

STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS
SERVICES
DIVISION OF FINANCIAL
REGULATION



REPORT OF FINANCIAL EXAMINATION
OF
LIBERTY NORTHWEST INSURANCE CORPORATION
PORTLAND, OREGON

AS OF
DECEMBER 31, 2018

FILED 8/28/2020 *LA*
DEPT. CONSUMER & BUSINESS SERVICES
INSURANCE DIVISION

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

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PORTLAND, OREGON**

NAIC COMPANY CODE 41939

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SALUTATION

May 26, 2020

Honorable Andrew Stolfi, Director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

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

LIBERTY NORTHWEST INSURANCE CORPORATION
One Liberty Centre
650 NE Holladay Street
Portland, Oregon 97232

NAIC Company Code 41939

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

SCOPE OF EXAMINATION

We have performed our regular, multi-state, full-scope examination of Liberty Northwest Insurance Corporation, together with its affiliate, Safeco Insurance Company of Oregon, and the Company's wholly owned insurance subsidiaries, North Pacific Insurance Company and Oregon Automobile Insurance Company. There will be a separate report of financial examination prepared for each company. The examination was coordinated with the insurers in the Liberty Mutual Group, with the State of Massachusetts designated as the lead state. The last examination of this property and casualty insurer was completed as of December 31, 2013. This examination covers the period of January 1, 2014, to December 31, 2018.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1) which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and the Company.

COMPANY HISTORY

The Company was incorporated in Oregon on January 21, 1983, and received a Certificate of Authority on February 18, 1983, to transact property, casualty (including workers' compensation), marine & transportation, and surety lines of business. The Company was part of the Liberty Mutual Agency Corporation strategic business unit (LMAC SBU) within the Liberty Mutual Group. LMAC merged into the Commercial Insurance SBU. After an internal reorganization, the business written by the statutory entities in the Liberty Mutual Insurance Company (LMIC) Pool includes the following internal business units (SBU's): Global Retail Markets (GRN) and Global Risk Solutions (GRS). As described in the Reinsurance section below, effective January 1, 2013, the Company ceded all of its risks to the lead insurer, Liberty Mutual Insurance Company (LMIC) and was retroceded (0%) zero percent of the pooled business.

Capitalization

Under Article III of the Article of Incorporation, the Company is authorized to issue 10,000,000 shares of common stock of \$3 par value common stock. The Company has issued 1,000,000 shares to its direct parent, Peerless Insurance Company, representing 100% of the shares outstanding. No additional capital had been contributed to the Company during the period under examination.

Dividends to Stockholders and Other Distributions

During the period under examination, the Company declared and paid the following dividend to its stockholder:

<u>Declared Date</u>	<u>Paid Date</u>	<u>Amount</u>	<u>Description</u>
April 12, 2018	May 11, 2018	\$19,380,000	Extraordinary

The Company declared an extraordinary cash dividend payable to its sole shareholder, Peerless Insurance Company, without reporting the dividend to the Director within five days of the declaration, a violation of ORS 732.554. The Company paid Peerless an extraordinary cash dividend without first notifying the Director and without his prior approval in violation of ORS 732.576(2)(a). Further, the Company paid Peerless the extraordinary dividend from other than earned surplus without prior approval from the Director in violation of ORS 732.576(3)(a).

I recommend the company to declare and pay all future dividends or distributions in accordance with the requirements of ORS 732.554 and ORS 732.576.

Due to the non-compliance, on March 18, 2019, the Director issued a Final Order to Cease and Desist and Order Assessing Civil Penalties (INS-18-0102) ordering the Company to pay \$15,000.

CORPORATE RECORDS

Board Minutes

In general, the review of Board meeting minutes of the Company indicated that the minutes support the transactions of the Company and clearly describe the actions taken by its directors. A quorum as defined by the Company's Bylaws, met at all of the meetings held during the period under review.

The minutes indicated the Board directly approves the CEO's compensation through its Compensation Committee and indirectly approves the compensation of senior executives through approval of an Annual Performance Compensation Plan. This process complies with the provisions of ORS 732.320(3).

Articles of Incorporation

The Company's restated Articles of Incorporation were most recently amended on April 6, 1993. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The Company's Bylaws were last restated on September 1, 2007. The Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

Management and control of the Company is vested in a Board of Directors. Article III of the Company's Bylaws designates that the Board shall be comprised of not less than five members, the exact number thereof to be fixed by resolution. As of December 31, 2018, the Company was governed by a twelve member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Michael John Cronan Beaverton, Oregon	Senior Personal Lines Underwriting Manager Liberty Mutual Group Inc.	2018
Matthew Paul Dolan Avon, Connecticut	President, North America Specialty Liberty Mutual Group Inc.	2018
Alison Brooke Erbig Stoneham, Massachusetts	Senior VP, Comptroller Liberty Mutual Group Inc.	2015

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Michael Joseph Fallon Bedford, Massachusetts	President, National Insurance Liberty Mutual Group Inc.	2018
Julie Marie Haase Boston, Massachusetts	CFO, Global Retail Markets Liberty Mutual Group Inc.	2018
Mark Richard Harmon Lake Oswego, Oregon	Sr. Complex Claims Resolution Specialist Liberty Mutual Group Inc.	2018
James Michael MacPhee Boston, Massachusetts	President and Chief Operating Officer, Global Retail Markets US Liberty Mutual Group Inc.	2018
Sean Bulman McSweeney Ashland, Massachusetts	Deputy General Counsel Liberty Mutual Group Inc.	2018
Joseph Lee Meils West Linn, Oregon	Division Underwriting Manager Liberty Mutual Group Inc.	2018
Elizabeth Julia Morahan Newton, Massachusetts	Deputy General Counsel Liberty Mutual Group Inc.	2014
Francis William Robinson, Jr. North Andover, Massachusetts	CFO, Global Risk Solutions Liberty Mutual Group Inc.	2018
Mark Charles Touhey * Scituate, Massachusetts	SVP, Corporate Secretary and Chief of Staff Liberty Mutual Group Inc.	2015

*Chairman

Under Oregon law, ORS 732.305, at least five (5) or one-quarter of the Directors, whichever is fewer, must be residents of Oregon and a majority of Directors must be non-salaried officers of the Company. The Company was in compliance with this statute. The Directors as a group had experience in law, insurance, actuarial, accounting and management, in accordance with the provisions of ORS 731.386.

Officers

Principal officers serving at December 31, 2018, were as follows:

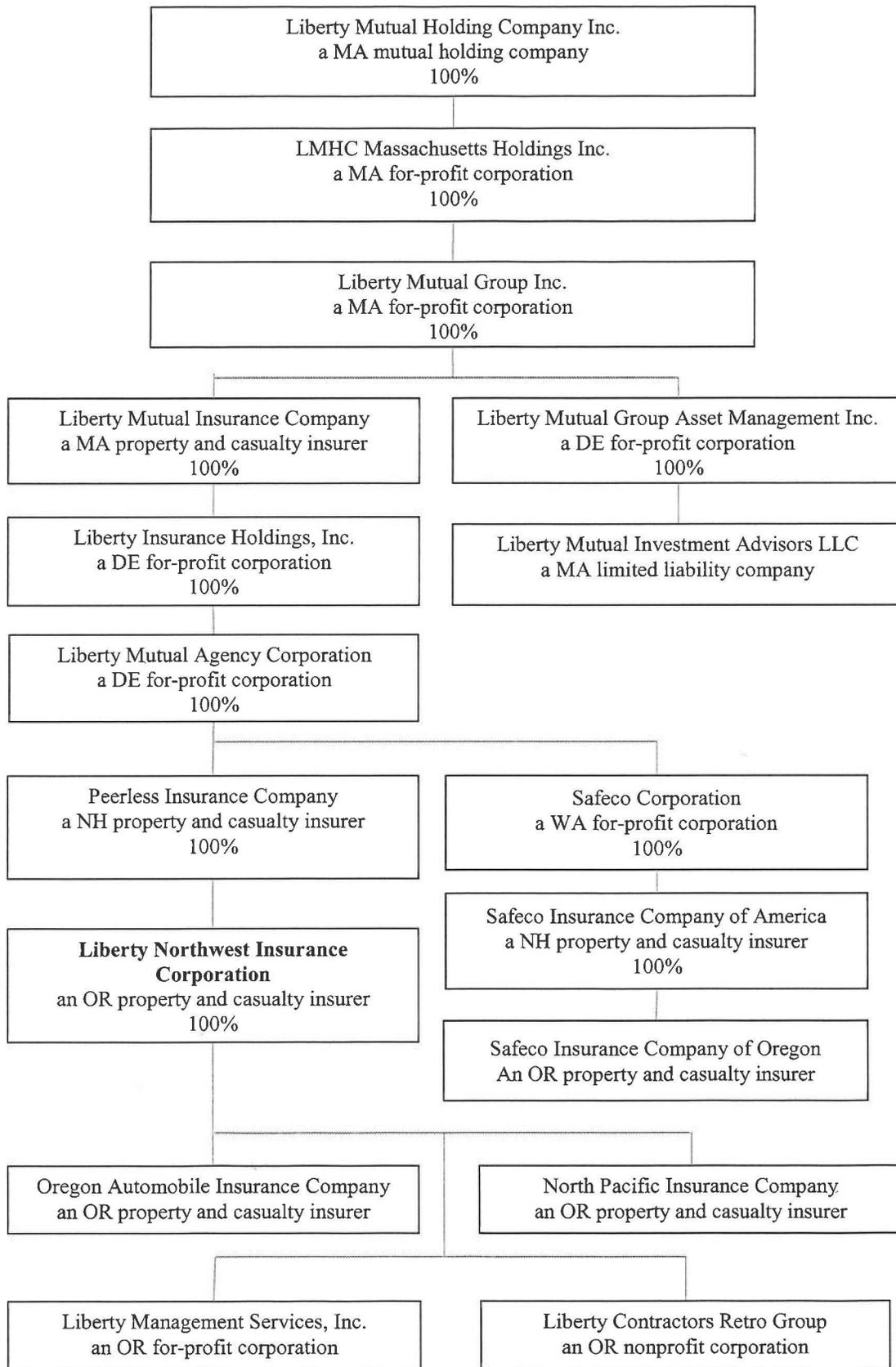
<u>Name</u>	<u>Title</u>
James Michael MacPhee	President & CEO
Christopher Locke Peirce	Executive Vice President and CFO
Laurance Henry Soyer Yahia	Treasurer and Senior Vice President
Mark Charles Touhey	Secretary and Senior Vice President
James Francis Kelleher	Chief Legal Officer and Executive Vice President
Neeti Bhalla Johnson	Chief Investment Officer and Executive Vice President
Alison Brooke Erbig	Comptroller and Senior Vice President

Conflict of Interest

The Company is party to the Liberty Mutual Code of Business Ethics and Conduct, which requires officers, directors, and selected responsible employees to report annually any conflicts of interest or violations of ethical business practices to the Company. From a review of the completed conflict of interest statements, it appeared that the affected personnel performed due diligence in completing the statements. No material conflicts of interest were noted.

Insurance Company Holding System

An insurance holding company registration statement was filed by the Company in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1). The following condensed organizational chart depicts the relationships of the Company within the holding company system:



A description of each of the entities above is as follows:

Liberty Mutual Group Inc. (LMG) is a Massachusetts holding company formed as part of the reorganization of Liberty Mutual Insurance Company in 2001 under a mutual holding company system. As part of the transaction, it formed Liberty Mutual Holding Company Inc. (LMHC) as a mutual holding company and the ultimate controlling entity. LMHC Massachusetts Holdings Inc. was formed as a stock holding company 100% owned by LMHC, and is the direct parent of LMG.

Significant subsidiaries of LMG include:

- Liberty Mutual Insurance Company (LMIC), a Massachusetts domiciled property and casualty insurer, was formed in 1912 and is the flagship insurance company of the group, 100% owned by LMG.
- Liberty Mutual Group Asset Management Inc. (LMGAM), a Delaware stock company and an indirect subsidiary of LMG. It was formed for the purpose of making, holding, and administering investments in designated asset sectors for the insurance companies within LMG.
- Liberty Insurance Holdings, Inc. (LIH), a Delaware stock holding company 100% owned by LMIC.
- Liberty Mutual Agency Corporation. (LMAC), a Delaware stock for-profit corporation 100% owned by LIH.
- Safeco Corporation (SC), a Washington for-profit corporation 100% owned by LMAC.
- Safeco Insurance Company of America (SICA), a New Hampshire property and casualty insurance company 100% owned by SC.
- Safeco Insurance Company of Oregon (SICO), an Oregon property and casualty insurance company 100% owned by SICA.
- Peerless Insurance Company (PIC), a New Hampshire stock property and casualty insurance company 100% owned by LMAC. PIC owns 100% of the outstanding shares of the Company's common stock and is the direct parent.
- Oregon Automobile Insurance Company (OAIC), an Oregon-domiciled stock property and casualty insurer.

- North Pacific Insurance Company (NPIC), an Oregon-domiciled stock property and casualty insurer.
- Liberty Management Services, Inc. (LMS), an Oregon corporation formed in 1987 as a non-insurance claims servicing company, providing operational support for employers that are self-insured for workers' compensation.
- Liberty Contractors Retro Group, an Oregon corporation formed in 1991 to perform ancillary services for the property and casualty company.

INTERCOMPANY AGREEMENTS

The following agreements are in place between the Company and members of the insurance holding company system:

Revolving Loan Agreement

Effective June 15, 2016, the Company entered into a revolving loan agreement with LMIC. Under this agreement, the Company may borrow up to \$50,000,000 from LMIC. Interest will not exceed the three-month LIBOR at time of loan plus 1.40%. The purpose of the agreement is to provide operating liquidity to accommodate fluctuations in daily cash flow and to promote efficient management of investments. The termination date is the business day specified by the lender in a notice of termination, that is not less than six months after the lender notifies the company of such termination, unless otherwise mutually agreed upon by the parties. During the period under examination, the Company did not borrow any funds from LMIC under this agreement.

Management Services Agreement

Effective January 1, 2013, the Company and LMIC entered into an agreement whereby LMIC will provide; A) insurance; B) accounting, actuarial, risk management, financial, tax and auditing services; C) purchasing, payroll, human resources and employee benefits; D) marketing and strategic support; E) information technology and support; F) policy administration and production;

G) real estate management; H) legal and compliance; I) general administration; J) miscellaneous; K) reinsurance negotiations; and L) maintenance of and access to records. Pursuant to the agreement, the Company shall reimburse LMIC for the reasonable cost of services provided and shall include direct expenses and direct allocable expenses, consistent with the principles of SSAP No. 70. Settlement shall be quarterly and amounts owing shall be made within 45 days.

Cash Management Agreement

Effective January 1, 2016, the Company entered into an agreement with Liberty Mutual Insurance Company, (LMIC) to make, hold, and administer certain positions in short-term investments. Monthly fees charged will be based on an average of the market value of cash and securities times .00015 plus its proportionate share of all reasonable cost and expenses incurred by the LMIC in performing its obligations under this agreement, including but not limited to commissions, transaction fees, and custodial fees incurred. All amounts are to be made within 45 days after the end of the month. Exhibit A of the agreement described the permitted assets allowed for purchase. The agreement has no expiration date, but may be terminated immediately upon written notice by the Company or with 180 days written notice by LMIC.

Investment Management Agreement

Effective July 1, 2011, the Company entered into an agreement with LMGAM to act as discretionary investment manager of all the invested assets held by the Company, subject to the guidelines, limitations, and objectives set by the Company's Board of Directors. The agreement has no expiration date, but may be terminated immediately upon written notice by the Company or with 180 days written notice by LMGAM. Monthly fees charged will be based on an average of the market value of cash and securities times .00015.

Tax Sharing Agreement

On January 1, 2002, the company joined Liberty Mutual Holding Company, Inc., (LMHC) in a tax-sharing agreement. Under the terms of the agreement, LMHC shall compute a consolidated federal tax return of any legal entity that is part of the Liberty Mutual Group. All taxes payable from each legal entity shall be based on a separate tax return liability, after adjusting for any current year, carryovers or carrybacks of net operating losses, net capital losses, excess tax credits, or other tax attributes. Payments reflecting the final tax return liability for a given tax year will be settled after the filing of Liberty Mutual Group's federal tax return.

FIDELITY BOND AND OTHER INSURANCE

The Company was covered against losses through a fidelity bond with a single loss limit of \$15,000,000 with a single loss limit deductible of \$50,000,000. This coverage met the amounts recommended by the NAIC. An endorsement of the policy defined any subsidiary of Liberty Mutual Holding Company to be an insured. The Company is insured under a commercial umbrella liability policy with a limit of \$25,000,000 and a self-insurance retention of \$100,000. Other major insurance coverages in force included commercial general liability, financial institution bond, and workers' compensation. All coverages appeared adequate as of December 31, 2018.

TERRITORY AND PLAN OF OPERATION

The company is licensed in the states of Alaska, California, Idaho, Massachusetts, Montana, Oregon, Utah, Washington and Wyoming. During the period under examination, the Company wrote primarily casualty business, including commercial multiple peril, workers compensation, and commercial auto liability through independent agents. The Company was part of the Liberty

Commercial Insurance SBU. At December 31, 2018, the Company wrote direct premiums in six of the nine states in which it is licensed, as follows:

<u>State</u>	<u>Direct Premiums Written</u>	<u>Percentage</u>
Alaska	\$ 8,475,678	33.8%
California	20,423	0.1%
Idaho	6,222,711	24.9%
Massachusetts	-	-
Montana	3,676,862	14.7%
Oregon	5,159,970	20.6%
Utah	-	-
Washington	1,471,954	5.9%
Wyoming	-	-
Total	<u>\$ 25,025,598</u>	<u>100.0%</u>

The following is a breakdown of the direct premiums written in 2018:

<u>Lines of Business</u>	<u>Premium</u>	<u>Percentage</u>
Fire	\$ 1,028	0.0%
Allied lines	3,296	0.0%
Farm owners multi-peril	(1,990)	0.0%
Commercial multi-peril (non-liability portion)	860,909	3.5%
Commercial multi-peril (liability portion)	1,388,471	5.6%
Inland marine	198,688	0.8%
Workers' compensation	19,239,826	76.9%
Other liability – occurrence	635,102	2.5%
Products liability – occurrence	53,364	0.2%
Commercial auto liability	15,558	0.1%
Other commercial auto liability	2,040,244	8.2%
Auto physical damage	590,505	2.4%
Burglary and theft	597	0.0%
Totals	<u>\$ 25,025,598</u>	<u>100.0%</u>

GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following schedule. Amounts were derived from Company's annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2014	\$ 68,788,330	\$ 8,158,816	\$ 60,629,514	\$ (2,448,870)
2015	66,178,943	12,380,588	53,798,355	882,824
2016	56,652,623	952,868	55,726,756	1,744,401
2017	59,896,402	4,378,294	55,518,108	(363,721)
2018 *	59,063,155	7,252,440	51,810,715	15,464,651

*Per examination

All business was 100% ceded to Liberty Mutual Insurance Company, the lead insurer in the pool, pursuant to the second amended and restated intercompany reinsurance agreement, which resulted in \$0 net underwriting gains for the entire examination period.

REINSURANCE

Effective January 1, 2013, the Company entered into a Second Amended and Restated Intercompany Reinsurance Agreement, a 100% quota-share pooling reinsurance agreement with its indirect parent, Liberty Mutual Insurance Company (LMIC), the lead insurer in the LMIC Pool. The agreement calls for LMIC to assume all risks from first dollar, both assumed and direct.

Although the LMIC Pool has various reinsurance agreements with outside reinsurers and with affiliates within the Liberty Mutual Group, the Company is not a party to any other reinsurance agreements on a direct basis.

The Company is part of the Reinsurance Pooling Agreement where 100% of the business is ceded by 55 affiliated insurers to the lead company, Liberty Mutual Insurance Company. Liberty Mutual Insurance Company records 100% of its external assumed and ceded reinsurance activity after recording the assumed affiliate transactions, and then retrocedes to the pool members in accordance with each company's pooling percentage. The Company did not participate in any retrocession, and as a result, it reported no reserves or other policy-related liabilities.

The following is the retrocession reinsurance participants and their respective participation percentages (six companies):

Liberty Mutual Insurance Company	50.00%
Peerless Insurance Company	20.00%
Employers Insurance Company of Wausau	8.00%
The Ohio Casualty Insurance Company	8.00%
Liberty Mutual Fire Insurance Company	8.00%
Safeco Insurance Company of America	6.00%
Total	<u>100.00%</u>

Risk Retention

The Company did not retain risk on any one subject in excess of 10% of its surplus as regards policyholders. The Company complied with the provisions of ORS 731.504.

Insolvency Clause

The reinsurance agreements each contained an insolvency clause that specified payments would be made to a statutory successor without diminution in the event of insolvency in compliance with ORS 731.508(3).

The lead company in the intercompany pooling arrangement, LMIC, recorded the effects of nonaffiliated external assumed reinsurance on a net basis. As a result, the individual pool participants (other than LMIC) are incorrectly recording its assumed underwriting results on a net basis whereby each participant's portion of premiums, losses, expenses and other operations in the pool are improperly reported in its financial statements. This accounting practice is in violation of SSAP No. 62R, paragraph 20, SSAP No. 63, paragraph 8, and ORS 731.574(1).

I recommend the lead company record all external assumed reinsurance on a gross basis for all companies that participate in the pool, including the Company, in accordance with the provisions of SSAP No. 62R, paragraph 20, SSAP No. 63, paragraph 8, and ORS 731.574(1).

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2018, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

However, the Company did not file its 2018 Annual Statement accurately or completely. The incorrect or incomplete disclosures are in violation with ORS 731.574 and OAR 836-011-0000.

I recommend the company file its annual and quarterly financial statements accurately and completely in accordance with the requirements of ORS 731.574 and OAR 836-011-0000.

STATUTORY DEPOSIT

The Company had deposits with the Oregon Division of Financial Regulation, Department of Consumer Business Services, pursuant to the provisions of ORS 731.604 and 731.628. The deposits consist of US treasury notes and bonds with a par value of \$2,955,000. This asset was confirmed directly by Oregon Division of Financial Regulation, Department of Consumer Business Services. The deposits were properly disclosed on Schedule E – Part 3 of the 2018 Annual Statement. The Company also listed deposits with other states, which were confirmed directly with those jurisdictions.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no comments or recommendations made from the prior report of examination.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets, all of which are uncertain and cannot be predicted. Due to the timing of the examination and field work, the effects of the pandemic on the Company cannot be fully addressed within this examination report.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Division of Financial Regulation and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. These statements include:

Statement of Assets
Statement of Liabilities, Surplus, and Other Funds
Statement of Income
Reconciliation of Capital and Surplus Since the last Examination

LIBERTY NORTHWEST INSURANCE CORPORATION
ASSETS
As of December 31, 2018

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 41,433,941	\$ -	\$ 41,433,941	1
Common stocks	16,096,888	(10,186)	16,008,672	1
Cash, cash equivalents and short-term investments	1,322,714		1,322,714	1
Other invested assets	-		-	
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>58,853,543</u>	<u>\$ (10,186)</u>	<u>58,843,357</u>	
Investment income due and accrued	206,711	-	206,711	
Amounts recoverable from reinsurers	51		51	
Receivable from parent, subsidiaries and affiliates	1,709		1,709	
Aggregate write-ins for other than invested assets	<u>11,327</u>	<u>-</u>	<u>11,327</u>	
Total Assets	<u>\$ 59,073,341</u>	<u>\$ (10,186)</u>	<u>\$ 59,063,155</u>	

LIBERTY NORTHWEST INSURANCE CORPORATION
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2018

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	\$ -	\$ -	\$ -	2
Loss adjustment expenses	-	-	-	2
Other expenses	-	-	-	
Current FIT payable	54,968	-	54,968	
Payable to parent, subsidiaries and affiliates	4,898,341		4,898,341	
Payable for securities	2,299,240		2,299,240	
Aggregate write-ins for liabilities	<u>(109)</u>	<u>-</u>	<u>(109)</u>	
Total Liabilities	<u>\$ 7,252,440</u>	<u>\$ -</u>	<u>\$ 7,252,440</u>	
Common capital stock	\$ 3,000,000	\$ -	\$ 3,000,000	
Gross paid-in and contributed capital	53,694,367	-	53,694,367	
Unassigned funds (surplus)	<u>(4,873,465)</u>	<u>(10,186)</u>	<u>(4,883,652)</u>	
Surplus as regards policyholders	<u>51,820,902</u>	<u>(10,186)</u>	<u>51,810,715</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 59,073,342</u>	<u>\$ (10,186)</u>	<u>\$ 59,063,155</u>	

LIBERTY NORTHWEST INSURANCE CORPORATION
STATEMENT OF INCOME
For the Year Ended December 31, 2018

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Underwriting income				
Premium earned	\$ -	\$ -	\$ -	
Deductions				
Losses incurred	-	-	-	
Loss adjustment expenses incurred	-	-	-	
Other underwriting expenses	-	-	-	
Aggregate write-ins for underwriting deductions	-	-	-	
Total underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Net underwriting gain or (loss)	-	-	-	
Investment income				
Net investment income earned	20,285,777	-	20,285,777	
Net realized gains or (losses)	<u>(14,767)</u>	<u>-</u>	<u>(14,767)</u>	
Net investment gain or (loss)	20,271,010	-	20,271,010	
Other income				
Net gain or (loss) from agents' or premium balances charges off	-	-	-	
Finance and service charges not included in premiums	-	-	-	
Aggregate write-ins for miscellaneous income	<u>(4,434)</u>	<u>-</u>	<u>(4,434)</u>	
Total other income	<u>-</u>	<u>-</u>	<u>-</u>	
Net income before dividends to policyholders and income taxes	20,266,576	-	20,266,576	
Dividends to policyholders	-	-	-	
Federal income taxes incurred	<u>4,801,925</u>	<u>-</u>	<u>4,801,925</u>	
Net income	<u>\$ 15,464,651</u>	<u>\$ -</u>	<u>\$ 15,464,651</u>	

LIBERTY NORTHWEST INSURANCE CORPORATION
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2018	2017	2016	2015	2014
Surplus as regards policyholders, December 31, previous year	<u>\$ 55,518,109</u>	<u>\$ 55,726,758</u>	<u>\$ 53,798,356</u>	<u>\$ 60,629,514</u>	<u>\$ 60,153,392</u>
Net income (loss)	15,464,651	(363,721)	1,744,401	882,824	(2,448,870)
Change in net unrealized capital gains or (losses)	1,276,591	1,290,423	1,038,166	378,923	781,429
Change in net deferred income tax	646,359	(874,035)	(424,964)	4,463,035	3,236,341
Change in non-admitted assets	(1,704,806)	(261,316)	(429,201)	(12,555,940)	(1,092,778)
Change in provision for reinsurance	-	-	-	-	-
Change in surplus notes	-	-	-	-	-
Cumulative effects of changes in accounting principles	-	-	-	-	-
Capital changes:					
Paid in	-	-	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-	-
Transferred to surplus	-	-	-	-	-
Surplus adjustments:					
Paid in	(1,487,178)	-	-	-	-
Transferred to capital (Stock Dividend)	-	-	-	-	-
Transferred from capital	-	-	-	-	-
Distributions to parent (cash)	(17,892,822)	-	-	-	-
Change in treasury stock	-	-	-	-	-
Examination adjustment	(10,186)	-	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in surplus as regards policyholders for the year	<u>(3,707,394)</u>	<u>(208,649)</u>	<u>1,928,402</u>	<u>(6,831,158)</u>	<u>476,122</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 51,810,715</u>	<u>\$ 55,518,109</u>	<u>\$ 55,726,758</u>	<u>\$ 53,798,356</u>	<u>\$ 60,629,514</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2018, the Company’s long-term bond investments were in US Treasury obligations, residential mortgage backed securities, US political subdivisions, US special revenue issuer obligations, and corporate issues. All bonds were NAIC designation 1 and represented 70.4% of total invested assets.

Common stocks were comprised of three subsidiaries of the Company (North Pacific Insurance Company, Oregon Automobile Insurance Company, and Liberty Management Services). The common stocks were all valued at the subsidiaries statutory surplus in the amounts of \$8,080,467; \$8,006,236; and \$10,186, respectively. The valuation of North Pacific Insurance Company and Oregon Automobile Insurance Company were in compliance with SSAP No. 97, paragraph 8, however, the valuation of Liberty Management Services was not in compliance and the Examiners non-admitted the value in this report.

I recommend that the Company properly report investments in subsidiaries on Schedule D – Part 2 – Section 2 of the Annual Statement in accordance with the provisions of SSAP No. 97, paragraph 8, ORS 731.574(1) and the Annual Statement Instructions for Property/Casualty manual

Cash and short-term deposits consisted of cash on deposit and one short-term money market fund.

A comparison of the major investments over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>Stocks</u>	<u>C</u> <u>Cash and</u> <u>Short-</u> <u>term</u>	<u>Ratio</u> <u>A/</u> <u>Total</u> <u>Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total</u> <u>Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total</u> <u>Assets</u>
2014	\$ 44,963,932	\$ 16,131,352	\$ 96,560	58.2%	23.4%	0.1%
2015	44,821,221	15,547,209	79,649	67.7%	23.5%	0.1%
2016	37,962,455	15,723,777	767,387	67.0%	27.8%	1.4%
2017	39,762,034	15,878,744	416,657	66.3%	26.5%	0.7%
2018*	41,433,941	16,096,888	1,322,714	70.1%	27.2%	2.2%

*Balance per examination.

As of December 31, 2018, sufficient invested assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, and the Company was in compliance with ORS 733.580.

The Company entered into a global custody agreement with JP Morgan Chase, NA, dated January 10, 2002. An Oregon rider was executed on January 20, 2009, to comply with the protections required in OAR 836-027-0200 (4)(a) through (l).

The Company participates in a Securities Lending Program to generate additional income. Borrowers of those securities provide collateral equal to or in excess of 102% of the market value of the loaned securities. Cash collateral is carried as an asset with an offsetting liability on the balance sheet. At December 31, 2018, there are no outstanding loans.

Note 2 – Actuarial Reserves

As described earlier in this report, the Company participated in an intercompany reinsurance pooling arrangement, whereby 100% of the direct business was ceded to the pool, with no business retroceded back to the Company. As a result, all loss reserves, LAE reserves, premiums and considerations, unearned premium reserves, and any other amount to be actuarially determined would be reported in the statements of the participating insurers. Stephanie A. Neyenhouse, FCAS, MAAA, VP & Chief Actuary for Liberty Mutual Group, Inc., prepared the LMIC actuarial report and opinion.

David F. Dahl, FCAS, MAAA, Oregon Division of Financial Regulation property and casualty actuary, reviewed the work performed by the lead state, Massachusetts as well as the opening actuary over loss reserves and loss adjustment expenses reserves. Lisa Chanzit, FCAS, MAAA, of Risk and Regulatory Consulting, prepared the reserving section of the LMIC financial examination report for the Massachusetts Division of Insurance. The financial examination report indicates the combined LMIC pool reported a deficiency of \$719 million from the central estimate on a direct plus assumed basis, which is less than 2% of the reported loss and LAE reserves of \$20.1 billion and approximately 4.4% of the statutory surplus of \$16.3 billion as of December 31, 2018. The appointed actuary's report showed a redundancy of \$24 million to the central estimate, or less than 0.1% of the net loss and LAE reserves before intercompany pooling. Neither amount was considered material and the Company's reserves were accepted as stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner reduced surplus to policyholders by \$10,186 as a result of this examination. The following is a summary of the recommendations made as a result of this examination.

Page:

- 6 I recommend the company to declare and pay all future dividends or distributions in accordance with the requirements of ORS 732.554 and ORS 732.576.
- 18 I recommend the lead company record all external assumed reinsurance on a gross basis for all companies that participate in the pool, including the Company, in accordance with

the provisions of SSAP No. 62R, paragraph 20, SSAP No. 63, paragraph 8, and ORS 731.574(1).

- 18 I recommend the company file its annual and quarterly financial statements in accordance with the requirements of ORS 731.574(1) and OAR 836-011-0000.
- 25 I recommend that the Company properly report investments in subsidiaries on Schedule D – Part 2 – Section 2 of the Annual Statement in accordance with the provisions of SSAP No. 97, paragraph 8, ORS 731.574(1) and the Annual Statement Instructions for Property/Casualty manual.

CONCLUSION

During the five year period covered by this examination, the surplus of the Company has decreased from \$60,153,392 as presented in the December 31, 2013, report of examination, to \$51,810,715, as shown in this report. The comparative assets and liabilities are:

	December 31,		
	<u>2018</u>	<u>2013</u>	<u>Change</u>
Assets	\$ 59,063,155	\$ 77,210,483	\$ (18,147,328)
Liabilities	<u>7,252,440</u>	<u>17,057,091</u>	<u>(9,804,651)</u>
Surplus	<u>\$ 51,810,715</u>	<u>\$ 60,153,392</u>	<u>\$ (8,342,677)</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, Tho Le, CFE, insurance examiner, and David Dahl, FCAS, MAAA, Property & Casualty Actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, all participated in this examination.

Respectfully submitted,

/s/ Mark A. Giffin

Mark A. Giffin, CFE
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)

County of Marion)

Mark A. Giffin, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Liberty Northwest Insurance Corporation, Portland, Oregon.
2. The Division of Financial Regulation 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. The examination of Liberty Northwest Insurance Corporation was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

/s/ Mark A. Giffin

Mark A. Giffin, CFE
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 29 day of June, 2020.

/s/ Lauren Bodine

Notary Public in and for the State of Oregon

My Commission Expires: 2022

