

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



REPORT OF FINANCIAL EXAMINATION  
OF  
**SAFECO INSURANCE COMPANY OF OREGON**  
**PORTLAND, OREGON**

AS OF  
DECEMBER 31, 2018

FILED 8/26/2020 *tl*  
DEPT. CONSUMER & BUSINESS SERVICES  
INSURANCE DIVISION

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**SAFECO INSURANCE COMPANY OF OREGON  
PORTLAND, OREGON**

**NAIC COMPANY CODE 11071**

AS OF

DECEMBER 31, 2018

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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

**SAFECO INSURANCE COMPANY OF OREGON**  
**One Liberty Centre**  
**650 NE Holladay Street**  
**Portland, Oregon 97232**

**NAIC Company Code 11071**

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 Safeco Insurance Company of Oregon, together with its affiliate, Liberty Northwest Insurance Corporation, and its 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 on October 16, 2000, by Safeco Corporation and received its certificate of authority on November 29, 2000, to transact property and casualty (excluding workers' compensation) insurance. On September 28, 2001, Safeco Corporation made a capital contribution to its subsidiary, Safeco Insurance Company of America (SICA), in the form of all of the issued and outstanding capital stock of the Company. SICA thus became the direct parent of the Company.

On April 23, 2008, Safeco Corporation announced an agreement to be acquired by Liberty Mutual for \$68.25 per share. Effective September 22, 2008, Liberty Mutual completed the acquisition and Safeco Corporation and all of its subsidiaries became subsidiaries of Liberty Insurance Holdings, Inc. (LIH), a downstream holding company of Liberty Mutual Holding Company, Inc.

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**

The Articles of Incorporation as amended, Article IV, state the capital stock of the Company shall be two million dollars (\$2,000,000) and the number of shares shall be twenty thousand (20,000) with a par value of \$100. All 20,000 shares have been issued and are owned by SICA.

### **Dividends to Stockholders and Other Distributions**

During the period under examination, the Company did not declare or pay any dividend or make any distribution to its parent.

## **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 October 16, 2000. The Articles of Incorporation conformed to the Oregon Insurance Code.

## **Bylaws**

The Company's Bylaws were last restated on January 1, 2009. 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, section 2 of the restated Bylaws dated January 1, 2009, stated the Board shall consist of not less than five members, no fewer than five directors or one-quarter of the directors, whichever is fewer, shall be residents of Oregon. The term for each director is one (1) year. As of December 31, 2018, the Company was governed by a twelve member Board of Directors as follows

<b><u>Name and Address</u></b>	<b><u>Principal Affiliation</u></b>	<b><u>Member Since</u></b>
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
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

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
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:

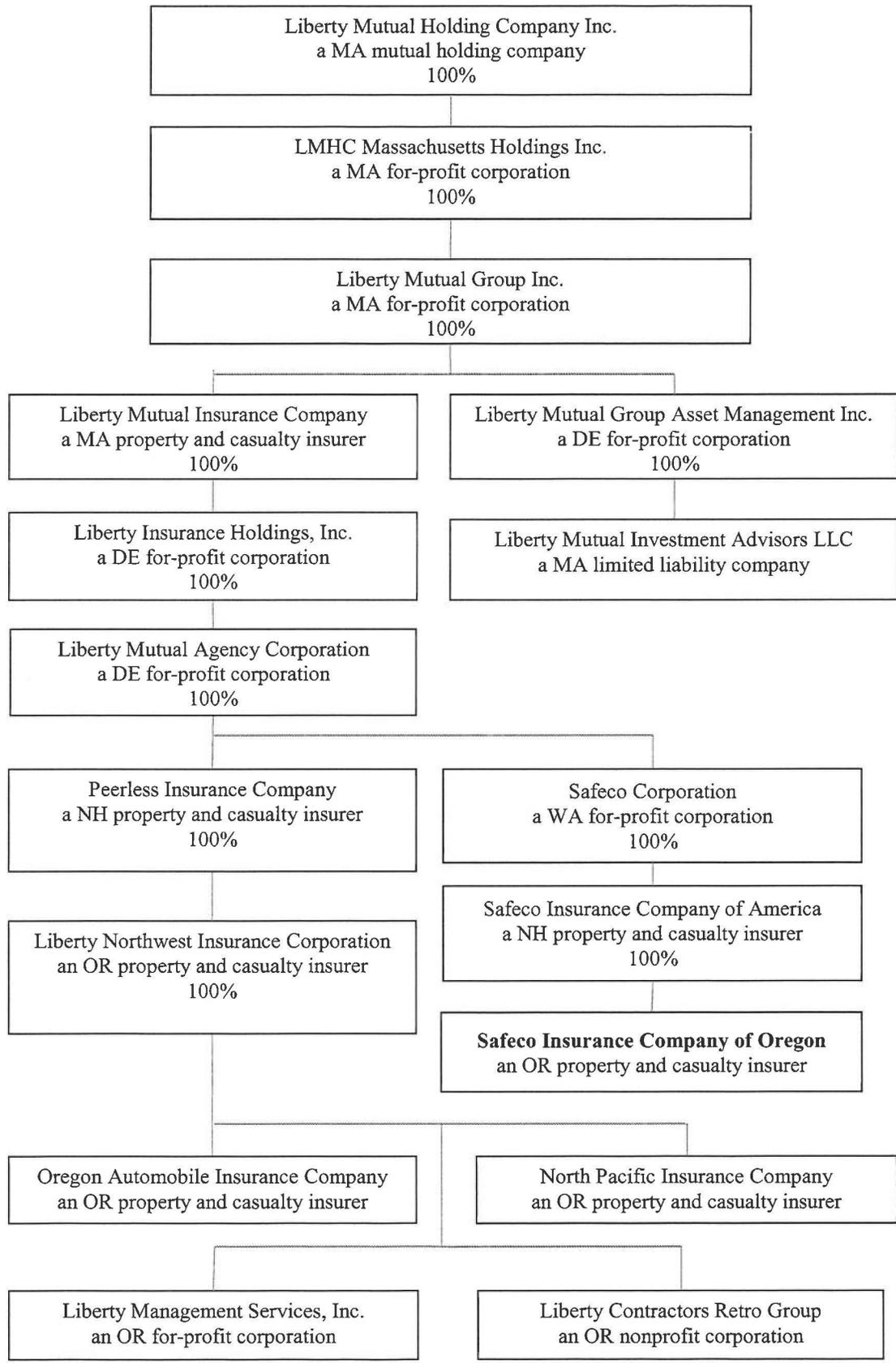
<u>Name</u>	<u>Title</u>
James Michael MacPhee	President & CEO
Christopher Locke Peirce	Executive Vice President and CFO
Laurance Henry Soyer Yahia	Treasurer and Senior Vice President
Mark Charles Touhey	Secretary and Senior Vice President
James Francis Kelleher	Chief Legal Officer and Executive Vice 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. SICA owns 100% of the outstanding shares of the Company's common stock and is the direct parent.
- Peerless Insurance Company (PIC), a New Hampshire stock property and casualty insurance company 100% owned by LMAC.
- Liberty Northwest Insurance Corporation (LNW), an Oregon stock property and casualty insurance company 100% owned by PIC. LNW owns the following subsidiaries, all 100% owned:
  - 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:

#### 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.

#### Short Term Borrowing Agreement

Effective November 1, 2007, the company entered into a short-term borrowing agreement with Safeco Corporation. Under this agreement, the Company may borrow up to the lesser of 3% of allowed assets or 25% of combined capital and surplus. Interest will be determined on the duration

of the loan. Loans repaid within 30 days or less, interest will be paid at the daily rate equivalent to the weighted average daily rate earned on overnight investments by Safeco Corporation and its affiliates. Loans repaid after 31 days, interest will be paid at the annual rate equivalent to that available on Five-Year Treasury Notes on the day of the loans, plus 125 basis points. All funds, with accrued interest will be repaid within a maximum period of 12 months after the date of the borrowing. The termination date is the business day specified by such party in a notice of termination, unless otherwise mutually agreed upon by the parties. During the period under examination, the Company did not borrow any funds from Safeco Corporation under this agreement.

#### 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.

#### Unconditional Guarantee

Effective March 26, 2013 the Company and Liberty Mutual Insurance Company (LMIC) entered into an unconditional guarantee whereby LMIC (guarantor) unconditionally guarantees that if the Company (primary obligor) suffers any reduction to its capital and surplus as a direct result of a failure or default under any qualifying Louisiana investment to pay its obligations under qualifying Louisiana investments, LMIC will pay the Company a sufficient amount to reimburse the Company for any and all reductions. The parties shall account for any such payment as an additional contribution to the capital of Company, unless the parties mutually agree that other accounting treatment is appropriate. The maximum outstanding liability of LMIC at any one time shall be \$15,000,000. In the event the Company ceases to be owned or controlled by LMIC, the guarantee shall immediately be null and void.

#### 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 for acts of dishonesty and fraud by its employees. 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, professional liability, umbrella excess liability, property, automobile liability, 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 Georgia, Louisiana, Oregon and Washington. During the period under examination, the Company wrote property and casualty business including fire, homeowners multiple peril, inland marine, private passenger auto and allied lines. Direct premiums written in 2018 were:

<b><u>State</u></b>	<b><u>Direct Premiums Written</u></b>	<b><u>Percentage</u></b>
Georgia	\$ -	0.0%
Louisiana	167,901,341	33.9%
Oregon	305,741,748	61.8%
Washington	<u>21,063,910</u>	<u>4.3%</u>
Total	<u>\$ 494,706,999</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	\$ 9,392,317	1.9%
Allied lines	10,339,955	2.1%
Homeowners multi-peril	133,845,068	27.1%
Inland marine	4,098,111	0.8%
Earthquake	1,279,911	0.3%
Other liability – occurrence	15,356,858	3.1%
Private passenger auto no-fault	21,691,434	4.4%
Private passenger auto liability	194,059,061	39.2%
Auto physical damage	<u>104,644,284</u>	<u>21.2%</u>
Totals	<u>\$ 494,706,999</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	\$ 13,729,136	\$ 576,615	\$ 13,152,521	\$ 256,828
2015	13,940,106	500,014	13,440,092	248,573
2016	14,135,991	415,138	13,720,854	280,762
2017	14,009,514	2,084	14,007,431	255,576
2018*	14,279,836	85,768	14,194,169	206,638

\*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	<u>6.00%</u>
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 deposit consisted of a Louisiana State guaranteed issuer obligation with a par value of \$500,000, which was confirmed with the 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.

#### **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

**SAFECO INSURANCE COMPANY OF OREGON**  
**ASSETS**  
**As of December 31, 2018**

<b>Assets</b>	<b>Balance per Company</b>	<b>Examination Adjustments</b>	<b>Balance per Examination</b>	<b>Notes</b>
Bonds	\$ 13,898,727	\$ -	\$ 13,898,727	1
Cash, cash equivalents and short-term investments	186,500		186,500	1
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>14,085,227</u>	<u>\$ -</u>	<u>14,085,227</u>	
Investment income due and accrued	146,596	-	146,596	
Current FIT recoverable	37,013		37,013	
Net deferred tax assets	11,000		11,000	
Aggregate write-ins for other than invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Total Assets	<u>\$ 14,279,836</u>	<u>\$ -</u>	<u>\$ 14,279,836</u>	

**SAFECO INSURANCE COMPANY OF OREGON**  
**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**As of December 31, 2018**

	<b>Balance per Company</b>	<b>Examination Adjustments</b>	<b>Balance per Examination</b>	<b>Notes</b>
Losses	\$ -	\$ -	\$ -	2
Loss adjustment expenses	-	-	-	2
Other expenses	-	-	-	
Payable to parent, subsidiaries and affiliates	85,768		85,768	
Aggregate write-ins for liabilities	<u>-</u>	<u>-</u>	<u>-</u>	
Total Liabilities	<u>\$ 85,768</u>	<u>\$ -</u>	<u>\$ 85,768</u>	
Common capital stock	\$ 2,000,000	\$ -	\$ 2,000,000	
Gross paid-in and contributed capital	8,100,000	-	8,100,000	
Unassigned funds (surplus)	<u>4,094,069</u>	<u>-</u>	<u>4,094,069</u>	
Surplus as regards policyholders	<u>14,194,069</u>	<u>-</u>	<u>14,194,069</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 14,279,837</u>	<u>\$ -</u>	<u>\$ 14,279,837</u>	

**SAFECO INSURANCE COMPANY OF OREGON**  
**STATEMENT OF INCOME**  
**For the Year Ended December 31, 2018**

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
<b>Underwriting income</b>				
Premium earned	\$ -	\$ -	\$ -	
<b>Deductions</b>				
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)	-	-	-	
<b>Investment income</b>				
Net investment income earned	289,638	-	289,638	
Net realized gains or (losses)	<u>-</u>	<u>-</u>	<u>-</u>	
Net investment gain or (loss)	289,638	-	289,638	
<b>Other income</b>				
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>-</u>	<u>-</u>	<u>-</u>	
Total other income	<u>-</u>	<u>-</u>	<u>-</u>	
Net income before dividends to policyholders and income taxes	289,638	-	289,638	
Dividends to policyholders	-	-	-	
Federal income taxes incurred	<u>83,000</u>	<u>-</u>	<u>83,000</u>	
Net income	<u>\$ 206,638</u>	<u>\$ -</u>	<u>\$ 206,638</u>	

**SAFECO INSURANCE COMPANY OF OREGON**  
**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>\$ 14,007,432</u>	<u>\$ 13,720,856</u>	<u>\$ 13,440,094</u>	<u>\$ 13,152,521</u>	<u>\$ 12,894,693</u>
Net income (loss)	206,628	255,576	280,762	248,573	256,828
Change in net unrealized capital gains or (losses)	-	-	-	-	-
Change in net deferred income tax	25,000	(2,000)	(23,000)	95,000	1,000
Change in non-admitted assets	(45,000)	33,000	23,000	(56,000)	-
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	-	-	-	-	-
Transferred to capital (Stock Dividend)	-	-	-	-	-
Transferred from capital	-	-	-	-	-
Distributions to parent (cash)	-	-	-	-	-
Change in treasury stock	-	-	-	-	-
Examination adjustment	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	-	-
Change in surplus as regards policyholders for the year	<u>186,638</u>	<u>286,576</u>	<u>280,762</u>	<u>287,573</u>	<u>257,828</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 14,194,070</u>	<u>\$ 14,007,432</u>	<u>\$ 13,720,856</u>	<u>\$ 13,440,094</u>	<u>\$ 13,152,521</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 98.6% of total invested assets.

Cash and short-term deposits consisted of 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>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>
2014	\$ 12,361,989	\$ 677,081	90.0%	4.9%
2015	11,910,788	1,409,755	85.4%	10.1%
2016	12,127,414	1,467,603	85.8%	10.4%
2017	13,273,274	544,122	94.7%	3.9%
2018*	13,898,727	186,500	97.3%	1.3%

\*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 custodial agreement with JP Morgan Bank, NA, dated December 12, 2008. The agreement contained all of the relevant protections described in OAR 836-027-0200 (4)(a) through (l).

### 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 opining 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 made no changes to surplus as a result of this examination. The following is a summary of the recommendations made as a result of this examination.

Page:

- 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).
- 19 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.

### **CONCLUSION**

During the five year period covered by this examination, the surplus of the Company has decreased from \$12,894,693, as presented in the December 31, 2013, report of examination to \$14,194,069, as shown in this report. The comparative assets and liabilities are:

	<b>December 31,</b>		
	<b><u>2018</u></b>	<b><u>2013</u></b>	<b><u>Change</u></b>
Assets	\$ 14,279,836	\$ 16,738,118	\$ (2,458,282)
Liabilities	<u>85,768</u>	<u>3,843,425</u>	<u>(3,757,657)</u>
Surplus	<u>\$ 14,194,069</u>	<u>\$ 12,894,693</u>	<u>\$ 1,299,376</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 Safeco Insurance Company of Oregon, 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 Safeco Insurance Company of Oregon 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 29th day of June, 2020.

/s/ Lauren Bodine

\_\_\_\_\_  
Notary Public in and for the State of Oregon

My Commission Expires: 2022

