

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
GREAT REPUBLIC LIFE INSURANCE COMPANY
SEATTLE, WASHINGTON

NAIC CODE 67482
December 31, 2009

Participating States:
Washington

Order No. 10-171
Great Republic Life Insurance Company
Exhibit A

SALUTATION

Seattle, Washington
September 22, 2010

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

The Honorable Alfred W. Gross, Commissioner
Chair, NAIC Financial Condition (E) Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, VA 23218

The Honorable Monica J. Lindeen, Commissioner
Secretary, NAIC Western Zone
Montana Office of the Commissioner of Securities and Insurance
840 Helena Avenue
Helena, Montana 59601

Dear Commissioners:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an Association examination was made of the corporate affairs and financial records of

Great Republic Life Insurance Company
of
Seattle, Washington

hereinafter referred to as "GRLIC," or the "Company" at its home office located at 3933 Stone Way North, Seattle, Washington 98103. This report is respectfully submitted showing the condition of the Company as of December 31, 2009.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Great Republic Life Insurance Company of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2009.



Patrick H. McNaughton
Chief Examiner

9-22-2010
Date

TABLE CONTENTS

SCOPE OF THE EXAMINATION	1
INSTRUCTIONS	1
COMMENTS AND RECOMMENDATIONS	5
COMPANY PROFILE	7
Company History	7
Capitalization	7
Territory.....	7
Growth of Company	8
Affiliated Companies	8
Intercompany Agreements.....	8
MANAGEMENT AND CONTROL	9
Board of Directors	9
Officers	9
Conflict of Interest.....	9
Fidelity Bond and Other Insurance.....	9
Officers', Employees', and Agents' Welfare and Pension Plans	9
CORPORATE RECORDS	9
MORTALITY AND LOSS	9
REINSURANCE	10
STATUTORY DEPOSITS	10
ACCOUNTING RECORDS AND INFORMATION SYSTEM	10
SUBSEQUENT EVENTS	11
FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS	11
FINANCIAL STATEMENTS	11
Assets, Liabilities, Surplus and Other Funds.....	12
Summary of Operations	14
Five Year Reconciliation of Surplus.....	15
Analysis of Changes in Financial Statements Resulting from the Examination.....	16
NOTES TO THE FINANCIAL STATEMENTS	16
ACKNOWLEDGMENT	17
AFFIDAVIT	18

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2005 through December 31, 2009 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 Commissioner (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination though the end of field work on August 4, 2010.

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 Accountants' (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2009 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 to provide assurance on the Company's financial statements as of the examination date.

INSTRUCTIONS

The examiners reviewed the Company's filed 2009 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed 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 exception noted while performing this review:

1. NAIC Annual Statement Errors, Omissions, and Misclassifications

The results of the examination disclosed several instances in which the Company's filing of the 2009 NAIC Annual Statement did not conform to the AP&P and the NAIC Annual Statement Instructions. While the Company needs to correct these practices, the expense accrual was the only item in this instruction believed to be material to the financial statements and, except for the adjustment for the expense accrual noted in item 1.j., no other examination adjustments were necessary.

a. Accident & Health (A&H) Policy Experience Exhibit

The Company reported amounts on its A&H Policy Experience Exhibit supplemental filing net of reinsurance. The NAIC Annual Statement Instructions require this Exhibit to be reported gross of reinsurance.

b. Schedule D, Part 2, Section 1

Schedule D, Part 2, Section 1 did not include NAIC Designations in Column 20 as required by the NAIC Annual Statement Instructions.

c. Exhibit 1, Part 1

The Company incorrectly classified \$163,859 of renewal premiums as first year premiums on Exhibit 1, Part 1.

d. General Interrogatories

Many general interrogatories were not answered or answered incorrectly.

e. Exhibit of Number of Policies Accident & Health

The Exhibit of Number of Policies Accident & Health did not disclose the number of A&H policies as required by the NAIC Annual Statement Instructions.

f. Summary Investment Schedule

The Summary Investment Schedule did not include contract loans, cash, cash equivalents, or short-term investments as required by the NAIC Annual Statement Instructions.

g. Uncollected Premiums and Agent's Balances in the Course of Collection

The Company reported life premiums due on page 2, line 13.2. The NAIC Annual Statement Instructions require life premiums due to be reported on line 13.1.

h. Schedule T

The Company reported in Schedule T, column 1, that it was licensed in the state of Alaska. The Company's Certificate of Authority in the state of Alaska was suspended in 2006 and in accordance with NAIC Annual Statement Instructions, it should have entered an "N" in column 1 indicating that it was not allowed to write business in the state.

i. Premiums Received in Advance

The Company reported its A&H advance premiums as unearned premiums on page 3, line 2. SSAP 54, paragraph 6 requires premiums received prior to the due date to be reported as advance premiums on page 3, line 8.

j. Expense Accrual

The Company did not record an adequate provision for its CPA and actuarial fees. This resulted in an examination adjustment, which decreased surplus in the amount of \$119,337. SSAP No. 5, paragraph 2 includes these fees in the definition of liabilities.

The Company is instructed to comply with RCW 48.05.250 by filing its financial statements in the general form and context approved by the NAIC, RCW 48.05.073 by filing its financial statement 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. Several of these are repeat instructions from the last examination report. See page 11, "Follow Up on Previous Examination Findings".

2. Annual Meeting of Shareholder

The Company did not hold an annual meeting of its shareholder in 2006 or 2007. RCW 48.07.040, RCW 23B.07.010, and the Company's Bylaws require the Company to hold an annual meeting of its shareholder. Because there was no shareholder meeting, there were no duly-elected directors for the period of April 22, 2006 through April 11, 2008. The Bylaws require a minimum of five directors.

The Company is instructed to comply with RCW 48.07.040 and RCW 23B.07.010 and its Bylaws by holding an annual meeting of its shareholders.

3. Fiduciary Responsibility of Directors

The Board of Directors (BOD) failed to exercise its fiduciary responsibility as required by RCW 48.05.370, which states that officers and directors must discharge their duties in good faith and with the diligence, care, and skill which ordinary prudent men would exercise under similar circumstances in like positions.

- a. The Company did not hold an annual meeting of its BOD in 2006, in violation of its Bylaws and in violation of RCW 48.05.370. The Company's Bylaws require an annual meeting of the BOD.
- b. One director did not attend any BOD meetings during the five year period of examination.
- c. The BOD has not determined an appropriate amount of surety bond for the Secretary and Treasurer, as required by the Bylaws. These positions are functioning without any fidelity coverage.
- d. The BOD has not appointed one or more vice presidents as required by the Bylaws.

The Company is instructed to comply with RCW 48.05.370 and its Bylaws by holding an annual meeting of its BOD, and by ensuring that all directors and officers exercise their duties in a fiduciary manner.

4. U.S. Bank Custodial Agreement

The Company responded in its 2009 NAIC Annual Statement General Interrogatories 26.01 that its custodial agreement with U.S. Bank complied with the FCEH. However, it did not contain several provisions required by the FCEH.

The Company is instructed 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 under WAC 284.07.050(2). The Company is also instructed to execute a revised or amended custodial agreement that complies with the FCEH.

5. Unfiled Rate Increases on Two Cancer Indemnity Policies

The Company increased rates on two cancer indemnity policies without properly filing the rate increase with the Commissioner prior to use.

The Company is instructed to comply with RCW 48.19.010(2) by filing with the Commissioner its manual of classification, manual of rules and rates, and any modifications prior to use. This is a repeat instruction from the last examination report. See page 11, "Follow Up on Previous Examination Findings".

6. Approval of Investment Transactions

There was no documentation of BOD approval of investment transactions for the years 2006, 2007, 2008, or 2009. RCW 48.13.340 requires the BOD or a committee charged by the BOD to review and approve all investment transactions. If the BOD charges a committee with this responsibility, approval must be recorded in the committee's minutes and the committee's minutes and related reports must be submitted to the BOD for its approval or disapproval.

The Company is instructed to comply with RCW 48.13.340 by documenting approval of all investment transactions in the BOD minutes.

7. Security of Policyholder Files

The Company's policyholder files contain nonpublic personal health and financial information. These files are accessible by every employee, regardless of whether or not the employee has a legitimate need

for the information. In addition, the policyholder files are accessible by a tenant and its customers, who have unrestricted building access.

The Company is instructed to comply with WAC 284-04-500 by developing and implementing written policies, standards, and procedures for the management of health information.

8. Inter-Company Transactions

The Company paid for an automobile insurance policy for its parent, Empire Insurance Agency, Inc. (Empire) without a written contract and without being reimbursed. SSAP 25 (6) requires transactions between related parties to be in the form of a written agreement. RCW 48.31B.030(1) requires transactions within a holding company system to be fair and reasonable and expenses to be allocated to the insurer in conformity with customary accounting practices consistently applied. SSAP 70 (8) requires expenses to be apportioned to the entity incurring the expense as if the expense had been paid solely by the incurring entity.

The Company is instructed to comply with RCW 48.31B.030 and WAC 284-07-050(2) which require adherence to the AP&P, and SSAPs 70 and 25 by ensuring that transactions between the Company and Empire are in the form of a written agreement, with fair and reasonable terms that provide for an allocation of expenses to the entity incurring the expense. The Company is instructed to seek reimbursement from Empire for the automobile insurance expenses that the Company paid on Empire's behalf.

9. Related Party Transactions

The Company engaged in several related party transactions that were not in compliance with SSAP 25. SSAP 25(2)(e) defines members of the immediate families of principal owners and management as related parties, and SSAP 25 (6) requires transactions between related parties to be in the form of a written agreement. SSAP 25 (16) and (17) require that transactions involving services to be charged at the market rate or allocation of costs. Expenses that result from cost allocations must be allocated subject to fair and reasonable standards, and the books and records of each party must disclose clearly and accurately the precise nature and details of the transaction. The following transactions did not comply with the referenced SSAPs:

- a. The Company purchased eight pieces of artwork from a related party without a written contract, invoice, or sufficient documentation to show the charges were fair and reasonable or at market rates.
- b. The Company paid a related party for consulting services without a written contract and without sufficient documentation to show the charges were fair and reasonable or at market rates.
- c. The Company sublet a portion of its office space to a business owned and operated by a related party, without a written agreement. Subsequent to the examination date, a written agreement was executed that did not meet the requirements of SSAP 25. For example, the sublease agreement allows the related party to use the Company's employees without reimbursement or sharing of the cost of these employees; it does not have a late payment clause or provide for termination of the sublease for failure to pay amounts owed; and it extends the term of the sublease further than the master lease, which could create a contingent liability for the Company.

The Company is instructed to comply with RCW 48.05.073 and WAC 284-07-050(2) which require adherence to the NAIC Annual Statement Instructions and the AP&P, SSAP 25. The Company is further

instructed to execute an amended sublease agreement that meets the fair and reasonable requirements of SSAP 25.

10. Accounts & Records

A review of the Company's policy files, accounts, and records disclosed the following deficiencies: some policies had incorrect face amounts, the types of some policies were stated incorrectly, the Company continued to collect premiums on one matured policy, it continued to collect premium on one expired policy, it used incorrect issue ages, reserve valuations assumed incorrect genders, it reported reserves on deceased insureds, and failed to base annuity reserves on the underlying contract provisions.

The Company is instructed to comply with RCW 48.05.280 by keeping full and adequate accounts and records of its assets, obligations, transactions, and affairs. Several of these are repeat instructions from the last examination report. See page 11, "Follow Up on Previous Examination Findings".

11. Unearned Premium on A&H Policies

The Company calculated its unearned premium reserve using gross modal premiums which is in non-compliance with WAC 284-16-460(2)(a) and SSAP No. 54 (12). In addition, the Company did not calculate the unearned premium reserve on policies on waiver of premium and uncollected premiums.

The Company is instructed to comply with WAC 284-16-460(2)(a) and SSAP 54 (12) by calculating unearned premium reserves using net modal premiums. The Company should include unearned premiums and waiver of premium in its calculation of the unearned premium reserve.

COMMENTS AND RECOMMENDATIONS

1. Actuarial Asset Adequacy Assumptions

There are several assumptions used by the Company in its asset adequacy computation that should be reconsidered:

- a. The Company's continuance curves have termination rates that do not reflect a longer length of stay generally seen in the industry. This causes an understatement of present value of amounts not yet due (PVANYD). In addition, incurred but not reported (IBNR) values appear to be overstated given the 2009 loss ratios as well as hindsight validation results. Any type of historic loss ratio calculations and trend analyses would likely be impacted.
- b. The claims costs used for asset adequacy testing for the main Long-Term Care (LTC) products were assumed to be a percentage, graded by age, of the 1984-2001 SOA LTC Intercompany study, and fitted to the Company's last five years of experience. The morbidity table derived in this way is unusually flat with an actual drop between ages 72 and 77.
- c. The investment interest rate used by the Company in the cash flow testing was not in line with the Company's investment strategy. The cash flow projections also assumed that the Company can borrow at the AAA corporate rate when the Company's AM Best issuer credit rating, prior to being removed at the Company's request, was CC.

It is recommended that the Company review its age slopes, termination rates, continuance curves, and investment strategy to ensure they are reasonable and appropriate assumptions.

2. Business Continuity Plan

The Company does not have a formal, written, business contingency plan that addresses the continuation of all significant business activities.

It is recommended that GRLIC comply with NAIC Guidelines and implement a business contingency plan to address the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event normal business activities are disrupted. Effective January 1, 2011, GRLIC will be required by RCW 48.07.160-205 to create and maintain a business contingency plan.

3. Disaster Recovery Plan

GRLIC does not have a formal, written, tested disaster recovery plan for the resumption of operations in the event of a disruption of normal operations.

It is recommended that GRLIC comply with NAIC Guidelines and write, test and implement a disaster recovery plan that includes appropriate escalation procedures to resolve operational failures in a timely manner. Effective January 1, 2011, GRLIC will be required by RCW 48.07.160-205 to create and maintain a disaster recovery plan.

4. Reviewing Paid-Up Policies for Deaths

The Company does not actively monitor its paid-up life policies to verify whether the insured is alive. During our examination, we identified several policies where the insured was deceased but the Company reported the policies as active and reported actuarial reserves on them.

It is recommended that the Company develop procedures to monitor the status of its paid-up policies.

5. Conflict of Interest Policy

The Company does not have a written conflict of interest (COI) policy or code of conduct. The COI policy should require all directors, officers, and key employees to abstain from conflicts of interest, immediately report potential conflicts of interest, and annually sign a COI disclosure form. The policy should include the process for review and disposition of all disclosed situations. The BOD should review all potential conflicts of interest that may be material to the Company as well as potential conflicts of interest of the president or CEO. The disclosure form should state that the person is in compliance with the COI policy and should require disclosure of any potential conflict of interest.

It is recommended that the Company write a conflict of interest policy that requires all directors, officers, and key employees to comply with the policy and sign an annual declaration/disclosure form.

6. Lack of Back-up Staff and Current Procedure Manuals

There is no back-up staff for expenses, general ledger, claims adjudicating, or premiums billing. In addition, procedure manuals for some critical functions either do not exist or are not reviewed and kept current.

It is recommended that the Company train a back-up person for every critical business function and maintain updated procedure manuals for every critical business function.

7. Fidelity Bond Insurance

The Company does not have fidelity bond insurance coverage.

It is recommended that the Company purchase a fidelity bond insurance policy in the minimum NAIC recommended amount of between \$150,000 and \$175,000.

8. Safeguarding of Checks and Blank Check Stock

The Company does not make a daily bank deposit and un-deposited checks are kept in an unlocked drawer. In addition, blank check stock is not always locked up at night.

It is recommended that the Company make a daily bank deposit and secure any un-deposited checks and blank check stock.

COMPANY PROFILE

Company History

The Company was incorporated on July 14, 1965 as a stock life insurance company under the laws of the state of Washington and commenced business on May 4, 1966, as Pacific Reserve Life Insurance Company. On January 1, 1968, the Company's name was changed to Great Republic Life Insurance Company. On March 17, 1978, Empire Insurance Agency, Inc., a Seattle, Washington corporation, acquired control of GRLIC. GRLIC has not written any new business since 2006. Its existing in-force block consists primarily of nursing home and home health long term care insurance, with the majority of premiums earned in the state of Washington.

Capitalization

Pursuant to RCW 48.05.340, the Company is subject to the capital and surplus requirements in effect prior to June 9, 1994 and is required to maintain \$400,000 of paid-in capital stock and \$100,000 of additional surplus.

Territory

As of December 31, 2009, the Company was authorized to conduct business in the states of Idaho, Nevada, Utah, and Washington. The Company was previously authorized to write business in Alaska, Arizona and Oregon, but its Certificates of Authority in those states were suspended due to its capital and surplus deficiencies. In March 2010, the Company's Certificate of Authority in Idaho was suspended due to its surplus deficiency in that state.

Growth of Company

The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the five year period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2009	\$17,789,889	\$15,858,528	\$1,931,362
2008	18,218,167	15,471,281	2,746,889
2007	19,088,529	18,050,495	1,038,038
2006	18,806,835	17,821,639	985,194
2005	18,742,435	16,061,280	2,681,155

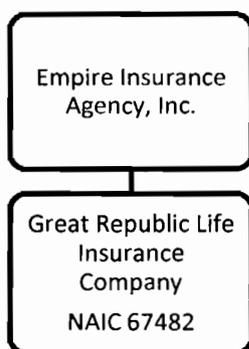
<u>Year</u>	<u>Premium Earned</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2009	\$1,316,771	(\$539,285)	(\$126,620)	(\$697,221)
2008	1,511,826	2,180,912	(476,630)	1,704,282
2007	1,714,794	49,015	610	49,625
2006	1,840,834	(1,722,425)	189	(1,722,236)
2005	2,047,727	98,797	7,984	106,781

Note: As a result of the 2004 statutory examination, the Company booked reserve adjustments of \$2.8 million in 2006, and reversed approximately \$2.2 million of that adjustment in 2008.

Affiliated Companies

The Company is a member of a holding company system regulated pursuant to Chapter 48.31B RCW. Empire Insurance Agency, Inc. (Empire) owns all of GRLIC's common stock, and GRLIC's President, Patricia D. Pritchett, owns all of Empire's common stock. Patricia D. Pritchett is the ultimate controlling person.

The following is an organization chart as of December 31, 2009:



Intercompany Agreements

GRLIC has a tax allocation agreement with its parent that provides for allocation of federal income taxes.

MANAGEMENT AND CONTROL

Board of Directors

The following individuals were directors as of December 31, 2009:

Kyle G. Ewing
Jeannie L. Matthews
Celina R. Mitchell
Patricia D. Pritchett
Constance L. Taylor

Officers

The following individuals were officers as of December 31, 2009:

Patricia Pritchett, President
Scott Blount, Treasurer

Conflict of Interest

The Company does not have a formalized conflict of interest policy. This is a repeat recommendation from the last examination report and is also included as a recommendation in this report. (See Recommendation No. 5.)

Fidelity Bond and Other Insurance

The Company does not have a fidelity bond, and therefore does not have fidelity coverage that meets the NAIC minimum guidelines to protect its assets and policyholders. (See Recommendation No. 7.) The Company carries other liability insurance in satisfactory amounts.

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

The Company does not have a pension plan.

CORPORATE RECORDS

The corporate records were reviewed for the period under examination. The BOD did not meet in 2006, and is not operating in accordance with its Bylaws. (See Instruction number 2 and number 3.) All BOD meetings that were held were conducted with a quorum present. There have been no changes to the Articles of Incorporation or Bylaws since the last examination.

MORTALITY AND LOSS

During the course of the examination, the OIC actuary reviewed the actuarial liabilities held for the life insurance business and performed testing of the Company's reserving methodologies and philosophies as was deemed necessary. The examination relied on the testing performed by the OIC actuary, and as authorized by RCW 48.03.010(5), the actuarial review performed by the Company's CPA firm and its qualified actuarial consultant, to determine whether reserves overall were within a reasonable range.

GR LIC provided copies of its actuarial workpapers and reserve reports as of December 31, 2009. A sample of contracts and payments was made from active life and disabled life reserve reports, premium collection records, and paid claim reports to verify data integrity and to establish that the in-force

information as of December 31, 2009 was accurate and complete. When selections were tested for completeness and accuracy, it was determined that the calculations and record keeping were adequate except for the findings noted in Instruction Nos. 10 and 11 and Recommendation No. 1. The methods, assumptions, and methodologies used by the Company were appropriate and reserves were within a reasonable range.

REINSURANCE

GRLIC has no reinsurance for any of its life policies, but has two reinsurance contracts covering different aspects of its long-term care business. Under each contract, the Company cedes a 50% quota share of coverage written under a specified group of GRLIC policy forms. Both of these contracts meet the minimum Washington State wording requirements, and include reimbursement for premium taxes and agents’ commissions and an allowance for administrative expenses.

STATUTORY DEPOSITS

The Company maintained the following statutory deposits as of December 31, 2009:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Washington	Bonds	\$1,180,372	\$1,241,854
Total		<u>\$1,180,372</u>	<u>\$1,241,854</u>

ACCOUNTING RECORDS AND INFORMATION SYSTEM

The Company maintains its accounting records on a GAAP accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for NAIC Annual Statement reporting. Beginning with the year-end 2006, the Company was audited annually by the certified public accounting firm of Jaynes, Reitmeier, Boyd & Therrell, PC (JRB&T). Prior to 2006, the Company was audited by the certified public accounting firm of Ernst & Young LLP. The Company received unqualified opinions with explanatory paragraphs for substantial doubt about the Company’s going concern for all years under review. However, in the 2005 audit opinion, Ernst & Young LLP qualified its previously issued 2004 audit opinion due to the OIC’s 2004 statutory examination adjustments. The 2004 audit opinion was not reissued. The Company’s accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination. (See Instructions Nos. 1 through 10 and Recommendations Nos. 1 through 9.)

The Company’s information technology (IT) environment was reviewed during the planning and testing phase of the examination. Control Objectives for Information and related Technology (COBIT) controls for planning and organizing, acquiring and implementing, delivering and supporting, and monitoring and evaluating were evaluated to gain assurance that appropriate IT internal controls are in place. GRLIC is a very small company and mitigating internal controls appropriate for a company its size have been implemented. The Company does not have a business continuity plan or a disaster recovery plan. These are repeat recommendations from the last examination report and are also included as recommendations in this report. (See Recommendations Nos. 2 and 3.)

SUBSEQUENT EVENTS

The following events occurred subsequent to the balance sheet date:

1. In March, 2010, the state of Idaho suspended the Company's Certificate of Authority for failure to maintain the minimum required surplus.
2. Jeannie Matthews resigned from the BOD effective June 10, 2010. This vacancy resulted in the number of directors to fall below the minimum of five directors required by the Bylaws.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

The Company did not comply with the following instructions from the last examination report as of December 31, 2004:

1. The Company did not credit an annuity reserve in accordance with contract terms. See Instruction No. 10.
2. The Company did not record an adequate provision for CPA and actuarial fees. See Instruction No. 1.j.
3. Accident and Health Premiums Due & Unpaid were not reported on the correct annual statement line. See Instruction No. 1.g.
4. The Company reported advance A&H premiums as unearned premiums. See Instruction No. 1.i.
5. Exhibit 5 Interrogatory #3 was answered incorrectly as "no" contracts with non-guaranteed elements. The Company does have contracts with non-guaranteed elements. See Instruction No. 1.d.
6. The "Exhibit of Number of Policies" incorrectly stated "none" for accident and health policies, annuities, and supplementary contracts. See Instruction No. 1.e.
7. The Company increased rates on two cancer indemnity policies without filing the rate increase with the Insurance Commissioner prior to use. See Instruction No. 5.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Great Republic Life Insurance Company as of December 31, 2009:

Assets, Liabilities, Surplus and Other Funds

Summary of Operations

Five Year Reconciliation of Surplus

Analysis of Changes in Financial Statements Resulting from the Examination

Great Republic Life Insurance Company
Assets, Liabilities, Surplus and Other Funds
December 31, 2009

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
ASSETS				
Bonds	\$15,998,393	\$0	\$15,998,393	
Stocks				
Preferred stocks	600,000		600,000	
Common stocks	276,056		276,056	
Cash and short term investments	482,590		482,590	
Contract loans	42,845		42,845	
Aggregate write-ins for invested assets	0		0	
Subtotal, cash and invested assets	<u>17,399,884</u>	<u>0</u>	<u>17,399,884</u>	
Investment income due and accrued	216,590	0	216,590	
Premiums and considerations:				
Uncollected premium and agents' balances in the course of collection	10,135		10,135	
Deferred premium agents' balances and installments booked but deferred and not yet due	17,076		17,076	
Reinsurance				
Amount recoverable from reinsurers	114,805		114,805	
Other amounts receivable under reinsurance contracts	10,256		10,256	
Guaranty funds receivable or on deposit	21,143		21,143	
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>17,789,889</u>	<u>0</u>	<u>17,789,889</u>	
Total Assets	<u>\$17,789,889</u>	<u>\$0</u>	<u>\$17,789,889</u>	

Great Republic Life Insurance Company
Assets, Liabilities, Surplus and Other Funds (Continued)
December 31, 2009

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	NOTES
LIABILITIES, CAPITAL AND SURPLUS				
Aggregate reserve for life contracts	\$2,316,092	\$0	\$2,316,092	
Aggregate reserve for accident & health contracts	13,160,587		13,160,587	
Contract claims - life	18,500		18,500	
Contract claims - accident & health	193,964		193,964	
Premiums and annuity considerations received in advance	3,376		3,376	
Other accounts payable on reinsurance	83,005		83,005	
Commissions to agents due or accrued	12,596		12,596	
General expenses due or accrued	19,907	119,337	139,244	1
Taxes, licenses and other fees due or accrued	16,165		16,165	
Amounts withheld or retained by company as agent or trustee	39		39	
Remittances and items not allocated	104		104	
Miscellaneous liabilities:				
Asset valuation reserve	34,191		34,191	
Total liabilities	15,858,526	119,337	15,977,863	1
Common capital stock	1,000,000		1,000,000	
Gross paid in and contributed surplus	1,816,290		1,816,290	
Unassigned funds (surplus)	(884,928)	(119,337)	(1,004,265)	1
Total capital and surplus	1,931,362	(119,337)	1,812,025	1
Total liabilities, capital and surplus	\$17,789,888	\$0	\$17,789,888	

Great Republic Life Insurance Company
Summary of Operations
For the Year Ended December 31, 2009

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
Income				
Premiums and annuity considerations	\$1,316,771	\$0	\$1,316,771	
Net investment income	798,772		798,772	
Amortization of interest maintenance reserve	(731)		(731)	
Commissions and expense allowances on reinsurance ceded	117,376		117,376	
Aggregate write-ins for miscellaneous income	155		155	
Total Income	<u>2,232,343</u>	<u>0</u>	<u>2,232,343</u>	
Benefits				
Death benefits	30,440		30,440	
Annuity benefits	0		0	
Disability benefits	1,492,959		1,492,959	
Surrender benefits	42,262		42,262	
Increase in aggregate reserves for life and health policies and contracts	400,291		400,291	
Total Benefits	<u>1,965,952</u>	<u>0</u>	<u>1,965,952</u>	
Expenses				
Commissions on premiums and annuity considerations	139,945	0	139,945	
General insurance expenses	591,354	119,337	710,691	1
Insurance taxes, licenses and fees, excl. federal income taxes	75,805	0	75,805	
Increase in loading	(1,428)	0	(1,428)	
Total Expenses and Benefits	<u>2,771,628</u>	<u>119,337</u>	<u>2,890,965</u>	
Net gain from operations before dividends to policyholders and federal income taxes (FIT)	<u>(539,285)</u>	<u>(119,337)</u>	<u>(658,622)</u>	1
Net gain from operations after dividends to policyholders and before FIT	(539,285)	(119,337)	(658,622)	1
Federal and foreign income taxes incurred	31,316	0	31,316	
Net gain from operations after federal income taxes	(570,601)	(119,337)	(689,938)	1
Net realized capital gains (losses)(excluding gains (losses) transferred to the IMR)	(126,620)		(126,620)	
Net income or (loss)	<u>(\$697,221)</u>	<u>(\$119,337)</u>	<u>(\$816,558)</u>	1

Great Republic Life Insurance Company
Summary of Operations (Continued)
For the Year Ended December 31, 2009

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>				
Capital and Surplus December 31, 2008	\$2,746,889	\$0	\$2,746,889	
Net income or (loss)	(697,221)	(119,337)	(816,558)	1
Change in net unrealized capital gains (losses)				
less capital gains tax	39,264		39,264	
Change in net deferred income tax	226,684		226,684	
Change in nonadmitted assets and related items	(350,063)		(350,063)	
Change in asset valuation reserve	(34,191)		(34,191)	
Net change in capital & surplus	(815,527)	(119,337)	(934,864)	1
Capital and Surplus, December 31, 2010	<u>\$1,931,362</u>	<u>(\$119,337)</u>	<u>\$1,812,025</u>	1

Great Republic Life Insurance Company
Five Year Reconciliation of Surplus
As of December 31, 2009

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital and Surplus, December 31, Prior Year	<u>\$2,746,889</u>	<u>\$1,038,038</u>	<u>\$985,195</u>	<u>\$2,681,156</u>	<u>\$2,561,317</u>
Net income or (loss)	(697,221)	1,704,282	49,625	(1,722,236)	106,781
Change in net unrealized capital gains (losses) less capital gains tax	39,264	(95,910)	4,323	25,563	4,951
Change in net deferred income tax	226,684	(578,688)	(19,299)	587,604	(29,309)
Change in nonadmitted assets and related items	(350,063)	573,728	19,344	(585,711)	51,000
Change in asset valuation reserve	(34,191)	105,439	(1,150)	(1,181)	(13,584)
Net change in capital & surplus	(815,527)	1,708,851	52,843	(1,695,961)	119,839
Capital and surplus end of reporting period	<u>\$1,931,362</u>	<u>\$2,746,889</u>	<u>\$1,038,038</u>	<u>\$985,195</u>	<u>\$2,681,156</u>

Great Republic Life Insurance Company
Analysis of Changes in Financial Statements Resulting from the Examination
December 31, 2009

	<u>Per Annual Statement</u>	<u>Per Examination</u>	<u>Notes</u>	<u>Increase (Decrease) in Surplus</u>	<u>Total</u>
Capital and surplus 12/31/2009 Per Annual Statement					\$1,931,362
Assets					
Liabilities					
General Expenses Due or Accrued	19,907	139,244	1	(119,337)	
Change in surplus					<u>(119,337)</u>
Capital and surplus 12/31/2009 per examination					<u><u>\$1,812,025</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1. General Expenses Due or Accrued

Increase general expenses due or accrued by \$119,337 for estimated CPA and actuarial fees.

The Company holds a special consent that allows it to invest up to four percent of its assets into a single entity's mutual funds and an unlimited amount of its assets in mutual funds listed on the NAIC's SVO's Direct Obligations/Full Faith Credit Exempt List or Bond Fund List. At December 31, 2009, the Company held 3.6% of its admitted assets in mutual funds, and one mutual fund exceeded the 1% limitation that would have been imposed by RCW 48.13.240(3) without the special consent.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Great Republic Life 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, Reinsurance Specialist; Roy Olson, FSA, MAAA, Life Actuary; H. Lee Michelson, FSA, MAAA, CLU, Associate Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; Cynthia Clark, CPA, Financial Examiner; and Richard Bologna, 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

