



INSURANCE COMMISSIONER

In the Matter of)
)
The Financial Examination of)
 COMMENCEMENT BAY LIFE)
 INSURANCE COMPANY)

No. 09-86

**FINDINGS, CONCLUSIONS,
AND ORDER ADOPTING REPORT
OF EXAMINATION**

A Domestic Insurer.

BACKGROUND

An examination of the financial condition of **COMMENCEMENT BAY LIFE INSURANCE COMPANY** (the Company) as of December 31, 2007, 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 May 20, 2009. 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 11 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 **COMMENCEMENT BAY LIFE INSURANCE COMPANY** 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 48.05.250 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 1, Examination Report, page 1.
2. The Company is ordered to comply with RCW 48.13.240 by limiting all miscellaneous investments, including securities lending activity, to the lesser of 10% of the insurer's assets, or 50% of its surplus over capital and other liabilities. Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affairs and to comply with the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is also ordered to execute a revised or amended custodial agreement that complies with the FCEH. 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 6th day of July, 2009.

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

RECEIVED

1800 Ninth Avenue
Seattle, Washington 98101

JUN 29 2009

June 25, 2009

INSURANCE COMMISSIONER
COMPANY SUPERVISION

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
PO Box 40255
Olympia, WA 98504-0255

Commencement Bay
LIFE INSURANCE COMPANY



**RE: Commencement Bay Life Insurance Company – Report of Examination as of
December 31, 2007**

Dear Mr. Odiorne:

Enclosed, please find for your consideration our responses to be included in the Final Report of Examination for Commencement Bay Life Insurance Company. We appreciate the opportunity to respond and comment on the Report.

Instructions

1. Annual Statement Errors

The Company did not complete Exhibit 2 - General Insurance Expenses or Exhibit 3 - Taxes, Licenses and Fees. The Company had \$15,788 of general insurance expenses that should have been reported on Exhibit 2, and \$1,045 of taxes, licenses, and fees that should have been reported on Exhibit 3.

The Company is instructed 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.

Response: The Company agrees that Exhibit 2 - General Insurance Expenses and Exhibit 3 - Taxes, Licenses and Fees were incorrectly marked as "none" in the annual statement. For future annual statement filings, these exhibits will be correctly reported in accordance with RCW 48.05.250, WAC 284-07-050(2) and the NAIC Annual Statement Instructions.

2. Securities Lending Limits

The Company engages in securities lending transactions during the year and discontinues the program at year-end. Securities lending is an investment transaction that is not contemplated in any other section of Chapter 48.13 RCW and is therefore subject to RCW 48.13.240 and limited to the lesser of 10% of the insurer's assets, or 50% of its surplus over capital and other liabilities. At various times during the year, the Company's securities lending activity exceeded this limitation.

The Company is instructed to comply with RCW 48.13.240 by limiting all miscellaneous investments, including securities lending activity, to the lesser of 10% of the insurer's assets, or 50% of its surplus over capital and other liabilities.

3. **Response:** The Company agrees that Securities Lending, as an investment transaction, is not contemplated in any other section of Chapter 48.13 RCW and is therefore subject to RCW 48.13.240. Upon clarification of the applicable state regulations, the Company has directed its custodian, BNY Mellon, to take prompt action in order to bring CBL into compliance with the limits as stated within RCW 48.13.240. Furthermore, the Company has directed BNY Mellon as to procedures and processes so that CBL remains in compliance. The Company will review these limits on a regular basis and will notify BNY Mellon of any changes to these limits as necessary in order to maintain compliance with these limits and this regulation.

4. **Custodial Agreement Deficiencies**

The Company responded in its 2007 NAIC Annual Statement General Interrogatory 26.01 that its custodial agreement with the Bank of New York Mellon complied with the Financial Conditions Examiner's Handbook (FCEH). However, it did not contain several provisions required by the FCEH. RCW 48.05.250 requires a company to file a true statement of its financial condition, transactions, and affairs.

The Company is instructed to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affairs and to comply with the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is also instructed to execute a revised or amended custodial agreement that complies with the FCEH.

Response: In light of recent revisions in the statutes, the Company acknowledges that certain changes may be necessary to the current custodial agreements. The Company believes these changes to be minor and not material to the overall terms, conditions, and duties set forth in the agreements. In order to appropriately make these changes in a complete and thorough manner, the Company is currently working closely with the staff of the State of Washington OIC to update its Custodial Agreements and to comply with revisions outlined in the FCEH. In the exit interview held recently, the State of Washington OIC agreed to provide the Company with a complete list of provisions including certain wording required by a 2008 statute, RCW 48.13.480. Upon receipt of this list, the Company will review the provisions and work in conjunction with the State of Washington OIC to make any necessary changes to the custodial agreements.

Please feel free to contact me with any further questions or concerns you have regarding our responses.

Sincerely,



Stacy J. Simpson
Vice President, Finance Accounting Services

cc: M. Jonathan Hensley
Dan Mallea
Andreas Ellis
Leonard Hagen
Anjie Watton