

**STATE OF WASHINGTON  
OFFICE OF THE INSURANCE  
COMMISSIONER**



**FINANCIAL EXAMINATION  
OF  
COMMENCEMENT BAY LIFE INSURANCE COMPANY  
SEATTLE, WASHINGTON  
NAIC CODE 78879  
DECEMBER 31, 2007**

Order No. 09-86  
Commencement Bay Life Insurance Company  
Exhibit A

**Participating States:  
Washington**

**SALUTATION**

Seattle, Washington  
June 29, 2009

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building-Capitol Campus  
302 Sid Snyder Avenue SW, Suite 200  
Olympia, WA 98504

The Honorable Alfred W. Gross, Commissioner  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Chair, NAIC Financial Condition (E) Committee  
PO Box 1157  
Richmond, VA 23218

The Honorable Morris Chavez, Superintendent  
New Mexico Insurance Division  
NAIC Secretary, Western Zone  
PO Drawer 1269  
Santa Fe, NM 87504-1269

Dear Commissioners and Superintendent:

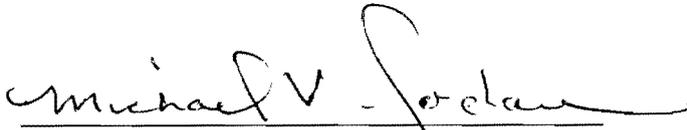
In accordance with your instructions and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Commencement Bay Life Insurance Company  
of  
Seattle, Washington

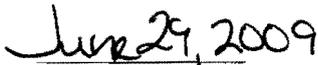
hereinafter referred to as "CBLIC" or the "Company", at its home office located at 1800 Ninth Avenue, Seattle, Washington 98101. This report is respectfully submitted showing the condition of the Company as of December 31, 2007.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of Financial Examination of the Commencement Bay Life Insurance of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2007.

A handwritten signature in cursive script that reads "Michael V. Jordan". The signature is written in black ink and is positioned above a horizontal line.

Michael V. Jordan, Assistant Chief Examiner  
for  
Patrick H. McNaughton  
Chief Examiner

A handwritten date in cursive script that reads "June 29, 2009". The date is written in black ink and is positioned above a horizontal line.

Date

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## SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2003 through December 31, 2007 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report.

## INSTRUCTIONS

The examiners reviewed the Company's filed 2007 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

### **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.**

### **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. 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 FCEH. However, it did not contain several provisions as required by the FCEH.

**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.**

## **COMMENTS AND RECOMMENDATIONS**

**None**

## **COMPANY PROFILE**

### **Company History**

CBLIC was incorporated on September 1, 1992 as a Washington stock life and disability insurance company. It was a wholly-owned subsidiary of Pierce County Medical Bureau, Inc. (PCMB). As a result of the merger on April 1, 1997 between PCMB and Regence BlueShield, the Company became a wholly-owned subsidiary of Regence BlueShield.

### **Territory and Plan of Operation**

The Company is authorized to operate in the state of Washington as a life and disability insurance company. The Company is currently dormant with no immediate plans to resume operations.

### **Growth of Company**

The Company's growth, as reported in its NAIC Annual Statements, is illustrated below:

	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
2003	\$34,207,283	\$13,268,495	\$20,938,788
2004	21,817,908	547,108	21,270,800
2005	22,306,248	635,273	21,670,977
2006	22,693,328	370,035	22,323,293
2007	23,577,878	505,351	23,072,527

	<u>Premiums</u>	<u>Net Investment Income</u>	<u>Disability Benefits</u>
2003	\$108,096,588	\$168,949	\$102,221,504
2004	58,263,366	266,536	56,985,379
2005	0	603,285	0
2006	0	1,016,768	0
2007	0	1,136,051	0

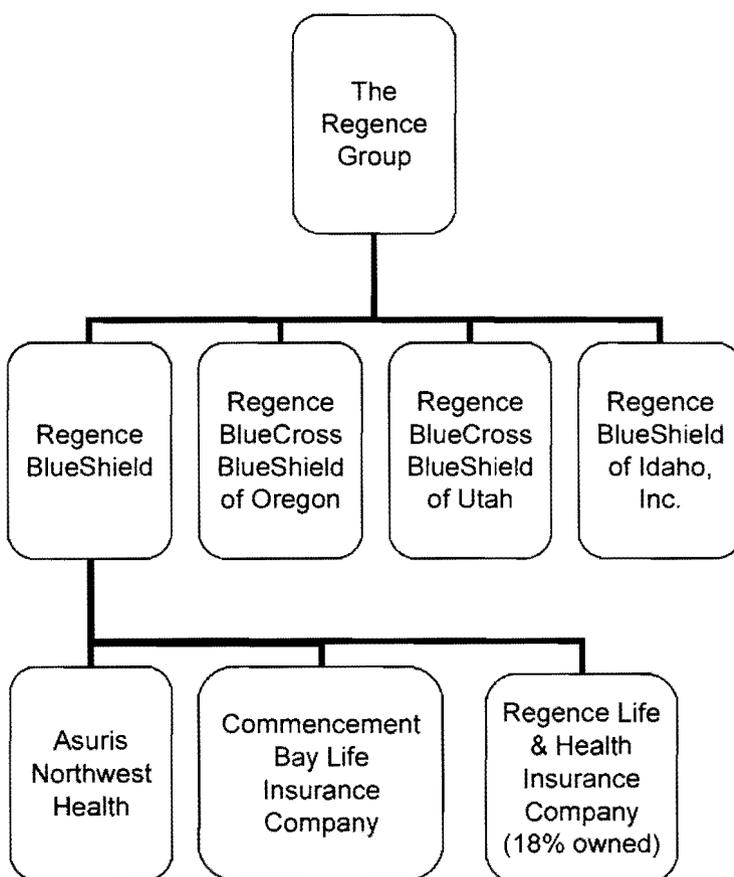
### **Ordinary Life Insurance in Force by State**

The Company is licensed to do business only in Washington State and no business was written in other states. The Company has not written any new business and has had no premium receipts since 2004. Since the Company only wrote stop-loss policies it did not have any business in force as of December 31, 2007.

## AFFILIATED COMPANIES

The Company is a wholly-owned subsidiary of Regence BlueShield (RBS), which is a wholly-owned subsidiary of The Regence Group (TRG), a non-profit, non-insurance holding company. Regence BlueShield is a non-profit health care service contractor (HCSC) and is a 100% wholly-controlled affiliate of TRG.

The following abbreviated organization chart shows the Company's ultimate parent and lines of reporting to TRG for CBLIC.



### **Intercompany Agreements**

The Company is a party to an administrative services agreement with TRG. Services may include, but are not limited to managerial, legal, financial, actuarial, underwriting, accounting and human resources.

## MANAGEMENT AND CONTROL

### **Ownership**

CBLIC is a wholly-owned subsidiary of RBS, which is a wholly-owned subsidiary of TRG.

### **Board of Directors (BOD)**

Directors as of December 31, 2007:

Cary P. Badger  
Leonard A. Hagen  
Scott D. Kreiling  
Robert S. Kruecker  
Mary O. McWilliams

### **Officers**

Officers as of December 31, 2007:

Mary O. McWilliams	President
Steven L. Hooker	Treasurer
Leonard A. Hagen	Secretary

### **Committees**

The BOD does not have any committees.

### **Conflict of Interest**

A resolution of the BOD provides that every officer, director, committee member or responsible employee disclose to the BOD any material interest or affiliation which conflicts with the duties of such person on behalf of the Company. A review of the individual conflict of interest statements on file with the Company revealed no material exceptions. Potential conflicts were duly disclosed to the BOD in accordance with the Company's conflict of interest policy.

### **Fidelity Bond and Other Insurance**

Officers and employees of CBLIC are covered under the fidelity bond coverage of TRG. The coverage meets the minimum amount suggested by the NAIC. The Company is also a named insured on commercial and umbrella liability, professional liability, and directors and officers liability policies issued to TRG.

### **Officers', Employees', and Agents' Welfare and Pension Plans**

Officers of CBLIC are also employees of RBS, the parent company, and are covered under the RBS plan.

## **CORPORATE RECORDS**

The corporate records were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. The By-Laws were amended on December 1, 2006 to change the minimum number of directors to be no less than five. There have been no other changes to the By-laws or Articles of Incorporation since the last examination.

## **MORTALITY AND LOSS**

Pursuant to WAC 284-07-310 through 284-07-400, the Company is exempt from submitting a statement of actuarial opinion based on an asset adequacy analysis. The statement of actuarial opinion provided by CBLIC's appointed actuary is not based on an asset adequacy analysis and is in accordance with WAC 284-07-370.

## **REINSURANCE**

The Company entered into a reinsurance agreement with Regence BlueShield of Idaho for the period January 1, 2003 through December 31, 2003 with an extension for the period from January 1, 2004 through December 31, 2004. The agreement specified that CBLIC would assume the risk related to a specific group contract written by Regence Blue Shield of Idaho. The contract was not extended beyond December 31, 2004.

The Company did not have any reinsurance contracts as of December 31, 2007.

## **STATUTORY DEPOSITS**

The Company had no statutory deposits as of December 31, 2007.

## **ACCOUNTING RECORDS AND INFORMATIONS SYSTEMS**

RBS provides information systems services and functions to the Company. The management of RBS is sufficiently knowledgeable of the information system process, and the information system department of RBS has the ability to recover from an incident or disaster and has documented these procedures in a detailed, written recovery plan. System operations and application controls, as they relate to services provided for CBLIC, were evaluated as of December 31, 2006 to gain assurance that appropriate internal controls are in place. Sufficient internal controls were determined to be in place and were being monitored by RBS. No significant changes were noted for the period December 31, 2006 through December 31, 2007.

### **SUBSEQUENT EVENTS**

The Company properly filed notice of and paid an extraordinary dividend in the amount of \$17.5 million in December 2008. Other than this transaction, there were no material events adversely impacting the Company between the examination date and the last day of our fieldwork.

### **FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

All previous report instructions were corrected.

### **FINANCIAL STATEMENTS**

Assets, Liabilities, Surplus and Other Funds

Summary of Operations

Reconciliation of Surplus for the Period Since the Last Examination

**COMMENCEMENT BAY LIFE INSURANCE COMPANY  
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS  
DECEMBER 31, 2007**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
<b>Assets</b>			
Bonds	\$12,719,317	\$0	\$12,719,317
Cash, cash equivalents, and short term investments	10,673,876		10,673,876
Subtotals, cash and invested assets	<u>23,393,193</u>	<u>0</u>	<u>23,393,193</u>
Investment income due and accrued	184,685		184,685
<b>Total Assets</b>	<u><b>\$23,577,878</b></u>	<u><b>\$0</b></u>	<u><b>\$23,577,878</b></u>
<b>Liabilities</b>			
Interest maintenance reserve	\$51,191		\$51,191
General expenses due or accrued	9,000		9,000
Current federal and foreign income taxes	402,907		402,907
Net deferred tax liability	38,698		38,698
Asset valuation reserve	2,229		2,229
Payable to parent, subsidiaries and affiliates	<u>1,326</u>		<u>1,326</u>
<b>Total Liabilities</b>	<u><b>505,351</b></u>	<u><b>0</b></u>	<u><b>505,351</b></u>
Common capital stock	2,400,000		2,400,000
Gross paid in and contributed surplus	12,600,000		12,600,000
Unassigned funds (surplus)	<u>8,072,527</u>		<u>8,072,527</u>
Capital and surplus	<u>23,072,527</u>	<u>0</u>	<u>23,072,527</u>
<b>Total Liabilities, Surplus, and Other Funds</b>	<u><b>\$23,577,878</b></u>	<u><b>\$0</b></u>	<u><b>\$23,577,878</b></u>

**COMMENCEMENT BAY LIFE INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2007**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
<b>Income</b>			
Net investment income	\$1,136,051		\$1,136,051
Amortization of interest maintenance reserve	6,171		6,171
<b>Total Income</b>	<u>1,142,222</u>	<u>0</u>	<u>1,142,222</u>
<b>Expenses</b>			
General insurance expenses	15,788		15,788
Insurance taxes, licenses and fees, excl. federal income taxes	1,045		1,045
<b>Total Expenses and Benefits</b>	<u>16,833</u>	<u>0</u>	<u>16,833</u>
Net gain from operations before dividends to policyholders and income taxes	1,125,389		1,125,389
Federal and foreign income taxes incurred (excluding tax on capital gains)	412,674		412,674
<b>Net Income</b>	<u>\$712,715</u>	<u>\$0</u>	<u>\$712,715</u>
<b>Capital and Surplus Account</b>			
Capital and Surplus, December 31, Previous Year	\$22,323,293		\$22,323,293
Net income	712,715		712,715
Change in net deferred income tax	37,145		37,145
Change in asset valuation reserve	(626)		(626)
Net change in capital and surplus for the year	749,234		749,234
Capital and Surplus, December 31, 2007	<u>\$23,072,527</u>	<u>\$0</u>	<u>\$23,072,527</u>

**COMMENCEMENT BAY LIFE INSURANCE COMPANY  
RECONCILIATION OF SURPLUS  
FOR THE PERIOD SINCE THE LAST EXAMINATION**

<b>Capital and Surplus Account</b>	<u><b>2007</b></u>	<u><b>2006</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>	<u><b>2003</b></u>
<b>Capital and Surplus, December 31, Previous Year</b>	<u>\$22,323,290</u>	<u>\$21,670,977</u>	<u>\$21,270,800</u>	<u>\$20,938,790</u>	<u>\$10,297,958</u>
Net income	712,718	734,022	404,911	435,018	500,124
Change in net deferred income tax	37,145	(80,169)	(27,024)	(81,879)	141,770
Change in non-admitted assets and related items			22,292	(22,292)	
Change in asset valuation reserve	(626)	(1,540)	(2)	1,163	(1,062)
Paid In (Surplus adjustments)					10,000,000
Net change in capital and surplus for the year	<u>749,237</u>	<u>652,313</u>	<u>400,177</u>	<u>332,010</u>	<u>10,640,832</u>
<b>Capital and Surplus, December 31, 2007</b>	<u><u><b>\$23,072,527</b></u></u>	<u><u><b>\$22,323,290</b></u></u>	<u><u><b>\$21,670,977</b></u></u>	<u><u><b>\$21,270,800</b></u></u>	<u><u><b>\$20,938,790</b></u></u>

## **NOTES TO FINANCIAL STATEMENTS**

The Company has no special consents, permitted practices, or orders from the state of Washington.

## ACKNOWLEDGEMENT

The cooperation and assistance of the officers and employees of the Company during the examination are hereby acknowledged.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Susan Campbell, CPA, CFE, FLMI, Life Field Supervisor and Reinsurance Specialist; Richard Bologna, Financial Examiner and John Jacobson, AFE, CISA, AES, Automated Examination Specialist; all from the Washington State Office of the Insurance Commissioner participated in the examination and the preparation of this report.

Respectfully submitted,



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Adrienne C. DeBella, CPA, CFE, ALMI  
Examiner-in-Charge  
State of Washington

**AFFIDAVIT**

STATE OF WASHINGTON        }  
  } ss  
COUNTY OF KING            }

Adrienne C. DeBella, being duly sworn, deposes and says that the foregoing report subscribed by her is true to the best of her knowledge and belief.

She attests that the examination of Commencement Bay Life Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

*Adrienne C. DeBella*  
Adrienne C. DeBella, CPA, CFE, ALMI  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me on this 29th day of June, 2009.

*Colleen Jansen*  
Notary Public in and for the  
State of Washington

