



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 10-171
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
GREAT REPUBLIC LIFE)	AND ORDER ADOPTING REPORT
INSURANCE COMPANY)	OF FINANCIAL EXAMINATION
)	
A Domestic Insurer.)	

BACKGROUND

An examination of the financial condition of **GREAT REPUBLIC LIFE INSURANCE COMPANY** (the Company) as of December 31, 2009, 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 August 31, 2010. 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 **GREAT REPUBLIC LIFE INSURANCE COMPANY** 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 1-7.

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, RCW 48.05.073 by filing its financial statement in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.07.040 and RCW 23B.07.010 and its Bylaws by holding an annual meeting of its shareholders. Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.05.370 and its Bylaws by holding an annual meeting of its BOD, and by ensuring that all directors and officers exercise their duties in a fiduciary manner. Instruction 3, Examination Report, page 3.
4. 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 follow the NAIC Annual Statement Instructions and the AP&P, as required under WAC 284.07.050(2). The Company is also ordered to execute a revised or amended custodial agreement that complies with the FCEH. Instruction 4, Examination Report, page 3.

5. The Company is ordered to comply with RCW 48.19.010(2) by filing with the Commissioner its manual of classification, manual of rules and rates, and any modifications prior to use. Instruction 5, Examination Report, page 3.
6. The Company is instructed to comply with RCW 48.13.340 by documenting approval of all investment transactions in the BOD minutes. Instruction 6, Examination Report, page 3.
7. The Company is ordered to comply with WAC 284-04-500 by developing and implementing written policies, standards, and procedures for the management of health information. Instruction 7, Examination Report, page 4.
8. The Company is ordered to comply with RCW 48.31B.030 and WAC 284-07-050(2) which require adherence to the AP&P, and SSAPs 70 and 25 by ensuring that transactions between the Company and its parent Empire Insurance Agency, Inc. (Empire) are in the form of a written agreement, with fair and reasonable terms that provide for an allocation of expenses to the entity incurring the expense. The Company is also ordered to seek reimbursement from Empire for the automobile insurance expenses that the Company paid on Empire's behalf. Instruction 8, Examination Report, page 4.
9. The Company is ordered to comply with RCW 48.05.073 and WAC 284-07-050(2) which require adherence to the NAIC Annual Statement Instructions and the AP&P, SSAP 25. The Company is further ordered to execute an amended sublease agreement that meets the fair and reasonable requirements of SSAP 25. Instruction 9, Examination Report, page 5.
10. The Company is ordered to comply with RCW 48.05.280 by keeping full and adequate accounts and records of its assets, obligations, transactions, and affairs. Instruction 10, Examination Report, page 5.
11. The Company is ordered to comply with WAC 284-16-460(2)(a) and SSAP 54 (12) by calculating unearned premium reserves using net modal premiums. The Company should include unearned premiums and waiver of premium in its calculation of the unearned premium reserve. Instruction 11, Examination Report, page 5.
12. It is ordered that the Company consider reviewing its age slopes, termination rates, continuance curves, and investment strategy to ensure they are reasonable and appropriate assumptions. Comments and Recommendations 1, Examination Report, page 5.

13. It is ordered that GRLIC consider complying with NAIC Guidelines and implement a business contingency plan to address the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event normal business activities are disrupted. Comments and Recommendations 2, Examination Report, page 6.
14. It is ordered that GRLIC consider complying with NAIC Guidelines and write, test and implement a disaster recovery plan that includes appropriate escalation procedures to resolve operational failures in a timely manner. Comments and Recommendations 3, Examination Report, page 6.
15. It is ordered that the Company consider developing procedures to monitor the status of its paid-up policies. Comments and Recommendations 4, Examination Report, page 6.
16. It is ordered that the Company consider writing a conflict of interest policy that requires all directors, officers, and key employees to comply with the policy and sign an annual declaration/disclosure form. Comments and Recommendations 5, Examination Report, page 6.
17. It is ordered that the Company consider training a back-up person for every critical business function and maintain updated procedure manuals for every critical business function. Comments and Recommendations 6, Examination Report, page 6.
18. It is ordered that the Company consider purchasing a fidelity bond insurance policy in the minimum NAIC recommended amount of between \$150,000 and \$175,000. Comments and Recommendations 7, Examination Report, page 7.
19. It is ordered that the Company consider making a daily bank deposit and secure any un-deposited checks and blank check stock. Comments and Recommendations 8, Examination Report, page 7.

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 23rd day of September, 2010.


MIKE KREIDLER
Insurance Commissioner

Great Republic Life Insurance Company

3933 STONE WAY NORTH
SEATTLE, WASHINGTON 98103-8017

September 13, 2010

RECEIVED

James T. Odiorne, Deputy Insurance Commissioner
Office of the Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

SEP 15 2010
INSURANCE COMMISSIONER
COMPANY SUPERVISION

RE: Financial Examination Report of Great Republic Life Insurance Company as of
December 31, 2009

Dear Mr. Odiorne:

Following are our comments regarding the report's instructions and recommendations:

Annual Meeting of Shareholders and Board of Directors—Great Republic Life held an annual meeting June 11, 2010 and will do so regularly going forward.

U.S. Bank Custodial Agreement—The Company executed an amended custodial agreement with U.S. Bank July 28, 2010 in accordance with FCEH requirements.

Related Party Transactions—The Company executed an amended agreement with Come To You Notary July 22, 2010.

Intercompany Transactions—The Company received reimbursement for Empire's 2009 auto insurance expenses September 11, 2010.

Actuarial Asset Adequacy Assumptions-- The claim continuance curves used were validated against experience and the 1984-2001 SOA LTC Intercompany study. Our appointed actuary does not necessarily agree with the examiner's conclusions. However, it should be noted that beginning in the first quarter of 2010, a more precise claim reserve methodology was implemented which has the effect of increasing PVANYD and decreasing IBNR as the examiner suggests is appropriate. The examiner is incorrect in stating that "the claim costs used for setting reserves for the main Long-Term Care (LTC) products were assumed to be a percentage, graded by age, of the 1984-2001 SOA LTC Intercompany study, and fitted to the Company's last five years of experience." Such an approach was used only for asset adequacy analysis and those assumptions will be reviewed during 2010. For reserving purposes, the claims costs used for setting reserves for the main Long-Term Care (LTC) products were equal to 115% of the 1984-2001 SOA LTC Intercompany study.

Conflict of Interest Policy—The Company adopted a written policy in June 2010.

Fidelity Bond Insurance—The Company submitted paperwork in August 2010 to have its fidelity coverage reinstated.

Safeguarding of Checks and Blank Check Stock—The Company currently keeps its blank check stock in a cabinet that is always locked at night and un-deposited checks are kept in a locked, two-drawer file cabinet.

Sincerely,

GREAT REPUBLIC LIFE INSURANCE COMPANY

A handwritten signature in cursive script that reads "Patricia D. Pritchett". The signature is written in black ink and is positioned above the printed name.

Patricia D. Pritchett