



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 08-61
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
GRANGE INSURANCE ASSOCIATION)	AND ORDER ADOPTING REPORT
)	OF FINANCIAL EXAMINATION
)	
A Domestic Insurer.)	

BACKGROUND

An examination of the financial condition of **GRANGE INSURANCE ASSOCIATION** (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 fraternal benefit society. 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 April 16, 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 14 of the report.

GRANGE INSURANCE ASSOCIATION COMPANY
Order Adopting Examination Report
May 16, 2008



CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **GRANGE INSURANCE ASSOCIATION** 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

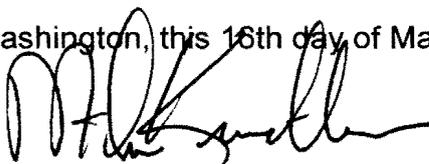
The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions contained in the examination report on pages 1-2.

1. The Company is ordered to comply with RCW 48.05.073, RCW 48.05.250, and WAC 284-07-050(2) in filing its NAIC Annual Statements in accordance with the respective state statutes, the NAIC AP&P and the NAIC Annual Statement Instructions which include the proper and accurate reporting of Surplus Notes in the NAIC Annual Statement. Instruction 1, Examination Report, page 1.
2. The Company is ordered to comply with WAC 284-07-050(2) which requires adherence to the NAIC AP&P which requires all reinsurance contracts to have the required clauses in accordance with SSAP No. 62. Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.05.073, RCW 48.05.250 and WAC 284-07-050(2) in filing its NAIC Annual Statements in accordance with the AP&P and the 2006 NAIC Annual Statement Instructions. Instruction 3, Examination Report, page 2.

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 16th day of May, 2008.



MIKE KREIDLER
Insurance Commissioner



April 24, 2008

Mr. James T. Odiome, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
P.O. Box 40255
Olympia, Washington 98504-0255

RECEIVED
APR 29 2008
INSURANCE COMMISSIONER
COMPANY SUPERVISION

Dear Mr. Odiome:

We are in receipt of the draft Financial Examination Report of Grange Insurance Association and Rocky Mountain Fire and Casualty Company as of December 31, 2006.

After review of the documents we find that we are in agreement with the report. Our response follows:

GRANGE INSURANCE ASSOCIATION

Scope of Examination

1. Rocky Mountain Fire and Casualty Company (RMFCC) Surplus Notes - GIA will account for the investment in surplus notes separately in accordance with SSAP No. 41. In 2007 the carrying value of RMFCC was reduced by \$9.1 million to eliminate the surplus notes from the reported value. The offset to this reduction was a \$9.1 million addition to Other Invested assets.
2. Reinsurance Entire Contract Clause – An entire contract clause between parties to the reinsurance agreements will be included in the July 2008 reinsurance contract renewals as required by WAC 284-07-050(2).
3. Annual Statement Errors and Omissions
 - a. Intercompany Expense Sharing Agreement – A description of material management or service contract and cost-sharing agreements will be included as required in NAIC Annual Statement Note 10.F.
 - b. Money Market Mutual Fund Classification – The Company will categorize all mutual funds which are listed U.S. government exempt funds as “Exempt Money Market Mutual Funds” beginning with 2008 quarterly and annual statutory financial statements.

ROCKY MOUNTAIN FIRE AND CASUALTY COMPANY

INSTRUCTIONS

1. Board Member Conflict of Interest. - The company was aware of RCW.07.130(1), which states in part "no officer or director of an insurer shall accept or be the beneficiary of any fee, brokerage, gift, commission, or other emolument because of any sale of insurance." However the company had misunderstood the exception provided by WAC 284-36-020 which states:

"WAC 284-36-020 Agent-directors permitted. Pursuant to the authority vested in the commissioner under RCW 48.07.130(3) up to one-third (to the nearest whole number) of the members of the board of directors of such an insurer may also be insurance agents of the insurer, and be entitled to receive, and receive from the insurer payment of, commissions or other compensation for insurance business written or serviced by them on the same bases as apply to other agents of the insurer in general. Agent-directors qualified under this provision are excepted from the prohibition contained in RCW 48.07.130(1), to the extent of their activities hereby authorized."

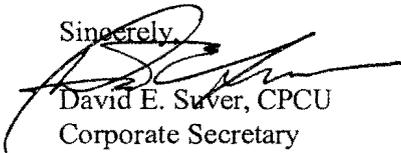
The Company had incorrectly believed this exception, which applies to Grange Insurance Association, also applied to commission for a director for Rocky Mountain Fire & Casualty Company since that company is controlled by Grange Insurance Association. This mistake was recognized and brought to the attention of the Board of Directors with the result that the director involved, sold his Rocky Mountain Fire & Casualty Company business effective 9/28/2007. The only remaining emolument received by this director is commission from Grange Insurance Association which does fall within the exception WAC 284-36-020. There is only one Agent-director remaining on the Board of Directors of Grange Insurance Association. Due to the change in bylaws in 2007, there will be no additional Agent-directors in the future to either Rocky Mountain Fire & Casualty Company or Grange Insurance Association.

2. Reinsurance Entire Contract Clause – An entire contract clause between parties to the reinsurance agreements will be included in the July 2008 reinsurance agreement renewals as required by WAC 284-07-050(2).

3. Annual Statement Errors and Omissions

- a. Intercompany Expense Sharing Agreement – A description of material management or service contract and cost-sharing agreements will be included as required in NAIC Annual Statement Note 10.F.
- b. Money Market Mutual Fund Classification – In the 2008 Annual Statement, the Company will categorize all mutual funds which are listed U.S. government exempt funds as "Exempt Money Market Mutual Funds" in Schedule DA Part 1.

Sincerely,



David E. Suver, CPCU
Corporate Secretary

DES:cac

cc: Ryan M. Dudley, President & Chief Executive Officer
Sean I. McGourty, VP & CFO