



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 11-22
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
FRATERNAL BENEFICIAL ASSOCIATION)	AND ORDER ADOPTING REPORT
)	OF EXAMINATION

A Licensed Fraternal Benefit Society.

BACKGROUND

An examination of the financial condition of **FRATERNAL BENEFICIAL ASSOCIATION** (FBA) as of December 31, 2009 was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). FBA holds a Washington certificate of authority as a fraternal benefit society. 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, in draft form, with the findings, instructions, and recommendations was transmitted to FBA for its comments on January 20, 2011. FBA's response to the draft 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 FBA.

Subject to the right of FBA 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 9 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 **FRATERNAL BENEFICIAL ASSOCIATION** and to order FBA to take the actions described in the Instructions section of the report. The Commissioner acknowledges that FBA may have implemented some of the Instructions prior to the date of this order. The Instructions in the report are appropriate responses to the matters found in the examination.

ORDER

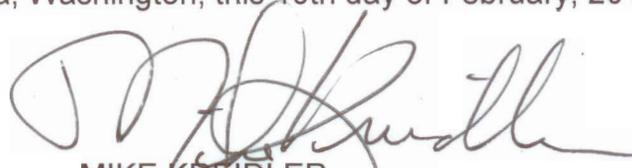
The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

FBA is ordered as follows, these being the Instructions contained in the examination report on pages 1- 2.

1. FBA is ordered to comply with RCW 48.05.250 by filing its financial statements in the general form and context approved by the NAIC and WAC 284- 07-050(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 1, Examination Report, page 2.
2. FBA is ordered to execute a custodial agreement that complies with the FCEH and RCW 48.13.480. FBA is also 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 by WAC 284-07-050(2). Instruction 2, Examination Report, page 2.
3. FBA is ordered to limit and retain the amount of an individual risk to ten percent of its surplus pursuant to RCW 48.11.140(1) and (2). Instruction 3, Examination Report, page 2.
4. FBA is ordered to comply with RCW 48.12.030(2) by including the amount, estimated with the provision of this chapter, necessary to pay all of its unpaid losses and claims incurred on or prior to the date of statement whether reported or unreported. Instruction 4, Examination Report, page 2.

IT IS FURTHER ORDERED THAT, FBA file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how FBA has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 10th day of February, 2011.

A handwritten signature in black ink, appearing to read "Mike Kreidler", written over a light blue rectangular background.

MIKE KREIDLER
Insurance Commissioner

RECEIVED

FEB 07 2011

FRATERNAL BENEFICIAL ASSOCIATION

**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

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February 1, 2011

Insurance Commissioner's Office

P.O. Box 40259

Olympia, WA. 98504-0259

Re: Response to Audit Exit Letter

Attention: James T. Odiorne, JD CPA Deputy Insurance Commissioner

Dear Mr. Odiorne;

This letter is our response to the four exceptions noted from our audit conducted Sept and October of 2011 ending 12/31/2009.

#1 NAIC Annual Statement Errors, Omissions, and Misclassifications:

We have reviewed the four financial statement errors you list in point #1 of your audit exception letter and will take steps to avoid these errors in future financial statement filings. It is our goal each year to comply with the NAIC Annual Statement Instructions, the AP&P and related RCW rules in filing financial statements.

#2 Investment Custodian Deficiency:

We have reviewed point #2 of your audit exception letter and are currently researching the RCW rules and FCEH to determine what we need to do to be in compliance regarding a written custodial agreement with Richards, Merrill & Peterson. **Could you provide a list of the provisions you mention our agreement did not contain?** That would be helpful.

#3: Limitation of a Single Risk:

This problem occurred due to being out of compliance with our investments. We had the assets required but since they were invested incorrectly to meet RCW rules, they were not recognized, causing us to be out of compliance with the RCW 48.11.140. Since assets were lower than we realized, we had a few single risks over the limit as of 12/31/09. We have reconstructed our investments – now in compliance, thus makes us in compliance with this single risk limit amount noted in this RCW. So this problem has been rectified.

#4: Losses:

This happened because we had a loss of \$60,000.00 that we paid. The insured did not agree with the settlement and later obtained an attorney – in order to force FBA to pay more for the loss. More than what he had for value. We obtained an attorney also and the attorneys were able to mediate the situation out, but this didn't happen until Feb. 2007, being the following year. Our attorney advised us to stop payment on the original check and issue a new check in payment, which we did. We didn't accrue the liability because we had no idea we really had one on 12/31/06. We also had another very small claim that same year in the fall. The insured asked permission to fix his kitchen himself that was damaged from smoke. We paid him for his claim that included new stove and counter top. He said he had just previously remodeled the kitchen and had an extra cupboard he would use. But early in the following year he decided to purchase a new cabinet and presented us with a bill, which we paid at that time – but it was the following year. We did not accrue any liability because we didn't know we had one. These two instances have never happened in our history before and are very uncommon. We feel, these probably are a onetime thing. But we will take a closer look at each claim and accrue any liability we think we might have. It is our intention to stay in compliance at all times with RCW's pertaining to losses.

This concludes our response to the four points noted from the audit conducted in 2010.

Sincerely,



Linda D. Cupp, Secretary for

FRATERNAL BENEFICIAL ASSOCIATION