MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

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OFFICE OF
INSURANCE COMMISSIONER

In the Matter of	)	No. G07-181
	)	
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
SAFECO INSURANCE COMPANY OF AMERICA	)	AND ORDER ADOPTING REPORT
	)	OF EXAMINATION
A Domestic Insurer.		

BACKGROUND

An examination of the financial condition of **SAFECO INSURANCE COMPANY OF AMERICA** (the Company) as of December 31, 2005, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on May 9, 2007. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 24 of the report.

Mailing Address: P. O. Box 40255 • Olympia, WA 98504-0255
Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **SAFECO INSURANCE COMPANY OF AMERICA** and to order the Company to take the actions described in the Instructions section of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions prior to the date of this order. The Instructions in the report are appropriate responses to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions contained in the examination report on pages 1-8.

1. The Company is ordered to comply with RCW 48.12.160 by collateralizing the unauthorized reinsurance recoverable or non-admitting any un-collateralized reinsurance recoverable from SNL and RCW 48.05.250 by filing a true statement of its financial condition, transactions, and affairs. An examination adjustment was made to recognize the penalty for this unauthorized reinsurance recoverable in the amount of $139,673,000. Instruction 1, Examination Report, page 2.

2. The Company is ordered to comply with RCW 48.31B.030(1)(a), which requires the terms of the Investment Expense Sharing Agreement to be fair and reasonable. Expenses incurred and payment received must be allocated to the affiliated companies in conformity with customary insurance accounting practices consistently applied. The books, accounts, and records of each party to all such transactions must be so maintained as to clearly and accurately disclose the nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties. Instruction 2, Examination Report, page 3.

3. The Company is ordered to comply with RCW 48.31B.030(1)(b)(iv) which requires all insurers that are members of a holding company system to file, with the commissioner, all management agreements, service contracts, and cost sharing agreements prior to entering into them. All companies participating in the agreement need to be listed in the agreement. A revised agreement was submitted to the OIC in December 2006. Instruction 2, Examination Report, page 3.

4. The Company is ordered to comply with RCW 48.31B.030(1)(b) by properly filing agreements subject to the Holding Company Act. Instruction 3, Examination Report, page 3.

5. The Company is ordered to file accurate information for its reinsurance agreement dated November 3, 1983, a short-term borrowing agreement effective July 15, 2002, and an expense sharing agreement dated March 15, 2001, so that they correctly identify the parties to the contracts in conformance with RCW 48.31B.025(2)(c)(vi) and RCW 48.31B.025(2)(c)(v). Instruction 3, Examination Report, page 5.

6. The Company is ordered to comply with RCW 48.05.073 and SSAP 64 by either amending intercompany agreements to include a right of offset clause, or by reporting and settling each agreement separately without a right of offset. Instruction 4, Examination Report, page 5.

7. The Company is ordered to comply with RCW 48.05.280, which requires the Company to keep full and adequate accounts and records of its assets, obligations, transactions, and affairs. Instruction 5, Examination Report, page 6.

8. The Company is ordered to comply with RCW 48.05.073, RCW48.05.250, and WAC 284-07-050(2) in filing its NAIC 2005 Annual Statement in accordance with the NAIC Accounting Practices and Procedures Manual and the NAIC 2005 Annual Statement Instructions. Instruction 6, Examination Report, page 6.

9. The Company is ordered to comply with RCW 48.05.073, RCW48.05.250, and WAC 284-07-050(2) in filing its NAIC 2005 Annual Statement in accordance with the AP&P and the NAIC 2005 Annual Statement Instructions by properly reporting reinsurance cessions in compliance with the terms of reinsurance agreements or amending the agreements to include SICA. Instruction 7, Examination Report, page 8.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 12th day of June, 2007.

MICHAEL G. WATSON
Chief Deputy Insurance Commissioner

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Seattle, WA 98185-0001

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Safeco Insurance

RECEIVED
MAY 31 2007
INSURANCE COMMISSIONER
COMPANY SUPERVISION

May 29, 2007

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
State of Washington Office of Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

RE: Examination Reports of Safeco Insurance Company of America, First National Insurance Company of America, General Insurance Company of America, and Safeco Surplus Lines Insurance Company; as of December 31, 2005.

Dear Mr. Odiorne:

We have completed our review of the above referenced reports of examination, and we have no material disagreement with the information contained therein. Thank you for the opportunity to review these documents.

Sincerely,

Paul Kajanoff
Assistant Secretary
Safeco Insurance Companies