



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 10-93
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
RED SHIELD INSURANCE COMPANY)	AND ORDER ADOPTING REPORT
)	OF FINANCIAL EXAMINATION

A Domestic Insurer.

BACKGROUND

An examination of the financial condition of **RED SHIELD INSURANCE COMPANY** (the Company) as of December 31, 2008, 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 May 27, 2010. 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 **RED SHIELD 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 and Comments and Recommendations contained in the examination report on pages 1-4.

1. The Company is ordered to comply with WAC 284-07-050(2) which requires adherence to the NAIC Accounting Practices and Procedures Manual, specifically SSAP No. 70, paragraph 8, which requires expenses under the terms of a service and cost-allocation agreement to be apportioned to the entities incurring the expense as if the expense had been paid solely by the incurring entity, and RCW 48.31B.030(1)(a) which require 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. The Company also is ordered to amend the Agreement to include due dates for the settlement of intercompany balances as required by SSAP No. 25, paragraph 6, and to file the amended Agreement pursuant to RCW 48.31B.025(2)(c)(v). Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with WAC 284-07-050(2) which requires adherence to the AP&P and SSAP No. 62, paragraph 8, by including all the required terms in the reinsurance agreements. Instruction 2, Examination Report, page 2.
3. The Company is 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). The Company is also ordered to execute a revised or amended custodial agreement that complies with the FCEH. Instruction 3, Examination Report, page 2.

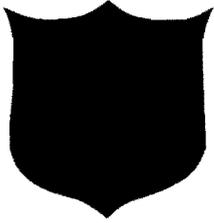
4. The Company is ordered to comply with RCW 48.13.480 by executing a written custodial agreement with its investment brokers that complies with the FCEH for investments held in the Company's account with the respective investment brokers. Instruction 4, Examination Report, page 3.
5. The Company is ordered to comply with RCW 48.05.073, RCW 48.05.250, and WAC 284-07-050(2) by filing its 2008 NAIC Annual Statement in accordance with the AP&P and the 2008 NAIC Annual Statement Instructions. Instruction 5, Examination Report, page 4.
6. The Company is ordered to consider annually testing the business continuity plan (BCP) for the RSIC Portland, Oregon office. The results of the test should be used to update the plan accordingly. It is also ordered that the Company consider writing a similar BCP for RSIC's Seattle, Washington office. Comments and Recommendations 1, Examination Report, page 4.
7. The Company is ordered to consider implementing a written investment policy and have it formally approved by the Board of Directors (BOD). Comments and Recommendations 2, Examination Report, page 4.

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 14th day of June, 2010.



MIKE KREIDLER
Insurance Commissioner



RED SHIELD
INSURANCE COMPANY®

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RECEIVED

JUN 07 2010

**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

June 4, 2010

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
PO Box 40255
Olympia, WA 98504-0255

Dear Mr. Odiorne,

This letter is to acknowledge receipt of your May 27, 2010 letter with your draft of our OIC examination through December 31, 2008. As we are not asking for a hearing, please proceed with your process.

Our informational comments are enclosed.

We appreciate the professional manner in which the financial examination of Red Shield Insurance Company was conducted. We found the new examination approach to be beneficial in many ways.

Pursuant to your helpful letter dated September 1, 2009 we did discuss examination findings with your staff throughout the examination process.

Yours very truly,
Red Shield Insurance Company

Clayton R. Jones, III
President

Cc: Patrick McNaughton, Chief Examiner
Office of Insurance Commissioner
Central Building, Suite 650
810 Third Avenue
Seattle, WA 98104-1614

RED SHIELD INSURANCE COMPANY

Seattle, Washington

Enclosure to letter of June 4, 2010 addressed to Mr. James T. Odiorne, D.I.C.

In the process of your formally adopting the Financial Examination Report of Red Shield Insurance Company, we have the following response to your Instruction and Recommendation Items. These are arranged in the order of your findings.

Instructions:

1. Intercompany Service Agreement

Thank you for bringing to our attention that SSAP No. 70, paragraph 8 brings further instruction to companies regarding allocation of shared expenses. The referenced service agreement has been in effect since 1992. In consideration of the SSAP we will make necessary changes.

2. Reinsurance Agreements

We acknowledge the quota share agreements do not include the terms noted in SSAP 62, paragraph 8. In the current year we will incorporate the referenced items into our agreements and file them with your Department. Please note the company has consistently paid recoveries without delay, attested to the fact the referenced quota share agreements constituted the entire contract and timely provided reports of premiums and payments of losses.

3. Custodial Agreement

In 2006 Red Shield Insurance Company amended its custodial agreement with Bank of America to be compliant with RCW and NAIC requirements. This was done using the NAIC's proforma agreement provisions. As Instructed, we will work with Bank of America to ensure required statutory custodial agreement items are contained in our agreement.

4. Securities Held by Investment Brokers

The company, in the future, will endeavor to cause the investment broker to timely transfer acquired investments to its custodial account from its brokerage accounts. We believe this will meet the requirements of this Instruction Item.

5. NAIC Annual Statement Errors and Misclassifications.

We concur with the Instruction Item and will comply in statutory statement filings.

Comments and Recommendations:

1. Business Continuity Plan (BCP)

We have initiated the testing of the BCP in Portland and are working on incorporating the Seattle Office into an expanded BCP as recommended.

2. Written Investment Policy

We will take your recommendation under advisement.