



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 08-102
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
FARMERS INSURANCE COMPANY)	AND ORDER ADOPTING REPORT
OF WASHINGTON)	OF EXAMINATION

A Domestic Insurer.

BACKGROUND

An examination of the financial condition of **FARMERS INSURANCE COMPANY OF WASHINGTON** (the Company) as of December 31, 2006, 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 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 13, 2008. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

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 16 of the report.



CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **FARMERS INSURANCE COMPANY OF WASHINGTON** and to order the Company to take the actions described in the Instructions section of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions prior to the date of this order. The Instructions in the report are appropriate responses to the matters found in the examination.

ORDER

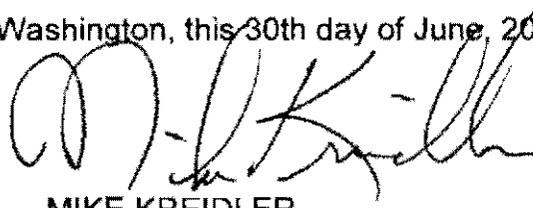
The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions contained in the examination report on pages 1-4.

1. The Company is ordered to comply with RCW 48.05.073 and SSAP 91 by not reflecting the collateral in the Company's balance sheet as an asset, and by not establishing a liability for the return of the collateral. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.05.250 by filing 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 2.
3. The Company is ordered to comply with RCW 48.05.250 by filing a true annual statement and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is also ordered to correct all of the securities lending deficiencies and execute a revised or amended custodial agreement. Instruction 3, Examination Report, page 4.

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 30th day of June, 2008.

A handwritten signature in black ink, appearing to read "Mike Kreidler". The signature is fluid and cursive, with a large initial "M" and "K".

MIKE KREIDLER
Insurance Commissioner



FARMERS

Farmers Insurance Co. of Washington
3003 77th Ave. SE
Mercer Island, WA 98040-2890

June 20, 2008

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
Office of Insurance Commissioner
State of Washington
5000 Capitol Blvd
Tumwater, WA 98501

JUN 25 2008

INSURANCE COMMISSIONER
COMPANY SUPERVISION

**RE: 2006 Washington Department of Insurance Financial Examination of:
Farmers Insurance of Company of Washington ("FICO WA")**

Dear Mr. Odiorne:

We have received and reviewed the examination report for the above Washington domiciled company as of December 31, 2006 and wish to compliment the Department and the examiner on their thoroughness and cooperation. We acknowledge that the report contains certain recommendations and comments. We have carefully reviewed the report and respectfully submit the following responses to your findings.

1. Issue – Security Lending Collateral

The Company should not reflect the collateral securities lending in the Company's balance sheet as an asset, and should not establish a liability for the return of the collateral when the pledged collateral is not available for the general use of the transferor (restricted). The collateral for securities lending and the liability for the collateral balance should be zero. (See Instruction No. 1. a).

Response

FICO WA's Security Lending collateral is Unrestricted (and not restricted as implied in the report) and is the reason for reporting these items as an asset and liability in the 2006 statement. Per Section 56 of SSAP #53, "...if the collateral is available for the general use of the transferor (unrestricted), the collateral shall be recorded as an asset on the transferor's balance sheet and a separate liability shall be established on the transferor's balance sheet to record the obligation to return the collateral..."

The collateral is unrestricted and there is nothing in the existing agreement that precludes FICO WA from accessing and utilizing the funds. In fact, under the Investment cash collateral section of the agreement, it is stated that no additional authorization is required by the Bank in the investing of cash collateral. Accordingly, we properly classified the collateral for the securities lending as asset and established a liability for the return of the collateral. This treatment was disclosed in the notes to the 2006 Annual statement and also in line with the 2006 Audited financial statement. We recognize that the current agreement contains some ambiguity and have been working with the Bank involved to better clarify the terms of the agreement with respect to FICO WA's ability to draw on the cash collateral for any purpose.

In view of this, we propose that this issue be removed from the final report as it does not truly reflect the substance of FICO WA's Security lending collateral arrangement, or a language be added to the effect that the Company is currently in the process of working with the Bank involved to remove any ambiguity in the agreement and to clarify that the collateral is unrestricted. In addition, the company will ensure to report Company's participation in the security lending collateral program in the General Interrogatories and to also designate which securities were lent in Schedule D.

2. Issue – Post Retirement Benefits

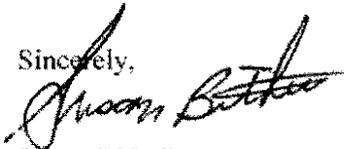
The Company included the post retirement benefits as part of Aggregate write-ins for liability. This amount should be classified as Other expenses. (See Instruction No. 1. e).

Response

The balance reported here reflects FICO WA's pooled share of the post retirement benefits. This item is handled by FIE on behalf of all affiliates and any amount involved is settled as part of the monthly inter-company settlement process. However, we will continue to review this issue and make the necessary and appropriate changes as deemed.

As always, we appreciate your attention to this matter, and look forward to hearing from you. Let me know if you wish to discuss further and advice of any have any questions.

Sincerely,



Susan Bithell
President
Farmers Insurance Company of Washington

JH

Cc: Tarik Subbagh
Ron Myhan
Scott Ballew
Joseph Hammond
Carla Kimzey