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FILED *qy*

APR 01 2011

Department of Insurance
State of Idaho

Attorneys for Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:)
)
IDAHO COUNTIES RISK)
MANAGEMENT PROGRAM,)
UNDERWRITERS)
)
Idaho Certificate of Authority: 1674)
NAIC Company Code: 36480)
)
)
)
_____)

**ORDER ADOPTING
REPORT OF EXAMINATION
AS OF DECEMBER 31, 2009**

Docket No. 18-2683-11

The Report of Examination as of December 31, 2009 (Report) of *Idaho Counties Risk Management Program, Underwriters* (ICRMP or Program) was completed by examiners from the Idaho Department of Insurance (Department) and signed the 23rd day of March 2011 by the Examiner-in-Charge, Kelvin Ko, CFE. The verified (attested) copy of the Report was filed with the Department effective March 23, 2011, and is attached hereto as Exhibit A and incorporated herein. The verified report was transmitted to Richard Ferguson, ICRMP Executive Director, on

March 24, 2011, electronically (via e-mail).

WAIVER

Attached hereto and incorporated herein as Exhibit B is a copy of the original Waiver signed by Mr. Ferguson on March 28, 2011 and hand-delivered to the Department on March 28, 2011. Based upon the Waiver/Exhibit B, this is a final order, and the Program has waived its rights to seek reconsideration and judicial review of this order.

ORDER

NOW THEREFORE, after carefully reviewing the above-described Report of Examination, attached hereto as Exhibit A, and good cause appearing therefor, it is hereby ordered that the above-described report, which includes the findings, recommendations and conclusions supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho, this 31ST day of March 2011.



William W. Deal, Director
IDAHO DEPARTMENT OF INSURANCE

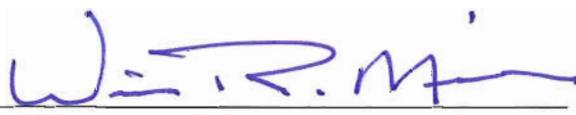
CERTIFICATE OF SERVICE

I hereby certify that on this 1st day of April 2011, I caused to be served the foregoing document on the following parties in the manner set forth below:

Mr. Richard Ferguson, Executive Director	<u> X </u>	certified mail
Idaho Counties Risk Management Program,		
Underwriters	<u> </u>	first class mail
3100 Vista Avenue, Suite 300		
Boise, Idaho 83705	<u> </u>	hand delivery
RFerguson@icrmp.org	<u> </u>	facsimile
	<u> X </u>	e-mail

Mr. Tim Osborne, Controller	<u> </u>	certified mail
Idaho Counties Risk Management Program,		
Underwriters	<u> </u>	first class mail
3100 Vista Avenue, Suite 300		
Boise, Idaho 83705	<u> </u>	hand delivery
TOsborne@icrmp.org	<u> </u>	facsimile
	<u> X </u>	e-mail

Georgia Siehl, CPA, CFE	<u> </u>	certified mail
Bureau Chief / Chief Examiner	<u> </u>	first class mail
Idaho Department of Insurance	<u> X </u>	hand delivery
700 W. State St., 3 rd Floor	<u> </u>	facsimile
Boise, Idaho 83720-0043	<u> </u>	
Georgia.Siehl@doi.idaho.gov	<u> X </u>	e-mail



William R. Michels, MBA, CPA, CFE
Deputy Chief Examiner
IDAHO DEPARTMENT OF INSURANCE

EXHIBIT A

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of the

IDAHO COUNTIES RISK MANAGEMENT PROGRAM, UNDERWRITERS
(ICRMP)

(NAIC Company Code 36480)

as of

December 31, 2009

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State of Idaho
DEPARTMENT OF INSURANCE

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Governor

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WILLIAM W. DEAL
Director

State of Idaho

Boise, Idaho
March 23, 2011

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

Dear Director:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2009 of:

IDAHO COUNTIES RISK MANAGEMENT PROGRAM, UNDERWRITERS (ICRMP)

**3100 VISTA AVENUE, SUITE 300
BOISE, IDAHO 83705**

hereinafter referred to as "ICRMP" at its offices in Boise, Idaho. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2005 through December 31, 2009. Material transactions and/or events occurring subsequent to the examination date(s) were also reviewed.

The examination was conducted at the Boise, Idaho office of ICRMP by examiners from the State of Idaho. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, the NAIC *Accounting Practices and Procedures Manual* and the NAIC *Market Regulation Handbook*.

All accounts and activities of ICRMP were considered in accordance with the NAIC's risk-focused examination process. The *Financial Condition Examiners Handbook* requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of ICRMP by obtaining information about ICRMP including corporate governance, identifying and assessing inherent risks within ICRMP, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and NAIC Annual Statement instructions as governed and prescribed by Idaho law.

The actuarial review of reserves, related liabilities and the inherent risks associated with estimating these liabilities were performed by Lewis & Ellis, Inc., consulting actuaries for the Idaho Department of Insurance. A risk assessment of ICRMP's IT systems and controls was performed by Examination Resources, LLC. There was some reliance placed on the 2009 certified public accountant's statutory audit report and work papers during the examination of ICRMP.

A letter of representation attesting to ICRMP's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

In addition to the Report of Examination, a Management Letter was issued to ICRMP by the Department which covered items that were not included in the Report, due to the materiality threshold, items that were related to proprietary/operational issues, as well as minor accounting and/or annual statement reporting corrections.

PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 2000 through December 31, 2004.

A review was made to ascertain what action was taken by ICRMP with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exceptions were adequately addressed by ICMRP.

HISTORY AND DESCRIPTION

ICRMP was organized pursuant to the Joint Powers Act, under the authority of Idaho Code, Title 67, Chapter 23, Sections 67-2326 to 67-2333. It commenced business operations on November 29, 1985.

The original business name of the entity was "Idaho Counties Reciprocal Management Program," and it was recognized and treated as an "insurance fund," and as an extension of the Idaho Association of Counties (IAC). It was subsequently determined that ICRMP would be required to be licensed as an insurer and separate entity, pursuant to Title 41, Chapter 29, Idaho Code. On February 1, 1986 it was issued a certificate of authority to write all property and casualty lines of business excluding workers compensation.

By resolution of the Board of Trustees, effective October 6, 1993, "Reciprocal" was deleted from the original business name and replaced with "Risk." On December 16, 1993, "Underwriters" was added to the name in order to comply with Section 41-2905(1), Idaho Code. The full business name of the entity, as revised, became and is currently known as "*Idaho Counties Risk Management Program, Underwriters.*"

ICRMP was founded for the purpose of providing property and casualty insurance coverages for public agencies of the State of Idaho. The original Joint Powers Agreement granted ICRMP authority to plan, organize, direct, control, and finance the Program, allowing for additional coverage to be obtained through reinsurance companies.

"Public Agency," as defined by the Idaho statutes (see Section 67-2327, Idaho Code), means any city or political subdivision of the state including, but not limited to, counties, school districts, highway districts, port authorities, instrumentalities of counties, cities, or any political subdivision thereof created under the laws of the State of Idaho.

The original ICRMP membership was limited to counties which were also members of the IAC; however, an amendment to the Joint Powers Agreement, effective September 21, 1989, allowed any political subdivision in the State of Idaho (but not the State) to apply for membership as a subscriber for coverage by ICRMP.

The entities for which coverage is provided are known as subscriber "Members." Twenty-six members formed the foundation of ICRMP in 1985. Each member is independent of the other and premiums are established for each subsequent fiscal year on an annual basis by the Board. An individual member's premium shall be limited to the amount set for that policy year, unless the member requests additional coverage. The policies are non-assessable. Premium incentives may be offered to those faithfully participating in loss prevention and safety programs. Conversely, premiums may be increased based on changes in risk, violations of safety or loss prevention programs or for other reasons established and/or approved by the Board.

ICRMP, the Attorney-in-Fact, delegated specific powers, within the Joint Powers Subscriber Agreement, to the Executive Director/Administrator to run the day-to-day operation of ICRMP.

MANAGEMENT AND CONTROL

The Board of Trustees (Board) guides and oversees the management and control of ICRMP. The Board is elected by the Subscribers in accordance with the provisions of Article X of the Joint Powers Subscribers Agreement (JPSA). The Board shall consist of nine elected officials, including seven elected county commissioners and two elected officials from political subdivisions. For purposes of geographical representation, the counties are grouped into six districts, each of which will be represented by a county commissioner, and two “Regions”, which include all political subdivisions except counties as specified in certain districts. One member-at-large may be selected from all of the Member counties within the State of Idaho.

The primary duties of the Trustees (according to the JPSA) include, but are not limited to the following:

1. To annually elect a chairman and vice-chairman. Each officer [trustee] shall serve until his or her successor is elected.
2. To admit or expel Members, or to condition continued participation in the Program, in accordance with this Agreement.
3. To establish contribution amounts and payment procedures for the Members.
4. To establish the insurance and risk management program design.
5. To provide for the selection of all personnel and contractors necessary for the administration and operation of ICRMP, including the appointment of a primary administrator to supervise the business of the Program and carry out functions delegated by the Board.
6. To establish a schedule for Board Meetings.
7. To exercise all powers of ICRMP, except powers reserved to the Members.
8. To prepare, adopt and oversee ICRMP’s budget.
9. To make reports to the Members.
10. To provide for underwriting, claims and loss control procedures.
11. To provide for the investments and disbursement of funds.
12. To establish by-laws, rules and regulations governing its own conduct and procedures and the powers and duties of its officers, not inconsistent with this agreement.
13. To provide to Members an annual report of operations and financial affairs.
14. To form committees and advisory panels; and to provide other services as needed by ICRMP. The Board shall determine the method of appointment and terms of members of committees and advisory panels.
15. To submit to Members a subsequent, substitute, or replacement Joint Powers Subscriber Agreement at the date of periodic renewal, or otherwise, for re-adoption or express acceptance by Members.
16. Dissolve ICRMP and disburse its remaining assets when Board action is accompanied by a two-thirds vote of entire Membership, provided that a notice of intent to dissolve ICRMP shall be given to the Director of the Department of Insurance of the state of Idaho at least ninety (90) days prior to the proposed effective date. Like notice of such intent shall be provided to all Members at least thirty (30) days before any such vote regarding dissolution.
17. To do or delegate all acts necessary and proper for the implementation of this Agreement.

The Board of Trustees may set a time and place for regular meetings in accordance with applicable law and Article XIV (14) of the JPSA. A review of the minutes of meetings held by the Board during the period under examination and up through April 2, 2011, indicated that meetings are held approximately six times a year and are generally held bi-monthly on a regular basis.

A review of ICRMP's Corporate Records indicated that biographical affidavits of its Officer and Trustees have been filed with the Idaho Department of Insurance.

The following persons were serving as trustee and officers of ICRMP at December 31, 2009:

Trustees:

<u>Name</u>	<u>Business Address</u>
Jack Buell, Chairman	St. Maries, ID
Jerry Nance, Vice Chairman	Dietrich, ID
Seth Beal	Moore, ID
Garrett Nancolas	Caldwell, ID
Ken Estep	Arbon, ID
Marc Shigeta	New Plymouth, ID
Craig Rockwood	Iona, ID
Cleone Jolley	Blackfoot, ID
John Nelson	Moscow, ID

Officer:

Richard Ferguson	Executive Director
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Committees

The Joint Powers Subscribers Agreement authorizes the Board to form committees and advisory panels on an as needed basis. As of December 31, 2009, no committees had been appointed and established during the period under examination.

Corporate Governance

ICRMP's corporate governance activity was evaluated in conjunction with examination planning, as required by the National Association of Insurance Commissioner's (NAIC) *Financial Condition Examiners Handbook*. This activity was comprised of three major sub-components: 1) organizational structure (includes assignment of authority and responsibility); 2) assessment of the Board of Trustees; and 3) assessment of management. In this connection, interviews were held with the key management personnel and various members of the Board.

The examination made the following observations relating to ICRMP's corporate governance:

- The Board placed significant reliance on outside consultants, including the external auditor, consulting actuary and underwriting/rate modeling consultant.
- Based on examination interviews, the review of Board minutes, and the review of Board meeting materials that were distributed to Board members prior to scheduled meetings, it appears that the Board provided effective monitoring and oversight of management activities.
- The Board of Trustees appeared to be independent from management and demonstrated adequate involvement and attention to risks.
- Management is experienced, competent and provides effective and frequent communication/reporting to the Board.

Conflict of Interest

ICRMP does have an established conflict of interest policy in accordance with Section 41-2837, Idaho Code, and requires that all trustees, the officer and other key employees submit a written disclosure form annually.

The signed statements for the examination period were reviewed by the examiner, and it did not appear that any of the subject individuals who submitted the forms had a serious conflict or potential conflict of interest which would interfere with or compromise their performance of duties, or result in any negative impact on the operations of ICRMP. Starting in 2010, all employees (not just the key employees) were required to submit the aforementioned disclosure form annually.

It was noted that signed statements filled out by the trustees were reviewed by Jerry Mason, Counsel of the Board annually and the result of his review was reported to the Board. Such action was also recorded in the Board minutes.

The conflict of interest statement filled-out by Richard Ferguson, Executive Director, was not reviewed by an independent source (e.g. the Board of Directors). It is recommended that the Counsel for the Board review the aforementioned statement filled-out by the Executive Director and the result of this review be disclosed to the Board.

In addition, it was noted that Mr. Ferguson reviewed the conflict of interest statements filled-out by the employees. The result(s) of this review(s), however, were not reported to the Board. It is recommended that: 1) the Executive Director disclose/report the result(s) of his employee conflict of interest review to the Board; and 2) the Board document in the minutes that it has reviewed and accepted the result(s) of Mr. Ferguson's employee review.

Contracts and Agreements

ICRMP was party, during the period under examination and/or subsequently thereto, to the following contracts and agreements:

1. Support/Services Agreement with Idaho Association of Counties (IAC)
2. Support/Services Agreement with Association of Idaho Cities (AIC)
3. An Investment Agreement with Burroughs & Hutchinson, Inc. (B & H)
4. Various lease agreements from tenants of the ICRMP building.

1. Support/Services Agreement with IAC

Effective August 19, 1992, IAC is to provide assistance and support to ICRMP in promoting the sale of insurance to all public entities within the State of Idaho, although it is stipulated that IAC will not act as an agent or representative of ICRMP, and has no power to bind ICRMP to any insurance agreement or arrangement.

The support services provided to ICRMP include the following:

1. Lobbying services to the Idaho State Legislature and state agencies on behalf of ICRMP.
2. Free advertising in IAC publications.
3. Providing and promoting support for ICRMP insurance in presentations, publicly support and encouraging public entities to place insurance coverage with ICRMP.
4. Providing ICRMP with IAC publications and access to IAC meetings at no cost to ICRMP.
5. Providing training programs for county and other governmental officials with regard to ICRMP insurance.

The agreement provides that IAC will be compensated for these services at the rate of \$12,500 per month, payable in equal quarterly installments of \$37,500, payable within the first 20 days of each quarter.

The agreement may be terminated by either party for "good cause" upon 90 days written notice to the other party.

2. Support Services Agreement with AIC

Effective July 1, 1993, AIC is to provide support and assistance to ICRMP in promoting the sale of insurance to cities throughout the State of Idaho through its staff, expertise and contacts. It is expressly agreed, however, that AIC is not an agent or representative of ICRMP, and has no power to bind ICRMP to any agreement or insurance arrangement.

The support services provided to ICRMP include the following:

1. Copies of various publications such as AIC Directories, Municipal Sourcebooks, Idaho Cities Magazines, and other reports and publications at no cost.
2. Free limited advertising in AIC publications, and access to AIC meetings.
3. Providing and promoting support for ICRMP insurance in presentations, publicly support and encouraging cities to place insurance coverage with ICRMP.

4. Supporting ICRMP legislative efforts if such legislation would be beneficial to cities.
5. Providing training programs for city and governmental officials at its conventions.

The agreement was modified January 12, 2004 so that AIC would be compensated for its services in the amount of \$115,000 per year. The amount could be adjusted on January 15 if shared membership (those entities who are members of both ICRMP and AIC) declined by more than 50%. The compensation was payable semi-annually in January and July each year in advance.

The agreement may be terminated by either party for "good cause" upon 90 days written notice to the other party.

3. Investment Agreement / Burroughs and Hutchinson (B & H)

Effective March 12, 1996, ICRMP entered into an investment management contract with B&H of Boise, Idaho. Under the terms of this agreement, B&H is retained as investment counsel and is authorized through ICRMP's investment policy to manage, invest, reinvest, buy, sell and trade funds and securities on behalf of ICRMP through various banks or brokers as designated by ICRMP. B&H is not authorized to withdraw funds or securities from the account, however.

B&H is compensated for its services by a quarterly fee of one-fourth of one percent of the balance of the total funds under its management authority at the beginning of each calendar quarter.

The agreement may be terminated at any time, by either party, upon presentation of a written notice.

4. Various lease agreements from tenants of the ICRMP building

ICRMP owns the building it uses as its home office. Each floor has approximately 10,000 square feet of rentable space. ICRMP occupies close-to one-half of the third floor and leases the remaining space to four tenants on first, second and third floors of the building. About half of the first floor is unoccupied. A review showed that each lease appeared to be properly executed.

CORPORATE RECORDS

As ICRMP is a reciprocal, there are no Articles of Incorporation, which would be common to a conventional insurance company.

Shortly after its inception in 1985, ICRMP adopted a "Constitution and Bylaws," effective January 16, 1985. This document contained four Articles, which outlined the purposes and objectives of ICRMP, the duties and powers of the Board of Trustees, the rights and obligations of Members, and a severability provision. It was adopted in conjunction with the Joint Powers Agreement, which became effective November 29, 1985. Subsequently, over a period of several

years, all of the provisions contained in the original Constitution and Bylaws were merged into and became a part of the Joint Powers Agreement. On January 16, 1997, the Board of Trustees approved the merger of the Joint Powers Agreement and Subscribers Agreement, which became the Joint Powers Subscriber Agreement (JPSA). Effective October 1, 2005, ICRMP amended the JPSA and incorporated the Bylaws into the JPSA. Thus, ICRMP currently has only one guidance document for its governance, the JPSA.

It was recommended in the last examination report (examination as of December 31, 2004) that ICRMP should file changes to its Joint Powers Subscriber Agreement each time the document is changed and approved by the Board of Trustees with the Idaho Department of Insurance. ICRMP amended its JPSA in 2007 with the approval of the Board; however, such amendment has not been filed with the Idaho Department of Insurance. Idaho Code Section 41-2910(4) which states as follows:

The terms of any power of attorney or agreement collateral thereto shall be reasonable and equitable, and no such power or agreement shall be used or be effective in this state until approved by the director. [emphasis added]

It is again recommended that ICRMP file changes to its Joint Powers Subscriber Agreement each time the document is changed and approved by the Board of Trustees with the Idaho Department of Insurance.

The JPSA outlines and provides the general policies, procedures, guidelines and rules of ICRMP which must be adopted by and adhered to by all Members, and are considered to be the major governing written authority of the operation, along with the appointment of ICRMP as the Attorney-in-Fact.

Joint Powers Subscriber Agreement

As mentioned earlier, on January 16, 1997 the JPSA was approved by the Board of Trustees. The current agreement includes 23 Articles. The major Articles primarily describe and outline various purposes, functions, guidelines and procedures, including the following:

- II. Establishment, Maintenance and Participation in ICRMP
- III. Purposes and Duration of ICRMP
- IV. Manner of Financing
- VI. ICRMP Powers and Duties
- VIII. Members' Rights and Obligations – Dispute Resolution Procedures
- IX. Member Contributions
- X. Board of Trustees – Election and Removal
- XI. Powers and Duties of the Board of Trustees
- XII. Establishment of Loss Paying Fund
- XVI. Withdrawal From Membership
- XVII. Expulsion of Members
- XVIII. Binding Contractual Obligation
- XX. Severability

XXI. Power of Attorney

Power of Attorney

Under the provisions of Section 41-2907(1), Idaho Code, ICRMP, as a joint powers entity, has the full power and authority to plan, organize, direct, and manage the day to day activities of ICRMP and its staff, and to sign, seal, execute, deliver and acknowledge such instruments in writing of whatever kind and nature as may be necessary or proper in the premises on behalf of ICRMP. It appears that in the JPSA, Article XXI (1) & (2), the Members appointed ICRMP to be Attorney-in-Fact (AIF) and agreed that the Board of ICRMP may delegate powers to an Executive Director in accordance with the JPSA. The Executive Director is empowered by the Members to accept service of process on behalf of ICRMP. The Power of Attorney conveyed in the JPSA, Article XXI, shall expire upon termination of ICRMP.

Minutes of Meetings

A review of the minutes of the Board of Trustees meetings for the period under examination indicated compliance with the Joint Powers Subscribers Agreement. The minutes documented the annual elections of the Board of Trustees, acceptance of CPA's Annual Reports and ratification of investment transactions. The meetings were well attended and the minutes were duly prepared and signed.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverages for the protection of ICRMP have been maintained through the period under examination. Coverages in effect as of December 31, 2009, and/or subsequently thereto are summarized as follows:

Fidelity Bond

ICRMP is protected by a fidelity bond, which covers dishonest or fraudulent acts by employees up to \$2,000,000 (single loss and aggregate) with a single loss deductible of \$25,000. The fidelity bond coverage exceeds suggested minimum limits of \$300,000, as recommended by the NAIC.

Other Insurance Coverages

Other insurance coverages maintained by ICRMP included property, general liability and premises and operations medical payments, automobile liability and automobile medical payments, errors and omissions, crime, boiler and machinery, chemical spraying activities liability and workers compensation.

The insurance companies providing the fidelity bond and other coverages for ICRMP were authorized insurers in the State of Idaho.

OFFICER & EMPLOYEE BENEFIT PLANS

ICRMP provided a number of benefits to full-time employees. A Personnel Policy, which contained a description of ICRMP's policies and practices, compensation, employee benefits and leave policies, and general rules and discipline procedures, was provided to each employee. The employees are granted paid time off (PTO) in lieu of vacation or sick leave. The employee benefits include, but are not limited to, health and dental insurance, life insurance, retirement through the Public Employees Retirement System of Idaho (PERSI), paternal leave and recognition of ten holidays each year.

TERRITORY AND PLAN OF OPERATIONS

ICRMP is licensed only in the State of Idaho as a domestic property and casualty reciprocal insurer, and the business written is limited to Public Agencies as defined by Idaho Statutes. The public entities multi-lines policies written are issued for maximum one year periods from October 1 through September 30 each year.

ICRMP had approximately 77 agents as of December 31, 2009. The agents' primary responsibilities are to serve as local representatives of ICRMP, providing consultation and technical assistance to the Subscribers, and to file new or renewal applications with ICRMP. The agents are under an appointment agreements with ICRMP, and are subject to specific rules and regulations promulgated by ICRMP. The agents cannot bind or execute contracts of insurance on behalf of ICRMP. Compensation commissions to the agents are based on percentages of annual member contributions.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2009, ICRMP provided the following securities in trust for the protection of its policyholders and creditors, through the Director of the Idaho Department of Insurance and held by Bank of America, in order to comply with Section 41-316, Idaho Code:

<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Note, 4.50% due 05/15/10	\$ 250,000	\$ 253,915	\$ 250,166
U.S. Treasury Note, 1.5% due 10/31/10	250,000	252,208	250,399
U.S. Treasury Note, 1.375% 02/15/12	300,000	300,867	299,967
U.S. Treasury Note, 1.375% 05/15/12	<u>300,000</u>	<u>300,000</u>	<u>300,485</u>
Totals	<u>\$1,100,000</u>	<u>\$1,106,990</u>	<u>\$1,101,017</u>

GROWTH OF ICRMP

The following schedule reflects the growth of ICRMP, as reported in ICRMP's annual statements, for the five-year period ending December 31, 2009:

<u>Year</u>	<u>Net Admitted</u>			<u>Net Gain (Loss)</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>From Operations</u>
2004 *	\$34,305,286	\$21,453,787	\$12,851,499	\$ 2,936,714
2005	\$38,760,459	\$24,570,749	\$14,189,710	\$ 1,205,733
2006	\$41,872,949	\$27,644,133	\$14,228,816	\$ 348,475
2007	\$43,334,700	\$30,372,247	\$12,962,453	\$ 22,320
2008	\$47,544,225	\$29,902,278	\$17,641,947	\$ 4,741,412
2009*	\$48,711,860	\$32,506,675	\$16,205,185	\$(3,115,438) **

* Per examination

** The 2009 net loss was a result of several large, unexpected claims.

LOSS EXPERIENCE

The ratio of claims and underwriting expenses incurred to premiums earned, as reported in the Program's Annual Statements are scheduled below:

<u>Year</u>	<u>Premium</u> <u>Earned</u>	<u>Losses & LAE</u> <u>Incurred</u>	<u>Expenses</u> <u>Incurred</u>	<u>Total Losses, LAE</u> <u>and Expenses</u>	<u>Ratio to Earned</u> <u>Premium</u>
2004 *	\$13,010,011	\$ 7,670,865	\$3,454,568	\$11,125,433	85.51%
2005	\$12,733,097	\$ 9,533,971	\$3,313,177	\$12,847,148	100.90%
2006	\$13,113,323	\$10,666,434	\$3,452,490	\$14,118,924	107.67%
2007	\$13,542,415	\$11,296,629	\$3,854,054	\$15,150,683	111.88%
2008	\$14,421,947	\$6,943,045	\$4,043,413	\$10,986,458	76.18%
2009*	\$15,014,131	\$15,827,373	\$3,834,292	\$19,661,665	130.95%

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REINSURANCE

Assumed: ICRMP did not assume any reinsurance business during the period under examination.

Ceded: The coverage structure for the ceded business is summarized as follows:

Coverage Structure of Reinsurance Program: 10/1/2009 – 10/1/2010

Type of Agreement	Business Covered	Reinsurer(s)	ICRMP's Retention	Reinsurer's Limits
Excess of Loss	Commercial Property including Business Interruption	Allianz Global Risks US Insurance Company	\$100,000 per occurrence	\$200 million per occurrence/ annual aggregate
Excess of Loss	Boiler & Machinery & Equipment Breakdown	Zurich American Insurance Company	\$10,000 per occurrence	\$100 million per accident or breakdown
Excess of Loss	General Liability including Law Enforcement Liability Auto Liability including Uninsured/Underinsured Motorists Errors & Omissions including Employee Benefit Liability and School Board Legal Liability	General Reinsurance Corporation	\$500,000 each occurrence per member \$500,000 each occurrence per member \$500,000 each claim per member	\$3 million each occurrence/\$5 million aggregate limit per policy \$3 million each occurrence/\$5 million aggregate limit per policy \$3 million any one claim/\$5 million aggregate limit per policy
Note 1	Practicum Liability (Schools-Trade or Vocational): Commercial General Liability Professional Liability Garage keepers Liability	General Star Indemnity Company	\$0 \$0 \$10,000	\$1 million each occurrence/aggregate \$1 million each incident/aggregate \$25,000 each customer auto/\$50,000 each location & aggregate limit
Note 2	Airport Owners and Operators General Liability	ACE Property and Casualty Insurance Company	\$0	Ranged from \$2 million to \$50 million each occurrence /aggregate limit for each airport
Note 3	Property-Terrorism	Lloyds Underwriters at London	\$25,000 any occurrence	\$20 million any one occurrence or aggregate

Note 1: This is not a reinsurance agreement but a common insurance policy since the names of ICRMP's members were listed as the insureds. This policy insured the students of various school districts; ICRMP only insured public officials and property. In addition, the policy stated that General Star Indemnity Company (General Star) would be the one which handles the claims. No claims have been reported to ICRMP or General Star since this coverage was offered to the members about two to three years ago.

Note 2: This is not a reinsurance agreement since ICRMP did not retain any risk itself and its policy did not offer airport liability coverages. ICRMP and the list of airports are the name insureds under this agreement (policy). This agreement also does not include the standard provisions of a reinsurance agreement. ACE Property and Casualty Insurance Company (ACE) is the one which handles the claims if there is any. ICMRP management stated that there was a large claim reported to ACE during the period under examination. Losses paid by ACE were not reported in ICRMP's annual statement.

Note 3: This is not a reinsurance contract, rather ICRMP provides property coverage on terrorism to its members through a surplus line policy purchased from Lloyds Underwriters at London.

The above agreements generally have a one-year duration, which corresponds with the maximum one-year policy period of the business written by ICRMP. All of the above named reinsurers/insurers (see chart) are authorized insurers in the State of the Idaho except Lloyds, which is an eligible Idaho surplus line carrier.

ICRMP executed the aforementioned agreements through the following three offices of Arthur J. Gallagher Risk Management Services, Inc., an Illinois corporation: United Kingdom office (Terrorism-Property Agreement), Orlando, Florida office (Property, Boiler & Machinery Agreements), Aliso Viejo, California office (General Liability, Practicum Liability and Airport Liability Agreements).

A review of the Client Agreement between ICRMP and Arthur J. Gallagher Risk Management Services, Inc. was made to determine if it complies with Section 41-5104, Idaho code (Required contract provisions-Reinsurance intermediary-Brokers). It was concluded that this agreement did not include the contract provisions mentioned in Section 41-5104, Idaho Code which states as follows:

Transaction between a RB (Reinsurance Broker) and the insurer it represents in such capacity shall only be entered into pursuant to a written authorization, specifying the responsibilities of each party. The authorization shall, at a minimum, provide that:

- (1) The insurer may terminate the RB's authority at any time.
- (2) The RB will render amounts to the insurer accurately detailing all material transactions, including information necessary to support all commissions, charges and other fees received by, or owing, to the RB, and remit all funds due to the insurer within thirty (30) days of receipt.

(3) All funds collected for the insurer's account will be held by the RB in a fiduciary capacity in a bank which is a qualified United States financial institution as defined herein.

(4) The RB will comply with the provisions of Section 41-5101, Idaho Code (Books and records-Reinsurance intermediary brokers).

(5) The RB will comply with the written standards established by the insurer for the cession or retrocession of all risks.

(6) The RB will disclose to the insurer any relationship with any reinsurer for which business will be ceded or retroceded.

It is recommended that ICRMP revise the above agreement to be in compliance with Section 41-5104, Idaho Code.

In addition, the aforementioned Client Agreement only includes policies which provide property, and boiler & machinery coverages. It is recommended that the agreement be revised to cover all contracts executed through Gallagher.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting Practices

ICRMP issued comprehensive public entity and school districts multi-lines policies which provide liability and property coverages to its members. In addition, it obtained an airport liability policy (directly insured by another insurer) for members who needed airport liability coverages and a practicum policy (directly insured by another insurer) for its trade or vocational school members. A review of the policy forms revealed that they contained the usual standard provisions, description, limits of coverage and deductibles. The policy forms have been filed with the Idaho Department of Insurance.

Independent agents throughout the state, who are under contract with ICRMP, produce the business. The agents submit new and renewal applications to ICRMP and maintain the property values and listings of equipment via the internet. The agents also provide consultation and assistance to subscribers and potential subscribers, but do not have authority to bind or execute contracts on behalf of ICRMP.

For the 2009 policy period ICRMP had self-insured retention limits of \$100,000 for property lines and \$500,000 for casualty lines.

Premium Rates Application Review

The examiner recalculated the annual premiums (2009-2010) on a 100% sample (65 policies) from the population of all new policies issued after October 1, 2009 but before September 30, 2010; 14 calculation mistakes were noted. In addition, the examiner found ICRMP charged extra premium on two of the above 65 policies; however, there was no supporting documentation as to the reason the additional premiums were charged on those policies.

It is recommended that ICRMP implement procedures to ascertain that correct premium rates are charged on new policies and that adequate documentation is maintained to support and demonstrate reasons and authorization for any deviations in premium rates from the rating model.

Additionally, it was noted that five policies which ICRMP had miscalculated the premiums on were subsequently miss-billed again (a second-time) in the 2010-2011 policy year, resulting in an inadequate premium (deficiency) to ICRMP, which is a violation of § 41-1405(1), Idaho Code.

It is therefore recommended that the miss-calculated billings for the premium year beginning October 1, 2010 be retroactively re-billed at the correct rates.

The examiner also selected a random sample of 113 policies (recommended by the NAIC Market Regulation Handbook sampling guidelines) out of a population of all of the policies in-force on October 1, 2009 and recalculated the 2009-2010 annual premiums of those policies. One error was found. This was a new policy with the effective date on October 1, 2009. Again, it is recommended that ICRMP implement procedures to ascertain that correct premium rates are charged on the new policies.

Treatment of Policyholders (Members)

Claim Settlement Practices

Using the 2009 reported and incurred claims as the population (2,650 claims), the examiner randomly selected 105 claims as recommended by the NAIC Market Regulation Handbook and reviewed those claims in order to determine if ICRMP's claim settlement practices were in compliance with Section 41-1329, Idaho Code (Unfair Claim Settlement Practices). Based on the above review, the examiner concluded that ICRMP's claim settlement practices were in compliance with Section 41-1329, Idaho Code. ICRMP usually initiated first contact with its members/claimants within three days after the reported date on each claim. Claims payments were made timely to the members/claimants upon receipts of the estimates or invoices.

Complaints

A review of ICRMP's complaint register indicates that it does not include information such as the nature of each complaint, the disposition of these complaints, and the time it took to process each complaint as required under Section 41-1330, Idaho Code. It is recommended that ICRMP modify its complaint register in compliance with the above Code section.

During the 2005 through 2009 examination period, twenty complaints were filed with the Idaho Department of Insurance and were reviewed during the examination. The complaints varied and mostly consisted of ICRMP's denial of coverage or disputed claim payment amounts that the insured thought they should receive. The overall review of ICRMP's handling of complaints appeared to be justified and/or complaints were generally resolved to the insured's satisfaction.

Advertising and Sales Materials

ICRMP, through its Support/Services agreements, advertises in the Idaho Association of Counties and the Association of Idaho Cities organizations' publications and directories, which are made available to ICRMP's subscribers and potential subscribers as part of an overall marketing strategy.

A sample of the advertisements placed with the Associations was reviewed during the examination. The advertisements appeared to be in compliance with Sections 41-1303 and 41-1304, Idaho Code.

ACCOUNTS AND RECORDS

General Accounting

ICRMP's accounting records are maintained at its home office located at Boise, Idaho

ICRMP currently utilizes Intel workstations operated by Small Business Server 2003 software on an Intel Xeon 2.3Ghz server with a Sony AIT tape drive and an Intel NAS system for backup purposes. ICRMP uses QuickBooks Premiere for accounting software consisting of a general ledger and supporting journals and records maintained on an accrual basis. It also uses Eagle Technology Management software for investments and filing of the Annual/Quarterly Statements.

Independent Accountants

The annual independent audits of ICRMP for years 2005 through 2009 were performed by:

Shores, Tagman & Company, P. A.
Certified Public Accountants
255 S. Orange Ave., Suite 1250
Orlando, Florida 32081-3465

The 2005 through 2009 auditor's reports were reported in accordance with statutory accounting principles. The December 31 audited balance sheets and financial statements for the examination years were provided to the Idaho Department of Insurance in compliance with IDAPA 18.01.62.

The CPA's workpapers were relied upon in some instances and noted accordingly in respective Department workpapers.

Actuarial Opinion

The unpaid claims reserves and related liabilities were calculated by Mujtaba Dato, consulting actuary with ARM Tech, of Irvine, California. The actuary, using standard actuarial procedures,

determined the incurred loss reserves and issued a statement of opinion. The opinion stated that the amounts of the reserves:

- a. meet the requirements of the insurance laws of Idaho;
- b. are computed in accordance with accepted reserving standards and principles; and
- c. make a reasonable provision for all unpaid loss and loss expense obligations of ICRMP under the terms of its policies and agreements.

The identified actuarial items are listed as follows:

Loss Reserves

A. Reserve for Unpaid Losses (Page 3, Line 1)	\$12,807,506
B. Reserve for Unpaid Loss Adjustment Expenses (Page 3, Line 3)	\$8,416,919
C. Reserve for Unpaid Losses – Direct and Assumed (Schedule P-Part 1, Total of Columns 13 and 15)	\$14,593,000
D. Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P-Part 1, Total of Columns 17, 19, and 21)	\$9,867,000
E. The Page 3 write-in item reserve, “Retroactive Reinsurance Assumed”	\$0
F. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (List Separately)	\$0

Premium Reserves

G. Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	\$0
H. Reserve for Net Unearned Premiums for Long Duration Contracts	\$0
I. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (List Separately)	\$0

The following Loss Reserve Disclosures were also included:

A. Materiality Standard expressed in \$US	\$4,100,000
B. Statutory Surplus	\$16,215,529 ¹

¹ This was a typographical error by ICRMP’s opining actuary - actual statutory surplus per 2009 annual statement, page 3, line 35, is \$16,205,185.

C.	Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	\$0
D.	Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P	\$0
E.	The net reserves for losses and expenses for the company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.	\$0
F.	The net reserves for losses and loss adjustment expenses that the company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.*	
	1) Asbestos, as disclosed in the Notes to Financial Statements	\$0
	2) Environmental, as disclosed in the Notes to Financial Statements	\$0
G.	The total claims made extended loss and expense reserve (Schedule P Interrogatories).	
	1) Amount reported as loss reserves	\$0
	2) Amount reported as unearned premium reserves	\$0
H.	Other items on which the Appointed Actuary is providing relevant Comment (list separately)	\$0

* The reserves disclosed in item F above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor's Pollution Liability, Consultant's Environmental Liability, and Pollution and Remediation Legal Liability.

See the "NOTES TO FINANCIAL STATEMENTS" section, later in this report, for discussion of the Department's examining actuary's analysis.

Evaluation of Controls and Information Systems

An offsite, limited EDP desk audit exam was conducted by Jenny Jeffers, Certified Information Systems Auditor (CISA) and Automated Examination Specialist (AES) of ICRMP on behalf of the Idaho Department of Insurance. The examination was performed in accordance with the guidelines and procedures set forth in the Exhibit C, Evaluation of Controls in the Information

Technology Planning Questionnaire (ITPQ) of the NAIC *Financial Condition Examiners Handbook*.

Scope

- Determine the major systems through which the data of ICRMP is processed.
- Determine the risk levels of each section of the ITPQ and determine the sections to be pursued further.
- Review the NAIC ITPQ Questionnaire responses from ICRMP and follow up on any issues.
- Determine the physical and system controls in place at the Main Computer Facility.
- Review the system security measures regarding access to all major systems.
- Review the Business Continuity and Disaster Recovery Plan.
- Review Web access and e-Business – analyze controls regarding privacy.
- Determine the final reliability of the controls and thus the reliability of the data as put forth by ICRMP.

Procedures

- Participate in relevant interviews with management to understand the Corporate Governance for ICRMP.
- Interviews with key personnel as determined to be needed from the ITPQ review.
- Review of documentation of controls – printed and provided electronically.
- Determine the major financially significant systems and associated risk level.
- Determine the levels of risk associated with each section of the ITPQ.

Several control weaknesses were observed during the examiner's review of ICRMP's IT systems. These control weaknesses, however, were considered minor and did not create high enough risk to affect the scope of this examination. These control weaknesses, and the examiner's recommendations for correcting those weaknesses, were addressed separately in the management letter.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements and exhibits:

Assets as of December 31, 2009

Liabilities, Surplus and Other Funds as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ending December 31, 2009

Capital and Surplus Account for the Year Ending December 31, 2009

Reconciliation of Capital and Surplus, December 31, 2004, through December 31, 2009

ASSETS

As of December 31, 2009

	<u>Ledger Assets</u>	<u>Assets not Admitted</u>	<u>Examination Adjustments</u>	<u>Admitted Assets</u>
Bonds (Note 1)	\$34,150,199	\$ 0	\$ 0	\$34,150,199
Real estate:				
Properties held for the production of income	2,770,335	0	0	2,770,335
Cash and short-term investments	3,389,024	0	0	3,389,024
Interest income due and accrued	454,816	0	0	454,816
Uncollected premiums in course of Collection	499,000	0	0	499,000
Deferred premiums booked but deferred and not yet due	7,248,834	0	0	7,248,834
Amounts recoverable from reinsurers	23,692	0	0	23,692
Electronic data processing equipment	71,557	0	0	71,557
Furniture and equipment	91,625	0	0	91,625
Aggregate write-ins for other than Invested assets	<u>62,006</u>	<u>49,228</u>	<u>0</u>	<u>12,778</u>
Total Assets	<u>\$48,761,088</u>	<u>\$ 49,228</u>	<u>\$ 0</u>	<u>\$48,711,860</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2009

	<u>Examination Adjustments</u>
Losses (Note 2)	\$12,807,506
Loss adjustment expenses (Note 2)	8,416,919
Commissions payable, contingent commissions	723,597
Other expenses	196,826
Unearned premiums	<u>10,361,827</u>
Total Liabilities	<u>\$32,506,675</u>
Unassigned funds (surplus)	<u>\$16,205,185</u>
Surplus as regards policyholders	<u>\$16,205,185</u>
Total Liabilities, Surplus and Other Funds	<u>\$48,711,860</u>

UNDERWRITING AND INVESTMENT EXHIBIT

For the Year Ending December 31, 2009

	<u>Per</u> <u>Examination</u>
UNDERWRITING INCOME	
Premiums earned	\$15,014,131
Losses incurred	11,005,301
Loss expenses incurred	4,822,072
Other underwriting expenses incurred	<u>3,834,292</u>
Total underwriting deductions	19,661,665
Net underwriting gain or (loss)	<u>\$(4,647,534)</u>
INVESTMENT INCOME	
Net investment income earned	1,544,715
Net realized capital gains (losses)	<u>(15,665)</u>
Net investment gain or (loss)	1,529,050
OTHER INCOME	
Miscellaneous income	<u>3,046</u>
Total other income	3,046
Net income (loss) before dividends to policyholders and federal income taxes	\$ (3,115,438)
Dividends to policyholders	<u>0</u>
Net income (loss) after dividends to policyholders but before federal income taxes	\$ (3,115,438)
Federal income taxes	<u>0</u>
Net income (loss)	<u>\$ (3,115,438)</u>

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2009

	<u>Per Examination</u>
Surplus as regards policyholders, December 31, previous year	<u>\$ 17,641,947</u>
Net income (loss)	\$ (3,115,438)
Change in net unrealized capital gains or (losses)	58,130
Change in nonadmitted assets	<u>1,620,546</u>
Change in surplus as regards policyholders for the year	<u>\$ (1,436,762)</u>
Surplus as regards policyholders, December 31, current year	<u>\$16,205,185</u>

RECONCILIATION OF CAPITAL AND SURPLUS

December 31, 2004 through December 31, 2009

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Surplus as regards policyholders, December 31, previous year	<u>\$12,851,499*</u>	<u>\$14,189,710</u>	<u>\$14,228,816</u>	<u>\$12,962,453</u>	<u>\$17,641,947</u>
Net income (loss)	1,205,733	348,475	22,320	4,741,412	(3,115,438)
Change in net unrealized capital gains or (losses)	0	0	0	0	58,130
Change in nonadmitted assets	132,478	6,431	(1,604,483)	(61,918)	1,620,546
Change in provision for reinsurance	<u>0</u>	<u>(315,800)</u>	<u>315,800</u>	<u>0</u>	<u>0</u>
Change in surplus as regards policyholders for the year	<u>1,338,211</u>	<u>39,106</u>	<u>(1,266,363)</u>	<u>4,679,494</u>	<u>(1,436,762)</u>
Surplus as regards policyholders, December 31, current year	<u>\$14,189,710</u>	<u>\$14,228,816</u>	<u>\$12,962,453</u>	<u>\$17,641,947</u>	<u>\$16,205,185 *</u>

*per examination

NOTES TO FINANCIAL STATEMENTS

Bonds (Note 1) \$34,150,199

ICRMP did not obtain a securities custodial agreement, with the protections specified by the NAIC Financial Condition Examiners Handbook, for an account maintained with Charles Schwab. It is recommended that either the current agreement be amended to comply with the provisions stated in the NAIC Financial Condition Examiners Handbook or to execute a new custodial agreement with Charles Schwab to meet the requirements as mentioned above.

Losses (Note 2) \$12,807,506

Loss Adjusting Expenses (Note 2) \$ 8,416,919

The actuarial portion of the examination was conducted for the Idaho Department of Insurance by Glenn Tobleman, FCAS, FSA, MAAA of the firm Lewis & Ellis, Inc. The examining actuary rendered the following opinion with regard to the captioned reserve amounts reported by ICRMP:

- (1) are consistent with amounts computed in accordance with the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves and relevant standards of practice promulgated by the Actuarial Standards Board;
- (2) meet the requirements of the insurance laws of Idaho; and,
- (3) make a reasonable provision of all unpaid loss and loss adjustment expense obligations of ICRMP under the terms of its policies and agreements.

However, the following deficiencies were noted during the examination's review of the above captioned accounts:

1. The 2009 actuarial report prepared by ICRMP's consulting actuary did not include a reconciliation of actuarial data to Schedule P.

It is recommended that such reconciliation be included in the report in the future.

2. Although ICRMP did have salvage and subrogation in 2009, this was not reported on Schedule P, Part 1, column 10 of its 2009 annual statement.

It is recommended that salvage and subrogation be reported on Schedule P, Part 1, column 1 on future annual statement filings.

3. ICRMP allocated and reported the entire total of loss adjustment expense paid on column 8, Part 1 of Schedule P (A&O expense paid) of the 2009 annual statement. As a result, the A&O expense paid on column 8, part 1 of Schedule P has been overstated.

It is recommended that ICRMP allocate and report only A&O expense paid on column 8, Part 1 of Schedule P in future annual statement filings.

4. ICRMP reported allocated loss adjustment paid (\$2,190,884) in 2009 as defense and cost containment expense (\$2,058,626) on column 6 of Schedule P-Part 1 and is not in compliance with SSAP 55. Only DCC expense should be reported in column 6. Adjusting and other expenses paid (\$132,257) should be reported on column 8 of Schedule P.

It is recommended that the Program comply with SSAP 55 by reporting only defense and cost containment expense on column 6 of Schedule P-Part 1 and adjustment and other expense on column 8 of Schedule P-Part 1.

5. ICRMP did not fill-out Schedule F-Part 3-column 10-reinsurance recoverable on known case LAE reserves and column 12-reinsurance recoverable on IBNR LAE reserves. The total of each of these columns should tie to the respective columns on Schedule P-Part 1 (Column 18 and 20).

It is recommended that ICRMP fill out column 10 and 12 on Schedule F-Part 3 on future annual statement filings.

SUMMARY, COMMENTS, AND RECOMMENDATIONS

Summary

The examination disclosed that, as of December 31, 2009, ICRMP had admitted assets of \$48,711,860, liabilities of \$32,506,675, and unassigned funds (surplus) of \$16,205,185; for a total surplus as regards policyholders of \$16,205,185. This amount met the minimum requirements pursuant to Section 41-313, Idaho Code.

Comments and Recommendations

<u>Page</u>	<u>Description</u>
6	<u>Conflict of Interest</u> – It is recommended that the Counsel for the Board review the conflict of interest statement filled-out by the Executive Director and the result of this review be disclosed to the Board. It is also recommended that: 1) the Executive Director discloses the result(s) of his employee conflict of interest review to the Board; and 2) the Board document in the minutes that it has reviewed and accepted the result(s) of Mr. Ferguson’s employee review.
8	<u>Corporate Records</u> – It is again recommended that ICRMP file changes to its Joint Powers Subscriber Agreement each time the document is changed and approved by the Board of Trustees with the Idaho Department of Insurance.
13	<u>Reinsurance</u> – It is recommended that ICRMP revise the client agreement with Arthur J. Gallagher (reinsurance broker) in compliance with Idaho Code Section 41-5104. It is also recommended that the agreement be revised to cover all reinsurance contracts executed through Arthur J. Gallagher.

15	<u>Premium Rates Application Reviews</u> - It is recommended that ICRMP implement procedures to ascertain that correct premium rates are charged on the new policies and that adequate documentation is maintained to support and demonstrate reasons and authorization for any deviations in premium rates from the rating model occur.
15	<u>Premium Rates Application Reviews</u> - It is recommended that the miss-calculated billings for the premium year beginning October 1, 2010 on the five policies be retroactively re-billed at the correct rates.
16	<u>Complaints</u> - It is recommended that ICRMP modify its complaint register in compliance with Section 41-1330, Idaho Code.
25	<u>Bonds</u> – It is recommended that either the current agreement be amended to comply with the provisions stated in the NAIC Financial Condition Examiners Handbook or to execute a new custodial agreement with Charles Schwab to meet the NAIC requirements.
25	<p><u>Losses and Loss Adjustment Expenses</u> – The recommendations for these accounts follow:</p> <ol style="list-style-type: none"> 1. It is recommended that reconciliation between actuarial data and Schedule P be included in the actuarial report in the future. 2. It is recommended that salvage and subrogation be reported on Schedule P, Part 1, column 1 on future annual statement filings. 3. It is recommended that ICRMP allocate and report only A&O expense paid on column 8, part 1 of Schedule P in future annual statement filings. 4. It is recommended that ICRMP comply with SSAP 55 by reporting only defense and cost containment expense on column 6 of Schedule P-Part 1 and adjustment and other expense on column 8 of Schedule P-Part 1. 5. It is recommended that ICRMP fill out column 10 and 12 on Schedule F-Part 3 on future annual statement filings.

AKNOWLEDGEMENT

The undersigned acknowledges the assistance and cooperation of ICRMP's officer and employees in conducting the examination.

In addition to the undersigned, Glenn Tobleman, FCAS, FSA, MAAA (actuary) of Lewis & Ellis, Inc.; and Jenny Jeffers, CISA, AES (IT examiner) of Examination Resources, LLC, participated in the examination.

Respectfully submitted,



Kelvin Ko, CFE
Examiner-in-Charge
State of Idaho, Department of Insurance

AFFIDAVIT OF EXAMINER

State of Utah
County of Utah

Kelvin Ko, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of the Idaho Counties Risk Management Program, Underwriters (ICRMP) for the period from January 1, 2005 through December 31, 2009, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.



Kelvin Ko, CFE
Examiner-in-Charge
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 23 day of March, 2011 at 3:45, Utah



Notary Public

My commission Expires: 2/20/2013

EXHIBIT B

C. L. "BUTCH" OTTER
Governor

State of Idaho
DEPARTMENT OF INSURANCE

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

RECEIVED
WILLIAM W. DEAL
Director
2011 MAR 28 AM 10:44
STATE OF IDAHO
DEPT OF INSURANCE

WAIVER

In the matter of the Report of Examination as of December 31, 2009, of:

IDAHO COUNTIES RISK MANAGEMENT PROGRAM, UNDERWRITERS (ICRMP)

**3100 VISTA AVENUE, SUITE 300
BOISE, IDAHO 83705**

By executing this Waiver, ICRMP hereby acknowledges receipt of the above-described examination report, verified as of the 23rd day of March, 2011, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, ICRMP also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 28th day of March, 2011

Richard Ferguson

Name (print)

[Signature]

Name (signature)

Executive Director

Title

HAND DELIVERED