MARKET CONDUCT EXAMINATION

RED SHIELD INSURANCE COMPANY

7245 WEST MARGINAL WAY S.W.
P O BOX 3736
SEATTLE, WA 98124-3736

JANUARY 1, 2004 – DECEMBER 31, 2004

Exhibit A
Order No. G 06-03
Red Shield Insurance Company

TABLE OF CONTENTS

Section	Page
Table of Contents	2
Salutation	3
Chief Examiner's Report Certification & Acknowledgements	4
Foreword, Scope and Sampling Standards	5
History, Management and Operations	7
General Examination Practices	7
Agent Activities	8
Complaints	9
Underwriting and Rating	9
Rate and Form Filing	10
Renewals, Cancellations and Non-Renewals	12
Claims Settlement Practice	12
Summary of Standards	14
Instructions and Recommendations	18
Appendices	19

The Honorable Mike Kreidler
Washington State Insurance Commissioner
PO Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following Company:

Red Shield Insurance Company, NAIC #41580

In this report, the above entity is also referred to as "the Company". This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners' market conduct examination procedures. Sally Anne Carpenter, AIE, and Shirley M. Merrill of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of the Red Shield Insurance Company during the course of this market conduct examination, including those people assigned to us that provided daily support to the examiners.

I certify that this document is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

SCOPE

Time Frame

The examination covered the Company's operations from January 1, 2004 through December 31, 2004 except where noted in the report. The examination was performed in the Company's home office in Seattle, WA, its regional office in Portland, OR and in the Seattle Office of the Insurance Commissioner.

Matters Examined

The examination included the following areas:

- Company Operations and Management
- General Examination Practices
- Agent Licensing
- Complaints
- Rate & Form Filings
- Underwriting and Rating
- Renewals, Cancellations and Non-Renewals
- Claims Settlement Practices

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

	92%	Confidence Level
+/-	5%	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ratio which determines whether or not a standard is met. If the error ratio found in the sample is less than 5%, the standard will be considered as 'met'. The standard in the area of agent licensing and appointment will not be met if any violation is identified. The standard in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards which look for the existence of written procedures or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

Standards will be reported as Passed (without comment), Passed with Comment or Failed. The definition of each category follows.

Passed	There were no adverse findings for this standard.
Passed with Comment	The records reviewed fell within the tolerance level for that standard.
Failed	The records reviewed fell outside of the tolerance level established for the standard.

HISTORY, MANAGEMENT AND OPERATIONS

Company Name	Domiciled State	Incorporation Date	Date Admitted to WA
Red Shield Insurance Company	WA	February 9, 1979	February 9, 1979

The Company was originally formed to target a niche market writing coverage for U.S. Longshoreman and Harbor Workers liability. The Company has now shifted its focus to traditional property and casualty lines and writes general liability, commercial property, residential dwelling, inland marine and ocean marine insurance in Washington. The Company is also licensed in Arizona, California, Colorado, Idaho, Montana, Oregon and Utah.

Red Shield Insurance Company is a member of the Red Shield Insurance Group which includes two property casualty insurers: Rainier Insurance Company and Red Shield Insurance Company. Both are wholly owned subsidiaries of the Maritime Service Corporation (MCS), which in turn is owned by the Rothschild International Corporation.

Corporate headquarters are located in Seattle, Washington. Most underwriting and claims are handled in the regional office in Portland, Oregon.

Clayton R. Jones, Sr., is President and CEO of the Company. He holds similar positions in the Rainier Insurance Company, MCS and Rothschild International Corporation.

The following Operations and Management Standards Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	**The Company is required to be registered with the Office of the Insurance Commissioner prior to acting as an insurance company in the State of Washington.**	**RCW 48.05.030(1)**
2	**The Company is required to file with the Office of the Insurance Commissioner any amendments to the Articles of Incorporation for domestic insurers or insurance holding Companies.**	**RCW 48.07.070**

GENERAL EXAMINATION PRACTICES

Findings

The following General Examination Standards Passed without Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
1	**The Company made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner.**	**RCW 48.03.030(1)**

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	**The Company does business in its own legal name.**	**RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06**
3	**The Company maintains full and accurate records and accounts.**	**RCW 48.05.280**
4	**The Company filed an antifraud plan with the Office of Insurance Commissioner and files annual anti-fraud reports with Office of the Insurance Commissioner.**	**RCW 48.30A.045 RCW 48.30A.060**

AGENT ACTIVITIES

Agent license and appointment records for agents who wrote the policies selected for the underwriting samples were reviewed by the examiners. The examiners also reviewed a sample of records from the list of active agents provided by the Company. As part of the review, the examiners compared the Company records with the OIC records to ensure that agents soliciting business for the Company were licensed and appointed prior to soliciting business on behalf of the Company as required by Washington law.

Findings

The following Agent Activity Standards Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
3	**The Company must notify the Office of the Insurance Commissioner when an agent's appointment is revoked.**	**RCW 48.17.160 (3)**
4	**The Company must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract.**	**RCW 48.17.591 (2)**

The following Agent Activity Standards Failed:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	**The Company ensures that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way.**	**RCW 48.17.060(1) and (2)**
2	**The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company.**	**RCW 48.17.160**

Standard #1: The Company issued one (1) policy for one (1) broker who was not licensed for the appropriate line of business in Washington.

Standard #2: Sixty three (63) policies were issued by two (2) agents who were not appointed by the Company at the time the policies were solicited.

See Appendix 1 for detail.

Subsequent Event: The Company advises that a system block has been installed to prevent an agent from writing business unless properly licensed and appointed for the appropriate state.

COMPLAINTS

The examiners reviewed all fourteen complaints filed with the OIC between January 1, 2000 and February 1, 2005.

Files were reviewed to determine if the Company responded to complaints filed with the OIC within time frames stated in its procedures, and those required by Washington regulation. Files were reviewed for adverse trends. The examiners also reviewed the Company complaint handling procedures.

Findings

The following Complaint Standard Passed with Comment:

#	COMPLAINT STANDARD	REFERENCE
1	**Response to communication from the Office of the Insurance Commissioner must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication.**	**WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4**

Standard #1: One (1) response to a complaint filed in 2003 was one week late. All other responses were timely.

UNDERWRITING AND RATING

The examiners selected 60 of 1,511 policies that were either new or renewed during the examination period.

Files were reviewed to determine if the Company:

- Followed the filed rating plans
- Followed the underwriting rules
- Were in compliance with Washington laws

The examiners manually rated policies to determine if there were any programmed errors in the Company's computer system and if the Company was using the filed and approved rates.

Underwriting Standards #2, #3, and #4 apply to personal and commercial auto coverages only. Since this Company does not write this coverage, these standards do no apply to this exam. Underwriting Standards # 9, 10, and 11 apply only to those companies who use credit scoring in the underwriting process. This Company does not use credit scoring.

Findings

The following Underwriting Standards Passed without Comment:

#	UNDERWRITING STANDARD	REFERENCE
1	**Binders issued to temporarily secure coverage (during underwriting) are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates.**	**RCW 48.18.230(1), WAC 284-30-560**
6	**The Company retains all documentation related to the development and use of (a) rates.**	**WAC 284-24-070**
7	**The Company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage.**	**WAC 284-30-574**
8	**Binders must identify the insurer in which they are bound, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received.**	**WAC 284-30-560(2)(a)**
12	**No insurer may alter an application for insurance without the insured's written permission.**	**RCW 48.18.070**

The following Underwriting Standard Failed:

#	UNDERWRITING STANDARD	REFERENCE
5	**The Company applies schedule rating plans to all policies as applicable in its filing and retains documentation and analysis to support the Company's decision.**	**WAC 284-24-100**

Standard #5: The Company wrote five (5) policies that were eligible for schedule rating consideration. There was no documentation in the file to explain that the Company considered these policies average risks, as required, when there were no credits or debits applied.

See Appendix 2 for detail.

Subsequent event: The Company has implemented a mandatory schedule rating worksheet in the underwriting file of every eligible worksheet.

RATE AND FORM FILINGS

The examiners selected forms that were attached to the new and renewal policies used in the underwriting sample for the rate and form filings review. The examiners also manually rated policies to determine if the Company's automated rating system was programmed with the filed

rates. The purpose was to determine if the Company was complying with the laws regarding rate and form filing.

Findings

The examiners found that Company's premium finance forms did not consistently include the agent's name and address as required by RCW 48.56.080(2). The Company advised the form was being revised and provided a copy of the notice to the examiners.

The following Rate and Form Filing Standards Passed without Comment:

#	POLICY PROVISION STANDARD	REFERENCE
1	**Policy forms and applications, where required, have been filed with and approved by the Office of the Insurance Commissioner prior to use.**	**RCW 48.18.100**
3	**The policy must identify all forms that make up the policy. The policy will identify the effective time and date of the policy. The policy will identify all coverage limits.**	**RCW 48.18.140(2)(a)-(f)**
4	**The policy must contain all endorsements and forms.**	**RCW 48.18.190**
5	**Policy forms for commercial policies are filed within 30 days of use.**	**RCW 48.18.103(2)**
6	**Personal Injury Protection forms issued by the Company contain coverage definitions and limits that conform to Washington law.**	**RCW 48.22.095** **RCW 48.22.005**
7	**Rates for commercial policies must be filed within 30 days of use.**	**RCW 48.19.043 (2)**

The following Rate and Form Filing Standard Failed:

#	POLICY PROVISION STANDARD	REFERENCE
2	**Where required, the Company has filed with the Office of the Insurance Commissioner classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect.**	**RCW 48.19.040 (1) & (6)**

Standard #2:

- The examiners found that there was an error in the rating system program purchased from an outside vendor. The Company was not able to immediately tell the examiners the number of policies containing rating errors. See Instruction #4.
- Four (4) policies were not rated according to the applicable filed rate plan.

See Appendix 3 for detail.

RENEWALS, CANCELLATIONS AND NON-RENEWALS

The examiners reviewed files to determine if the Company was in compliance with state laws governing policy cancellation and non-renewal. The examiners selected a sample of 50 of 152 policies that were either cancelled or non-renewed during the exam period.

Findings

The Company was sending a courtesy notice to Loss Payees or additional insureds when the insured cancelled the policy or did not accept the renewal offer. There is no requirement for the Company to notify the Loss Payee in these situations. The Company was calling the notice a Notice of Cancellation for Non-payment. A Cancellation for Non-payment notice would be subject to the requirements of RCW 48.18.290. The Company immediately changed the notice title to read that it is a courtesy reminder notice that the policy had not been renewed or had cancelled mid-term.

The following Renewal, Cancellation and Non-renewal Standards Passed without Comment:

#	RENEWAL, CANCELLATION AND NON-RENEWAL STANDARD	REFERENCE
2	**The Company sent offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination.**	**RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292**
3	**The Company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.**	**WAC 284-30-570 Bulletin 96-2**

The following Renewal, Cancellation and Non-renewal Standard Failed:

#	RENEWAL, CANCELLATION AND NON-RENEWAL STANDARD	REFERENCE
1	**The Company does not cancel or refuse to renew policies because the agent is no longer affiliated with the Company.**	**RCW 48.17.591**

Standard #1: Thirty one (31) policies written through four (4) agents were non-renewed because the agent was no longer appointed with the Company.

Subsequent event: The Company advises that a procedure requiring mandatory management review of every agent termination for compliance.

CLAIM SETTLEMENT PRACTICES

The examiners reviewed 50 of the 93 claims that were closed during the exam period. The claims were handled from the Portland, Oregon office, or by the adjuster on staff in the Seattle office.

Files were reviewed for:

- Compliance with Washington law
- Timeliness of contact with claimants
- Promptness of payments
- Explanation of applicable coverage
- Procedures for establishing actual cash value of total loss vehicles
- Documentation of claim files.

Findings

Claim Settlement Standards # 7, 8, and 9 do not apply to this exam because the Company does not underwrite personal or commercial auto coverage in Washington.

The following Claim Standards Passed without Comment:

#	CLAIM STANDARD	REFERENCE
1	**The Company settled claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.**	**WAC 284-30-330**
3	**The Company provided an explanation of all pertinent coverage to first party claimants.**	**WAC 284-30-350**
5	**The Company complied with requirement for prompt investigation of claims.**	**WAC 284-30-370**
6	**The Company must accept or deny coverage within 15 days after receiving proof of claim.**	**WAC 284-30-380**

The following Claims Standards Passed with Comment:

#	CLAIM STANDARD	REFERENCE
2	**The Company claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file.**	**WAC 284-30-340**
4	**The Company acknowledged receipt of a claim within 10 days, and responded to all communications on a claim file within the time frames prescribed.**	**WAC 284-30-360(1) (3) and (4)**

Standard #2: One file did not contain sufficient log notes to explain the adjuster and independent adjuster activities.

Standard #4: Two files did not have timely responses to subrogation notices.

SUMMARY OF STANDARDS

History, Management and Operations:

#	STANDARD	PAGE	PASS	FAIL
1	The Company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurance company in the State of Washington. (RCW 48.05.030(1))	7	X	
2	The Company is required to file with the Office of the Insurance Commissioner any amendments to the Articles of Incorporation for domestic insurers or insurance holding Companies. (RCW 48.07.070)	7	X	

General Examination Practices:

#	STANDARD	PAGE	PASS	FAIL
1	The Company made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	7	X	
2	The Company does business in its own legal name. (RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06)	8	X	
3	The Company maintains full and accurate records and accounts. (RCW 48.05.280)	8	X	
4	The Company filed an antifraud plan with the Office of Insurance Commissioner (RCW 48.30A.045) and files annual anti-fraud reports with the OIC. (RCW 48.30A.060	8	X	

Agent Activity:

#	STANDARD	PAGE	PASS	FAIL
1	The Company ensures that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way. (RCW 48.17.060(1) and (2))	8		X
2	The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company. (RCW 48.17.160)	8		X
3	The Company must notify the OIC when an agent's appointment is revoked. (RCW 48.17.160 (3))	8	X	
4	The Company must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract, (RCW 48.17.591(2)	8	X	

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	Response to communication from the Office of the Insurance Commissioner must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. (WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4)	9	X	

Underwriting and Rating:

#	STANDARD	PAGE	PASS	FAIL
1	Binders issued to temporarily secure coverage (during underwriting) are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates. (RCW 48.18.230(1), WAC 284-30-560)	10	X	
2	The Company requires an insured to reject or request lower limits, in writing, underinsured motorist coverage (UIM). (RCW 48.22.030(3) & (4))	N/A		
3	The Company requires an insured to reject Personal Injury Protection (PIP) coverage in writing. (RCW 48.22.085(2)	N/A		
4	During underwriting, the Company obtains and uses only the personal driving record for personal insurance and only the employment driving record for commercial insurance. (RCW 48.30.310, RCW 46.52.130, Bulletin 79-3, WAC 308-104-145)	N/A		
5	The Company applies schedule rating plans to all policies as applicable in its filing and retains documentation and analysis to support the Company's decision. (WAC 284-24-100)	10		X
6	The Company retains all documentation related to the development and use of (a) rates. (WAC 284-24-070)	10	X	
7	The Company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	10	X	
8	Binders must identify the insurer in which they are bound, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received. (WAC 284-30-560(2)(a))	10	X	
9	An insurer, when using credit scoring to underwrite, may not use the following factors: the number of credit inquiries; collections identified with medical industry code; the purchase of a new vehicle or home (some exceptions); or insurer cannot use total available line of credit to set rates or deny coverage. (WAC 284-24A-065)(1) through (6)) *Effective 06/30/03*	N/A		

#	STANDARD	PAGE	PASS	FAIL
10	The insurer informs the consumer of the significant factors adversely affecting the credit history or insurance score and explains significant factors that lead to adverse action in clear and simple language. WAC 284-24A-010(1) and (2). *Effective 06/30/03*	N/A		
11	The insurer filed the credit scoring model by January 1, 2003. Related rates, risk classification plans, rating factors and rating plans were filed and approved by June 30, 2003. (WAC 284-24A-015(1))	N/A		
12	No insurer may alter an application for insurance without the insured's written permission. (RCW 48.18.070)	10	X	

Rate and Form Filings:

#	STANDARD	PAGE	PASS	FAIL
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use. (RCW 48.18.100)	11	X	
2	Where required, the Company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040(1) & (6))	11		X
3	The policy must identify all forms that make up the policy. The policy will identify the effective time and date of the policy. The policy will identify all coverage limits. (RCW 48.18.140(2)(a)-(f))	11	X	
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	11	X	
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	11	X	
6	Personal Injury Protections forms issued by the Company contain coverage definitions and limits that conform to Washington law. (RCW 48.22.095, RCW 48.22.005)	11	X	
7	Rates for commercial policies must be filed within 30 days of use. (RCW 48.19.043(2))	11	X	

Renewals, Cancellations and Non-Renewals:

#	STANDARD	PAGE	PASS	FAIL
1	The Company does not cancel or refuse to renew policies because the agent is no longer affiliated with the company. (RCW 48.17.591)	12		X

#	STANDARD	PAGE	PASS	FAIL
2	The Company sent offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	12	X	
3	The Company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570, Bulletin 96-2)	12	X	

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The Company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	13	X	
2	The Company claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file. (WAC 284-30-340)	13	X	
3	The Company provided an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	13	X	
4	The Company acknowledges receipt of a claim within 10 days, and responds to all communications on a claim file within the time frames prescribed. (WAC 284-30-360(1),(3) and (4))	13	X	
5	The Company complies with requirement for prompt investigation of claims. (WAC 284-30-370)	13	X	
6	The Company must accept or deny coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	13	X	
7	The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-390, WAC 284-30-3901-3916)	N/A		
8	The Company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395 (1))	N/A		
9	The Company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)	N/A		

INSTRUCTIONS AND RECOMMENDATIONS

INSTRUCTIONS

#	Instruction	Page #
1	The Company is instructed to comply with RCW 48.17.060 (1) and (2) and ensure that all agents and brokers are licensed in the appropriate line of business before allowing them to solicit business or represent the Company in any way.	8
2	The Company is instructed to comply with RCW 48.17.160 and ensure that all agents are appointed with the Company prior to allowing them to solicit business for the Company.	8
3	The Company is instructed to comply with WAC 284-24-100 and ensure that underwriting analysis and decisions are documented in the underwriting file.	10
4	The Company is instructed to comply with RCW 48.19.040(1) and (6). Within 90 days of adoption of this report, the Company must determine the policies affected by the programmed rating errors discovered by the examiners and refund any premium charged in error. Proof of this action must be submitted to the Chief Market Conduct Examiner.	11
5	The Company is instructed to comply with RCW 48.17.591 to ensure that no policies are non-renewed because the relationship between the agent and the Company was terminated.	12

RECOMMENDATIONS

#	Recommendation
1	It is recommended that that Company audit its agency database to ensure that all agents and brokers are appropriately licensed and appointed.
2	It is recommended that the Company hold a training session on the requirements of WAC 284-30-340 regarding the need for additional or more complete file documentation and WAC 284-30-360 regarding the requirements for timely response to correspondence.

APPENDIX 1

Agent Activities	
Standard #1 The Company ensures that agents or brokers are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way. RCW48.17.060(1) & (2) and WAC 284-17-420(1)	
Policy number	**Comments**
CLP 003605	Agent was not licensed in Washington
Standard #2 The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company. RCW 48.17.160(1) & (2)	
Agent name	**Comments**
Trinity E & S Insurance Services/ 51 policies	Agent was not appointed by the Company
Northwest Insurance Services/ 12 policies	Agent was not appointed by the Company

APPENDIX 2

Underwriting & Rating	
Standard #5 The Company applies schedule rating plans to all policies as applicable in its filing and retains documentation and analysis to support the Company's decision. WAC 284-24-100	
Policy number	**Comments**
CLP 007371	Policy was eligible for schedule rating. It was rated with no debits or credits. There was no documentation to indicate that schedule rating had been considered.
CLP 005884	Policy was eligible for schedule rating. It was rated with no debits or credits. There was no documentation to indicate that schedule rating had been considered.
CLP 004926	Policy was eligible for schedule rating. It was rated with no debits or credits. There was no documentation to indicate that schedule rating had been considered.
CLP 003605	Policy was eligible for schedule rating. It was rated with no debits or credits. There was no documentation to indicate that schedule rating had been considered.
CLP 008921	Policy was eligible for schedule rating. It was rated with no debits or credits. There was no documentation to indicate that schedule rating had been considered.

APPENDIX 3

Rate & Form Filings	
Standard #2 Where required, the Company has filed with the Office of the Insurance Commissioner classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect. RCW 48.19.040 (6)	
Policy number	**Comments**
CNT 013193	Policy was not rated correctly, so the insured was undercharged. The policy will be corrected at renewal.
CLP 007147	Policy was written using 2 package classification factors. ISO rules indicate that only one factor can be used.
CLP 008921	Policy rated with wrong increased limits factor. Correction resulted in $691 return to the insured
CLP 003605	The insured was charged a liability minimum premium and the company could not tell this examiner where that charge came from in the filing.

RED SHIELD
INSURANCE COMPANY®

Phone: 503-226-4146
FAX: 503-226-6017

1411 SW Morrison Street
Suite 400
Portland, Oregon 97205-1945

1/9/06

RECEIVED
JAN 11 2006
INSURANCE COMMISSIONER
COMPANY SUPERVISION

State of Washington
Office of Insurance Commissioner
PO Box 40255
Olympia, Washington 98504-0255

Attn: James T. Odiorne, CAP, JD
Deputy Insurance Commissioner
Company Supervision Division

RE: Red Shield Insurance Company
Market Conduct Examination

Dear Mr. Odiorne,

Please accept this letter as our comments regarding the draft Market Conduct Examination Report, dated December 31, 2004,

In general, Red Shield Insurance Company finds no discrepancies with the findings of the report.

As this was Red Shield's very first Market Conduct Examination we found the experience enlightening. Many of the comments that have been brought to our attention by your examination team have already been addressed by the responsible department managers. Please find attached updates of our actions which have taken place in response to the failed standards.

If I can be of further assistance please contact me at your convince. I can be reached at my office during normal business hours or by e-mail cfjones@redshield.com

Sincerely,

Christopher F. Jones, CPCU
A-Division Manager

Attachments:
Responses to Failed Standards

ATTACHMENTS AVAILABLE IN REPORT FILE