

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF  
ROCKY MOUNTAIN FIRE AND CASUALTY COMPANY  
SEATTLE, WASHINGTON

NAIC CODE 22128  
December 31, 2011

Order No. 12-302  
Rocky Mountain Fire and Casualty Company  
Exhibit A

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of Rocky Mountain Fire and Casualty Company of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2011.



Patrick H. McNaughton  
Chief Examiner

11-13-12

Date

**SALUTATION**

Seattle, Washington  
November 13, 2012

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 48.03.010, an examination was made of the corporate affairs and financial records of

**Rocky Mountain Fire and Casualty Company**

of

Seattle, Washington

hereinafter referred to as "RMFCC," or the "Company" at the location of its home office, 200 Cedar Street, Seattle, Washington 98121. This report is respectfully submitted showing the financial condition and related corporate matters of RMFCC as of December 31, 2011.

## TABLE OF CONTENTS

<b>SCOPE OF THE EXAMINATION .....</b>	<b>1</b>
<b>INSTRUCTIONS.....</b>	<b>1</b>
<b>COMPANY PROFILE .....</b>	<b>2</b>
Company History .....	2
Capitalization.....	2
Territory and Plan of Operations.....	3
Growth of Company .....	3
Affiliated Companies .....	4
Intercompany Agreements.....	4
<b>MANAGEMENT AND CONTROL.....</b>	<b>4</b>
Board of Directors .....	4
Officers .....	4
Conflict of Interest.....	5
Fidelity Bond and Other Insurance.....	5
Officers', Employees', and Agents' Welfare and Pension Plans.....	5
<b>CORPORATE RECORDS .....</b>	<b>5</b>
<b>UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES .....</b>	<b>5</b>
<b>REINSURANCE.....</b>	<b>6</b>
<b>STATUTORY DEPOSITS.....</b>	<b>6</b>
<b>ACCOUNTING RECORDS AND INFORMATION SYSTEMS .....</b>	<b>6</b>
<b>SUBSEQUENT EVENTS .....</b>	<b>7</b>
<b>FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS .....</b>	<b>7</b>
<b>FINANCIAL STATEMENTS.....</b>	<b>7</b>
Assets, Liabilities, Surplus and Other Funds.....	8
Statement of Income and Capital and Surplus Account.....	9
Five Year Reconciliation of Surplus .....	10
<b>NOTES TO THE FINANCIAL STATEMENTS .....</b>	<b>11</b>
<b>ACKNOWLEDGMENT .....</b>	<b>12</b>
<b>AFFIDAVIT .....</b>	<b>13</b>

## **SCOPE OF THE EXAMINATION**

This examination covers the period January 1, 2007 through December 31, 2011 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 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 through the end of fieldwork on October 8, 2012.

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

This examination was performed in compliance with the 2011 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, to allow 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 2011 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 exceptions noted while performing this review:

### **1. Custodial Agreement**

The Company responded in its 2011 NAIC Annual Statement, General Interrogatory 28.01, that its custodial agreement with Wells Fargo Bank, N.A., complied with the FCEH. However, the Wells Fargo Bank, N.A., custodial agreement did not contain several provisions which are required by the FCEH and RCW 48.13.480.

**The Company is instructed to execute a revised or amended custodial agreement that complies with the FCEH and RCW 48.13.480. The Company is also instructed to comply with RCW 48.05.250 by following the NAIC Annual Statement Instructions and the AP&P as required by WAC 284-07-050(2).**

## **2. Missing Required Reinsurance Terms**

The Multiple Line Excess of Loss Reinsurance Agreement between RMFCC and its parent, Grange Insurance Association (GIA), did not stipulate that it constitutes the entire contract, as required by SSAP No. 62R(8).

**The Company is instructed to comply with WAC 284-07-050(2) which requires adherence to the AP&P, specifically SSAP No. 62R(8), by including all required terms in its reinsurance agreements.**

## **3. Premium Deficiency Reserves**

In Note to Financial Statements No. 30 (Premium Deficiency Reserves) of the Company's 2011 NAIC Annual Statement, the Company did not disclose the date of evaluation or whether anticipated investment income was utilized as a factor in the calculation, as required by the NAIC Annual Statement Instructions.

**The Company is instructed to comply with RCW 48.05.250 by filing financial statements in the general form and context approved by the NAIC, and WAC 284-07-050(2), which requires adherence to the NAIC Annual Statement Instructions and the AP&P.**

## **COMPANY PROFILE**

### **Company History**

In 1958, Mayflower Corporation (Mayflower), a wholly-owned subsidiary of GIA, acquired a majority of the outstanding stock of Rocky Mountain Fire Insurance Company (RMFIC) of Great Falls, Montana. On April 2, 1959, Mayflower formed a new Washington insurance company called Rocky Mountain Fire and Casualty Company. On July 1, 1959, the previously acquired Montana insurance company, RMFIC, was merged on a share-for-share basis into RMFCC. In September 2006, the ownership of RMFCC was transferred from Mayflower to GIA.

### **Capitalization**

GIA made surplus contributions to the Company in the amounts of \$1.5 million in 1980, \$2.5 million in 1988, \$2.4 million in 1990 and \$2.7 million in 1993. In return, the Company issued non-interest bearing surplus contribution notes to GIA. In late October 2008, RMFCC redeemed all the surplus contribution notes held by its parent, totaling \$9.1 million. The Company no longer has any outstanding surplus notes.

In 2002, GIA contributed \$8.37 million of capital to Mayflower, who then contributed the \$8.37 million of capital to RMFCC.

Prior to performing a common capital stock reverse split in October 2011, RMFCC had 12,190 common stock shares authorized, issued and outstanding worth \$3,010,930. After the common capital stock reverse split, the Company had 1,000 shares of common stock authorized, issued and outstanding with a par value of \$6,000 per share totaling \$6 million.

No dividends were declared or paid to stockholders during the period covered by the examination.

As of December 31, 2011, all issued and outstanding common stock shares of the Company were wholly-owned by GIA. The Company's capitalization of \$17,240,738 consisted of \$6 million in common stock, gross paid in and contributed surplus of \$5,380,930, and unassigned funds in the amount of \$5,859,808.

### **Territory and Plan of Operations**

The Company is authorized to do business in California, Colorado, Idaho, Montana, Oregon, Washington, and Wyoming. RMFCC's authorized lines of business are property, marine, transportation, general casualty and surety.

### **Growth of Company**

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

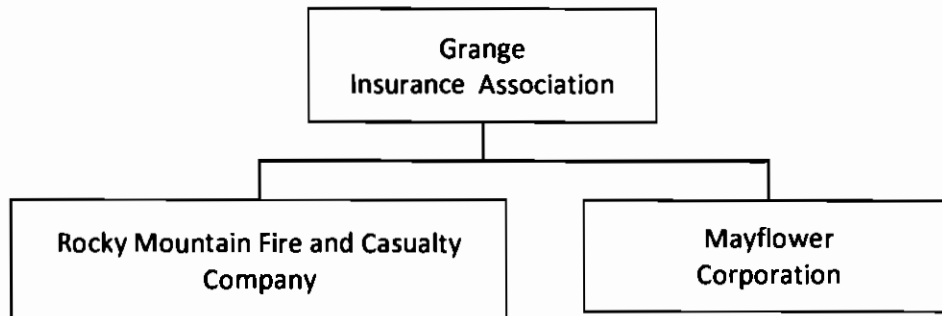
<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Capital &amp; Surplus</b>	
2011	\$24,136,594	\$6,895,856	\$17,240,738	
2010	24,771,476	8,538,454	16,233,022	
2009	25,003,303	9,681,446	15,321,857	
2008	25,871,256	11,936,779	13,934,477	
2007	35,549,842	14,063,441	21,486,401	

<b>Year</b>	<b>Premium Earned</b>	<b>Net Underwriting Gain (Loss)</b>	<b>Net Investment Gain (Loss)</b>	<b>Net Income</b>
2011	\$7,734,685	\$ 795,973	\$916,170	\$1,242,176
2010	9,447,203	293,902	968,775	911,067
2009	11,269,058	465,968	869,111	968,908
2008	13,049,192	1,435,370	880,442	1,465,578
2007	14,205,537	1,653,753	1,492,915	2,187,812

## Affiliated Companies

The following organization chart was taken from RMFCC's filed 2011 NAIC Annual Statement:



## Intercompany Agreements

As of December 31, 2011, the Company had the following intercompany agreements in force, with the effective date indicated:

Consolidated Federal Income Tax Liability Allocation Agreement	January 1, 1995
Multiple Line Excess of Loss Reinsurance Agreement No. 1	January 1, 1995
Intercompany Expense Sharing Agreement	November 1, 2003

## MANAGEMENT AND CONTROL

### Board of Directors

Directors as of December 31, 2011:

Dee T. McKern	Chairman of the Board
Frederick P. Church	
Frederick D. Crowell	
Rosemary K. Hansen	
Darelld G. Larrigan	
Ronald G. Miller	
Arthur R. Peterson	
Paul C. Redner	
Robert L. Shea	
Larry D. Tanneberg	

### Officers

Officers as of December 31, 2011:

Ryan M. Dudley	President
Sean I. McGourty	Treasurer



Todd C. Merkley  
Ralph W. Carlile  
Rudy F. Werle  
Charles T. Mullen

Secretary  
Vice President Information Technology  
Vice President Claims  
Vice President Marketing

### **Conflict of Interest**

The Company has an established procedure for disclosure to its BOD of any affiliation on the part of its officers, directors and key employees that is in conflict with their official duties. The corporate secretary, chief executive officer, and chairman of the board review the conflict of interest statements annually for conflicting situations and take appropriate action, if necessary. No exceptions were noted.

### **Fidelity Bond and Other Insurance**

The Company was included as a named insured on various insurance policies purchased by GIA, including property and general liability loss, commercial excess umbrella liability, excess liability, workers' compensation and employers' liability, fidelity, fiduciary liability, errors and omissions and directors and officers' liability coverage. GIA's fidelity coverage of \$2 million meets the suggested NAIC minimum coverage.

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

The Company does not have any direct employees, so it does not have any obligations for retirement plans, deferred compensation, post employment benefits, compensated absences or other post retirement benefit plans. GIA performs services for RMFCC pursuant to an Intercompany Expense Sharing Agreement.

## **CORPORATE RECORDS**

The Company's Articles of Incorporation, Bylaws, Certificate of Authority and minutes of the BOD and committees were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. Investment purchases, transfers, and disposals were ratified by the BOD and noted in the minutes.

### **UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

<u>Year</u>	<u>Losses</u>	<u>Loss Adjustment Expenses</u>
2011	\$2,873,000	\$586,000
2010	3,947,000	549,000
2009	4,339,000	691,000
2008	5,314,001	682,000
2007	6,400,013	896,002

As shown above, the reserves carried by the Company for unpaid losses and loss adjustment expenses were \$2,873,000 and \$586,000, respectively, as of December 31, 2011.

The OIC actuaries reviewed the unpaid losses and loss adjustment expense reserves of the Company and concluded that the reserves were within a range of reasonable estimates. Therefore, the Company's loss and loss adjustment expense reserves were accepted as reasonable and no adjustments were proposed to the amounts reported in the Company's 2011 NAIC Annual Statement.

### **REINSURANCE**

RMFCC participates in quota share and excess loss treaties. These treaties are spread across a portfolio of authorized reinsurers. In addition, RMFCC cedes reinsurance to GIA through a multiple line excess of loss reinsurance agreement.

Reinsurance agreements were found to be in compliance with Washington State reinsurance statutes with the exception of one treaty which did not include the entire contract clause. (See Instruction No. 2.)

The reinsurers are either authorized to do business in Washington State or GIA holds an approved letter of credit. They are all properly classified in Schedule F of the 2011 NAIC Annual Statement. The Company and its parent have controls in place to adequately monitor its reinsurance program including the financial condition of the reinsurers.

RMFCC utilizes the services of a reinsurance intermediary, Guy Carpenter & Company, LLC (Guy Carpenter), to solicit, negotiate, and place reinsurance cessions on its behalf. Guy Carpenter is an international reinsurance intermediary owned by Marsh & McLennan Companies, Inc. and is licensed by Washington State.

### **STATUTORY DEPOSITS**

The Company maintained the following statutory deposits as of December 31, 2011:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Oregon	Bond	\$307,925	\$309,819
Washington	Bond	2,066,955	2,367,402
<b>Total</b>		<b><u>\$2,374,880</u></b>	<b><u>\$2,677,221</u></b>

### **ACCOUNTING RECORDS AND INFORMATION SYSTEMS**

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) basis and is audited annually by the certified public accounting firm of Ernst & Young LLP. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no significant weaknesses were noted.

The Company's Information Technology (IT) environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT system and controls were evaluated to gain an understanding of the IT general control risks and assess the effectiveness of these controls to determine if appropriate mitigating and internal controls have been implemented. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels. The Company has an effective Business Continuity Plan and Disaster Recovery Plan, which have been tested on a regular basis and includes the availability of an alternate site.

#### **SUBSEQUENT EVENTS**

There were no additional, material events impacting the Company between the examination date and the last day of our field work on October 8, 2012.

#### **FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

The Company did not comply with the following instruction from the last examination report dated December 31, 2006:

The Company did not adequately modify the Multiple Line Excess of Loss Reinsurance Agreement between GIA and RMFCC to stipulate that it constituted the entire contract, as required by SSAP No. 62R(8). (See Instruction No. 2.)

#### **FINANCIAL STATEMENTS**

The following financial statements show the financial condition of Rocky Mountain Fire and Casualty Company as of December 31, 2011:

Assets, Liabilities, Surplus and Other Funds  
Statement of Income and Capital and Surplus Account  
Five Year Reconciliation of Surplus

**Rocky Mountain Fire and Casualty Company**  
**Assets, Liabilities, Surplus and Other Funds**  
**December 31, 2011**

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<b>Assets</b>			
Bonds	\$20,796,720	\$0	\$20,796,720
Cash, cash equivalents, and short-term investments	1,672,669		1,672,669
<b>Subtotals, cash and invested assets</b>	<b>22,469,389</b>	<b>0</b>	<b>22,469,389</b>
Investment income due and accrued	208,059		208,059
Uncollected premiums and agents' balances in the course of collection	805,096		805,096
Net deferred tax asset	654,050		654,050
<b>Total Assets</b>	<b>\$24,136,594</b>	<b>\$0</b>	<b>\$24,136,594</b>
<b>Liabilities, Surplus and Other Funds</b>			
Losses	\$2,873,000	\$0	\$2,873,000
Loss adjustment expenses	586,000		586,000
Commissions payable, contingent commissions and other similar charges	118,712		118,712
Other expenses	143,424		143,424
Taxes, licenses and fees	(10,341)		(10,341)
Current federal and foreign income taxes	549,729		549,729
Unearned premiums	2,381,654		2,381,654
Advance premium	102,594		102,594
Ceded reinsurance premiums payable	48,438		48,438
Amounts withheld or retained by company for account of others	28,026		28,026
Payable to parent, subsidiaries and affiliates	74,620		74,620
<b>Total Liabilities</b>	<b>6,895,856</b>	<b>0</b>	<b>6,895,856</b>
Common capital stock	6,000,000		6,000,000
Gross paid in and contributed surplus	5,380,930		5,380,930
Unassigned funds (surplus)	5,859,808		5,859,808
<b>Surplus as regards policyholders</b>	<b>17,240,738</b>	<b>0</b>	<b>17,240,738</b>
<b>Total Liabilities, Surplus and Other Funds</b>	<b>\$24,136,594</b>	<b>\$0</b>	<b>\$24,136,594</b>

**Rocky Mountain Fire and Casualty Company**  
**Statement of Income and Capital and Surplus Account**  
**For the Year Ended December 31, 2011**

	<b>Balance Per Company</b>	<b>Examination Adjustments</b>	<b>Balance Per Examination</b>
<b>Underwriting Income</b>			
Premiums earned	\$7,734,685	\$0	\$7,734,685
<b>Deductions</b>			
Losses incurred	3,845,393		3,845,393
Loss adjustment expenses incurred	1,146,066		1,146,066
Other underwriting expenses incurred	1,947,253		1,947,253
Total underwriting deductions	<u>6,938,712</u>	<u>0</u>	<u>6,938,712</u>
<b>Net underwriting gain or (loss)</b>	<b><u>795,973</u></b>	<b><u>0</u></b>	<b><u>795,973</u></b>
<b>Investment Income</b>			
Net investment income earned	902,641		902,641
Net realized capital gains or (losses)	13,529		13,529
<b>Net investment gain or (loss)</b>	<b><u>916,170</u></b>	<b><u>0</u></b>	<b><u>916,170</u></b>
<b>Other Income</b>			
Net gain (loss) from agents' or premium balances charged off	(3,129)		(3,129)
Finance and service charges not included in premiums	84,529		84,529
Aggregate write-ins for miscellaneous income	54		54
<b>Total other income</b>	<b><u>81,454</u></b>	<b><u>0</u></b>	<b><u>81,454</u></b>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	1,793,597		1,793,597
Federal and foreign income taxes incurred	551,421		551,421
<b>Net Income</b>	<b><u>\$1,242,176</u></b>	<b><u>\$0</u></b>	<b><u>\$1,242,176</u></b>
<b>Capital and Surplus Account</b>			
<b>Surplus as regards policyholders, December 31 prior year</b>	<b><u>\$16,233,022</u></b>	<b><u>\$0</u></b>	<b><u>\$16,233,022</u></b>
<b>Gains and (losses) in surplus</b>			
Net income	1,242,176		1,242,176
Change in net deferred income tax	(267,816)		(267,816)
Change in nonadmitted assets	33,356		33,356
Capital Changes:			
Paid in	2,989,070		2,989,070
Surplus Adjustments:			
Paid in	(2,989,070)		(2,989,070)
<b>Change in surplus as regards policyholders for the year</b>	<b><u>1,007,716</u></b>	<b><u>0</u></b>	<b><u>1,007,716</u></b>
<b>Surplus as regards policyholders, December 31 current year</b>	<b><u>\$17,240,738</u></b>	<b><u>\$0</u></b>	<b><u>\$17,240,738</u></b>

**Rocky Mountain Fire and Casualty Company**  
**Five Year Reconciliation of Surplus**  
**For the Years Ended December 31,**

	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
<b>Capital and Surplus, December 31, previous year</b>	<b>\$16,233,022</b>	<b>\$15,321,857</b>	<b>\$13,934,477</b>	<b>\$21,486,401</b>	<b>\$19,380,343</b>
Net income or (loss)	1,242,176	911,067	968,908	1,465,578	2,187,812
Changes in net deferred income tax	(267,816)	(39,886)	3,112	172,727	(83,221)
Change in nonadmitted assets	33,356	39,984	415,164	(91,541)	2,976
Change in provision for reinsurance			196	1,312	(1,509)
Change in surplus notes				(9,100,000)	
Capital changes: Paid in	2,989,070				
Surplus adjustments: Paid in	(2,989,070)				
Change in surplus as regards policyholders for the year	<u>1,007,716</u>	<u>911,165</u>	<u>1,387,380</u>	<u>(7,551,924)</u>	<u>2,106,058</u>
<b>Capital and Surplus, December 31, current year</b>	<b><u>\$17,240,738</u></b>	<b><u>\$16,233,022</u></b>	<b><u>\$15,321,857</u></b>	<b><u>\$13,934,477</u></b>	<b><u>\$21,486,401</u></b>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. Special Consent**

The Company holds a special consent, issued by the state of Washington, with an effective date of January 1, 2011, and subsequently renewed effective January 1, 2012, that allows the Company to own and purchase mutual funds if certain statutory requirements have been met. RMFCC is allowed to acquire and hold a single entity's NAIC non-exempt listed mutual funds totaling not more than four percent of RMFCC's admitted assets. As of December 31, 2011, RMFCC's mutual fund investments represented 2.4 percent of its admitted assets. One of RMFCC's mutual fund investments exceeded the one percent of assets limitation that would have been imposed by RCW 48.13.240(3) without the special consent.

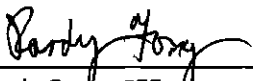
The Company has no additional special consents, permitted practices, or orders from the state of Washington.

## ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Rocky Mountain Fire and Casualty 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, FLMI, CFE, Reinsurance Specialist; D. Lee Barclay, FCAS, MAAA, Senior Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; Dan Forsman, Actuarial Analyst; Tarik Subbagh, MSBA, CPA, CFE, Property and Casualty Field Supervising Examiner; Albert Karau, Jr., CPA, CFE, FLMI, Examiner-in-Charge; Edsel R. Dino, Financial Examiner; Katy Bardsley, CPA, AFE, Financial Examiner; and James R. Gill, CPA, MBA, 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,

  
\_\_\_\_\_  
Randy Fong, CFE  
Examiner-in-Charge  
State of Washington

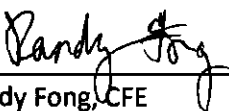


**AFFIDAVIT**


STATE OF WASHINGTON }  
  } ss  
COUNTY OF KING        }

Randy Fong, CFE, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Rocky Mountain Fire and Casualty Company 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.

  
\_\_\_\_\_  
Randy Fong, CFE  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me this 13th day of November, 2012.

  
\_\_\_\_\_  
Notary Public in and for the  
State of Washington

