

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
ENUMCLAW PROPERTY AND CASUALTY INSURANCE COMPANY
ENUMCLAW, WASHINGTON

NAIC CODE 11232
December 31, 2013

Order No. 15-58
Enumclaw Property and Casualty Insurance Company
Exhibit A

SALUTATION

Seattle, Washington
January 22, 2015

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
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 48.03.010, an examination was made of the corporate affairs and financial records of

Enumclaw Property and Casualty Insurance Company

of

Enumclaw, Washington

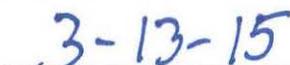
hereinafter referred to as "EPC," or the "Company" at the location of its home office, 1460 Wells Street, Enumclaw, WA 98022. This report is respectfully submitted showing the financial condition and related corporate matters of EPC as of December 31, 2013.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Enumclaw Property and Casualty Insurance Company of Enumclaw, Washington. This report shows the financial condition and related corporate matters as of December 31, 2013.



Patrick H. McNaughton
Chief Examiner



Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2010 through December 31, 2013 and comprises a risk focused review of the books and records of the Company. The examination followed 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 through the end of fieldwork on January 22, 2015.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following section of this report. In addition, the Company's Certified Public Accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2013 NAIC FCEH which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, to allow the examiners to focus on the Company's greatest areas of risk, and to provide assurance on the Company's financial statements as of the examination date.

This examination was classified as a coordinated lead state examination. Washington was designated the lead state of the coordinated examination and examiners from the states of Nevada, Oregon, and Washington participated and assessed the financial condition and corporate affairs of the Company.

INSTRUCTIONS

The examiners reviewed the Company's filed 2013 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

1. Investment Policy Statement (IPS)

EPC's IPS was not approved annually by its Board of Directors (BOD) as required by RCW 48.13.051.

The Company is instructed to comply with RCW 48.13.051 by having its BOD review and approve the Company's IPS at least annually.

COMMENTS AND RECOMMENDATIONS

None

COMPANY PROFILE

Company History

The Company was incorporated on November 27, 2001 as a stock, multiple line, property and casualty insurer in the state of Washington. The Company commenced business in the state of Washington on January 25, 2002.

Capitalization

As of December 31, 2013, the Company had 600,000 shares of common stock authorized, of which 300,000 shares are outstanding with a par value of \$10 per share totaling \$3 million. EPC's capitalization includes the outstanding common stock shares, gross paid in and contributed surplus of \$3.1 million, and \$1.7 million in unassigned funds. Total capital and surplus as of December 31, 2013 was \$7,760,210.

All issued and outstanding shares of stock of the Company are wholly owned by its parent, Mutual of Enumclaw Insurance Company (MOE).

Territory and Plan of Operations

The Company is licensed to transact business in Arizona, Idaho, Nevada, Oregon, Utah, and Washington. EPC writes predominantly personal lines business, with 51.1 percent of premiums written in Washington, 22.3 percent in Oregon, 17.3 percent in Utah, and 9.3 percent in Idaho in 2013.

Growth of Company

The following reflects the Company's growth as reported in its filed NAIC Annual Statements for the four year period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	
2013	\$8,658,097	\$897,887	\$7,760,210	
2012	8,481,613	811,019	7,670,594	
2011	7,723,227	100,084	7,623,143	
2010	7,598,598	104,537	7,494,061	

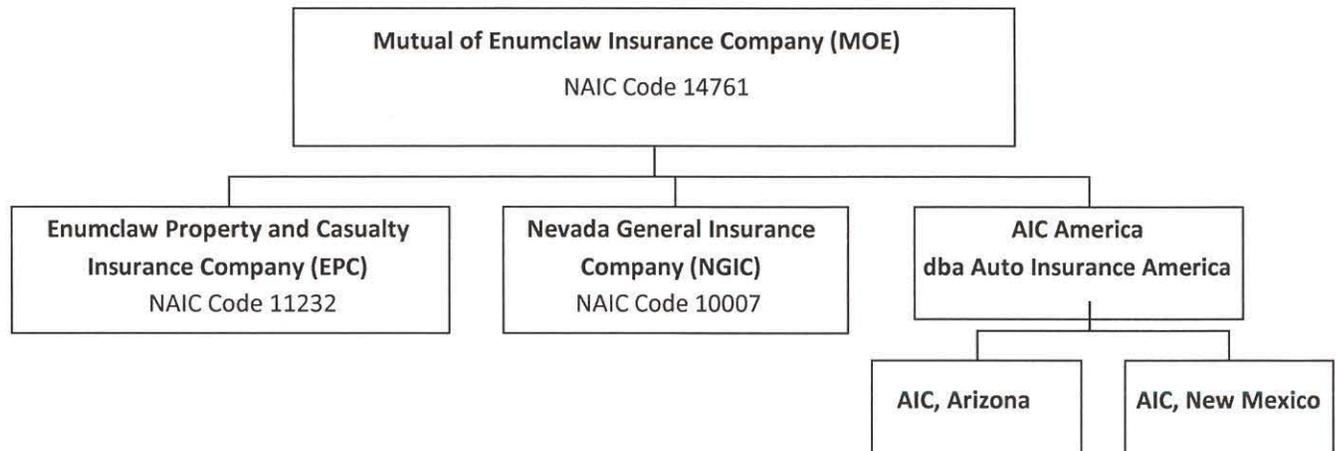
<u>Year</u>	<u>Premium Earned *</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2013	\$0	\$0	\$137,871	\$ 89,616
2012	0	0	180,379	115,520
2011	0	0	194,982	129,082
2010	0	0	194,484	194,484

* EPC cedes 100 percent of its net premiums written to MOE.

Affiliated Companies

The Company is 100 percent owned by Mutual of Enumclaw Insurance Company which is a mutual company owned by its policyholders.

The following organizational chart is taken from the Company's filed 2013 NAIC Annual Statement:



Intercompany Agreements

As of December 31, 2013, the Company had the following intercompany agreements in force, with the effective date indicated:

Intercompany Quota Share Reinsurance Agreement with MOE	January 1, 2013
Consolidated Federal Income Tax Sharing Agreement with MOE	January 30, 2004

MANAGEMENT AND CONTROL

Board of Directors

Directors as of December 31, 2013:

Bernadene Dochnahl	Board Chairperson
Tadashi Fujimoto	
Thomas Garland	
Robert Guile	
Eric Nelson	
Donald Powell	
Jane Repensek	
Frederick Schunter	
David Waldo	

Officers

Officers as of December 31, 2013:

Eric Nelson	President and Chief Executive Officer
Rena Bilodeau	Vice President Human Resources
Jeannie Fleming	Vice President Claims
Bradley Gipson	Chief Financial Officer and Treasurer
Richard Hawkins	Vice President Marketing
Richard Hundven	Vice President Services
Denise Pavlov	Chief Underwriting Officer
Frederick Schunter	Secretary
David Wilson	Vice President Information Technology

Conflict of Interest

MOE and EPC annually require all employees, directors, and officers to complete a conflict of interest statement. All are required to disclose to the Company relevant outside interests. The conflict of interest statements are reviewed by the Company and its BOD annually for conflicting situations. No exceptions were noted during our review.

Fidelity Bond and Other Insurance

Combined with its parent MOE, EPC has fidelity insurance that meets and exceeds the NAIC recommended minimum coverage levels. Additionally, EPC has Directors and Officers (D&O), employment practices, fiduciary, property, automobile, general liability, and umbrella coverages.

CORPORATE RECORDS

The Company's Articles of Incorporation, Bylaws, Certificates of Authority, and meeting minutes of the BOD and its committees were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. Investment purchases, transfers, and disposals were ratified by the BOD and noted in the minutes. However, the BOD did not approve the Company's IPS annually. (See Instruction No. 1.)

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The reserves carried by the Company for loss and loss adjustment expenses were \$0 and \$0, respectively, as of December 31, 2013. The balances are accurate due to the reinsurance agreement with MOE. The agreement calls for EPC to cede 100 percent of its net written premiums to MOE. The associated reserves are carried by MOE.

REINSURANCE

The Company cedes 100 percent of all net premiums written to its parent, MOE. EPC and MOE participate in quota share, catastrophic, and excess of loss treaties with various reinsurers. Reinsurance agreements were found to be in compliance with Washington State reinsurance statutes and are all properly classified in Schedule F of the Company's 2013 NAIC Annual Statement. The agreements transfer risk in accordance with SSAP No. 62R, paragraph 10.

Combined with its parent MOE, EPC utilizes the services of a reinsurance intermediary, Willis Re Inc., to solicit, negotiate, and place reinsurance cessions on its behalf. The Company's reinsurance intermediary is in compliance with provisions of Chapter 48.94 RCW, Reinsurance Intermediary Act.

STATUTORY DEPOSITS

The Company maintained the following statutory deposits as of December 31, 2013:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Idaho	Bond	\$ 1,126,658	\$ 1,122,469
Nevada	Bond	217,901	217,938
Oregon	Bond	279,643	277,062
Washington	Bond	5,100,936	5,219,189
Total		<u>\$ 6,725,138</u>	<u>\$ 6,836,658</u>

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) basis and is audited annually by the certified public accounting firm of Ernst & Young LLP (E&Y). The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

The Company's Information Technology (IT) environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT system and controls were evaluated to gain an understanding of the IT general control risks and assess the effectiveness of these controls to determine if appropriate mitigating and internal controls have been implemented. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels. The Company has an effective Business Continuity Plan and Disaster Recovery Plan, which have been tested on a regular basis and includes the availability of an alternate site.

SUBSEQUENT EVENTS

EPC and MOE notified the OIC in 2014 of their plan to redomesticate to Oregon for the purpose of converting to a mutual holding company structure under Oregon's mutual holding company act.

In 2014, the Company engaged Johnson Lambert LLP as its new external audit firm, and Pinnacle Actuarial Resources, Inc., as its actuarial consulting firm replacing Ernst & Young LLP.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Enumclaw Property and Casualty Insurance Company as of December 31, 2013:

Assets, Liabilities, Surplus and Other Funds
Statement of Income and Capital and Surplus Account
Four Year Reconciliation of Surplus

Enumclaw Property and Casualty Insurance Company
Assets, Liabilities, Surplus and Other Funds
December 31, 2013

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Assets			
Bonds	\$8,194,103	\$0	\$8,194,103
Cash, cash equivalents, and short-term investments	219,660		219,660
Subtotals, cash and invested assets	8,413,763	0	8,413,763
Investment income due and accrued	56,059		56,059
Receivables from parent, subsidiaries and affiliates	188,275		188,275
Total Assets	\$8,658,097	\$0	\$8,658,097
Liabilities, Surplus and Other Funds			
Losses	\$0	\$0	\$0
Loss adjustment expenses	0		0
Other expenses	3,152		3,152
Taxes, licenses and fees	846,480		846,480
Current federal and foreign income taxes	48,255		48,255
Total Liabilities	897,887	0	897,887
Common capital stock	3,000,000		3,000,000
Gross paid in and contributed surplus	3,100,000		3,100,000
Unassigned funds (surplus)	1,660,210		1,660,210
Surplus as regards policyholders	7,760,210	0	7,760,210
Total Liabilities, Surplus and Other Funds	\$8,658,097	\$0	\$8,658,097

Enumclaw Property and Casualty Insurance Company
Statement of Income and Capital and Surplus Account
For the Year Ended December 31, 2013

	Balance Per Company	Examination Adjustment	Balance Per Examination
Underwriting Income			
Premiums earned	\$0	\$0	\$0
Deductions			
Losses incurred			
Loss adjustment expenses incurred			
Other underwriting expenses incurred			
Total underwriting deductions	0	0	0
Net underwriting gain (loss)	0	0	0
Investment Income			
Net investment income earned	137,871		137,871
Net realized capital gains (losses)			
Net investment gain (loss)	137,871	0	137,871
Other Income			
Net gain (loss) from agents' or premium balances charged off			
Finance and service charges not included in premiums			
Aggregate write-ins for miscellaneous income			
Total other income	0	0	0
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes			
	137,871		137,871
Federal and foreign income taxes incurred	48,255		48,255
Net income	\$89,616	\$0	\$89,616
Capital and Surplus Account			
Surplus as regards policyholders, December 31 prior year	\$7,670,594	\$0	\$7,670,594
Net income	89,616		89,616
Change in surplus as regards policyholders for the year	89,616	0	89,616
Surplus as regards policyholders, December 31 current year	\$7,760,210	\$0	\$7,760,210

Enumclaw Property and Casualty Insurance Company
Four Year Reconciliation of Surplus
For the Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and Surplus, December 31, prior year	<u>\$7,670,594</u>	<u>\$7,623,143</u>	<u>\$7,494,061</u>	<u>\$7,299,577</u>
Net income (loss)	89,616	115,520	129,082	194,484
Aggregate write-ins for gains and losses in surplus		(68,069)		
Change in surplus as regards policyholders for the year	<u>89,616</u>	<u>47,451</u>	<u>129,082</u>	<u>194,484</u>
Capital and Surplus, December 31, current year	<u><u>\$7,760,210</u></u>	<u><u>\$7,670,594</u></u>	<u><u>\$7,623,143</u></u>	<u><u>\$7,494,061</u></u>

NOTES TO THE FINANCIAL STATEMENTS

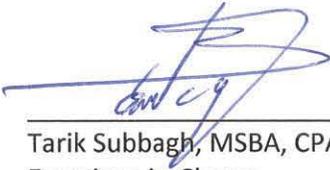
The Company has no special consents or permitted practices from the state of Washington.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Enumclaw Property and Casualty Insurance Company and its affiliates during the course of this examination.

In addition to the undersigned, Michael Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, FLMI, CFE, Reinsurance Specialist; Lee Barclay, FCAS, MAAA, Senior Actuary; Timothy Hays, CPA, JD, Investment Specialist; Eric Slavich, ACAS, MAAA, Actuary; Dan Forsman, Actuarial Analyst; Katy Bardsley, CPA, CFE, Financial Examiner; Jim Gill, CPA, MBA, Financial Examiner; Constantine Arustamian, CFE, CIE, CPA, CPCU, ARC, ARM, ARe, AIS, AIAF, API, Financial Examiner; Youngjae Lee, CPA, CFE, Financial Examiner, all from the Washington State Office of the Insurance Commissioner, and examiners representing the Oregon and Nevada insurance departments, participated in the examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Tarik Subbagh', is written over a horizontal line.

Tarik Subbagh, MSBA, CPA, CFE
Examiner-in-Charge
State of Washington



MUTUAL OF
ENUMCLAW
INSURANCE
EST. 1898

RECEIVED

MAR 09 2015

Insurance Commissioner
Company Supervision

March 6, 2015

Mr. William R. Michels
Deputy Insurance Commissioner
Company Supervision Division
P.O. Box 40255
Olympia, WA 98504-0255

RE: Comments on Financial Examination Reports of Mutual of Enumclaw Insurance Company and
Enumclaw Property and Casualty Insurance Company as of December 31, 2013

Dear Mr. Michels:

Based on our review of the referenced reports received on March 3rd, 2015, and page 8 of the Mutual of Enumclaw Insurance Company examination report to include the complete balance sheet per our subsequent communications with Mr. Michael Jordan, enclosed please find the company comments on the reports of examination for both companies.

Please contact me if you have questions.

Sincerely,

Andrew Chen, CPA, MBA
Corporate Controller
Mutual of Enumclaw Insurance Company
Enumclaw Property and Casualty Insurance Company

Enclosures

cc: Eric Nelson, President
Brad Gipson, Chief Financial Officer
Tom Taylor, Chief Risk Officer



MUTUAL OF
ENUMCLAW
INSURANCE
EST. 1898

**Enumclaw Property and Casualty Insurance Company
Company Comments
State of Washington 2013 Financial Examination Reports
March 6, 2015**

1. Investment Policy Statement (IPS)

EPC's IPS was not approved annually by its Board of Trustees (BOT) as required by RCW 48.13.051.

The Company is instructed to comply with RCW 48.13.051 by having its BOT review and approve the Company's IPS at least annually.

Company Comment:

The Company's current Investment Policy statement was approved by the Board of Director's subcommittee, the Investment Committee. On January 30, 2015, the full Board considered the Investment Committee recommendation and approved the current Investment Policy Statement. The Company will be mindful that the full Board must approve this document annually in the future.