



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**WESTERN PROTECTORS INSURANCE COMPANY
MCMINNVILLE, OREGON**

NAIC COMPANY CODE 30961

AS OF

December 31, 2008

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SALUTATION

February 1, 2010

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

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

WESTERN PROTECTORS INSURANCE COMPANY
400 NE Baker Street
McMinnville, Oregon 97128
NAIC Company Code 30961

hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

Our multi-state financial examination of the Company as of December 31, 2008, covers the four year period then ended. Material transactions or events occurring subsequent to the examination cut-off date were reviewed and noted during the examination.

We considered the provisions of ORS 731.300 and the NAIC procedures and guidelines during our examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions in accordance with the Oregon Insurance Code. Corrective actions taken by the Company in response to comments and recommendations in the December 31, 2004, report of examination were also reviewed.

All accounts and activities of the Company were considered in accordance with the risk focused examination process.

David F. Dahl, FCAS MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, evaluated losses, loss adjustment expenses and reinsurance payable on paid losses and loss adjustment expenses for this report. His conclusions are included in the notes to the financial statements section of this report.

COMPANY HISTORY

The Company was licensed on February 8, 1918, by the Oregon Insurance Division as a mutual property and casualty company. On May 27, 1987, the Company amended its Certificate of Authority to demutualize the Company and change its name to Western Protectors Insurance

Company. Oregon Mutual Insurance Company (OMIC) owned 66.8% and Employers Reinsurance Corporation (ERC) owned 33.2% of the Company's common capital stock. On December 14, 1993, under a Stock Purchase Agreement, OMIC purchased ERC's entire share of the Company. This transaction gave OMIC 100% of the Company's 150,000 shares of outstanding common stock. OMIC made capital contributions to the Company of \$1,600,000 in 1995 and \$900,000 in 1996.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws vest management and control of the Company in a Board of Directors. The Board of Directors meets all of the requirements of ORS 732.305. Directors serving at December 31, 2008, were as follows:

<u>Name and Address</u>	<u>Affiliation</u>	<u>Director Since</u>
Betty J. Atteberry McMinnville, OR 97128	Retired Director Westside Economic Alliance	1995
Elliott C. Cummins McMinnville, OR 97128	Attorney-Partner Cummins, Goodman, Fish, Denley & Vickers	1985
Rosemari J. Davis McMinnville, OR 97128	CEO Willamette Valley Medical Center	2003
Michael E. Keyes McMinnville, OR 97128	President & Chief Executive Officer Oregon Mutual Insurance Company	1999
Michael J. McNamara PhD Pullman, WA 99164	Professor Washington State University	2004
Anthony Meeker McMinnville, OR 97128	Retired Director Victory Capital Management	2001
John W. Mitchell PhD McMinnville, OR 97128	Retired State Economist	2006
Denis J. Walker McMinnville, OR 97128	Chairman, Retired President and Chief Executive Officer - Oregon Mutual Insurance Company	1988

Officers

The Company's officers at December 31, 2008, were as follows:

<u>Name</u>	<u>Title</u>
Denis J. Walker	Chairman of the Board
Michael E. Keyes	President and CEO
Toni L. Chodrick	Corporate Secretary
Edward J. Yorty	Vice President, Product Development CFO/Treasurer
Steven L. Patterson	Vice President General Counsel
Charles S. Katter	Vice President, Claims
Mary L. Hargis	Vice President, Personal Lines
Richard B. Prouser	Vice President, Information Systems
Brian M. Steffel	Vice President Marketing and Underwriting

Parent and Affiliated Companies

The Company is a member of an insurance holding company system with the following companies:

Oregon Mutual Insurance Company - OMIC is an Oregon domiciled insurer licensed to write property and casualty insurance in California, Oregon, Washington, Idaho and Nevada. The company was incorporated on December 29, 1894. OMIC owns 100% of the voting common stock of the Company.

OMI General Agency, Inc. - This agency is an Oregon corporation 100% owned by OMIC. As of December 31, 2008, this agency was inactive.

INTERCOMPANY AGREEMENTS

Management Agreement

The Company entered into a management agreement with its parent on May 27, 1987. The terms of the agreement provide that OMIC will perform the operations of the Company with its personnel and facilities, except those functions that are "nondelegable" by law. Effective January 1, 2004, the Company agreed to pay OMIC underwriting fees of 9.5% of direct written premiums, unallocated loss adjustment expense fees of 10.2% of gross paid loss, and 5.1% of the change in direct case loss outstanding each month.

Tax Allocation Agreement

The Company is party to a tax allocation agreement with its parent, OMIC. Under this agreement, the Company's income tax provision is calculated on a consolidated basis and its respective share of the liability is allocated on a separate return basis.

A review of the agreements discussed above concluded the fees and terms appeared reasonable. In addition, as of December 31, 2008, the Company did not have any management contract or exclusive agency contracts in effect that are prohibited by ORS 732.215 and ORS 732.220, respectively.

CONFLICT OF INTEREST

The Company has an established policy for disclosure of any material interest or affiliation on the part of any of its directors and officers, which is in, or is likely to, conflict with official duties. After a review of such forms, which were completed by management, no exceptions were noted.

CORPORATE RECORDS

The corporate records, including the Articles of Incorporation, Bylaws, holding company registration statement and Board minutes, were reviewed for the period under examination.

Board of Director Minutes

A review of the Board minutes indicated that the Board approved investments in accordance with the provisions of ORS 733.730 and ORS 733.740. In addition, the minutes indicated the Board approves officer salaries in accordance with the provisions of ORS 732.320(3). A quorum met at all meetings.

Articles of Incorporation

The Articles of Incorporation conformed to Oregon statutes. No amendments were made to the articles during the period covered by this examination.

Bylaws

The Bylaws permit the number of directors to be seven, eight, or nine. The Bylaws conformed to Oregon statutes.

Holding Company Registration Statement

Timely and complete insurance holding company registration statements were filed on behalf of the Company in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1).

FIDELITY BONDS AND OTHER INSURANCE

Insurance coverage was reviewed for adequacy of limits and retentions and the solvency of the insurers providing the coverages. A crime policy covers the Company up to \$5,000,000 net of a \$50,000 retention. A fidelity bond covers the Company for losses up to \$2,000,000 after a \$100,000 retention. Fidelity bond coverage exceeds the minimum coverage recommended by the NAIC. In addition, the Company is covered against directors' and officers' liability up to an aggregate limit of \$5,000,000. Other insurance coverages in force at December 31, 2008, were as follows:

General liability	Workers' compensation
Property & casualty	Business automobile
Umbrella	

The coverages were found to be adequate as of December 31, 2008.

PENSION PLANS AND EMPLOYEE BENEFITS

The Company does not have any employees; therefore, it has no direct liability for employee benefits. The Company was charged its allocable share of contributions to the fund providing these benefits under the management agreement described in the management and control section of this report.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2008, the Company was authorized to transact property and casualty business in Idaho, Oregon and Washington. Independent agents market the Company's business.

Private passenger auto liability and auto physical damage are the largest lines of business constituting 79% of the Company's 2008 direct written premium. Homeowners' multi-peril, earthquake and inland marine comprise the rest of the direct written premium.

GROWTH OF THE COMPANY

Growth of the Company is reflected in the following schedule. The amounts were derived from Company filed annual statements except in those years where the Oregon Insurance Division published an examination report.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Income</u>
2004*	\$15,869,879	\$8,303,948	\$7,565,931	\$ (60,288)
2005	16,156,849	8,767,314	7,389,535	(183,574)
2006	16,445,001	9,847,676	6,597,325	(1,123,226)
2007	15,305,402	7,940,328	7,365,074	1,134,207
2008*	14,110,456	6,121,379	7,989,077	729,286

*Per examination

LOSS EXPERIENCE

Loss experience is not displayed since the Company ceded 100% of direct written premium (net of reinsurance) to Oregon Mutual effective January 1, 2007. See the Reinsurance section below.

REINSURANCE

Ceded Reinsurance

Beginning January 1, 2002, the Company signed a quota share assumption treaty with Oregon Mutual Insurance Company (OMIC) ceding 75% of all direct written premiums net of reinsurance ceded by the Company to all other reinsurers. Effective January 1, 2003, the premiums ceded were increased to 80% of the Company's direct premium written. Effective January 1, 2007, the premiums ceded to OMIC were increased to 100% of all direct premium written by the Company (net of reinsurance). Reinsurance commission allowed the Company was 30% of all direct written premiums. Premiums ceded to OMIC in 2008 were \$11,086,965.

Below is a brief summary of the Company's reinsurance program with non-affiliated reinsurers in effect as of December 31, 2008:

Multiple Line Quota Share

A multiple line quota share reinsurance contract with GMAC Motors Insurance Corporation effective November 1, 2008, covered all lines written except for employment practices liability insurance,

umbrella, boiler and machinery. Under this treaty the Company cedes 30% of covered premiums after application of the multiple line excess of loss program.

Multiple Line Excess of Loss program

2008 Agreements			
Agreement	Coverage	Reinsurers	Rate
Multiple Line Excess	Property 97% of \$7,000,000 excess of \$500,000 Liability 97% of \$1,500,000 excess of \$500,000 per Occurrence	Axis Re Partner Re QBE Re Hannover Ruckversicherung Toa Re	3.0%
Multiple Line Clash-Layer 1	Property \$5,000,000 excess \$7,500,000 Liability \$5,000,000 excess of \$2,000,000	Odyssey Re Platinum Re QBE Re Hannover Ruckversicherung Various Syndicates at Lloyds of London	.307%
Multiple Line Clash-Layer 2	Property \$5,000,000 excess of \$12,500,000 Liability \$5,000,000 excess of \$7,000,000	Hannover Ruckversicherung Various Syndicates at Lloyds of London	0.152%

Catastrophe Excess of Loss Program

2008 Agreements			
Agreement	Coverage	Reinsurers	Rate
Property Catastrophe	95% of \$37,000,000 excess of \$3,000,000 Plus 100% of \$36,000,000 excess of \$40,000,000	Axis Specialty Renaissance Re Montpelier Re Various Syndicates at Lloyds of London Odyssey Re QBE Re Hiscox Ins. Bda Shelter Mutual Ins Hannover Re., Bda	5.657%
Property Facultative	Up to \$10,000,000 excess of \$7,500,000 per risk	General Re	Rates vary by risk

Reinsurance Cost Sharing Agreements

Effective January 1, 2008, the Company signed an Intercompany Reinsurance Allocation Agreement with OMIC covering Multiple Line Excess of Loss, Multiple Line Clash Excess of Loss and Catastrophe Excess of Loss Reinsurance treaties effective January 1, 2008.

The external reinsurance treaties are priced to cover both companies at a single rate, or, in the case of the quota share a single ceding commission. This agreement allocates external reinsurance by line and entity. The terms are modified as part of the reinsurance placement process to reflect changing exposures and reinsurance market pricing.

Risk Retention

The Company's maximum retention on its policies is \$500,000 per risk. The Company does not retain risk on any one subject in excess of 10% of its surplus to policyholders as prohibited by ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the December 31, 2008, annual statement and were maintained in a manner by which the financial condition was readily verifiable as required by ORS 733.170.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

As of December 31, 2008, the Company had complied with all recommendations made in the 2004 report of examination.

WESTERN PROTECTORS INSURANCE COMPANY
BALANCE SHEET
AS OF DECEMBER 31, 2008

<u>ASSETS</u>	<u>Annual Statement</u>	<u>Examination Adjustments</u>	<u>Net Admitted Assets</u>
Bonds (Note 1)	\$10,744,669	\$0	\$10,744,669
Cash and short-term investments	<u>291,698</u>	<u>0</u>	<u>291,698</u>
Subtotal cash and invested assets	11,036,367		11,036,367
Investment income due and accrued	139,474		139,474
Uncollected premiums and agents balances in the course of collection	349,256		349,256
Deferred premiums, agents balances deferred and not yet due	926,350		926,350
Reinsurance recoverable	1,485,016		1,485,016
Net deferred tax asset	<u>173,993</u>	<u>0</u>	<u>173,993</u>
Total Assets	<u>\$14,110,456</u>	<u>\$0</u>	<u>\$14,110,456</u>
 <u>LIABILITIES</u>			
Losses (Note 2)	\$ 148,735	\$0	\$ 148,735
Loss adjustment expenses	374,139		374,139
Contingent commissions	432,545		432,545
Other expenses	15,484		15,484
Taxes, licenses, and fees	(3,157)		(3,157)
Current federal income taxes	200,388		200,388
Unearned premiums	2,419,632		2,419,632
Advance premiums	114,448		114,448
Ceded reinsurance premiums payable	1,759,012		1,759,012
Funds held by Company under reinsurance treaties	53,234		53,234
Provision for reinsurance	2,753		2,753
Payable to parent	590,369		590,369
Aggregate write-ins for liabilities	<u>13,797</u>	<u>0</u>	<u>13,797</u>
Total Liabilities	<u>6,121,379</u>	<u>0</u>	<u>6,121,379</u>
 <u>SURPLUS AND OTHER FUNDS</u>			
Common capital stock	1,500,000		1,500,000
Gross paid in surplus	3,450,000		3,450,000
Unassigned funds (surplus)	<u>3,039,077</u>	<u>0</u>	<u>3,039,077</u>
Surplus as regards policyholders	<u>7,989,077</u>	<u>0</u>	<u>7,989,077</u>
Totals Liabilities and Surplus	<u>\$14,110,456</u>	<u>\$0</u>	<u>\$14,110,456</u>

WESTERN PROTECTORS INSURANCE COMPANY
INCOME STATEMENT
For the Year Ended December 31, 2008

UNDERWRITING INCOME

Premiums earned	\$ <u>0</u>
Deductions:	
Losses incurred	(97,800)
Loss adjustment expenses incurred	974,523
Other underwriting expenses incurred	<u>(1,188,062)</u>
Total underwriting deductions	<u>(311,339)</u>
Net underwriting gain or (loss)	<u>311,339</u>

INVESTMENT INCOME

Net investment income earned	490,917
Net realized capital gains (losses)	<u>(34,741)</u>
Net investment gain	<u>456,176</u>

OTHER INCOME

Net loss from premium balances charged off	(4,756)
Finance and service charges not included in premiums	110,660
Aggregate write-ins for miscellaneous income	<u>55,758</u>
Total other income	<u>161,662</u>
Net income before federal taxes and dividends to policyholders	929,177
Dividends to policyholders	<u>0</u>
Net income after dividends to policyholders but before federal taxes	929,177
Federal income taxes incurred	<u>199,891</u>
Net income	<u>\$ 729,286</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2007	<u>\$7,365,074</u>
Net income	729,286
Change in net deferred income tax	(102,391)
Change in nonadmitted assets	(139)
Change in provision for reinsurance	<u>(2,753)</u>
Change in surplus as regards policyholders for the year	<u>624,003</u>
Surplus as regards policyholders, December 31, 2008	<u>\$7,989,077</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Bonds

The Company's bond portfolio is primarily comprised of high quality investments in U.S. government backed bonds, special revenue bonds, and industrial and miscellaneous bonds. A quality distribution of bonds is presented below:

<u>Year</u>	<u>Total Book Value</u>	<u>Market Value</u>	<u>Noninvestment Grade Securities*</u>	<u>Percentage of Portfolio</u>
2004**	\$10,745,198	\$10,647,243	0	0.00%
2005	11,450,819	11,220,872	0	0.00%
2006	11,879,031	11,603,823	0	0.00%
2007	11,175,709	11,095,125	0	0.00%
2008**	10,744,669	10,581,598	0	0.00%

*Noninvestment grade is defined by the NAIC as those bonds with an NAIC SVO rating of less than "2."

**Per examination

Note 2 - Loss and Loss Adjustment Expense Reserves

David F. Dahl, FCAS, MAAA, casualty actuary for the Oregon Insurance Division, reviewed the loss and loss adjustment expenses in the company's filed financial statements as of December 31, 2008. This review was to determine, if the Company's liabilities were reasonably stated. He concluded that the Company's liability for losses and loss adjustment expenses was found to be reasonably stated as of December 31, 2008. Results of his findings are summarized in the actuarial report contained in the supporting examination work papers.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations made as a result of this examination.

CONCLUSION

During the four year period covered by this examination, the surplus of the Company has increased from \$7,565,931 as presented in the December 31, 2004, report of examination, to \$7,989,077 as shown in this report of examination. The comparative assets and liabilities are shown below:

	<u>2008</u>	<u>December 31, 2004</u>	<u>Change</u>
Assets	\$14,110,456	\$15,869,879	\$(1,759,423)
Liabilities	<u>6,121,379</u>	<u>8,303,948</u>	<u>(2,182,569)</u>
Surplus	<u>\$ 7,989,077</u>	<u>\$ 7,565,931</u>	<u>\$ 423,146</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Greg Lathrop, CFE, Timothy R. Hurley, CFE, insurance examiners and David F. Dahl, FCAS, MAAA, actuary, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in this examination.

Respectfully submitted,

Mike P. Phillips, CFE, CPA, AES
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

State of Oregon)
) ss
Marion County)

Mike P. Phillips, CFE, CPA, AES, being duly sworn, states as follows:

1. I am authorized to represent the state of Oregon in the examination of Western Protectors Insurance Company.
2. The Insurance Division of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Western Protectors Insurance Company, was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Mike P. Phillips, CFE, CPA, AES
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this _____ day of _____, 2010.

Notary Public in and for the State of Oregon
My Commission Expires: _____