



OFFICE OF
INSURANCE COMMISSIONER

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|------------------------------|---|---------------------------|
| In the Matter of |) | No. 11-53 |
| |) | |
| The Financial Examination of |) | FINDINGS, CONCLUSIONS, |
| MUTUAL OF ENUMCLAW |) | AND ORDER ADOPTING REPORT |
| INSURANCE COMPANY |) | OF FINANCIAL EXAMINATION |

A Domestic Insurer.

BACKGROUND

An examination of the financial condition of **MUTUAL OF ENUMCLAW INSURANCE COMPANY** (the Company) as of December 31, 2009, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a mutual 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 22, 2011. 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 19 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 **MUTUAL OF ENUMCLAW INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions section of the report. The Commissioner acknowledges that the Company 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.

The Company is ordered as follows, these being the Instructions contained in the examination report on pages 1-6.

1. The Company is ordered to comply with RCW 48.05.073, RCW 48.05.250 and WAC 284-07-050(2) by:
 - i. Amending its Administrative Services Contract to include:
 - a. A description of its cost apportionment method as required by RCW 48.31B.030(1) and SSAP No. 70, paragraph 8.
 - b. Specific due dates for settlement of its administrative services as required by SSAP No. 25, paragraph 6.
 - ii. Correctly describing the value of such related party services based on cost in its NAIC Annual Statement, Notes to Financial Statements, Note 10F.

In addition, the Company is ordered to file all written intercompany agreements, including any related party agreements that are amended, with the OIC in compliance with RCW 48.31B.025(2)(c)(v) and RCW 48.31B.030(1)(b). Instruction 1, Examination Report, page 2.

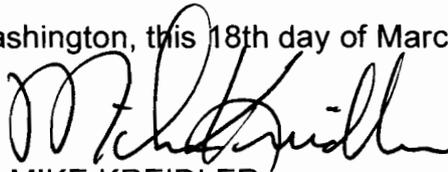
2. The Company is ordered to comply with RCW 48.05.073, RCW 48.05.250 and WAC 284-07-050(2) by settling its intercompany payables and receivables balances in accordance with SSAP No. 25, paragraph 6, and to keep full and adequate accounts that support the settlement amounts in accordance with RCW 48.05.280. Instruction 2, Examination Report, page 3.

3. The Company is ordered to comply with WAC 284-07-050(2), which requires adherence to the AP&P, specifically with SSAP No. 10, paragraphs 12(a), 12(b) and 13, which state that transactions between related parties will only be recognized if they are pursuant to a written income tax allocation agreement and such transactions are in compliance with SSAP No. 25. Furthermore, RCW 48.31B.030(1)(a) requires the terms of the agreement to be fair and reasonable and must be allocated to the affiliated companies in conformity with customary insurance accounting practices consistently applied, by complying with its Consolidated Federal Income Tax Sharing Agreement and allocate the consolidated tax bill on a separate company, reporting entity basis. Instruction 3, Examination Report, page 3.
4. The Company is ordered to comply with RCW 48.13.180(2) by non-admitting its foreign investments when the investments are made in the sovereign debt of foreign jurisdictions that are not rated SVO 1. Instruction 4, Examination Report, page 4.
5. The Company is ordered to report as a receivable the amount for its overpaid ceded auto collision premium that will be refunded from the Company's reinsurers by following and complying with RCW 48.05.250 and WAC 284-07-050(2); and to regularly monitor and evaluate the effectiveness of its reinsurance program. Instruction 5, Examination Report, page 4.
6. The Company is ordered to comply with RCW 48.05.073, RCW 48.05.250, and WAC 284-07-050(2) in filing its NAIC Annual Statements in accordance with the NAIC Annual Statement Instructions and the AP&P by recognizing its premiums in the year they are written. Instruction 6, Examination Report, page 4.
7. The Company is ordered to comply with RCW 48.05.250, RCW 48.31B.025(2) and WAC 284-18-920 by correctly disclosing, in its Form B Holding Company filings, its Consolidated Federal Income Tax Sharing Agreement effective January 30, 2004, its Intercompany Quota Share Reinsurance Agreement effective June 1, 2007, and any other intercompany agreements in force. In addition, the Company is ordered to file intercompany agreements with the OIC in compliance with RCW 48.31B.025(1) and WAC 284-18-940, Form D, Prior Notice of A Transaction. Instruction 7, Examination Report, page 5.

8. The Company is ordered to execute a revised or amended custodial agreement that complies with the FCEH and RCW 48.13.480. The Company 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 8, Examination Report, page 5.
9. The Company is ordered to comply with RCW 48.05.383 by having the Company's Board of Trustees annually appoint its qualified actuary pursuant to the NAIC Annual Statement Instructions. Instruction 9, Examination Report, page 6.
10. The Company is ordered to comply with WAC 284-07-050(2) which requires adherence to the AP&P, SSAP No. 62, paragraph 8, by including all required terms for its reinsurance agreements. Instruction 10, Examination Report, page 6.
11. The Company is ordered to comply with RCW 48.05.073 and RCW 48.05.250 by filing its financial statements in the general form and context approved by the NAIC and with WAC 284-07-050(2)(a), which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 11, Examination Report, page 6.

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 18th day of March, 2011.


MIKE KREIDLER
Insurance Commissioner



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MAR 15 2011

**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

March 15, 2011

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
P.O. Box 40255
Olympia, WA 98504-0255

RE: Company responses to Financial Examination Reports of Mutual of Enumclaw Insurance Company and Enumclaw Property and Casualty Insurance Company as of December 31, 2009.

Dear Mr. Odiorne,

Thank you for the opportunity to respond to your Financial Examination Reports. Our comments for each finding are enclosed for your review.

Please express our gratitude for the professionalism of your staff which made for a smooth examination process.

Should you have any questions regarding our response please do not hesitate to contact me.

Best Regards,

Eric Nelson, CPCU, CIC, ARP
President and CEO
Mutual of Enumclaw Insurance Company
Enumclaw Property and Casualty Insurance Company

CC: Patrick H. McNaughton, Chief Examiner
Michael V. Jordan CPA, CFE, MIIP, Assistant Chief Examiner



**Mutual of Enumclaw Insurance Company
Company Comments
State of Washington 2009 Financial Examination Reports
March 15, 2011**

1. Administrative Services Contract

The Company plans to update its administrative services/intercompany contracts in 2011 to comply with the regulations.

2. Intercompany Payables and Receivables

The Company plans to update its administrative services/intercompany contracts in 2011 to comply with the regulations.

3. Consolidated Federal Income Tax Sharing Agreement

The Company plans to update its administrative services/intercompany contracts in 2011 to comply with the regulations.

4. Investments in Foreign Securities

The two referenced bonds were both disposed in June 2010 upon initial receipt of the finding and replaced them with RCW-qualified bonds with realized gains. Therefore, no actual asset adjustments are recorded on its book. The Company has provided the RCW requirements and directions to Conning Asset Management, our investment manager, to update their compliance screens to comply with the regulation. The Company will also review its bond portfolio on a regular basis to ensure compliance with state-specific regulations.

5. Premiums Ceded Inadvertently to Reinsurers

The Company brought this issue to the examiner team's attention with candidness and proposed solutions. As of October 31, 2010, the Company received repayment in full from its reinsurers. Further controls have been put into place to ensure correct subject premium cession going forward.

6. Understatement of Premiums Receivable and Unearned Premiums

The Company notes this is a timing issue and no book adjustments are necessary. The Company is in the process of upgrading its core underwriting systems, and the early-close issue will be addressed as the system continues to be implemented.

7. Form B and D Holding Company Filings

The Company will file the agreements mentioned in the exam report and also file future agreements in March 2011.

8. Custodial Agreement

Upon receipt of the initial finding, the Company amended its custodial agreements with Wells Fargo to comply with RCW 48.13.480 effective August 31, 2010.

9. Annual Appointment of the Qualified Opining Actuary

While the Board of Trustees has consistently reviewed and approved the annual audit plan detailing the inclusion of the actuarial opinion and the identity of the opining actuary, the Company will explicitly document its opining actuary appointment by the Board of Trustees in its meeting minutes.

10. Missing Required Reinsurance Terms

The Company plans to update its administrative services/intercompany contracts in 2011 to comply with the regulations.

Additionally, the Company will add the language to its reinsurance contract with Factory Mutual Insurance Company at the next reinsurance contract renewal.

11. NAIC Annual Statement Errors

The Company will rectify the noted deviations from NAIC Annual Statement Instructions in future filings.