

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
WASHINGTON LIFE AND DISABILITY INSURANCE
GUARANTY ASSOCIATION

December 31, 2009

Order No. 11-03
Washington Life and Disability
Insurance Guaranty Association
Exhibit A

SALUTATION

Seattle, Washington
January 6, 2011

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 48.32A.145, an examination was made of the corporate affairs and financial records of

Washington Life and Disability Insurance Guaranty Association
of
Washington State

hereinafter referred to as "WLDIGA" or the "Association" at its home office located at 4771 E SR 3, Shelton, Washington. This report is respectfully submitted showing the condition of the Association as of December 31, 2009.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Washington Life and Disability Insurance Guaranty Association of Washington State. This report shows the financial condition and related matters as of December 31, 2009.



Patrick H. McNaughton
Chief Examiner

1-6-2011

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2005 through December 31, 2009 and comprises a comprehensive review of the books and records of the Association. 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 that were noted during the examination.

Association records, external reference materials, and various aspects of the Association'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 Association's Certified Public Accountants' (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Association's audited financial statement as part of the statutory examination. This review was performed to determine if the Association's accounts and records were prepared and maintained in accordance with Title 48 RCW.

The following summarizes the exception noted while performing this review:

1. Accrued Interest

WLDIGA did not accrue interest on past due assessments. Per RCW 48.32A.085(1), assessments are due not less than thirty days after prior written notice to the member insurers and accrue interest at twelve percent per annum on and after the due date.

The Association is instructed to comply with RCW 48.32A.085(1) by accruing interest on past due assessments.

COMMENTS AND RECOMMENDATIONS

1. Unclaimed Property

The Association has two stale dated checks that are five and fifteen years old.

It is recommended that the Association research and remit stale dated checks to the state of Washington pursuant to the escheat laws.

2. Custodial Safekeeping Agreement

The Association has a custodial safekeeping agreement with Bank of America. The Agreement does not contain all NAIC recommended clauses. For example, the Agreement does not require all assets held pursuant to the agreement to be registered in the name of the Association.

It is recommended that the Association amend its custodial agreement with Bank of America to include all clauses recommended by the NAIC Financial Condition Examiners Handbook (FCEH).

ASSOCIATION PROFILE

Association History

The Association was established pursuant to Chapter 259 of the laws of the 1972 Washington State Legislature (the Act) and is administered under Chapter 48.32A RCW, of the Washington Insurance Code.

The purpose of the Association is to protect policyholders against failure in the performance of contractual obligations, under life and disability insurance policies and annuity contracts, because of the impairment or insolvency of the member insurer.

The Association is a non-profit, unincorporated, legal entity pursuant to RCW 48.32A.055(1). Membership is composed of the Insurance Commissioner ex officio, and of each member insurer authorized to transact business in this state, as defined in RCW 48.32A.045(12).

The first recorded meeting of the Association's Board of Directors was June 17, 1974.

Third Party Administrator

The National Association of Life and Health Insurance Guaranty Associations (NOLHGA) coordinates the efforts of the member guaranty associations involved in multi-state liquidations and bills its members for services. NOLGHA uses several other third party administrators for services such as claim payments, payout tracking, and valuation services. Functions performed by NOLHGA include the legal and actuarial review of proposed plans for disposition of in-force policies, development of liquidating plans, and coordination of funding by member associations.

MANAGEMENT AND CONTROL

Plan of Operation

RCW 48.32A.095 requires that the Association submit to the commissioner a plan of operation to ensure the fair, reasonable, and equitable administration of the Association. The Association's plan of operation was adopted November 2, 2001 and revised June 26, 2003 and October 28, 2010.

Board of Directors (BOD)

RCW 48.32A.065 provides that the BOD consist of the commissioner ex officio and not less than five nor more than nine member insurers serving terms as established by the plan of operation. The insurer members of the BOD are selected by member insurers subject to the approval of the commissioner.

The plan of operation requires an annual meeting of the BOD immediately following the June annual meeting of member insurers.

As of December 31, 2009, the Association had an eight-member BOD.

Name	Member Company/Affiliation
John Patton - Chair	Farmers New World Life Insurance Company
Roger Harbin	Symetra Financial Corporation
James Harbolt	Standard Insurance Company
Ted Kennedy	AIG
Robert Ogden	North Coast Life Insurance Company
James Odiorne	Washington State Office of Insurance Commissioner
Toni Ostrom	Regence Life and Health Insurance Company
Todd Thakar	Prudential Insurance Company of America

Committees

The Association has an executive committee and a nominating committee.

Conflict of Interest

All directors, employees, agents, and representatives are required to sign a policy statement and certification to disclose conflicts of interest. No exceptions were noted.

Fidelity Bond and Other Insurance

The Association has a commercial crime policy that meets the suggested minimum amounts of fidelity insurance shown in the FCEH.

CORPORATE RECORDS

The corporate records were reviewed for the period under examination. All Board meetings were conducted with a quorum present. There was one revision to the plan of operation since the last examination.

ACCOUNTING RECORDS AND INFORMATION SYSTEM

The Association prepares its financial statements on a modified cash basis of accounting which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP). WLDIGA is audited annually by the certified public accounting firm of Sweeny Conrad, PS and received an unqualified opinion for all years under review. During the planning and testing phase of the examination, the accounting procedures, internal controls, and transaction cycles were reviewed and no exceptions were noted.

SUBSEQUENT EVENTS

In May 2010, the Association received notification from the court appointed liquidator (liquidator) of the Reliance Insurance Company that \$494,684 needed to be remitted to the liquidator as a reimbursement of policyholder claims paid on the Association's behalf as early access distributions. The Association paid the liquidator in June, 2010.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions have been addressed and corrected.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Washington Life and Disability Insurance Guarantee Association as of December 31, 2009:

Statements of Assets, Liabilities and Guaranty Fund
Statement of Revenues, Expenses and Guaranty Fund
Statement of Changes in Guaranty Fund Accounts

**Washington Life and Disability Insurance Guaranty Association
Statement of Assets, Liabilities, and Guaranty Fund
December 31, 2009**

	<u>BALANCE PER ASSOCIATION</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
ASSETS			
Cash and cash equivalents	\$735,664	\$0	\$735,664
Short-term investments	15,290,015		15,290,015
Investment income due and accrued	4,663		4,663
Assessments receivable	252,172		252,172
Total Assets	<u>\$16,282,514</u>	<u>\$0</u>	<u>\$16,282,514</u>
 LIABILITIES AND GUARANTY FUND			
LIABILITIES			
NOLHGA expense reimbursement payable	\$50,827	\$0	\$50,827
Total Liabilities	<u>50,827</u>	<u>0</u>	<u>50,827</u>
 GUARANTY FUND			
Life and annuity account	8,232,378	0	8,232,378
General account (unrestricted)	7,999,309		7,999,309
Total Guaranty Fund	16,231,687		16,231,687
Total Liabilities and Guaranty Fund	<u>\$16,282,514</u>	<u>\$0</u>	<u>\$16,282,514</u>

Washington Life and Disability Insurance Guaranty Association
Statement of Revenues, Expenses and Guaranty Fund
December 31, 2009

	<u>BALANCE PER ASSOCIATION</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
REVENUES			
Assessments of member insurers	\$2,399,995	\$0	\$2,399,995
Recoveries from liquidating companies	186,451		186,451
Interest and other investment income	96,858		96,858
Premiums collected	81,896		81,896
Total Revenues	<u>2,765,200</u>	<u>0</u>	<u>2,765,200</u>
EXPENSES			
Policyholder claims	2,092,355		2,092,355
Assessment refunds	2,400,007		2,400,007
NOLHGA expense reimbursement	179,328		179,328
General and Administrative	164,040		164,040
Professional fees	63,302		63,302
NOLHGA dues	38,917		38,917
Insurance	6,062		6,062
Total Expenses	<u>4,944,011</u>	<u>0</u>	<u>4,944,011</u>
Total Revenues under Expenses	<u>(2,178,811)</u>	<u>0</u>	<u>(2,178,811)</u>
Guaranty Fund:			
Beginning of year	18,410,498		18,410,498
End of year	<u>\$16,231,687</u>	<u>\$0</u>	<u>\$16,231,687</u>

**Washington Life and Disability Insurance Guaranty Association
Statement of Changes in Guaranty Fund Accounts
December 31, 2009**

	Disability Account	Life and Annuity Account	General Account	Totals
Balances, December 31, 2008	(\$39,594)	\$10,132,520	\$8,317,572	\$18,410,498
Assessments of member insurers	0	2,399,995	0	2,399,995
Recoveries from liquidating	65,106	114,859	6,486	186,451
Premiums collected	81,896			81,896
Interest and other investment income	0	0	96,858	96,858
Policyholder claims	(230,840)	(1,861,515)	0	(2,092,355)
Assessment refunds	0	(2,400,007)	0	(2,400,007)
NOLHGA expense reimbursement	(50,640)	(114,964)	(13,724)	(179,328)
Operating expenses	(12,122)	(38,510)	(221,689)	(272,321)
Inter-account borrowing	186,194	0	(186,194)	0
Balances, December 31, 2009	\$0	\$8,232,378	\$7,999,309	\$16,231,687

NOTES TO THE FINANCIAL STATEMENTS

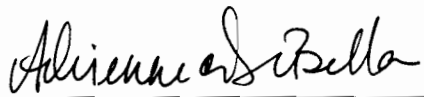
The Association has no special consents, permitted practices, or orders from the state of Washington.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the Association and the Executive Director.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Susan Campbell, CPA, FLMI, CFE, Reinsurance Specialist; and Cynthia Clark, CPA, 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,



Adrienne C. DeBella, CPA, CFE, ALMI
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 } ss
COUNTY OF KING }

Adrienne C. DeBella, being duly sworn, deposes and says that the foregoing report subscribed by her is true to the best of her knowledge and belief.

She attests that the examination of Washington Life and Disability Insurance Guarantee Association 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.

Adrienne C. DeBella, CPA, CFE, ALMI
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 6th day of January 2011.

Notary Public in and for the
State of Washington.

