

STATE OF WASHINGTON

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MIKE KREIDLER
STATE INSURANCE COMMISSIONER



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 09-23
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
INDUSTRIAL ALLIANCE PACIFIC)	AND ORDER ADOPTING REPORT
INSURANCE AND FINANCIAL)	OF EXAMINATION
SERVICES, INC.)	

An Alien Insurer.

BACKGROUND

An examination of the financial condition of **INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES, INC.** (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 February 5, 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 20 of the report.

INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES, INC.
Order Adopting Examination Report
March 9, 2009



CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES, INC.**, 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 1-6.

1. The Company is ordered to comply with WAC 284-07-050(2), which requires the Company to file its financial statement in accordance with the NAIC AP&P Manual and the NAIC Annual Statement Instructions, and SSAP 50, paragraph 20, by reporting contracts with life contingencies as life insurance, which belong on Exhibit 5. Instruction 1, Examination Report, page 1.
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 WAC 284-74-340(6), recognizing its premium guarantees where reserves are based on maximum premiums. Instruction 3a, Examination Report, page 2.
4. The Company is ordered to comply with RCW 48.74.040(1) and WAC 284-74-370, by calculating Term4Life reserves for policies issued prior to January 1, 2000 on the basis of contractual premiums that increase by approximately 1% annually over the life of the policy. Instruction 3b, Examination Report, page 2.
5. The Company is ordered to comply with WAC 284-74-350(3) and 284-74-440(1)(e), holding reserves no less than the tabular cost of insurance for the balance of the policy year, using permitted valuation mortality rates. Instruction 3c, Examination Report, page 3.

6. The Company is ordered to comply with RCW 48.74.040(1) by holding reserves no less than the present value of future guaranteed death benefits. The Company is also ordered to comply with RCW 48.74.040(2) by reflecting the correct contractual death benefit of each policy form in its valuation. Instruction 3d, Examination Report, page 3.
7. The Company is ordered to comply with WAC 284-74-360, holding reserves no less than the reserves required for 20-year term plans whose guaranteed premiums are what the Company calls "minimum premiums" and what WAC 284-74-360(1)(c) calls "specified premiums." Instruction 3e, Examination Report, page 3.
8. The Company is ordered to comply with RCW 48.74.040(2) by running its deferred annuity projections to any contract anniversary that may maximize the present value of future benefits minus the present value of any required valuation considerations. The Company is also ordered to comply with RCW 48.74.040(2) and Actuarial Guideline XIII by making a reasonably conservative valuation assumption concerning the availability of surrender charges. Instruction 3f, Examination Report, page 4.
9. The Company is ordered to comply with Actuarial Guideline XXXV by reserving for its equity-indexed annuities according to one of the listed methods deemed consistent with CARVM, and by submitting an appropriate certification from its appointed actuary with each annual and quarterly statutory financial statement. Instruction 3g, Examination Report, page 4.
10. The Company is ordered to comply with SSAP No. 51, paragraph 23, by excluding premiums already collected and negative loading from the deferred premium asset. Instruction 4, Examination Report, page 4.
11. The Company is ordered to comply with RCW 48.05.073 and WAC 284-07-050(2), which require the Company to file its financial statements in accordance with the NAIC Annual Statement Instructions and the AP&P Manual. Instruction 5, Examination Report, page 4.
12. The Company is ordered to comply with WAC 284-07-380(2)(d) and (e) by submitting a certified SAO with a named individual accountable for the year-end valuation files. Instruction 6, Examination Report, page 5.

13. It is ordered that the Company consider reviewing its reserving methodology for its Term4Life plan, taking into consideration that this plan has some whole-life plan characteristics, and would be more conservatively reserved on the basis of RCW 48.74.040(1) and RCW 48.74.080, which recognize the plan's increasing premium structure. Comments and Recommendations 1, Examination Report, page 5.
14. It is ordered that the Company consider enhancing its internal control by making the Information Services Department head independent of all operating units for which it performs data processing functions. Comments and Recommendations 2, Examination Report, page 5.
15. It is ordered that department managers consider periodically validating the access capabilities currently provided to individuals within their department, as recommended by the NAIC Financial Condition Examiners Handbook. Comments and Recommendations 3, Examination Report, page 6.
16. It is ordered that the Company consider strengthening its controls over mortgage loans by obtaining evidence of property tax payments as they become due. Comments and Recommendations 4, Examination Report, page 6.

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 9th day of March, 2009.



MIKE KREIDLER
Insurance Commissioner



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FEB 25 2009

BY COURIER

INSURANCE COMMISSIONER
COMPANY SUPERVISION

Azmina Karim-Bondy
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February 24, 2009

State of Washington
Office of Insurance Commissioner
5000 Capitol Blvd.
Tumwater, WA
98501

Attention: James Odiorne

Dear Mr. Odiorne:

RE: Financial Examination Report of Industrial Alliance Pacific Insurance and Financial Services Inc. ("IAP") as of December 31, 2007

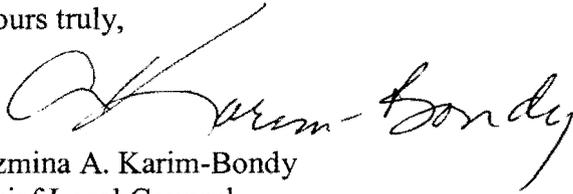
Thank you for your letter of February 5, 2009 addressed to Mr. Bouwers of our office and enclosing a draft of the Financial Examination Report prepared by your office. Your letter has been referred to me for reply.

You have requested that the Company provide any comments that it may have on the Report. In general, IAP is in agreement with the instructions and recommendations provided as indicated during the exit interview on December 12, 2008. However, I will make specific comments with respect to a couple of items as set out below:

1. Under the heading Annual Statement Errors, on page 2, section 2(d), reference is made to our reporting premium for Accidental Death Benefit riders under column 9 instead of column 7. I am advised by our financial accounting department that we have never reported anything under column 9 of this page of the Annual Statement.
2. Under the heading, Annual Statement Errors, on page 2, section 2(e), reference is made to our reporting reinsurance information on Schedule S - Part 3 - Section 2 instead of Section 1. I am advised by our financial accounting department that we do not complete Schedule S - Part 3 - Section 2 and have reported "none" on this page for many years.
3. With respect to item 4 under Comments and Recommendations, on page 6, Mortgage Loans - Property Taxes, we agree with the recommendation and advise that enhanced procedures have now been implemented in order to obtain proof of property tax payments when due.

We trust the foregoing is satisfactory. Should you have any further questions please do not hesitate to contact me.

Yours truly,

A handwritten signature in black ink, appearing to read "Azmina A. Karim-Bondy". The signature is fluid and cursive, with a large initial "A" and "K".

Azmina A. Karim-Bondy
Chief Legal Counsel

AKB/mp