



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 13-060
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
FARMERS NEW WORLD LIFE)	AND ORDER ADOPTING REPORT
INSURANCE COMPANY)	OF FINANCIAL EXAMINATION
)	

A Domestic Insurer.

BACKGROUND

An examination of the financial condition of **FARMERS NEW WORLD LIFE INSURANCE COMPANY**, (the Company) as of December 31, 2011, 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 6, 2013. 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 15 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 **FARMERS NEW WORLD 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 contained in the examination report on pages 1-2.

1. The Company is ordered to comply with RCW 48.05.073, RCW 48.05.250 and SSAP 10R by filing its financial statements in the general form and context approved by the NAIC and with 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 bring the reinsurance trust agreement into compliance with WAC 284-13-535 and RCW 48.12.160. Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.03.030(1), RCW 48.31B.035, and WAC 284-30-650 by facilitating the examination, producing information timely, and making freely accessible to the examiners requested books, accounts, records, documents, and files. Instruction 3, Examination Report, page 2.
4. It is ordered that the Company consider implementing measures to ensure that deferred tax calculations are adequately reviewed. Comments and Recommendations 1, Examination Report, page 3.

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 25th day of February, 2013.

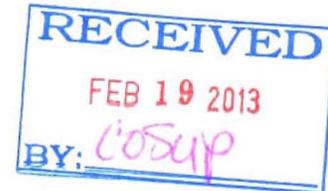


MIKE KREIDLER
Insurance Commissioner



February 13, 2013

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Washington State Office of the Insurance Commissioner
5000 Capitol Boulevard
Tumwater, Washington 98501



Re: Financial Examination Report of Farmers New World Life Insurance Company as of December 31, 2011

Dear Mr. Odiorne:

Thank you for the opportunity to provide comments and responses to the draft of the above referenced report. The following are our responses to the instructions, comments and recommendations contained in the Report of the financial Examination of Farmers New World Life Insurance Company, NAIC #63177, as of December 31, 2011. The instructions, comments and recommendations are numbered in accordance with the items in the original report. Also included are our responses for certain items in the report where the Company proposes that additional edits, highlighted in red font, be made to the wording of the report. (See proposed edits to instruction 3 and on page 4).

INSTRUCTIONS

1. NAIC Annual Statement Errors, Omissions, and Misclassifications

The examination team found instances in which the Company's filing of the 2011 NAIC Annual Statement did not conform to the NAIC Annual Statement Instructions and the AP&P. While the Company needs to correct these errors, the following items were not material to the financial statements and no adjustments were necessary. The following errors were noted:

Assets – Net Deferred Tax Asset – The amount was understated by \$9.9 million which also caused surplus to be understated by the same amount.

The Company is instructed to comply with RCW 48.05.073, RCW 48.05.250 and SSAP 10R by filing its financial statements in the general form and context approved by the NAIC and with WAC 284-07-050(2), which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

Company Response:

The Company, through its internal review processes, had identified the understatement subsequent to the filing of the 2011 annual statement. The Company corrected the understatement as a direct adjustment to surplus in the quarter ended March 31, 2012. This is in accordance with paragraph 10 of "SSAP No. 3 Accounting Changes and Corrections of Errors," which provides that corrections of errors in previously issued financial statements shall be reported as adjustments to unassigned funds (surplus) in the period an error is detected. The understatement was deemed immaterial to the financial position of the Company for the year ended December 31, 2011 so, accordingly no amended annual statement filing for 2011 was required, per this authoritative guidance.

In addition, the Company has strengthened controls around the deferred tax calculation. Please see the Comments and Recommendation section below.

2. Reinsurance Trust Agreement

The reinsurance trust agreement between Leschi Life Assurance Company (Leschi), the Company's captive unauthorized reinsurer, and FNWL does not comply with WAC 284-13-535 and RCW 48.12.160. The reinsurance trust agreement is missing clauses required by WAC 284-13-535(1)-(9). Also, the legal title to the assets of the trust is in the name of the grantor (Leschi). According to WAC 284-13-535(2), and RCW 48.12.160(2)(d), legal title to the assets of the trust shall be vested in the trustee (JPMorgan Chase) for the benefit of the grantor's United States policyholders.

The Company is instructed to bring the reinsurance trust agreement into compliance with WAC 284-13-535 and RCW 48.12.160.

Company Response:

On September 29, 2006, the Company submitted a Form D filing with the Washington State Office of the Insurance Commissioner regarding intercompany agreements between Farmers New World Life and Leschi Life Assurance Company, a special purpose captive insurance subsidiary of Farmers New World Life. The filing also included the Trust Agreement to secure Leschi's obligations to Farmers New World Life and Farmers New World Life's credit for reinsurance.

The Office of the Insurance Commissioner responded to the filing with a letter dated January 5, 2007. In the letter the following conclusion was set forth by the Office of the Insurance Commissioner:

"As to this filing, please be advised the notice is sufficient and complete. The Commissioner does not disapprove these agreements. The requested effective date will be January 1, 2007."

Following receipt of the above letter, the Company proceeded with the agreements as submitted, including the Trust Agreement.

Additionally, effective January 1, 2012, Leschi Life Assurance discontinued accepting new business and is now a closed block of business.

The Company is currently evaluating options for this closed block of business. To the extent that the Company pursues a reinsurance option that requires a Trust Agreement, whether with Leschi Life Assurance Company or another reinsurer, the Trust Agreement will comply with WAC 284-13-535 and RCW 48.12.160.

3. Access to Records

In order to facilitate the examination as required, some documents, accounts and records were not provided to the examiners in a timely ~~or sufficient~~ manner. Some requests for information were not responded to timely, resulting in delays in the assessment of the Company's claims accuracy and completeness. Several requests for information for the Company's claims files were delayed over 90 calendar days.

The Company is instructed to comply with RCW 48.03.030(1), RCW 48.31B.035, and WAC 284-30-650 by facilitating the examination, producing information timely, and making freely accessible to the examiners requested books, accounts, records, documents, and files.

Company Response:

To address delays in providing requested information, the Company will document the processes involved in extracting the requested information from the various systems, most notably claims related systems. In addition, as systems are updated or replaced, documentation will be updated to minimize delays during future financial examinations.

COMMENTS AND RECOMMENDATIONS

1. Inadequate Controls on Review of Deferred Tax Calculations

Weak controls over the Company's deferred tax calculations review failed to prevent misstatements in deferred tax asset amounts for two consecutive reporting periods.

The Company acknowledged its discovery of inaccurate 2010 deferred tax asset calculation and disclosed the reversing impact of \$2.9 million under Note Disclosure No. 2 A. 1 and 2 of the 2011 NAIC Annual Statement. The Company's external auditor noted this error arising from the Company's deferred tax true-up process and agreed with the correction of error. However, the external auditor also identified that the Company calculation failed to apply the offsetting rules regarding the ability to apply excess gross capital deferred tax liabilities against ordinary deferred tax assets in accordance with

SSAP 10R, which resulted in an understatement of \$9.9 million in admitted deferred tax assets. (See Instruction No. 1.)

It is recommended that the Company implement measures to ensure that deferred tax calculations are adequately reviewed.

Company Response:

The Company, in conjunction with the Tax Department at Farmers Group, Inc., has strengthened its control process by accelerating the preparation of the deferred tax reconciliations, performing analytics, and establishing additional layers of review. In addition, relevant control numbers which will identify and minimize reconciliation differences will be incorporated into the process.

Additionally, the Company noted two items that need revision to be factually correct:

1. The last sentence in the Company History paragraph of the Company Profile section should read: “In **December 1997**, the financial operations of BAT merged with Zurich Insurance Company to form Zurich Financial Services Limited headquartered in Zurich, Switzerland.”
2. The fourth paragraph of the Subsequent Events section should read: “Elizabeth McInerney, the incumbent Chief **Operating** Officer of Zurich Global Life **North America** based in New York City, was appointed Chief **Operating** Officer of FNWL by the FNWL Board of Directors on June 19, 2012”

Sincerely,



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