

FINANCIAL STATEMENT FILING INSTRUCTIONS

Insurers are required to make a number of filings relating to its financial condition, operating results, and ownership structure and information.

Insurers are expected to review the filing instructions each year to ensure compliance with filing requirements.

NAIC INSTRUCTIONS (Including Internet Filing Information):

The NAIC web-site, www.naic.org, “Financial Filing Participation Packet” includes information for financial statement filings, including due dates, internet filing instructions, links to state specific requirements, and fee and remittance information.

The NAIC annually publishes detailed instructions for completing each financial statement schedule, exhibit, and supplemental filing. You are strongly encouraged to subscribe to this publication. Please contact the NAIC publications department to order this publication. It can be ordered on line at www.naic.org.

OREGON SPECIFIC INSTRUCTIONS:

December 1 of each year **instructions for financial statement and supplemental filings** are posted on the web-site. See www.Oregoninsurance.org, “Company Information,” “Authorized insurers,” “Annual statement instructions.” There are instructions for each type of insurer (see your Profile for type of insurer).

The instructions are in the format of a checklist with cross reference to specific notes and instructions.

Monthly Financial Statements (If required, Oregon Only):

If you are notified by the Insurance Division that the insurer is required to file monthly statements, they are due by the 25th of the month following the “as of” date.

The monthly statement should include the following pages: assets, liabilities, income statement, and reconciliation of surplus. The format for these pages should follow the quarterly financial statement and be prepared using Statutory Accounting Principles. Monthly statements are not filed with the NAIC.

Department of Consumer & Business Services
Insurance Division

KEY FINANCIAL FILINGS DUE DATES

*****Please see Annual Statement Filing Instructions for Complete List of Forms/Due Dates*****

	FILING DUE DATE	Statute Reference
March		
Annual Statement	1-Mar	ORS 731.574
Actuarial Opinion	1-Mar	ORS 731.574 Life insurers: OAR 836-031-0600 through -0690
Risk-Based Capital Report	1-Mar	ORS 731.574 OAR 836-011-0300 through 0400
April		
Management Discussion & Analysis	1-Apr	ORS 731.574
Forms B and C - Holding Company Registration	30-Apr	ORS 732.551(2) OAR 836-027-0001 through -0050
May		
1st Quarter Statement	15-May	ORS 731.574
June		
Annual Audited Financial Report (CPA)	1-Jun	ORS 731.488 OAR 836-011-0100 through -0230
August		
2nd Quarter Statement	15-Aug	ORS 731.574
November		
3rd Quarter Statement	15-Nov	ORS 731.574
Monthly Statements (If required)		
25th of the Month following the "As of Date"	25th ea mo	ORS 731.574

ON-LINE RESOURCES
OREGON INSURANCE DIVISION WEB-SITE

www.oregoninsurance.org

Insurance Laws (“Insurance Code”): Click “Laws & Rules.” “Insurance Laws of Oregon 200X” is a pdf version of the Insurance Code. “Oregon Revised Statutes” links you to the Oregon State Legislature’s web-site and provides access to all sections of Oregon Revised Statutes.

Oregon Administrative Rules (“OAR”): Click “Laws & Rules.”

Division Bulletins: Click “Laws & Rules.”

NAIC Biographical Affidavit: Click “Forms,” insurance company “Alphabetical,” Application for Certificate of Authority “Insurance Companies.” This links you to the NAIC UCAA application web-site. Scroll down to the UCAA Forms section and click “NAIC Biographical Affidavit.”

Oregon Insurance Regulator: Click “Publications” for this and other publications.

The web-site includes information on authorized insurers. Click “Company Information,” “Authorized Insurers.”

You can sign-up for e-mail updates from the Insurance Division (mainly administrative rule changes). The sign-up information is available by clicking “E-Mail Notification.” The sign-up information is also available on other screens on the web-site.

EXTENSION REQUESTS

Insurers may find it necessary from time to time to request an extension to a filing due date.

General Guidelines

Extension requests, as noted on the Insurance Division annual statement instructions posted on the web-site, should be made 10 days in advance of the deadline. We exercise some flexibility with this requirement (where not specified by rule), but in all cases the request should be made at least 3 days before the deadline. Requests made after the deadline will not be granted.

Please send extension requests to the assigned financial analyst. The request must be in writing and include the reason/circumstance for the request, indicate estimated surplus as of the end of the reporting period (if an extension to file a financial statement), and indicate if there are any material financial issues that will affect operating results, surplus, or financial condition.

Generally, expect to receive no more than a 2 week extension.

Annual Statements (including Actuarial Opinion, RBC Report and other supplemental filings), Management Discussion & Analysis, Quarterly Statements, Monthly Statements

Authority for extension: ORS 731.574(3)

Audited Financial Statement

Authority for extension: ORS 731.488(2)(i), OAR 836-011-0120

The administrative rule allows for the director to grant one or more 30 day extensions. The request must be made at least 10 days in advance and include information from the insurer and the accountant as to the reason for the request.

Holding Company Registration Statement

Authority for extension: ORS 732.551(2)

Extension request must include the reason for the request.

Extension for filing any document/exhibit required as **part of** the holding company registration statement

Authority for extension: ORS 732.572, OAR 836-027-0040(2)

Request shall include description of the document, reason for extension request, and date on which it will be filed. The extension requested under this rule is granted unless the director denies the request by order within 30 days.

AMENDED FINANCIAL STATEMENT FILING GUIDELINES

Statements of Statutory Accounting Principles (SSAP) 3 sets forth guidelines for corrections/changes to previously filed financial statements. Insurers are to follow these principals when it is necessary to make corrections/changes to previously filed financial statements.

Please note SSAP 3 provides that amended filings may be required by the state of domicile. Before amending any previously filed financial statement, please obtain concurrence from your assigned financial analyst.

Amended pages will generally be required when the filing is found to be materially incorrect. This includes, but is not limited to, discovery by the company itself, independent audit, actuarial review, statutory examination, or Insurance Division review.

“Materially” for this purpose is when the amount of difference between the original filed financial statement and a newly required amended financial statement would equal or exceed the following: (1) a plus or minus 5% change in any or all individual income, expense, or balance sheet accounts; and (2) in the aggregate, the sum of all individual changes would cause a plus or minus 5% net change in total assets, or total liabilities, or total combined capital and surplus.

Amended financial statement filings must be made in duplicate and must **contain a complete and properly executed Jurat page noting thereon the sequential amendment number, the date filed, and the number of amended pages attached. Only those pages required to reflect all changes need to be included.** Each page must be complete in all respects as to form and content in accordance with the appropriate NAIC instructions pertaining to that particular statement as well as distinctly marked on the front or bound cover (if required) to indicate that it is “AMENDED.” A dated cover letter **signed by an officer** must be attached identifying, by page, line, column number, and amount, each change that has been made in the amended filing. This must **include a detailed explanation** of the circumstances necessitating each change **and a statement certifying that all pages requiring a change have been included.**

In all cases, an amended financial statement must be filed with the Oregon Insurance Division within forty-five (45) days after the end of the calendar month in which the error(s) necessitating this requirement was discovered. If this change causes subsequently filed financial statements to also be materially in error, then each affected statement must also be amended and filed.

Oregon domestic insurers must also file the amended pages with the NAIC. If the domestic insurer has been required by the Director to file its statutory financial statements electronically with the NAIC, the amended pages must be filed electronically.

NON-FINANCIAL OR NON-MATERIAL ERRORS/OMISSIONS

There are instances where the assigned analyst may ask for amended pages to cure an error or omission even though the change may not have a material financial impact.

The amended pages should be filed in accordance with these guidelines, including filing with the NAIC.

DIRECTOR'S AUTHORITY

The Legislature has given the Insurance Division responsibility over the financial soundness of insurers and multiple employer welfare arrangements. Along with that responsibility, the Legislature has given the director significant authority over an insurer's ability to conduct business in Oregon.

The Financial Regulation Section of the Insurance Division ensures that insurers possess and maintain the financial resources needed to meet their obligations to their policyholders. This includes making initial licensing determinations about which insurers are admitted to do business in Oregon and then conducting ongoing financial analysis and examinations of existing insurers.

In carrying out its responsibilities, it is important that the Financial Regulation Section know and assess each insurer's financial health in a timely manner. Financial statement filings are essential tools the Section uses to carry out its responsibilities. The Section cannot make a timely financial assessment of an insurer without accurate and timely financial statements. The Division carefully enforces the financial filing requirements. An insurer's failure to file accurate and timely financial filings subjects it to regulatory action or civil penalty.

The following list summarizes the director's authority generally and authority regarding financial impairment and filing violations:

General Powers

The director of the Department of Consumer and Business Services is charged with enforcing the provisions of the Insurance Code for the public good, and shall execute the duties imposed by the code. In carrying out those duties, the director is given specific authority for examinations and investigations, but may also **conduct examinations and investigations of any insurance matter** that the director considers proper to determine whether any person has violated any provision of the Insurance Code. The director has authority to issue subpoenas; written orders; and cease and desist orders. See ORS 731.232 through 731.258.

The filing by any person of any **information or document known by the person to be false or misleading** in any material respect is prohibited and a violation of state statute. A conviction of such a violation is considered a crime and is punishable by imprisonment in county jail for not more than one year or by a fine not to exceed \$1,000 for an individual, or \$10,000 for a corporation. See ORS 731.260 and 731.992.

The director is **authorized to address any proper inquiry to any insurer**, licensee or its officers relating to any insurance transaction. The person shall promptly and truthfully reply to such inquiry in the form required by the director. **Failing to reply** as requested is a violation of state statute. See ORS 731.296 and ORS 731.260.

An insurer's **certificate of authority** is evidence of its authority to transact insurance in Oregon but **remains the property of the State of Oregon**. Upon suspension, revocation or termination of authority the insurer shall promptly return the certificate of authority to the director. See ORS 731.406.

Impairment of Required Minimum Capitalization

The director is **required by statute** to refuse to continue, suspend or revoke an insurer's certificate of authority, without a hearing, if a domestic insurer **fails to maintain its minimum required capitalization**. The director may allow the insurer a time to cure the impairment or the director can proceed directly to take the insurer into supervision, or begin liquidation proceedings. If the insurer has been allowed a time to cure its impairment but fails to do so, the director must suspend or revoke the insurer's authority to do business in Oregon. In the case of *multiple employer welfare arrangements*, member employers will be assessed to restore minimum capitalization and/or amounts necessary to pay claims and expenses (in the case of receivership). See ORS 731.414, 732.230 and 750.321.

Continuation of Certificate of Authority

An insurer must do certain things each year in order to continue its authority to do business in Oregon. To continue operating in Oregon, an insurer must **annually pay a continuation fee by April 1, file its annual statement and supplements**, and pay any premium taxes due.

If an insurer fails to do any or all of those things, the certificate of authority automatically expires on the 60th day after the date on which the payment or filing is due. The director may, at the director's discretion, reinstate the certificate of authority on the request of the insurer accompanied by the payment or filing that was due and a reinstatement fee (currently \$100). **The insurer must request such reinstatement within 90 days** of the date of expiration. See ORS 731.410.

Civil Penalties

Any person who **violates any provision of the Insurance Code**, any lawful rule or final order of the director (or any judgment made by a court upon application of the director) is subject to civil penalty. The amount is determined by the director, but cannot exceed \$10,000 for each offense. Each violation is deemed a separate offense. In addition to the civil penalty, the violator may be required to forfeit the amount by which the person profited from the transaction that violated the law. This authority is in addition to any other enforcement provisions contained in the Insurance Code. See ORS 731.988.

SHOPPING LIST

Insurance Code: To purchase a copy of the Insurance Code, visit our web-site, www.oregoninsurance.org. Click on “Laws & Rules” on the left of the screen and click on “Purchase Insurance Laws of Oregon.” This link takes you to the Oregon State Legislature, Legislative Counsel’s web-site. Scroll down until you find the “Insurance Laws of Oregon.” Click on the link to complete the order form. The cost for the 2006 Insurance Code is \$26.

Oregon Administrative Rules, Chapter 836: To purchase a copy of the rules adopted by the Insurance Division, visit our web-site, www.oregoninsurance.org. Click on “Laws & Rules” on the left of the screen and click on “Oregon Administrative Rules.” At the bottom on the list, you will find a link to an order form. The Insurance Division sells the sets of rules (as of 12/2006) for \$23 if shipped, or \$20 if picked up.

Accounting Practices and Procedures Manual (Statements of Statutory Accounting Principles): Visit the National Association of Insurance Commissioner’s web-site, www.naic.org. Click on “NAIC Store.” The Accounting Practices and Procedures Manual is listed in the “Top Seller” list.

Annual and Quarterly Statement Instructions: Visit the National Association of Insurance Commissioner’s web-site, www.naic.org. Click on “NAIC Store.” The Annual and Quarterly Statement Instructions are listed in the “Top Seller” list.

Financial Statement Software Vendors: The National Association of Insurance Commissioners maintains a list of financial statement software vendors. You can access this list by visiting the NAIC web-site, www.naic.org. On the right of the screen, click on “Financial Filing Participation Packet.” Then select “Annual, Quarterly and Risk-Based Capital Software Vendors.”

Financial Statement Training: The National Association of Insurance Commissioners conducts annual statement preparation seminars. You can find out what’s available by visiting the NAIC web-site, www.naic.org and click on the “NAIC Education” link. Software vendors and others may also have annual statement preparation seminars.

Make sure to visit the NAIC web-site, www.naic.org, “Financial Filing Participation Packet” for other helpful information.

MISCELLANEOUS FILINGS

Prior Notice of a Transaction (with affiliate) (Form D)

ORS 732.574 requires an insurer to provide advance notice of material transactions with affiliates. Examples of the types of transactions contemplated include (but are not limited to) sales, purchases, exchanges, loans, extensions of credit, guarantees, investments, reinsurance arrangements, management agreements, service agreements, cost-sharing agreements, tax allocation agreements. The statute sets forth thresholds for determining materiality.

The notice is required to be filed 30 days in advance of the effective date of the transaction.

The format and instructions for the notice is established by administrative rule, OAR 836-027-0001, -0005, -0030 through -0050, -0160, -0180. A copy of the format and instructions can be accessed on our web-site at www.oregoninsurance.org, "Laws and Rules," "Oregon Administrative Rules," "Exhibits, Appendixes and Attachments," "836-027-0160 Exhibit 4 - Form D."

The Form D is not intended to be a blank form that is to be filled in. The Form D should contain the numbers and captions of all Items. Items 1, 2 and 7 are required for all transactions. If an item is not applicable to the transaction, indicate the Item number and caption, but signify with "N/A." The text of the sub-items may be omitted if the answers to the items are prepared so as to indicate clearly the scope and coverage of the sub-items. All instructions, whether appearing under the items of the form or elsewhere, should be omitted.

This requirement does not apply to Multiple Employer Welfare Arrangements (see ORS 750.333).

Disclosure of Material Transactions

An insurer is required to notify the director of a material transaction with a non-affiliate. The authority for this requirement is contained generally in ORS 731.574, ORS 733.210. The director has adopted OAR 836-011-0430 through 836-011-0460 establishing the materiality and reporting guidelines. An insurer is to report material acquisitions and dispositions of assets or material nonrenewals, cancellations or revisions of ceded reinsurance agreements unless these transactions have been submitted under a separate law or rule for review by the director.

Disclosure of material transactions with non-affiliates is due 15 days after the end of the calendar month in which the transaction occurs.

Materiality for the reporting requirement is defined in OAR 836-011-0450. A report is only required if the material acquisition/disposition (or aggregate of related transactions within a 30 day period) is non-recurring, not in the ordinary course of business and involves more than 5% of total admitted assets as of the most recent financial statement filed.

There is no “form” to be completed, but the content of the report is set forth in the administrative rules.

The materiality thresholds for reporting nonrenewals, cancellations or revisions of ceded reinsurance agreements is set forth in OAR 836-011-0460 and include several measures. Please refer to the rule for the reporting thresholds.

The content of the report is set forth in the administrative rules.

This requirement does apply to Multiple Employer Welfare Arrangements (see ORS 750.333).

Tax Returns

Insurers are required to file an excise tax return with the Oregon Department of Revenue by April 15 and a retaliatory and Fire Marshal tax return with the Oregon Insurance Division by April 1. The primary purpose of the retaliatory and Fire Marshal tax return is to remit the certificate of authority renewal fee and to pay any Fire Marshal tax due.

The tax forms are mailed to the insurer by the Insurance Division. Insurers domiciled in Oregon are not subject to retaliatory tax and need not complete the following sections of the retaliatory and Fire Marshal tax return: Part II – Retaliatory Tax, Schedule B – Workers’ Compensation Premium Fund Assessment, and Schedule C – Assessments Paid to the Oregon Life and Health Insurance Guaranty Association.

Insurers domiciled in Oregon are required to complete the following sections: the applicable section of Schedule A – Report of Premium by Insurer, and Lines 7 and 8 of the Summary of Tax Due on Page 1. Property and Casualty insurers must also complete Part I – State Fire Marshal Tax, and Lines 1, 2, and 3 of the Summary of Tax Due on Page 1.

Oregon domiciled insurers may be subject to the prepayment of excise and Fire Marshal taxes. Please contact the Oregon Department of Revenue for details on the prepayment of excise tax. Any prepayment of Fire Marshal tax is due to the Insurance Division by June 15, September 15, and December 15. The Insurance Division will mail prepayment coupons if the Fire Marshal tax liability was \$400 or more in the previous year. Prepayment of Fire Marshal tax may not be required if the previous year’s tax liability was less than \$400.

This requirement does apply to Multiple Employer Welfare Arrangements

Special Oregon Schedule P

Insurers authorized for workers compensation must make security deposits with the Insurance Division. The amount of the deposit required depends on the amount of earned premium and reinsurance arrangements.

An Oregon Unpaid Workers Compensation Losses Special Oregon Schedule P is to be filed each year on March 1. The form is on the Insurance Division's web-site. Click "Forms," insurance company "Alphabetical," "Oregon Special Schedule P."

KEY FINANCIAL REGULATORY INDICATORS FOR INSURERS

The following information identifies key financial indicators used by the Oregon Insurance Division to help assess the financial condition of Oregon domestic insurers.

The list is not intended to be all-inclusive or to substitute for direct Insurance Division guidance on specific issues as they may affect specific insurers and specific circumstances.

Minimum Capital and Surplus (Capitalization): Insurers and health care service contractors are generally required to maintain capital and surplus, or any combination thereof, of no less than \$2.5 million. See ORS 731.554(1) and 750.045(1). Property and casualty insurers authorized to transact workers' compensation insurance must maintain minimum capital and surplus of \$5 million. See ORS 731.554(2). Health care service contractors offering only complementary health services, dental service or visions services must maintain minimum capital and surplus of \$1 million. See ORS 750.045(3).

MEWA: MEWAs are required to maintain surplus of not less than \$250,000 or an amount equal to 35% of incurred claims for the preceding 12-month period, whichever is greater; however, the maximum amount required is \$500,000. See ORS 750.309(3). MEWAs maintaining security deposits must maintain those deposits in addition to the minimum surplus required. See ORS 750.309(4).

The referenced statutes identify the minimum capitalization necessary for an insurer to maintain its certificate of authority. Regulatory concerns would be triggered long before capital and surplus is reduced to these minimum levels in most circumstances.

Investment of Required Capitalization: Funds of an insurer at least equal to its required capitalization shall generally be invested and kept invested in amply secured obligations of the United States, a state or a political subdivision of this state, cash or certificates of deposit to the extent such investments are insured by the FDIC, or first mortgage loans of real estate located in Oregon where the lien does not exceed 50 percent of the appraised value of the property and the term on the loan is 5 years or less. See ORS 733.580.

MEWA: Investment of required capitalization also applies to MEWAs. See ORS 750.333.

Risk-Based Capital ("RBC"): RBC is a method for evaluating an insurer's capital and surplus in relation to its overall business operations in consideration of its size and lines of business written. An insurer's RBC is calculated by applying factors to various assets, premium and reserve items. Insurers must file an RBC report annually by March 1. The adequacy of an insurer's capital and surplus is measured by a comparison to the "authorized control level" risk-based capital as determined by the RBC report.

An insurer's authorized control level is calculated by the RBC formula. The insurer's total adjusted capital is divided by the authorized control level to obtain the RBC ratio. This ratio is

compared to the following RBC action levels: Company Action Level (less than 200%), Regulatory Action Level (less than 150%), Authorized Control Level (less than 100%), and Mandatory Control Level (less than 70%). The appropriate action to be taken for each action level for property and casualty and life, accident and health insurers is outlined in OAR 836-011-0300 to 0400. For health care service contractors the appropriate action to be taken is outlined in OAR 836-011-0500 to 0550.

Key Financial Benchmarks: The National Association of Insurance Commissioners (“NAIC”) has developed a set of ratios [Insurance Regulatory Information System (“IRIS”)] to help identify financially troubled insurers. The ratios (13 for property and casualty insurers and 12 for life accident and health insurers) are computed using data from the insurers’ annual statements. Any insurer failing four or more ratios is subject to review by the NAIC’s IRIS examination team.

No IRIS ratios exist for health care service contractors or multiple employer welfare arrangements. The primary benchmarks used by the Insurance Division include the premium to surplus ratio and number of months of average claims in reserves and surplus. Any insurer with a premium to surplus ratio higher than 10:1 may be requested by the director to infuse sufficient capital or surplus to maintain this ratio below 10:1. An insurer with less than 3 months of claims payments in reserves and surplus may also be required to increase its capital or surplus to maintain this 3 month level. See ORS 731.385, and OAR 836-013-0110.

Hazardous operating condition: The director has established standards for determining whether the continued operation of an insurer may be hazardous to the policyholders or to the insurance-buying public generally. Breach of any of these standards provides grounds upon which the director may take various regulatory actions. See ORS 731.385.

The standards are established by rule and include: adverse findings in financial or market conduct examination reports; adverse IRIS ratio results; combined ratio that could lead to impairment of capital and surplus; insufficient value, liquidity or diversity of assets; insufficient protection afforded under the reinsurance program; operating losses that are significant to capital and surplus; inability of affiliate, subsidiary or reinsurer to meet its obligations; contingent liabilities, pledges or guaranties that may affect solvency; age and collectibility of receivables; management that fails to demonstrate competence, fitness and the reputation necessary to serve the insurer; failure to respond to inquiries relating to the condition of the insurer or has furnished false and misleading information concerning an inquiry; filing a false or misleading sworn financial statement; growth that is not supported by financial or administrative capacity; cash flow or liquidity problems. See OAR 836-013-0110.

Reinsurance:

Limit of Risk (Reinsurance retention): No insurer or multiple employer welfare arrangement shall retain any risk on any one subject of insurance in an amount exceeding 10% of its capital and surplus, or in the case of title insurance, more than 50% of its capital and surplus. See ORS 731.504, 750.309(2).

Authorized Reinsurance: For purposes of determining the amount of risk an insurer retains, credit is allowed for reinsurance arrangements meeting specified criteria. See ORS 731.508. Credit is only allowed when the reinsurance is ceded to an authorized insurer licensed for that line of business, an insurer that is approved or accredited by the director, or that is backed by funds held in trust. See ORS 731.509 and 731.510

Asset Diversification: An insurer shall generally not have any combination of investments in, or secured by, the stocks, obligations, and property of one person, corporation, or political subdivision in excess of 10% of the insurer's assets. This limitation does not apply to investments in, or loans upon, the security of the general obligations of the United States, a state, or Canada or a province thereof. See ORS 733.770, 750.333.

Prohibited Investments: An insurer shall generally not make investments that at the time of purchase or acquisition are not interest-bearing or dividend or income-paying, or are in default. See ORS 733.780, 750.333.

Competency of Management: The director shall not grant or continue authority to transact insurance for any insurer whose management is found by the director to be untrustworthy or so lacking in insurance experience as to make the proposed operation or the continued operation hazardous to the insurance-buying public. See ORS 731.386(1), 750.333.

Home Office, Records, and Assets: Every domestic insurer shall have and maintain its principal place of business and home office in Oregon, and shall keep in Oregon accurate and complete accounts and records of its assets and transactions. Every domestic insurer shall also generally have and maintain its assets in Oregon. See ORS 732.245.

Custodial Arrangements: Insurers may enter into custodial or safekeeping arrangements with a custodian for the purpose of holding securities owned by the insurer. OAR 836-027-0200 sets forth the requirements for custodial and safekeeping arrangements. A custodian must meet the definition contained in the rule. All arrangements must be in writing and satisfy the requirements contained in the rule. Material changes to the custodial or safekeeping arrangement, as defined in the rule, must receive prior approval of the director.

OREGON INSURER INVESTMENT STATUTES SUMMARY

Investment in stocks of corporations. Funds of an insurer may be invested in stocks of solvent corporations organized and carrying on a business under the laws of a sovereign as follows: (1) Preferred stock if preferred dividends not in arrears. (2) Common stock if nationally registered or regularly traded nationally. Investment is limited to 25% in common stocks that have not paid cash dividends during each of the preceding 5 years. (3) An insurer shall not own or control more than 5% of a corporation or the insurer, directors, trustees and officers in the aggregate shall not own or control more than 50% of a corporation. See ORS 733.620, 750.333.

Required Capitalization. Funds of an insurer at least equal to its required capitalization shall be invested and kept invested essentially in cash or liquid equivalents pursuant to the provisions of ORS 733.580. Acceptable investments generally include US Treasuries, GNMA, FNMA, FHLMC, cash up to the FDIC limit, and general obligations of a state. See ORS 733.580, 750.333.

MEWAs maintaining security deposits must maintain those deposits in addition to the minimum surplus required. See ORS 750.309(4).

Home Office Real Estate. An insurer may invest in the land and buildings thereon in which it has its principal office and other real property required for business purposes. Such investments shall not exceed in the aggregate 10% of its assets except with the consent of the Director. See ORS 733.610(1)(a), 750.333.

Investment Real Estate. An insurer may invest in certain real property other than real estate used for business purposes. Such investments shall not exceed in the aggregate 10% of its assets except with the consent of the Director. See ORS 733.610(1)(b thru i). Certain investments are further restricted to 5% of total admitted assets [ORS 733.610(1)(f)] and others to the lesser of 5% of admitted assets or 50% of the insurers combined capital and surplus, except with the consent of the Director [ORS 733.610(1)(h)]. Except with the consent of the Director, all real property owned by the insurer, except under (a) and (e), shall not exceed 10% of assets. See ORS 733.610, 750.333.

Mortgage Loans. An insurer may invest in loans secured by first liens upon improved, unencumbered real property located within the boundaries of any sovereign [see ORS 733.530(2)] if the lien does not exceed 80% of the appraised value of the property provided there is a mortgage, deed of trust, or other instrument which provides for installment payments sufficient to repay the loan within 30 years. See ORS 733.600(1)(a), 750.333. For government guaranteed loans or loans with no amortization plan, see ORS 733.600(1)(a). For loans secured by leaseholds, see ORS 733.600(1)(b). For participation loans secured by real property or leaseholds, see ORS 733.600(2). On loans secured by liens upon real property or leaseholds, the buildings and improvements must be kept insured. See ORS 733.760, 750.333.

Subsidiary Investments. An insurer may invest in the stocks and obligations of qualified subsidiaries if such corporation is engaged in the kind of business which is related to the

insurance business described in ORS 733.635 provided 80% or more of the stock is owned by the insurer or with prior consent of the Director in cooperation with one or more other persons. *Determination of the investment in light of statutory limitations is made prior to acquisition.* See ORS 733.630, 750.333.

Electronic Data Processing Equipment. Funds of an insurer may be invested in EDP equipment and operating system software. EDP equipment and operating system software shall be depreciated within 3 years. The aggregate amount of admitted EDP equipment and operating system software (net of accumulated depreciation) is limited to 3% of the insurer's adjusted capital and surplus. Before applying the limitation, surplus is adjusted to exclude any EDP equipment and operating system software, net deferred tax assets, and net positive goodwill. See SSAP 16, ORS 733.210, and 750.333.

Other Invested Assets. Funds of an insurer may be invested in certain obligations and other specified items. See ORS 733.650, 750.333. See also ORS 733.780 (Prohibited Investments).

Prudent Investor. Funds of an insurer may be invested in a manner not expressly prohibited by ORS 732.325 and 733.780, provided such investments are made in the exercise of judgment and care under circumstances then prevailing which investors of prudence, discretion and intelligence exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital. Funds invested under this section shall not exceed the lesser of 7 1/2% of the insurer's assets or the excess of assets over all liabilities plus required capitalization (FREE SURPLUS). Investment in partnerships, LLCs, etc., are included under this statute. If the insurer has a controlling interest such investments are included under this statute, and not afforded the accounting treatment of a subsidiary. See ORS 733.670, 750.333.

Non-investment Grade Securities. Funds of an insurer may be invested in securities that are not investment grade but the aggregate amount of funds that an insurer may invest therein shall not exceed 20% of the insurer's assets. See ORS 733.695, OAR 836-033-0130, 750.333.

10% Limitation. An insurer shall not have any combination of investments in or secured by the stocks, obligations, and property of one person, corporation, or political subdivision in excess of 10% of its assets nor shall it invest more than 10% of its assets in a single parcel of real estate or in any other single investment. There are certain exceptions to this rule. See ORS 733.770, 750.333. [In making this calculation, exclude US Treasuries, FNMA, GNMA, FHLMC, SBA].

For Title Insurance Companies Only. A separate and distinct fund must be maintained in an amount at least equal to the amount of the unearned premium reserve liability. See ORS 733.090(3).

For Health Care Service Contractors Only. Funds of a health care service contractor may be invested in all real and personal property used exclusively by the health care service contractor to provide authorized health care services (emphasis added). The Oregon Insurance Division interprets this to include such equipment as ambulances, examination and surgical equipment, etc., that are necessary to provide or accommodate the application of health care services defined

in ORS 750.005(4), but does not include furniture, fixtures, and equipment for waiting rooms, or for office and administration. See ORS 733.700.

MEWA Only. A multiple employer welfare arrangement shall maintain adequate claims reserves. Claims reserves must be held in cash, obligations guaranteed by the United States, or invested in a registered investment company and invested exclusively in cash or obligations guaranteed by the United States. See ORS 750.315.

MEWA SPECIFIC REQUIREMENTS

Only health benefits may be offered through a MEWA. Disability benefits may be offered if they do not exceed \$2,000 per person per year. Life insurance and disability benefits exceeding \$2,000 may be offered if certain conditions are met. See ORS 750.303.

The association or group carrying out the MEWA must maintain the following: (1) Composed of 5 or more employers in the same trade or industry; (2) The group or association must be engaged in substantive activity other than sponsorship of an employee welfare benefit plan; (3) Annual gross contributions must exceed \$450,000 for a plan offering health benefits (vision and dental only plans have lower annual contribution requirements). See ORS 750.307.

The MEWA must maintain adequate facilities for purposes of the MEWA and either have sufficient personnel to service the plan or must contract with an Oregon licensed TPA to provide the services. See ORS 750.309.

The Board of Trustees must exercise the powers of the MEWA. At least 50% of the trustees must be persons who are covered under the MEWA. A trustee may not be an owner, officer or employee of a TPA that provides services to a MEWA. See ORS 750.317.

A MEWA must maintain a fidelity bond covering all officers and persons appointed to act on behalf of the board who handle the funds of the trust. The amount shall be determined annually. The bond amount must be the greater of the amount established by formula by the National Association of Insurance Commissioners or the bonding requirements set forth in the federal Employee Retirement Income Security Act of 1974, as amended. See ORS 750.318(3).

The plan must provide for a charge or deposit and for an assessment against members in the event surplus drops below the minimum required. See ORS 750.321.

FINANCIAL EXAMINATIONS

Financial examinations are required to be conducted at least once every 5 years (see ORS 731.300). The Insurance Division generally tries to conduct examinations of each domestic insurer every 3 to 5 years. These examinations are “full scope” examinations and cover all aspects of an insurer’s financial condition and transactions.

Domestic insurers undergo a “qualifying” examination during the admissions process. This type of examination is conducted prior to a company receiving its initial certificate of authority. This examination is conducted to ensure an insurer satisfies the requirements to possess a certificate of authority.

After an insurer obtains its initial certificate of authority and begins to transact insurance, the divisions conducts a financial examination. The purpose of this examination is to ensure the company completes its annual statement in accordance with Statutory Accounting Principles and the NAIC Annual Statement Instructions.

Targeted or limited scope examinations are sometimes necessary when the director has specific concerns about an insurer’s financial operations or the reporting of a specific item(s) in the company’s annual or quarterly statement.

Below is a list of some of guidelines an insurer should consider to ensure the examinations proceed as efficiently as possible:

- All accounting records should be maintained for each year being examined.
- Custodial agreements must comply with the safeguards described in OAR 836-027-0200.
- A working trial balance that agrees to the annual statement should be prepared and retained for each year.
- The examiners will check for the following:
 - Evidence in the board minutes that the board formally approves investments, officer salaries, and commissions to agents.
 - Verify diversification of investments so that no one investment exceeds 10% of total admitted assets (see ORS 733.770).
 - Verify bonds purchased within one year of maturity are listed on Schedule DA.
 - Verify certificates of deposit with more than one year to maturity at date of purchase are listed on Schedule D.

- Verify securities purchased or sold are reported as of the trade date, not the settlement date.
- Verify the company has a procedure for identifying and reporting stale dated checks.
- Verify checks pending escheatment to the Oregon Division of State Lands are recorded as an aggregate write-in for other liabilities.

The cost of the examination paid by the insurer being examined (ORS731.316).