

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF  
RED SHIELD INSURANCE COMPANY  
SEATTLE, WASHINGTON

NAIC CODE 41580  
December 31, 2013

Order No. 15-81  
Red Shield Insurance Company  
Exhibit A

**SALUTATION**

Seattle, Washington  
January 13, 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

**Red Shield Insurance Company**

of

Seattle, Washington

hereinafter referred to as "RSIC," or the "Company" at the location of its home office 7245 West Marginal Way SW, Seattle, WA 98106. This report is respectfully submitted showing the financial condition and related corporate matters of RSIC as of December 31, 2013.

CHIEF EXAMINER'S AFFIDAVIT

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



\_\_\_\_\_  
Patrick H. McNaughton  
Chief Examiner

3-25-15

\_\_\_\_\_  
Date

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## SCOPE OF THE EXAMINATION

The examination of the Company was part of a coordinated examination that included Rainier Insurance Company (RIC) domiciled in Arizona. The Washington State Office of the Insurance Commissioner (OIC) assumed the responsibility of the coordinating state for the 2013 financial examination cycle. Communication and sharing of the examination work among the states led to a more efficient use of resources while reducing duplication of work. Group examinations not only provide information on each insurer individually but also provide a structure to understand and evaluate risks of the holding company group as a whole.

This examination covers the period January 1, 2009 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 field work on January 13, 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, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

## 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 prepared 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).

The following summarizes the exceptions noted while performing this review:

### **1. Annual Statement Errors and Omissions**

During the examination, the examiners uncovered the following instances in which the filing of the Company's 2013 NAIC Annual Statement did not conform to the AP&P and the NAIC Annual Statement Instructions:

- a. Liabilities - Prepaid Oregon Excise Taxes totaling \$32,437 were incorrectly included on Line 5, Other Expenses. As this amount is an offset to Oregon premium taxes in the retaliatory tax calculation, it should have been included on Line 6, Taxes, Licenses and Fees.
- b. Schedule D - Part 1 - the Company used the straight-line method rather than the scientific (constant yield) interest method in calculating amortization of bond premium and discount.
- c. Underwriting and Investment Exhibit - Part 3 - Expenses – costs allocated from RSIC to RIC, an affiliate, are included in total on line 2.3, Commission and brokerage: Reinsurance ceded excluding contingent, instead of broken out to the appropriate expense lines, specifically lines 3 through 24.
- d. Liabilities - Interest payable on funds held under RSIC's reinsurance treaty with RIC totaling \$63,426 was incorrectly included as an offset on line 14, Investment income due and accrued of the Asset page. According to SSAP 62R, paragraph 45, it should have been reported on line 25, Aggregate write-ins for liabilities, on the Liabilities, Surplus, and Other Funds page.
- e. Note 10 (A, B, & C) refers to shared services between RSIC and RIC, with charges governed under SSAP 25. Schedule Y Part 2 shows no amounts under Column 8 (Management Agreements, Service Contracts.) Section (F) fails to indicate the existence of and a description of the management or service contracts and cost-sharing arrangements.

While none of the above errors had a material impact on the financial position of the Company, they do demonstrate some weaknesses in its control structure in the preparation of the NAIC Annual Statements, which requires adherence to the NAIC Annual Statement Instructions.

**The Company is instructed to comply with 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.**

## **2. Related Party Service Agreement**

During our review of related parties, we found there was no service agreement between RSIC and International Terminal Company (ITC), a related party. ITC performs Information Technology (IT) support for mainframe computer services. SSAP No. 25, paragraph 7, requires transactions between related parties to be in the form of a written agreement. In addition, the Company shall maintain documentation to demonstrate the amounts charged are fair and reasonable.

**The Company is instructed to comply with 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.**

## **3. Investment Policy**

The Company's written Investment Policy is not in compliance with all of the requirements of RCW 48.13.051. For example, the policy did not contain maximum internal limits for eligible investment classes as required by RCW 48.13.051(2) or describe the relationship of classes of investments to the Company's insurance products and liabilities as required by RCW 48.13.051(6).

**The Company is instructed to revise its Investment Policy to comply with the requirements of RCW 48.13.051.**

#### **4. Reinsurance Intermediary Contract**

The Company does not have a contract with its reinsurance intermediary-broker, Arthur J. Gallagher and Company, which includes the minimum contractual requirements specified in RCW 48.94.015. The Company does have an authorization letter but it does not contain the minimum contractual requirements.

**The Company is instructed to obtain an intermediary agreement with its intermediary-broker that includes the minimum requirements specified in RCW 48.94.015.**

#### **5. Funds Held Under Reinsurance Treaty in Excess of Liability**

Under a long standing quota share reinsurance treaty with affiliate RIC, RSIC is reporting ceded loss reserves of \$2.4 million but holding RIC funds as collateral totaling \$5.3 million or \$2.9 million in excess of the liability.

**The Company is instructed to comply with RCW 48.05.073 by filing its financial statements in accordance with the AP&P by not withholding funds from RIC in excess of the liabilities.**

### **COMMENTS AND RECOMMENDATIONS**

None

### **COMPANY PROFILE**

#### **Company History**

The Company was incorporated on February 9, 1979, as a stock multiple line property and casualty insurer in the state of Washington. Additionally, the Company holds a certificate from the United States Department of Labor under the Longshore and Harbor Worker's Compensation Act (USL&H). The Company specializes in underwriting general liability, residual dwelling, inland and ocean marine, as well as USL&H Worker's Compensation and Liability for stevedoring operations.

#### **Territory and Plan of Operation**

The Company's original Certificate of Authority was issued by the OIC on February 28, 1979, to transact the business of disability, property, marine and transportation, vehicle, general casualty, and surety. As of December 31, 2013, the Company was licensed to operate in Arizona, California, Colorado, Idaho, Montana, Oregon, Utah, and Washington.

Policies are written on a non-assessable basis using the Insurance Services Office forms. The Company's workers' compensation policy is written with high deductibles. The USL&H and related liability business

is produced on a direct basis and the remaining lines of business are produced by more than 350 independent agents. The Company writes the majority of its business in the states of Washington and Oregon. The Company appoints agents and brokers directly for the sale of its products. Commissions are paid directly to agents and brokers.

**Growth of Company**

The Company’s growth, as reported in its filed NAIC Annual Statement, is illustrated below:

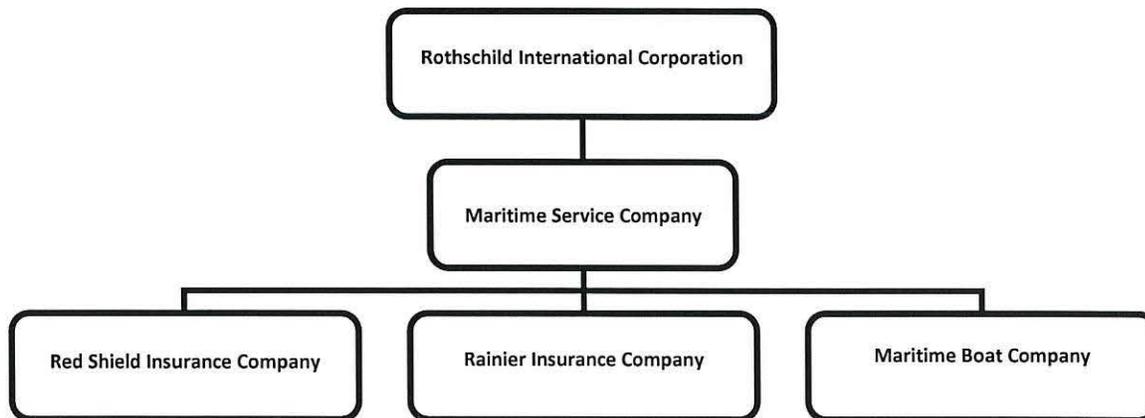
<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	
2013	\$39,396,335	\$18,959,778	\$20,436,557	
2012	38,747,440	18,971,671	19,775,769	
2011	39,468,254	19,325,558	20,142,696	
2010	37,935,888	18,616,518	19,319,370	
2009	40,325,992	19,680,288	20,645,704	

<u>Year</u>	<u>Premium Earned</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2013	\$11,345,611	\$ 534,129	\$423,173	\$827,867
2012	10,969,971	(166,057)	452,265	351,140
2011	9,966,629	337,996	630,265	732,802
2010	8,330,661	341,938	847,152	1,039,377
2009	8,558,315	268,694	942,421	1,010,637

**Affiliated Companies**

The following organization chart is taken from RSIC’s filed 2013 NAIC Annual Statement:



**Rothschild International Corporation** is owned by Clayton R. Jones and his family. Rothschild International Corporation is the upstream holding company which owns 100 percent of the stock of Maritime Service Company. The ultimate controlling person, by virtue of majority ownership of the common stock, is Clayton R. Jones.

**Maritime Service Company (MSC)** owns 100 percent of the stock of RSIC, RIC, and Maritime Boat Company, a non-insurer subsidiary.

**Rainier Insurance Company (RIC)**, RSIC’s affiliated surplus lines insurance company, is an Arizona domiciled insurer.

**Intercompany Agreements**

The Company is a party to intercompany agreements with its affiliates which are in compliance with SSAP 70. All intercompany agreements were filed with and approved by the OIC. Significant agreements in force as of December 31, 2013 are listed below:

- **Service and Expenses Sharing Agreement**  
The Company shares common expenses and management with its affiliate RIC. Charges for these services are based on cost.
- **Consolidated Tax Sharing Agreement**  
The Company’s federal income tax return is consolidated with its parent and affiliates. Allocation is based on separate return calculations of taxable income.
- **Intercompany Reinsurance Agreements**  
The Company cedes business under two quota share agreements with its affiliate RIC.

**MANAGEMENT AND CONTROL**

**Board of Directors (BOD)**

Directors of the Company as of December 31, 2013:

- Frank J. Amato                      Chair
- Clayton R. Jones
- Edward D. Fournier
- Clayton R. Jones III
- Christopher F. Jones
- John P. Visich

**Officers**

Officers of the Company as of December 31, 2013:

- Christopher F. Jones      President
- Clayton R. Jones          Senior Vice President and Assistant Treasurer
- John P. Visich              Treasurer and Assistant Secretary
- Joseph I. Manning        Vice President and Secretary

**Conflict of Interest**

The Company has a policy statement and questionnaire for the disclosure of conflict of interest and requires all directors, officers, and key employees to sign the statement annually. The signed statements are reviewed annually by the BOD for conflicts. No exceptions were noted in our review.

## **Fidelity Bond and Other Insurance**

RSIC is a named insured on a financial institution fidelity bond insurance policy. The aggregate amount of coverage meets the recommended NAIC guidelines. Additionally, RSIC has property, auto, and general liability coverage.

## **Officers', Employees', and Agents' Welfare and Pension Plans**

Effective January 1, 2008, the company established a 401(K) retirement plan for its employees. Pursuant to the plan, the company's matching contribution is discretionary. For the plan year 2013, the company's directors approved a matching contribution in the amount of \$26,760.

## **CORPORATE RECORDS**

The Company's Articles of Incorporation, Bylaws, Certificate of Registration, and minutes of the BOD and committees were reviewed for the period under examination. All BOD meetings were conducted with a quorum present.

## **UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

<u>Year</u>	<u>Losses</u>	<u>Loss Adjustment Expenses</u>
2013	\$5,541,838	\$1,855,008
2012	5,204,074	2,049,501
2011	5,101,175	2,042,304
2010	4,844,514	2,157,588
2009	5,466,945	2,017,067

As shown above, the reserves carried by the Company for unpaid losses and loss adjustment expenses were \$5,541,838 and \$1,855,008, respectively, as of December 31, 2013.

The reserves were reviewed by the casualty actuarial staff employed by the Commissioner's Office. The Company provided loss and loss adjustment expense development data by line of business as of December 31, 2013. Company personnel provided additional information by electronic mail and in face-to-face meetings. Actuarial staff also reviewed an actuarial report prepared by PricewaterhouseCoopers, the Company's actuarial consulting firm.

Actuarial staff's estimates indicate that the reserves for losses and loss adjustment expenses as of December 31, 2013, on a net basis, are within a range of reasonable estimates. Therefore, the loss and loss adjustment expense reserves are accepted as they appear on the Company's 2013 Annual Statement.

## REINSURANCE

RSIC participates in quota share, excess of loss, and catastrophe agreements with various reinsurers. The Company has two agreements in which it cedes business under a quota share agreement with an affiliate, RIC, which is an unauthorized reinsurer in Washington State. RSIC uses funds withheld as collateral for these treaties. (See Instruction No. 5.) All other reinsurers are authorized in Washington.

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.

RSIC utilizes the services of Arthur J. Gallagher and Company to solicit, negotiate, and place reinsurance cessions on its behalf. The Company did not have a reinsurance intermediary agreement that was in compliance with RCW 48.94.015. (See Instruction No. 4.)

## 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>
Washington	Bond	2,207,682	2,151,790
Oregon	Bond	406,140	453,108
California	Certificates of Deposit	100,000	100,290
<b>Total</b>		<b><u>\$2,713,822</u></b>	<b><u>\$2,705,188</u></b>

## ACCOUNTING RECORDS AND INFORMATION SYSTEM

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) accrual basis of accounting. The Company was 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 phases of the examination and no exceptions were noted.

The Company's 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 systems and controls were evaluated to gain an understanding of general IT control risks and assess the effectiveness of these controls. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels.

### **SUBSEQUENT EVENTS**

There were no additional material events impacting the Company between the examination date and the last day of our field work on January 13, 2015.

### **FINANCIAL STATEMENTS**

The following financial statements show the financial condition of Red Shield Insurance Company as of December 31, 2013:

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

**Red Shield 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>
<b>Assets</b>			
Bonds	\$8,821,759	\$0	\$8,821,759
Stocks:			
Preferred stocks	892,000		892,000
Common stocks	3,561,785		3,561,785
Mortgage loans on real estate:			
First liens	612,145		612,145
Cash and short-term investments	22,545,901		22,545,901
<b>Subtotals, cash and invested assets</b>	<b><u>36,433,590</u></b>	<b><u>0</u></b>	<b><u>36,433,590</u></b>
Investment income due and accrued	220,288		220,288
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	877,786		877,786
Deferred premiums	1,138,947		1,138,947
Current federal and foreign income tax recoverable and interest thereon	423,705		423,705
Net deferred tax asset	260,116		260,116
Electronic data processing equipment and software	11,443		11,443
Receivables from parent, subsidiaries and affiliates	30,460		30,460
<b>Total Assets</b>	<b><u>\$39,396,335</u></b>	<b><u>\$0</u></b>	<b><u>\$39,396,335</u></b>
<b>Liabilities, Surplus and Other Funds</b>			
Losses	\$5,541,838	\$0	\$5,541,838
Reinsurance payable on paid losses and loss adjustment expenses	10,537		10,537
Loss adjustment expenses	1,855,008		1,855,008
Commissions payable, contingent commissions and other similar charges	105,662		105,662
Other expenses	121,554		121,554
Taxes, licenses and fees	53,809		53,809
Unearned premiums	5,584,242		5,584,242
Advance premium	213,910		213,910
Ceded reinsurance premiums payable	207,005		207,005
Funds held by company under reinsurance treaties	5,260,634		5,260,634
Remittances and items not allocated	5,579		5,579
<b>Total Liabilities</b>	<b><u>18,959,778</u></b>	<b><u>0</u></b>	<b><u>18,959,778</u></b>
Common capital stock	1,625,000		1,625,000
Unassigned funds (surplus)	18,811,557		18,811,557
<b>Surplus as regards policyholders</b>	<b><u>20,436,557</u></b>	<b><u>0</u></b>	<b><u>20,436,557</u></b>
<b>Total Liabilities, Surplus and Other Funds</b>	<b><u>\$39,396,335</u></b>	<b><u>\$0</u></b>	<b><u>\$39,396,335</u></b>

**Red Shield Insurance Company**  
**Statement of Income and Capital and Surplus Account**  
**For the Year Ended December 31, 2013**

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<b>Underwriting Income</b>			
Premiums earned	\$11,345,611	\$0	\$11,345,611
<b>Deductions</b>			
Losses incurred	3,251,094		3,251,094
Loss adjustment expenses incurred	1,137,101		1,137,101
Other underwriting expenses incurred	6,423,287		6,423,287
Total underwriting deductions	<u>10,811,482</u>	<u>0</u>	<u>10,811,482</u>
<b>Net underwriting gain or (loss)</b>	<b><u>534,129</u></b>	<b><u>0</u></b>	<b><u>534,129</u></b>
<b>Investment Income</b>			
Net investment income earned	352,251		352,251
Net realized capital gains or (losses)	70,922		70,922
<b>Net investment gain or (loss)</b>	<b><u>423,173</u></b>	<b><u>0</u></b>	<b><u>423,173</u></b>
<b>Other Income</b>			
Finance and service charges not included in premiums	171,860		171,860
<b>Total other income</b>	<b><u>171,860</u></b>	<b><u>0</u></b>	<b><u>171,860</u></b>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	1,129,162		1,129,162
Federal and foreign income taxes incurred	301,295		301,295
<b>Net income</b>	<b><u>\$827,867</u></b>	<b><u>\$0</u></b>	<b><u>\$827,867</u></b>
<b>Capital and Surplus Account</b>			
<b>Surplus as regards policyholders, December 31 prior year</b>	<b><u>\$19,775,769</u></b>	<b><u>\$0</u></b>	<b><u>\$19,775,769</u></b>
<b>Gains and (losses) in surplus</b>			
Net income	827,867	0	827,867
Change in net unrealized capital gains or (losses)	154,616		154,616
Change in net deferred income tax	(70,462)		(70,462)
Change in nonadmitted assets	(1,233)		(1,233)
Dividends to stockholders	(250,000)		(250,000)
<b>Change in surplus as regards policyholders for the year</b>	<b><u>660,788</u></b>	<b><u>0</u></b>	<b><u>660,788</u></b>
<b>Surplus as regards policyholders, December 31 current year</b>	<b><u>\$20,436,557</u></b>	<b><u>\$0</u></b>	<b><u>\$20,436,557</u></b>

**Red Shield Insurance Company**  
**Five Year Reconciliation of Surplus**  
**For the Years Ended December 31,**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and Surplus, December 31, prior year	<u>\$19,775,769</u>	<u>\$20,142,696</u>	<u>\$19,319,370</u>	<u>\$20,645,704</u>	<u>\$20,514,342</u>
Net income or (loss)	827,867	351,140	732,802	1,039,377	1,010,637
Change in net unrealized capital gains or (losses)	154,616	396,570	(16,487)	271,393	411,445
Changes in net deferred income tax	(70,462)	(143,617)	71,548	(192,271)	(244,994)
Change in nonadmitted assets	(1,233)	(11,020)	35,463	55,167	454,274
Dividends to stockholders	(250,000)	(960,000)	0	(2,500,000)	(1,500,000)
Change in surplus as regards policyholders for the year	<u>660,788</u>	<u>(366,927)</u>	<u>823,326</u>	<u>(1,326,334)</u>	<u>131,362</u>
Capital and Surplus, December 31, current year	<u>\$20,436,557</u>	<u>\$19,775,769</u>	<u>\$20,142,696</u>	<u>\$19,319,370</u>	<u>\$20,645,704</u>

## NOTES TO THE FINANCIAL STATEMENTS

### **1. Special Consents and/or Permitted Practices**

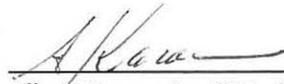
The Company has no special consents or permitted practices.

## ACKNOWLEDGMENT

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

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, CFE, FLMI, ARA, Life Field Supervising Examiner and Reinsurance Specialist; D. Lee Barclay, FCAS, MAAA, Senior Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; Eric Slavich, Actuarial Analyst; Orlando Gabriel, CFE, Financial Examiner; Charles Kreske, AFE, Financial Examiner and Zairina Othman, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



Albert Karau, Jr., CPA, CFE, FLMI  
Examiner-in-Charge  
State of Washington

AFFIDAVIT

STATE OF WASHINGTON        }  
  } ss  
COUNTY OF KING            }

Albert Karau, Jr., being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Red Shield Insurance Company 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.

  
\_\_\_\_\_  
Albert Karau, Jr., CPA, CFE, FLMI  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me this 25th day of March, 2015.

  
\_\_\_\_\_  
Notary Public in and for the  
State of Washington





**RED SHIELD**  
**INSURANCE COMPANY®**

Administration Offices (206) 762-4338  
Fax (206) 763-1139

7245 W. Marginal Way, S.W.  
P.O. Box 3736  
Seattle, Washington 98124

RECEIVED

MAR 23 2015

Insurance Commissioner  
Company Supervision

March 19, 2015

Mr. William R. Michels, MBA, CPA, CFE  
Deputy Insurance Commissioner  
P.O. Box 40255  
Olympia, WA 98504-0255

Dear Mr. Michels,

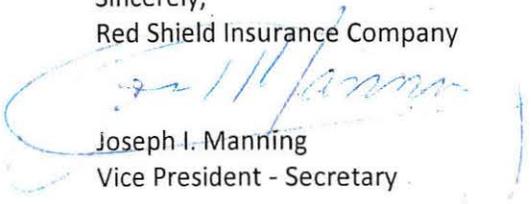
Thank you for the opportunity to provide comments regarding your Draft Report of Financial Examination of Red Shield Insurance Company. This is to formally acknowledge appropriate executives of Red Shield have reviewed the Draft Report.

We find the report factually correct, but do have the following comments regarding your instructions;

1. Red Shields' Annual Statement filings will be completed in accordance with NAIC Annual Statement Instructions.
2. Red Shield and ITC will adopt a written agreement for provided services. The company will maintain documentation concerning the reasonableness of the charges made by ITC.
3. Red Shield will amend its Investment Policy as respects the requirements of RCW 48.15.051.
4. Red Shield did provide a copy (during the field work time) of the intermediary broker agreement, then recently executed which was in accord with the requirements of RCW 48.94.015.
5. Excess funds held by Red Shield were returned to Rainier Insurance Company in December 2014. As you may know all investment earning of funds held have always been paid to Rainier Insurance Company in the current time frame. We do note that the agreement, under which the funds were held, provided for Rainier Insurance Company access to the funds held and predated the SSAP.

We gratefully appreciate your coordinating this examination with the Arizona Insurance Department. From our standpoint this was an efficient cost effective action. Thank you for the professional manner in which the examination was conducted. Should you need any additional information please contact the undersigned at [jmanning@redshield.com](mailto:jmanning@redshield.com) or (206)762-4338.

Sincerely,  
Red Shield Insurance Company

  
Joseph I. Manning  
Vice President - Secretary

Order No. 15-81  
Red Shield Insurance Company  
Exhibit B