSURANCE COMMISSIONER

| | | |
|--------------------------------------|---|---------------------------|
| In the Matter of |) | No. G07-22 |
| |) | |
| The Financial Examination of |) | FINDINGS, CONCLUSIONS, |
| GREAT REPUBLIC LIFE INSURANCE |) | AND ORDER ADOPTING REPORT |
| COMPANY, |) | OF EXAMINATION |
| A Domestic Insurer. _____ | | |

BACKGROUND

An examination of the financial condition of **GREAT REPUBLIC LIFE INSURANCE COMPANY** (the Company) as of December 31, 2004, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock life and disability 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 June 29, 2006. The Company filed a request for a hearing on its objections to certain statements in the report. The Company's request for hearing was subsequently withdrawn. The request for hearing and subsequent withdrawal of that request are attached to this order only for the purpose of providing a convenient review of those documents.

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 18 of the report.

GREAT REPUBLIC LIFE INSURANCE COMPANY
Order Adopting Examination Report
April 5, 2007



CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **GREAT REPUBLIC LIFE 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.

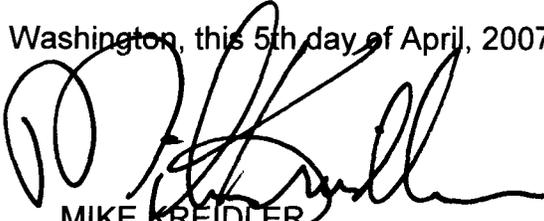
The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-5.

1. Pursuant to RCW 48.05.280, RCW 48.23.450, RCW 48.05.073, and WAC 284-07-050(2), GRLIC is ordered to record the \$2,552,433 correction included under Examination Adjustment No. 3, in addition to the \$300,000 correction included in Examination Adjustment No. 1 that the Company has already booked. In addition, GRLIC must record the \$125,000 of professional expenses shown under Examination Adjustment No. 2, charging general expenses for \$57,000 and surplus for \$68,000. The Company must also properly record and report any future actuarial adjustments directed by its actuary and accrue for all incurred expenses. Instruction 1, Examination Report, page 1.
2. The Company is ordered to comply with RCW 48.05.250 which requires the filing of its financial statements in the general form and context approved by the NAIC, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 2, Examination Report, page 3.
3. Pursuant to RCW 48.19.010(2), the Company is ordered to file with the OIC any new or modified rates before using them. In addition, any unfiled rates in use should revert back to the last amounts and effective dates properly filed with the OIC and any resulting overcharges should be refunded with interest. All proposed future rate changes shall be properly filed with the OIC in advance of their effective dates. Instruction 3, Examination Report, page 4.

4. It is ordered that GRLIC consider complying with NAIC Guidelines and implement a business contingency plan to address the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event normal business activities are disrupted. Comments and Recommendations 1, Examination Report, page 4.
5. It is ordered that GRLIC consider complying with NAIC guidelines and write, test and implement a disaster recovery plan that includes appropriate escalation procedures to resolve operational failures in a timely manner. Comments and Recommendations 2, Examination Report, page 4.
6. It is ordered that GRLIC consider constructing a conflict of interest policy and require at least annual execution of an appropriate disclosure statement. Comments and Recommendations 3, Examination Report, page 4.
7. In order to safeguard the Company's cash, it is ordered that the Company consider that checks be kept in a secure location and periodically verified. In addition, confidential documents should be shredded or otherwise disposed of in a secure manner. Comments and Recommendations 4, Examination Report, page 5.
8. It is ordered that the Company consider complying with its By-Laws, which are its governing regulations. If there are good reasons to act contrary to the existing By-Laws when electing BOD members, then the By-Laws should be officially changed to conform to the actual practices. Comments and Recommendations 5, Examination Report, page 5.

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 5th day of April, 2007.



MIKE KREIDLER
Insurance Commissioner

RECEIVED

DEC 18 2006

INSURANCE COMMISSIONER
LEGAL AFFAIRS DIVISION

STATE OF WASHINGTON
OFFICE OF ADMINISTRATIVE HEARINGS

In the Matter of

GREAT REPUBLIC LIFE INSURANCE
COMPANY

No. G06-45

DOCKET No. 2006-INS-0018

AMENDED REQUEST FOR HEARING
PURSUANT TO RCW 48.03.040(3)
AND RCW 48.04.010

Great Republic Life Insurance Company ("Great Republic" or "GRLIC"), through its undersigned counsel, requests a hearing on its objections to the Draft Report of the Office of the Insurance Commissioner (OIC), dated June 8, 2006, on the Financial Examination of Great Republic Life Insurance Company as of December 31, 2004 ("Draft Report").

I. RELIEF REQUESTED

Great Republic requests, pursuant to RCW 48.03.040(4), that certain statements in the Draft Report, quoted below, be (a) modified or corrected in accordance with the information and analysis provided by Great Republic and its appointed actuary or (b) rejected with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation, or information, and refileing.

AMENDED REQUEST FOR HEARING
PURSUANT TO RCW 48.03.040(3) AND RCW
48.04.010 - 1

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1 **II. PETITIONER AGGRIEVED**

2 Great Republic is aggrieved by the Draft Report in that it makes various inaccurate or
3 incomplete statements regarding the company's market conduct and financial status that would
4 be injurious to the company if included in the Final Report released to the public, including the
5 following:

6 The Company failed to book a recommended contract reserve increase of
7 \$300,000 its consulting actuary instructed the Company to book for the year
8 ended, December 31, 2004. The Company made this adjustment in the 3rd
9 quarter of 2005. . . . [page 1]

10 The Company was unable to supply critical historical files for some business
11 originating with other companies and purchased by GRLIC. These files
12 included application documents, original policy copies, and correspondence
13 referenced in other documents. [page 1]

14 . . .

15 The Company reported -0- cost containment expenses on Schedule H, Line 4
16 when it had \$83,330 of such expenses. [page 2]

17 . . .

18 Rate changes were instituted for some Medicare supplement policies without
19 properly filing the new rates with the OIC. These deficiencies are contrary to
20 RCW 48.05.280, which requires insurers to keep full and adequate records of
21 its affairs. The use of unfilled rates is contrary to RCW 48.19.010(2), which
requires that rates and rate modifications be filed with the OIC before they are
used. [page 3]

. . .

There is no conflict of interest (COI) policy and the COI statement is designed
only to preclude any self-interested transactions related to insurance sales or
investment transactions. Currently the Company has no explicit COI policy.
Instead, officers and employees are required to execute a disclosure statement
which divulges any personal benefits from Company premium or investment
transactions.

The COI policy should require disclosure of any self-interested transactions by
officers or employees and the COI statement should assert that the policy is
being followed. Potential self-interested transactions could involve vendor
kickbacks or financial interests in such vendors or in other parties who have

1 dealings with the Company. The COI policy should also require disclosure of
2 any employment relationship by members of the officers or employee's
family. [page 4]

3 ...
4 The bank check stock is accessible by any employee and the bank account
5 reconciliations are performed by someone other than the sole check signer.
6 This makes it possible for someone to issue fraudulent checks and to cover the
defalcation for some time. Also, confidential documents, such as outdated
claims files, are included with normal trash, raising the possibility of
unauthorized access and use of private data. [page 5]

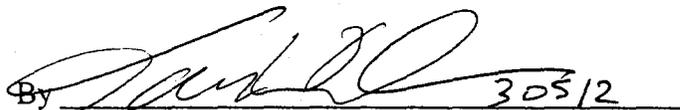
7 ...
8 In general, numerous deficiencies, errors, and omissions were uncovered
9 during the review process. When selections were tested for completeness and
accuracy, it was determined that the calculations and record keeping were
10 often inadequate, arbitrary, or erroneous. Actuarial conventions, data retention
principles, and Washington State regulations were ignored or otherwise not
observed. ... [page 8]

11 **III. BASIS FOR RELIEF**

12 The statutory bases for relief include RCW 48.03.040(3) and (4). Great Republic will
13 rely on testimony and documentary evidence to establish the facts relevant to the above-quoted
14 statements.

15 DATED this 15th day of December, 2006.

16 CARNEY BADLEY SPELLMAN, P.S.

17
18 By  30512

Timothy J. Parker, WSBA No. 8797

Jason W. Anderson, WSBA No. 30512

Attorneys for Great Republic Life Insurance Co.

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21
AMENDED REQUEST FOR HEARING
PURSUANT TO RCW 48.03.040(3) AND RCW
48.04.010 - 3

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1 **CERTIFICATE OF SERVICE**

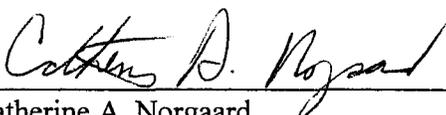
2 The undersigned hereby certifies under penalty of perjury under the laws of the State of
3 Washington that I am now and all times herein mentioned a citizen of the United States, a
4 resident of the State of Washington, over the age of 18 years, not a party to or interested in the
5 above-entitled action, and am competent to be a witness herein.

6 On December 15, 2006, I caused to be served a copy of the foregoing *AMENDED*
7 *REQUEST FOR HEARING PURSUANT TO RCW 48.03.040(3) AND RCW 48.04.010* on the
8 following individuals in the manner indicated:

9 Carol Sureau
10 Thomas Rowland
11 Office of the Insurance Commissioner
12 State of Washington
13 P.O. Box 40255
14 Olympia, WA 98504-0255
15 *VIA FAX (360-586-0152) AND U.S. MAIL*

16 Robert C. Krabill
17 Administrative Law Judge
18 Office of Administrative Hearing
19 State of Washington
20 PO Box 42489
21 Olympia, WA 98504-2489
VIA FAX (360-586-6563) AND U.S. MAIL

DATED this 15th day of December, 2006.

16 
17 Catherine A. Norgaard

AMENDED REQUEST FOR HEARING
PURSUANT TO RCW 48.03.040(3) AND RCW
48.04.010 - 4

**CARNEY
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FILED

JUN 28 2006

Hearings Unit, OIC
Patricia D. Petersen
Chief Hearing Officer

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STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

In the Matter of

GREAT REPUBLIC LIFE INSURANCE
COMPANY

NO. _____

REQUEST FOR HEARING
PURSUANT TO RCW 48.03.040(3)
AND RCW 48.04.010

Great Republic Life Insurance Company, through counsel, requests a hearing to consider its objections to the Proposed Report of the Office of the Insurance Commissioner (OIC), dated June 8, 2006, on the Financial Examination of Great Republic Life Insurance Company as of December 31, 2004.

I. RELIEF REQUESTED

Great Republic Life Insurance Company ("Great Republic") requests, pursuant to RCW 48.03.040(4)(a) and (b), that the conclusions in the Proposed Report, including but not limited to those regarding deficiency of reserves and net capital and surplus, (1) be modified or corrected in accordance with the information and analysis provided by Great Republic and its appointed actuary or, in the alternative, (2) be rejected with directions to the examiners to reopen the

REQUEST FOR HEARING PURSUANT TO
RCW 48.03.040(3) AND RCW 48.04.010 - 1

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1 examination for purposes of obtaining additional data, documentation, or information, and
2 refiling.

3 **II. BASIS FOR RELIEF**

4 GRLIC will rely on actuarial analysis of reserves and net capital and surplus to
5 demonstrate that statutory requirements are met, as well as its objections and submissions
6 pursuant to RCW 48.03.040(3) and (4) with respect to various conclusions in the Proposed
7 Report.

8 **III. GRLIC IS AGGRIEVED**

9 GRLIC is aggrieved by the Proposed Report in that it makes various allegations
10 regarding the market conduct and financial status of GRLIC, including but not limited to its
11 conclusion that GRLIC's reserves and net capital and surplus are deficient, a conclusion the OIC
12 has relied upon in ordering GRLIC to increase its reserves and net capital and surplus and to file
13 an amended risk-based capital (RBC) report.

14 **IV. ADMINISTRATIVE LAW JUDGE**

15 GRLIC reserves, but at this time does not exercise, its right to an administrative law
16 judge from the Office of Administrative Hearings pursuant to RCW 48.04.010(5).

17 DATED this 28th day of June, 2006.

18 CARNEY BADLEY SPELLMAN, P.S.

19
20 By  30512

21 Timothy J. Parker, WSBA No. 8797
Jason W. Anderson, WSBA No. 30512
Attorneys for Great Republic Life Insurance Co.

REQUEST FOR HEARING PURSUANT TO
RCW 48.03.040(3) AND RCW 48.04.010 - 2

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April 2, 2007

VIA FACSIMILE 1-360-586-6563 AND U.S. MAIL

Honorable Neil Gorrell
Administrative Law Judge
Office of Administrative Hearings
PO Box 42488
Olympia, WA 98504-2488

OAH Docket No. 2006-INS-0018
Great Republic Life Insurance - G06-45

Dear Judge Gorrell:

The parties in this proceeding have resolved the issues in the above-referenced matter, which is set for hearing on April 9, 2007. Great Republic Insurance Company withdraws its request for hearing and requests that the matter be dismissed.

Thank you for your assistance.

Sincerely,

CARNEY BADLEY SPELLMAN, P.S.



Jason W. Anderson

JWA:can

cc: Patricia Petersen, Chief Hearing Officer (via fax/mail)
Carol Sureau, Chief Deputy, Legal Affairs (via fax/mail)
Tom Rowland, Staff Attorney (via fax/mail)
Pat Pritchett (via email)
Scott Blount (via email)
Tim Parker