

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



**FINANCIAL EXAMINATION
OF
WASHINGTON INSURANCE GUARANTY
ASSOCIATION**

DECEMBER 31, 2009

Order No. 11-31
Washington Insurance Guaranty Association
Exhibit A

SALUTATION

Seattle, Washington
February 24, 2011

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

Dear Commissioner Kreidler:

In accordance with your instructions and in compliance with the statutory requirements of RCW 48.32.120, an examination was made of the corporate affairs and financial records of

Washington Insurance Guaranty Association

hereinafter referred to as "WIGA" or the "Association", at the office of its administrative service contractor, Western Guaranty Fund Services (WGFS) located at 1720 South Bellaire Street, Suite 408, Denver, Colorado 80222-4320. This report is respectfully submitted showing the financial condition and related Association matters as of December 31, 2009.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Washington Insurance Guaranty Association. This report shows the financial condition and related Association matters as of December 31, 2009.



Patrick H. McNaughton
Chief Examiner

2-24-11

Date

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SCOPE OF EXAMINATION

This examination covers the period January 1, 2005 through December 31, 2009 and comprises a comprehensive review of the books and records of the Association. 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 Association'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. In addition, the Association's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

COMMENTS AND RECOMMENDATIONS

The examiners reviewed the Association's audited 2009 financial statements. This review was performed to determine if the Association complied with its plan of operation and to determine if the Association's accounts and records were prepared and maintained in accordance with Title 48.32 RCW.

The following summarizes the comments and recommendations noted while performing this review:

1. Repurchase Agreement

The repurchase agreement with Commerce Bank does not require compliance with the Association's investment policy. Therefore, there is a risk that Commerce Bank will invest WIGA's assets in securities that are not authorized by the Association's investment policy.

It is recommended that the Association amend its repurchase agreement with Commerce Bank so that it can only purchase securities that are authorized by the Association's investment policy.

ASSOCIATION PROFILE

Association History

The Association was established pursuant to Chapter 265 of the laws of the 1971 Washington State Legislature under Chapter 48.32 RCW of the Washington Insurance Code, titled the Washington Insurance Guaranty Association Act (Act).

The purpose of the Association is to protect policyholders against failure in the performance of contractual obligations, under property and casualty insurance policies, because of the impairment or insolvency of the member insurer.

The Association is a non-profit, unincorporated, legal entity pursuant to RCW 48.32.040. Membership is composed of each member insurer authorized to transact business in this state, as defined in RCW 48.32.030.

MANAGEMENT AND CONTROL

The financial administration of the Association is performed by Western Guaranty Fund Services (WGFS) of Denver, Colorado. WGFS is a non-profit organization contracted to perform all administrative services for six state guaranty associations; Colorado, Idaho, Montana, Wyoming, Kansas, and Washington.

The Association's overall administration is controlled by a Board of Directors (BOD).

Plan of Operation

RCW 48.32.070(1) requires the Association to submit to the Commissioner a plan of operation to assure the fair, reasonable, and equitable administration of the Association.

The plan of operation was adopted October 27, 1995 and amended April 8, 2004.

Board of Directors

RCW 48.32.050(1) provides that the BOD consists of not less than five nor more than nine persons serving terms as established in the plan of operation. The insurer members of the BOD are selected by member insurers, subject to the approval of the commissioner.

The plan of operation requires an annual meeting of the BOD and member insurers on the first Wednesday in March.

As of December 31, 2009, the BOD was composed of eight members:

Name

Elizabeth Mocerri - Chairman
Bill Clumpner – Vice Chairperson
Jeffrey Couchman
Bill Harper
Gary Kentner
Keith Landis
Gerry Schmidt
Gary Strannigan

Member Company

Allstate Insurance Company
Pemco Mutual Insurance Company
Western National Assurance Company
Farmers Insurance Exchange
Liberty Northwest Insurance Corporation
State Farm Mutual Automobile Insurance Company
Mutual of Enumclaw Insurance Company
Safeco Insurance Company of America

Committees

The Association has an investment committee and a nominating committee.

Conflict of Interest

The Association has a conflict of interest policy statement and questionnaire to disclose conflicts of interest. No exceptions were noted.

Fidelity Bond and Other Insurance

Fidelity bonds and other insurance were reviewed in relation to the property and liability claims that may arise in the ordinary course of business. WGFS has all the standard types of coverage normally maintained by a business and its fidelity bond meets the suggested minimum in the FCEH.

CORPORATE RECORDS

The corporate records were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. There have been no changes to the plan of operation since the last examination.

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Association maintains its accounting records on a cash basis. WGFS was audited for 2009 by the certified public accounting firm of Stockman, Kast, Ryan and Company. It received an unqualified opinion for all years under review. The Association's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were found.

SUBSEQUENT EVENTS

None

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report comments and recommendations were corrected.

FINANCIAL STATEMENTS

Balance Sheet

Statement of Cash Receipts and Disbursements

**WASHINGTON INSURANCE GUARANTY ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2009**

	<u>BALANCE PER ASSOCIATION</u>	<u>EXAMINATION ADJUSTMENT</u>	<u>BALANCE PER EXAMINATION</u>
ASSETS			
Cash and cash equivalent	\$10,049,896	\$0	\$10,049,896
Short Term Investments	<u>7,685,403</u>	<u> </u>	<u>7,685,403</u>
TOTAL ASSETS	<u>\$17,735,299</u>	<u>\$0</u>	<u>\$17,735,299</u>
LIABILITIES			
Estimated claims and adjusting expense payable	\$3,043,709	\$0	\$3,043,709
Estimated payable to WGFS or member Companies	<u>14,691,590</u>	<u> </u>	<u>14,691,590</u>
TOTAL LIABILITIES	<u>17,735,299</u>	<u>0</u>	<u>17,735,299</u>
SURPLUS OR DEFICIT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**WASHINGTON INSURANCE GUARANTY ASSOCIATION
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
DECEMBER 31, 2009**

	<u>BALANCE PER ASSOCIATION</u>	<u>EXAMINATION ADJUSTMENT</u>	<u>BALANCE PER EXAMINATION</u>
Cash receipts			
Interest Income	\$86,753	\$0	\$86,753
Recoveries	253,539		253,539
TOTAL CASH RECEIPTS	<u><u>\$340,292</u></u>	<u><u>\$0</u></u>	<u><u>\$340,292</u></u>
Cash Disbursements			
Premium Refunds	0		0
Losses	480,395		480,395
Loss adjusting expenses - allocated	119,383		119,383
Loss adjusting expenses - unallocated	307,063		307,063
TOTAL CASH DISBURSEMENTS	<u><u>\$906,841</u></u>	<u><u>\$0</u></u>	<u><u>\$906,841</u></u>
Liquidation recoveries, loss on sale of stock	(17,905)		(17,905)
Increase (decrease) in restricted member guaranty funds	(584,454)		(584,454)
Restricted member guaranty funds Beginning of year	<u>18,319,753</u>		<u>18,319,753</u>
End of year	<u><u>\$17,735,299</u></u>	<u><u>\$0</u></u>	<u><u>\$17,735,299</u></u>

NOTES TO FINANCIAL STATEMENTS

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

ACKNOWLEDGEMENT

The cooperation and assistance of the Association during the examination is hereby acknowledged.

In addition to the undersigned, Susan Campbell, CFE, CPA, FLMI, ARA, Life and Disability Supervisor, and Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,



Adrienne DeBella, CPA, CFE, ALMI
Examiner-In-Charge
State of Washington

AFFIDAVIT

State of Washington }
 } ss
County of King }

Adrienne 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 the Washington Insurance Guaranty Association 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 DeBella, CPA, CFE, ALMI
Examiner-In-Charge
State of Washington

Subscribed and sworn to before me on this 24th day of February, 2011.


Notary Public in and for the
State of Washington

