



OFFICE OF THE INSURANCE COMMISSIONER
1000 WEST OLYMPIA AVENUE, SUITE 1000
SEASIDE, WASHINGTON 98134

In the Matter of)	No. 11-108
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
NORTH COAST LIFE)	AND ORDER ADOPTING REPORT
INSURANCE COMPANY)	OF FINANCIAL EXAMINATION
)	
A Domestic Insurer.)	

BACKGROUND

An examination of the financial condition of **NORTH COAST 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 April 22, 2011. 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 17 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 **NORTH COAST 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 1-6.

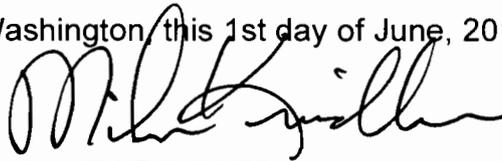
1. The Company is ordered to comply with RCW 48.05.250 by filing its financial statements in the general form and context approved by the NAIC, RCW 48.05.073 by filing its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.05.073 and WAC 284-07-050(2) which require adherence to the AP&P, by executing written agreements for all transactions between related parties, and with RCW 48.31B.030(1)(b) by filing those agreements with the OIC prior to entering into the transaction. 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 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 3, Examination Report, page 2.
4. The Company is ordered to comply with RCW 48.05.073 and WAC 284-07-050(2) which require the NAIC Annual Statement to be prepared in accordance with the AP&P and the NAIC Annual Statement Instructions. Instruction 4, Examination Report, page 3.

5. The Company is ordered to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affairs and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions. Instruction 5, Examination Report, page 3.
6. The Company is ordered to comply with RCW 23B.08.030 and its bylaws by appointing the minimum number of directors specified in its bylaws. Instruction 6, Examination Report, page 3.
7. The Company is ordered to comply with RCW 48.13.140(2) and RCW 48.13.110(1)(a) by ensuring that investments in properties secured by mortgage loans are adequately insured and are unencumbered by delinquent property taxes. Instruction 7, Examination Report, page 3.
8. The Company is ordered to comply with RCW 48.74.025(1), WAC 284-07-380(4) and WAC 284-74-340 as well as ASOP 40 when preparing the Actuarial Opinion, Actuarial Report and X-Factor Opinion. Instruction 8, Examination Report, page 4.
9. The Company is ordered to comply with WAC 284-07-400(2) and ASOP No. 22 by only analyzing assets held in support of the reserves in its cash flow projection. Instruction 9, Examination Report, page 4.
10. The Company is ordered to compute its reserves for deferred annuities in accordance with RCW 48.74.040(2). Instruction 10, Examination Report, page 5.
11. The Company is ordered to calculate its universal life reserves and reserves for the immediate payment of claims in accordance with RCW 48.74.050(1), RCW 48.05.073, WAC 284-84-050, RCW 48.74.040, and Actuarial Guidelines XXI and XXXII. Instruction 11, Examination Report, page 5.
12. 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 12, Examination Report, page 5.
13. It is ordered that the Company consider complying with NAIC Guidelines and implementing 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. Effective January 1, 2011, the Company will be required by RCW 48.07.160-205 to create and maintain a business contingency plan. Comments and Recommendations 1, Examination Report, page 6.

13. It is ordered that the Company consider strengthening its control over investment reconciliations by reconciling the Company's investment holdings, as of a specific date, to the custodian's records. Comments and Recommendations 2, Examination Report, page 6.
14. It is ordered that the Company consider obtaining directors' and officers' liability coverage to protect the Company's assets and its policyholders. Comments and Recommendations 3, Examination Report, page 6.
15. It is ordered that the Company consider enhancing its controls over financial statement preparation and analysis. 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 1st day of June, 2011.



MIKE KREIDLER
Insurance Commissioner



RECEIVED

MAY 17 2011

**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

May 9, 2011

VIA ELECTRONIC AND REGULAR MAIL

Mr. James T. Odiorne, CPA, JD, Deputy Insurance Commissioner
Company Supervision Division
State of Washington
Office of the Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

Re: Comments and Responses per Financial Examination Report of North Coast Life Insurance Company as of December 31, 2009

Dear Mr. Odiorne:

Thank you for your letter of April 22, 2011, which allowed North Coast Life Insurance review of factual material presented in the draft of the referenced report of examination.

INSTRUCTIONS – Findings/Exceptions

1. NAIC Annual Statement Errors, Omissions, and Misclassifications:
 - a. Reinsurance balance sheet accounts – as of the 4th quarter of 2010 this was corrected. All amounts due to/from reinsurers are now being reported in the proper balance sheet account in accordance with SSAP 61.
 - b. Advanced Premiums – This will be corrected as of the 2nd quarter 2011.
 - c. Bond Proceeds Receivable – This has been corrected as of the 4th quarter of 2010.
 - d. Financial Statement Note #30 – This will be corrected as of the 2nd quarter of 2011.
 - e. Schedule D, Part 1 & Summary by Country – This has been corrected as of the 4th quarter of 2010.
 - f. Death Claims Held for Minors – This has been corrected as of the 1st quarter of 2011.
 - g. Claim Liability, Denied Reinsurance – This was corrected as of the 3rd quarter of 2010. The Company has implemented more robust review procedures of the death claim register to spot and correct such issues in the future.
2. Intercompany transactions---Three Form D filings each dated January 5, 2011, were filed with the Holding Company Manager of the Insurance Commissioner's Office. They were a third amendment to a lease agreement, an agreement regarding payment of insurance premiums among the members of the holding company structure, and an agreement as to the payment of services of Tom Crain among the same group of companies. The Commissioner's office advised that the effective date of these agreements is January 1, 2011.
3. U.S. Bank Custodial Agreement – The Company is working with U.S. Bank to include the missing provisions required by the FCEH. The projected completion of this project is the 3rd quarter of 2011.

4. Investment in W. 1124 Riverside Partnership (note 10k) – The partnership has hired an outside accounting firm to perform an annual audit, starting for the year ended 2010. In accordance with SSAP 48 and 97 the Company will value its investment based upon the partnerships audited financial statements going forward with the annual statement for 2011.
5. Capital and Surplus, Commons Stock Par Value – This was corrected as of the annual filing for 2010.
6. Board of Directors – As of 2010 the Board had its full compliment of ten directors.
7. Mortgage Loans – Starting in the 4th quarter of 2010 a review was undertaken regarding property taxes and insurance. Where the Company noted, the Company has obtained insurance to adequately protect its interest. In addition, where noted, the Company took action to unencumber any properties encumbered by delinquent property taxes. The Company has set-up a system whereby the properties without impound accounts are reviewed annually (October) for delinquent property taxes. For these two properties the borrowers will be asked to provide current-proper proof of insurance annually.

8. Statement of Actuarial Opinion, X-Factor Opinion, and Actuarial Report

The following discrepancies were noted in the Company's Statement of Actuarial Opinion (Opinion), X-Factor Opinion, and Actuarial Report (Report):

- a. The X-Factor Opinion did not include all policies subject to the regulation. WAC 284-74-340(3)(i)(ii) requires a report meeting the requirements of the Actuarial Standards of Practice (ASOP) No. 40. ASOP No. 40 (4.1.2.b) requires that the report identify all of the specific plans of insurance for which the Company has elected to apply X-factors.
Response: Agree and will make appropriate changes.
- b. The X-Factor Opinion failed to disclose the lowest X factor used for any policy on the valuation date as required by WAC 284-74-340(3)(i)(ii).
Response: Agree and will make appropriate changes.
- c. There was no statement of compliance with WAC 284-74-340(3) in the X-Factor Opinion as required.
Response: WAC 284-74-340(3) (j) states that "The appointed actuary shall annually prepare an actuarial opinion and memorandum in conformance with the requirements of WAC 284-07-380 through 284-07-400". This does not include WAC 284-74-340(3).
- d. There was no information included in the report regarding exposure, claims or credibility. ASOP No. 40 (4.1.2.c.1) requires the report to describe the company's experience studies used as a basis for determining anticipated mortality, including a summary of the findings and results.
Response: Agree and will make appropriate changes.
- e. There was no analysis of credibility in the Report. ASOP No. 40 (4.1.2.c.2) requires the Report to describe the analysis performed to evaluate the credibility of relevant, historical company experience when establishing anticipated mortality for each X-factor class, including a description of related experience or a statement that professional judgment had been used. The appointed actuary's statement

“based on my professional judgment, the X-factors used in the valuation and supported by Company experience are reasonable for the calculation of deficiency reserves” does not meet this requirement.

Response: Agree and will make appropriate changes.

- f. The appointed actuary relied on mortality studies prepared by the previous actuary without proper disclosure. ASOP No. 40 (4.3) requires the appointed actuary to disclose in the opinion any reliance on data supplied by other persons.

Response: Agree and will make appropriate changes.

- g. The Opinion limits its use to only the Company management and regulators of the states in which the Opinion is filed. RCW 48.74.025(1) and WAC 284-07-380(4) require the Company to submit an Opinion of a qualified actuary regarding its reserves, which is a public document.

Response: Agree and will make appropriate changes.

9. Actuarial Memorandum

The Company’s 2009 Actuarial Memorandum projected the cash flows from additional assets that should not have been used in the support of the tested reserves. ASOP No. 22 (3.3.1) and WAC 284-07-400(2) require the actuary to analyze only those assets held in support of the reserves which are the subject for specific analysis, or meet additional testing requirements.

Response: The book value of the model assets used in the asset adequacy analysis was equal to the book value of the model liabilities tested in that analysis. Thus, the book value of these model assets is no greater than the book value of the model reserves and other liabilities being tested. This meets the requirements of ASOP No. 22 (3.3.1). The annual statement value of the assets supporting the specified reserves was less than the annual statement value of the specified reserves. This meets the requirements of WAC 284-07-400 (2).

10. Deferred Annuities

- a. In calculation of reserves for deferred annuities the Company failed to consider penalty free withdrawals on the valuation date followed by a full surrender on the anniversary date. This sometimes produced a benefit stream with a greater present value than the full surrender on the valuation date, in violation of RCW 48.74.040(2).

Response: Agree and will make appropriate changes.

- b. The Company is holding some contracts in which the present value of the guaranteed annuity benefits exceed the cash value, in violation of RCW 48.74.040(2).

RCW 48.74.040(2) requires reserves according to the commissioner's annuity reserve method for benefits under annuity contracts to be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by such contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of such contract, that become payable prior to the end of such respective contract year.

Response: Agree and will make appropriate changes.

11. Universal Life Policies

- a. The Company did not use the most conservative mortality tables and interest assumptions in the calculation of reserves for its universal life products. Per RCW 48.74.050(1) and WAC 284-84-050(1), reserves for universal life policies must be based on the most conservative of the mortality tables and interest assumptions used in calculating guaranteed cash values.

Response: Agree and will make appropriate changes.

- b. The Company's universal life reserves are based on an expense allowance not meeting the requirements defined in RCW 48.74.040(1) and Actuarial Guideline XXI.

Response: Will make appropriate changes.

- c. For the policies subject to surrender charges (issued 1995 and later), the Company's reserves are based on amortizing the expense allowance over a longer period than allowed under WAC 284-84-050 for prefunding guaranteed policy values.

Response: As required by WAC 284-84-050 (1), the policy reserve is calculated by the commissioner's reserve valuation method for the fixed premium benefit plan with all present values based on the most conservative of the mortality and interest assumptions defined by the guarantees for the purpose of defining benefits. Where the reserve is less than the cash surrender value, the reserve is increased to be equal to the cash surrender value. In testing to see if the basic policy reserve calculation is sufficient to cover a scale of cash surrender values or for testing a scale of gross premium rates, WAC 584-84-050 (2) requires use of the mortality table and interest rates at the actual date of issue for the calculation of minimum policy reserves. However, WAC 284-84-050 does not require the amortization of the expense allowance over a shorter period than that used in the valuation.

- d. The Company does not maintain a reserve for immediate payment of claims on its interest sensitive products. The Company could not produce a demonstration of compliance with minimum statutory formula reserves adjusted in accordance with Actuarial Guideline XXXII(II) as required by Actuarial Guideline XXXII(IV). RCW 48.05.073 requires adherence to the AP&P which includes the Actuarial Guidelines.

Response: The Company is valuing these reserves on a semi-continuous basis and will make appropriate changes.

12. Actuarial Analysis Accounts and Records

The Company had several discrepancies and errors in reports generated for use in the actuarial analysis. These included inconsistencies in the issue date, issue age, premium, and death benefit fields. In addition, there are blocks of business for which the Company used male mortality rates for the reserves on policies that should have used female mortality rates, and vice-versa, and reserves for some policies were calculated at different interest rates than what was reported by the Company.

Response: Agree and will make appropriate changes.

COMMENTS AND RECOMMENDATIONS

1. Business Continuity Plan
The company is in the process of completing this.
2. Reconciliation of Investment Accounts – Starting the 1st quarter of 2011 the investment holdings (the portfolio) is being reconciled to the custodian's holdings, on a cost basis, monthly.
3. Directors' and Officers' Liability Insurance
The company will get competitive bids from liability insurance carriers.
4. Controls over Financial Statement Preparation and Analysis – Since the end of 2009 the Company has taken the following actions:
 - a. Hired a new Treasurer.
 - b. Added additional review steps before finalizing the quarterly and annual reports.
 - c. The President and the Chairman of the Board have taken a more active approach in their review efforts of these statements.
 - d. Staff whose responsibility is the preparation of these statements will be taking, on an ongoing basis, continuing education classes to remain current on changes.

Sincerely,



Robert J. Ogden
President and CEO