



## MISSISSIPPI INSURANCE DEPARTMENT

**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

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**MARK HAIRE**  
Deputy Commissioner of Insurance

June 17, 2014

### CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. James Hilburn Robertson, President  
Gulf Guaranty Life Insurance Company  
4785 I-55 North, Suite 200  
Ridgeland, MS 39206

**RE: Report of Examination as of December 31, 2012**

Dear Mr. Robertson:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

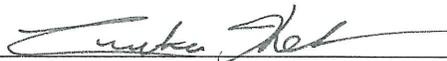
Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY  
COMMISSIONER OF INSURANCE

BY

  
Christina J. Kelsey  
Senior Attorney

MC/CJK/bs  
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF MISSISSIPPI**

**IN RE:   REPORT OF EXAMINATION OF  
          GULF GUARANTY LIFE INSURANCE COMPANY**

**CAUSE NO. 14-6759**

**ORDER**

**THIS CAUSE** came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

**JURISDICTION**

**I.**

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011).

**II.**

That Gulf Guaranty Life Insurance Company is a Mississippi-domiciled company licensed to write Accident & Health; Credit Life, Credit Accident and Health; Industrial Life, Industrial Accident and Health; Life; Life (Burial); Automobile Physical Damage/Liability; Casualty/Liability; Fidelity; Fire/Allied Lines; Guaranty; Inland Marine; Plate Glass and Surety coverages.

## FINDINGS OF FACT

### III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for an examination of Gulf Guaranty Life Insurance Company and appointed Kim Strong, Examiner-In-Charge, to conduct said examination.

### IV.

That on or about March 19, 2011, the draft Report of Examination concerning Gulf Guaranty Life Insurance Company for the period of January 1, 2009 through December 31, 2012, was submitted to the Department by the Examiner-In-Charge, Kim Strong.

### V.

That on or about May 23, 2014, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period to submit any rebuttal to the draft report. The Department received the Company's response on or about June 4, 2014, and in response thereto, no revisions were made to the report.

## CONCLUSIONS OF LAW

### VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

**IT IS, THEREFORE, ORDERED**, after reviewing the Report of Examination, the Company's rebuttal, and all relevant examiner work papers, that the Report of Examination of Gulf Guaranty Life Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

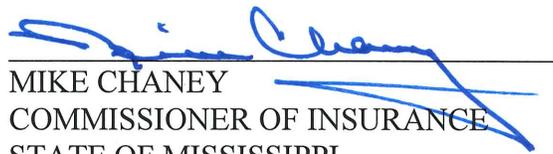
**IT IS FURTHER ORDERED** that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, Gulf Guaranty Life Insurance Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

**IT IS FURTHER ORDERED** that Gulf Guaranty Life Insurance Company take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

**SO ORDERED**, this the 17<sup>th</sup> day of June 2014.

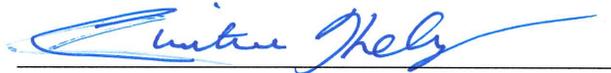


  
MIKE CHANEY  
COMMISSIONER OF INSURANCE  
STATE OF MISSISSIPPI

**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 17<sup>th</sup> day of June 2014, to:

**Mr. James Hilburn Robertson, President  
Gulf Guaranty Life Insurance Company  
4785 I-55 North, Suite 200  
Ridgeland, MS 39206**



---

Christina J. Kelsey  
Senior Attorney

Christina J. Kelsey  
Senior Attorney  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 9853



**MISSISSIPPI INSURANCE DEPARTMENT**

**Report of Examination**

**of**

**GULF GUARANTY LIFE INSURANCE COMPANY**

**as of**

**December 31, 2012**

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**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND  
PROCEDURES USED IN AN EXAMINATION**

State of Mississippi,

County of Madison,

Kimberly Strong, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Gulf Guaranty Life Insurance Company as of December 31, 2012.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Gulf Guaranty Life Insurance Company was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.

Kimberly Strong  
Kimberly Strong, CPA, CFE  
Examiner-in-Charge

Subscribed and sworn before me by Kimberly Strong on this 15<sup>th</sup> day of

May 20 14.



My commission expires 10/1/17 [date].



**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**MARK HAIRE** Deputy  
Commissioner of  
Insurance

## MISSISSIPPI INSURANCE DEPARTMENT

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February 25, 2014

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building  
501 North West Street  
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2012, of the affairs and financial condition of:

### GULF GUARANTY LIFE INSURANCE COMPANY

4785 I-55 North, Suite 200  
Jackson, Mississippi 39206

License #	NAIC Group #	NAIC #	FEETS #	ETS #
0300016 7700202	948	77976	68535-MS-2011-5	MS120-M23

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and was performed in Jackson, Mississippi, at the statutory home office of the Company. The report of examination is herewith submitted.

## **SCOPE OF EXAMINATION**

We have performed a multi-state examination of Gulf Guaranty Life Insurance Company ("Company" or "GGLIC"). The last exam was completed as of December 31, 2008. This examination covers the period January 1, 2009 through December 31, 2012.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. 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 annual statement instructions, when applicable to domestic state regulations.

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

## **COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION**

Following are comments made in the previous examination report as of December 31, 2008 that were not adequately addressed subsequent to the previous examination. As such, the recommendations or related recommendations are being repeated in the Comments and Recommendations section of this report. It is recommended that management aggressively pursue addressing these issues to fully comply with the directives of the Mississippi Insurance Department ("MID").

### **Previous Exam Report Recommendation No. 2:**

At December 31, 2008, the Company and its subsidiary, Gulf Guaranty Insurance Company, were covered by a financial institutions bond with a \$75,000 single loss limit. The amount recommended by the NAIC was \$200,000.

It is noted that a recommendation to increase the fidelity insurance was made in each of the last two Reports on Examination of the Company.

We again recommend that the fidelity coverage be increased to provide adequate protection for both companies.

Current status:

The fidelity bond in effect as of the examination date did not meet the recommended amount as suggested by the NAIC. This comment will be repeated in the Comments and Recommendations section of this report.

Previous Exam Report Recommendation No. 3:

The Company's securities were held by Trustmark National Bank (Trustmark) and UBS Financial Services, Inc., (UBS). The Company had a custodial agreement with Trustmark. However, it did not conform to NAIC guidelines.

The Company did not have a custodial agreement with UBS.

The prior Report on Examination noted the same findings.

We again recommend that the Company have custodial agreements with all custodians of its investments and that those agreements comply with NAIC guidelines.

Current status:

The Company executed an agreement with UBS that appears to comply with NAIC guidelines; however, the safekeeping agreement with Trustmark did not conform to NAIC guidelines. This comment will be repeated in the Comments and Recommendations section of this report.

## **HISTORY OF THE COMPANY**

The Company was incorporated as Greener Life Insurance Company on February 19, 1970, under the laws of the State of Mississippi as a stock life insurance company. On July 23, 1970, the Company's name was changed to Gulf Guaranty Life Insurance Company.

Effective July 1, 1970, the Company was licensed to write credit life and credit accident and health lines of business. On June 1, 1978, the Company's license was amended to include the additional lines of life and accident and health. On July 8, 1980, the Articles of Incorporation were amended to expand the Company's purpose to include property and casualty lines of business.

## **CORPORATE RECORDS**

The minutes of the meetings of the stockholders and board of directors, prepared during the period under examination, were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation, which included approval of the Company's investment portfolio and actions of the Company's officers.

## MANAGEMENT AND CONTROL

### Stockholders

As of December 31, 2012, GGLIC had issued and outstanding 906,856 shares of its 1,000,000 authorized Class 1 common capital stock (of which 531,700 was held as treasury stock) with a par value of \$2 per share and 101 shares of its 50,000 authorized shares of Class 2 common capital stock with a par value of \$1 per share. The common capital stock was 60% owned by Jack W. Robertson. GGLIC paid \$63,984 in corporate allocations to stockholders during 2012.

### Board of Directors

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board of Directors ("Board"). The members of the duly elected Board, along with their place of residence and principal occupation, at December 31, 2012, were as follows:

Name and Residence	Principal Occupation
Jack Westbrook Robertson, Chairman & CEO Jackson, Mississippi	Gulf Guaranty Life Insurance Company and Gulf Guaranty Insurance Company
James Hilbun Robertson Madison, Mississippi	President, Gulf Guaranty Life Insurance Company and Gulf Guaranty Insurance Company
John Westbrook Robertston, III Jackson, Mississippi	Executive Vice President, Gulf Guaranty Insurance Company
Arthur William Pigott Columbia, Mississippi	Arbitrator National Association of Securities Dealers and New York Stock Exchange
McWillie Mitchell Robinson, Jr., M.D. Jackson, Mississippi	Retired Physician

### Committees

The only committee of the board of directors was the investment committee which is made up of Jack W. Robertson, Chairman & CEO and James H. Robertson, President.

### Officers

Name	Title
James Hilbun Robertson	President
Robert Morris Berry	Secretary/Treasurer
Dennis Wayne Brooks	Senior Vice President
William Boyce Lee	Senior Vice President

Ernest Perry Ward	Senior Vice President
Roby David Toney	Vice President
Sarah Ellen Methvin	Vice President
Tammra Obrecht Cascio	General Counsel

**Conflict of Interest**

The Company had formal procedures whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with the official duties of such persons. Written statements were signed annually by all officers and members of the Board.

**Corporate Governance**

The risk-focused surveillance approach requires examiners to consider the insurer's corporate governance and established risk management processes. This evaluation included assessing the "tone-at-the-top", board of directors and management oversight and understanding and conveyance of the necessity of internal controls to employees. Strong corporate governance encompasses a clearly defined vision of ethics, appropriate goals, effective strategy, effective implementation of the strategy, and appropriate reporting systems emphasizing feedback and transparency.

It was noted that the Company's management as of December 31, 2012 consisted of a President, Secretary/Treasurer and a number of Senior Vice Presidents and Vice Presidents. In accordance with the Company's Bylaws, the Board consisted of five board members. It was noted that the Company was closely held and that a number of the members of the Board were related. Information regarding the Board members and officers and other related information can be found in the "Management and Control" section of this report.

The appropriateness of the entity's organizational structure and its ability to provide the necessary information flow to manage its activities were considerations in obtaining an understanding of the organizational structure. The consideration also encompassed understanding the assignment of authority and responsibility. It was noted that the Company maintained informal internal control policies during the period under examination. Management maintained controls over its IT environment and frequent correspondence with its external auditors, Carr, Riggs & Ingram, LLC. The management structure of the Company showed clear assignment of responsibilities within the Company. It appeared that the Company's organizational structure provided appropriate segregation of duties, review and oversight for the size and nature of the Company.

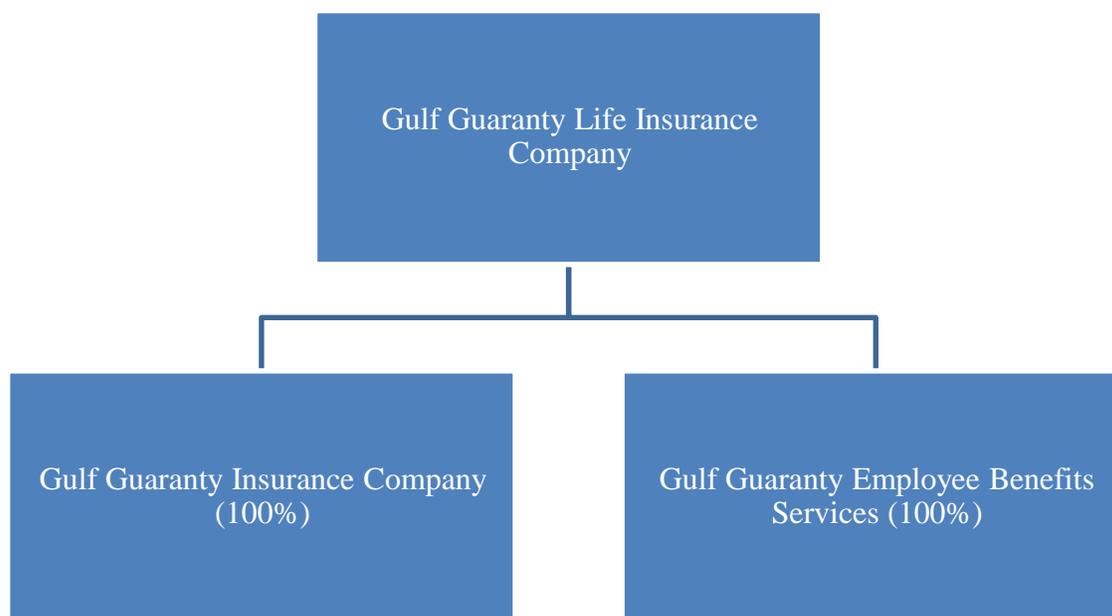
Management competence was a consideration in the overall assessment of corporate governance. Factors such as management's experience level and management turnover were considered as part of this assessment. It was determined that management had significant experience with the Company and the credit insurance industry.

The Company's enterprise risk management was informal. Risk management was discussed in regular meetings by management and plans were developed to manage and mitigate those risks. Departments interacted and communicated with each other frequently.

### **HOLDING COMPANY STRUCTURE**

The Company was a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company was required to file with the MID, Holding Company Registration Statements in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9. These filings set forth material changes in structure, identity or relationships of affiliates and any material transactions by and between the Company and its affiliates.

#### **Organizational Chart**



The Robertson family controlled approximately 60% of the outstanding common capital stock of the parent company, GGLIC. Jack W. Robertson directly or indirectly owned 229,403 shares. Of the 229,403 shares, 42% (95,763) were owned by James Hilbun Robertson, 30% (68,000) by Gwenette Phillips Robertson as custodian, 8% (18,438) by Jack W. Robertson, 17,581 by John Westbrook Robertson, III, 15,962 by Richard Covey Robertson and 13,659 by other family members.

#### **Parent and Subsidiaries:**

**GULF GUARANTY LIFE INSURANCE COMPANY (GGLIC):** GGLIC, which was incorporated on February 20, 1970, under the laws of the State of Mississippi, owned 100% of the outstanding shares of GGIC and GGEBS. It provided credit life and credit accident & health, group health insurance and industrial, ordinary, and individual annuity life insurance products.

**GULF GUARANTY INSURANCE COMPANY (GGIC):** GGIC, a wholly owned subsidiary of GGLIC, was organized on January 15, 1981, under the laws of the State of Mississippi, as a property and casualty insurer which primarily wrote vendor's single interest (VSI) and collateral protections insurance ("CPI") programs for financial institutions.

**GULF GUARANTY EMPLOYEE BENEFITS SERVICES (GGEBS):** GGEBS was formed on July 8, 1992 under the laws of Mississippi. GGEBS' principal activities included providing administrative services for health products for self-insured plans.

### **Related Party Transactions**

#### **Tax Sharing Agreement among Affiliates:**

The Companies entered into an Intercompany Tax Sharing Agreement effective January 9, 2004. Pursuant to the terms of the Agreement, the Companies will file a consolidated tax return and pay any taxes due on or before the due date. GGLIC will be reimbursed by GGIC and GGEBS for their individual share of the affiliated group's consolidated tax liability. Annually, amounts due to or from a member are to be settled no later than the extended due date for the return. This agreement appears to comply with the requirements of SSAP No. 25.

#### **Expense Allocation Agreement**

The Companies were party to an expense allocation agreement effective November 3, 1994 and amended July 14, 2008. Pursuant to this agreement, all direct expenses of each company will be paid by the company incurring the expenses and not subject to the expense allocation agreement. Expenses associated with GGLIC's corporate accounting, investment, data processing, sales, and executive functions will be allocated between GGLIC and GGIC in relation to each company's total direct written premium for all lines of business. Lines of business are defined within the agreement as credit life, VSI and industrial/ordinary life with 100% of the expenses incurred in the VSI line of business being allocated to GGIC.

In accordance with the agreement, each month GGIC will make a payment to GGLIC for the expenses expected to be allocated during that month. At the end of each quarter, a calculation will be made of the actual expenses that were allocable during that quarter. Any over or underpayment of allocable expenses for the prior quarter will be settled between the parties within two months following the end of the prior quarter. This agreement appears to comply with the requirements of SSAP No. 25.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company had a comprehensive corporate insurance program in place, which included commercial general liability and commercial property as well as other policies deemed appropriate by management. At December 31, 2012, the Company and its subsidiary, Gulf Guaranty Insurance Company, were covered by a financial institutions bond with a \$75,000 single loss limit. The amount recommended by the NAIC is \$200,000. It is recommended that the Company obtain a

financial institutions bond in the amount suggested by the NAIC *Financial Condition Examiners Handbook*.

## **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company maintained a 401(k) plan for the benefit of its employees. The 401 (k) plan was approved by the Internal Revenue Service. A comprehensive health care plan was offered by the Company through a self-insured plan administrated by Gulf Guaranty Employee Benefit Services (GGEBS).

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2012, the Company was authorized to write the following lines of business in the State of Mississippi:

Accident & health	Automobile physical damage/liability
Credit life	Casualty/liability
Credit accident and health	Fidelity
Industrial life	Fire/allied lines
Industrial accident and health	Guaranty
Life	Inland marine
Life (burial)	Plate glass
	Surety

GGLIC's core lines of business are credit life and credit accident & health insurance marketed through small community banking institutions in the states in which it is licensed and industrial, ordinary and individual annuity products sold through funeral homes as final expense products. As of the examination date, the Company was authorized to transact business in the states of Alabama, Arkansas, Louisiana, Mississippi, and Tennessee, with 97 percent of premiums being written in Mississippi and Louisiana.

## **GROWTH OF COMPANY**

The review of the growth of the Company was performed based on balances, as reported in the annual statements filed with the MID during the period under examination.

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Change in surplus	(295,513)	310,084	1,067,345	27,863
Ratio of premiums to surplus	.15 to 1	.14 to 1	.15 to 1	1.9 to 1
Ratio of assets to liabilities	2.3 to 1	2.3 to 1	2.1 to 1	1.9 to 1

Ratio of revenues to expenses	.96 to 1	1 to 1	1 to 1	1 to 1
Cash flows from operations	(249,457)	(487,926)	(115,425)	(202,245)
Net income (loss)	(234,896)	208,867	(322,134)	(46,549)

## **REINSURANCE**

The Company utilized reinsurance agreements to minimize its exposure to significant losses. A review of the reinsurance agreements and records revealed that the terms of the reinsurance agreements were being followed.

### TRU Services, LLC Managing General Underwriter Agreement:

Pursuant to this agreement effective January 1, 2012, TRU Services, Inc. was the managing general underwriter for aggregate and specific stop loss insurance policies ("TRU"). TRU's responsibilities, pursuant to the agreement, included receiving applications, adjudicating claims, and underwriting services. GGEBS acted as the sub-managing general underwriter whose responsibilities included providing requests for proposals to TRU, summary information on groups for which stop loss coverage was sold, claims data necessary for processing by TRU, and collection of monthly premiums.

*Assumed:*

### Specific and Aggregate Medical Benefits Medical Benefits Quota Share WTB-277-12A Gerber Life Insurance Company Written through W. T. Butler as Reinsurance Intermediary:

Under this agreement, GGLIC assumes 15% being \$150,000 for specific excess and aggregate stop loss policies ceded by Gerber Life Insurance Company.

*Ceded:*

### Excess Risk Agreement with Munich America Reassurance Company

Under this agreement, GGLIC ceded credit life business written on policies issued through age 70 in excess of \$30,000 with a maximum cessation amount of \$150,000 on policies written through Trustmark National Bank and \$100,000 for all other policies. For credit accident & health business, the Company ceded 50% on a quota share basis with a maximum benefit up to \$30,000.

This agreement was subject to an experience refund provision which provides for a determination of profit or loss on the business on an annual basis. If a profit is determined on the business, a portion is allocated back to the Company. If a loss is determined on the business it will be offset against the subsequent year's profit/loss determination. As of December 31, 2012, the Company reported an Other Amount Receivable from reinsurers in the amount of \$162,661.

Medical Specific and Aggregate Quota Share Reinsurance Agreement with Gerber Life Insurance Company (Gerber) Written through Innovative Reinsurance Group

Under this agreement, the Company ceded 90% of the losses it reinsured related to its stop loss coverage for Self-Funded Medical Expense Benefits. The reinsurer's maximum loss per the terms of this agreement was its proportionate share of \$1,990,000 per covered person per year for specific excess of loss and the aggregate excess of loss up to \$1,000,000 per eligible employer per policy year.

The agreement also contained a profit/loss commission whereby if the business was profitable a portion of the profit calculated was allocated back to the Company and a loss on the business would be carried forward indefinitely. This agreement was terminated effective September 30, 2011.

Medical Benefits Quota Share WTB-278-12A with American Fidelity Assurance Company (37.5%) and Gerber Life Insurance Company (47.5%) Written through W. T. Butler as Reinsurance Intermediary:

This contract was a medical quota share reinsurance agreement for policies underwritten by TRU, Services, Inc. Under this agreement, GGLIC cedes 85% of their liability up to a maximum limit of \$1,000,000 per person or group. This contract was effective January 1, 2012. GGLIC received a ceding commission to be used to pay state premium taxes. GGLIC was eligible to participate in a profit commission if the net loss ratio was below 90%. As of December 31, 2012, the Company reported no amounts receivable related this agreement.

W. T. Butler was an authorized reinsurance intermediary with the MID as of the examination date.

Medical Benefits Quota Share WTB-283-12A with Sirius International Insurance Corporation Written through W. T. Butler & Company:

This contact was a medical quota share reinsurance agreement for policies underwritten by TRU, Services, Inc. on behalf of GGLIC. Under this agreement, GGLIC ceded 100% of their liability over \$1,000,000 up to \$4,000,000 per person or group. This contract was effective January 1, 2012. GGLIC received a ceding commission to be used to pay state premium taxes. GGLIC was eligible to participate in a profit commission if the net loss ratio was below 90%. As of December 31, 2012, the Company reported no amounts receivable related this agreement.

W. T. Butler was an authorized reinsurance intermediary with the MID as of the examination date.

## ACCOUNTS AND RECORDS

The Company's 2012 trial balances were tied to the financial statements within the statutory annual statements filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm and the Company's aggregate reserve liability was calculated by a consulting actuarial firm.

It was noted that the safekeeping agreement with Trustmark National Bank did not comply with the requirements established in the NAIC *Financial Condition Examiners Handbook*. It is recommended that the Company execute a safekeeping agreement with Trustmark National Bank that complies with the requirements of the NAIC *Financial Condition Examiners Handbook*.

It was noted that one mortgage loan was not under an executed mortgage agreement and was not properly reported on the 2012 Annual Statement as a mortgage loan in default. It is recommended the Company execute a new mortgage agreement for the loan. Additionally, it is also recommended the Company properly report mortgage loans in default on the Annual Statement filed with the MID in compliance with NAIC *Annual Statement Instructions*.

The Company is licensed as a multi-line insurance company pursuant to Miss. Code Ann. § 83-19-31(b), which requires the Company to maintain a minimum capital of \$600,000 and surplus of \$900,000. Pursuant to Miss. Code Ann. § 83-5-55, the Company is required to file an NAIC Life, Accident and Health Annual Statement. The Company is also required to file a risk-based capital (RBC) report pursuant to Miss. Code Ann. § 83-5-401 through § 83-5-427.

## STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-19-31(2) and § 83-7-21. The following chart displays the Company's deposits at December 31, 2012:

<u>Description of Security</u>	<u>State Deposited</u>	<u>Fair Value</u>
Bonds	Arkansas	\$ 126,727
Bonds	Mississippi	1,208,528
Bonds	Tennessee	226,346
		<hr/>
Total		\$ 1,561,601

## **FINANCIAL STATEMENTS**

### **Introduction**

The following financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2012, a Summary of Operations for the year ended December 31, 2012, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2012 and a Reconciliation of Examination Adjustments to Surplus at December 31, 2012.

**Statement of Assets, Liabilities, Surplus and Other Funds  
December 31, 2012**

<b>Assets</b>	
Bonds	\$ 3,328,663
Common stock	5,295,025
Mortgage loans – first liens	344,444
Real estate – properties occupied by the Company	210,525
Real estate – properties held for the production of income	1,472,086
Cash and short-term investments	5,404,261
Other invested assets	290,000
Investment income due and accrued	72,414
Uncollected premiums and agents' balances	284,887
Reinsurance – amounts recoverable from reinsurers	77,768
Reinsurance – other amounts receivable under reinsurance contracts	162,661
Electronic data processing equipment and software	2,749
<u>Receivables from parent, subsidiaries and affiliates</u>	<u>156,848</u>
<b>Total assets</b>	<b>\$ 17,102,331</b>
<b>Liabilities, Surplus and Other Funds</b>	
Aggregate reserve for life contracts	\$ 4,144,817
Aggregate reserve for accident and health contracts	1,550,068
Contract claims: life	188,987
Contract claims: accident and health	371,729
Premiums and annuity consideration for life and accident and health contracts	30,304
Commissions due to agents	54,830
General expenses due or accrued	310,974
Taxes, licenses and fees due or accrued	(13,317)
Amounts withheld or retained by company	10,245
<u>Asset valuation reserve</u>	<u>906,049</u>
<b>Total liabilities</b>	<b>7,554,686</b>
Common capital stock, Class 1: \$2 par value; 1,000,000 shares authorized; 906,856 shares issued and outstanding; Class 2: \$1 par value; 50,000 authorized; 101 shares issued and outstanding	1,813,813
Gross paid-in and contributed surplus	1,921,654
<u>Unassigned funds (surplus)</u>	<u>14,396,882</u>
Less: treasury stock at cost	
<u>531,700 Class 1 shares (value included in line 29 \$1,063,400)</u>	<u>8,584,704</u>
<b>Total capital, surplus and other funds</b>	<b><u>9,547,645</u></b>
<b>Total liabilities, surplus and other funds</b>	<b>\$ 17,102,331</b>

**Summary of Operations**  
**For the Examination Period Ended December 31, 2012**

<b>Revenue</b>		
Premiums and annuity considerations	\$	5,182,147
Net investment income		153,689
Amortization of interest maintenance reserve		2,517
Commissions and expense allowances on reinsurance ceded		131,092
Aggregate write-ins for miscellaneous income		898,848
<b>Total income</b>		<b>6,368,293</b>
<b>Expenses</b>		
Death benefits	\$	694,192
Annuity benefits		55,187
Disability benefits and benefits under accident and health contracts		982,716
Increase in aggregate reserves for life policies		(159,800)
Commissions of premiums and annuity considerations		2,206,134
General insurance expenses		2,582,502
Insurance taxes, licenses and fees		250,070
Increase in loading on deferred and uncollected premiums		(7,149)
<b>Total expenses</b>		<b>6,603,852</b>
Net gain from operations after dividends to policyholders and federal income tax and before realized capital gains (losses)		(235,559)
Net realized capital gains		663
<b>Net income</b>		<b>\$ (234,896)</b>

**Reconciliation of Capital and Surplus**  
**For the Examination Period Ended December 31, 2012**

	2012	2011	2010	2009
Capital and surplus, beginning of the year	\$ 9,843,157	\$ 9,533,074	\$ 8,465,712	\$ 8,437,854
Net income	(234,896)	208,867	(322,134)	(46,549)
Change in net unrealized capital gains	227,669	(256,304)	956,668	95,864
Change in net deferred income tax	38,426	1,460	-	-
Change in non-admitted assets	(261,702)	25,222	510,210	62,702
Change in asset valuation reserve	99,069	391,231	(23,338)	16,828
Capital changes: paid-in	-	-	4	(1)
Surplus adjustment: paid-in	-	-	116	(29)
Dividends to stockholders	(63,984)	(70,553)	(93,174)	(101,963)
Aggregate write-ins for gains and losses in surplus	2	-	10	-
Capital and surplus, end of the year	\$ 9,547,645	\$ 9,843,157	\$ 9,533,074	\$ 8,465,712

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS  
DECEMBER 31, 2012**

There were no changes made to the admitted assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2012. The capital and surplus, which totaled \$9,547,645 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31.

## **MARKET CONDUCT ACTIVITIES**

A full market conduct examination was not conducted; however, specific areas of the market conduct activities were reviewed. The specific areas reviewed included those items as indicated below.

### **Policyholder Service**

The Company maintained complaint documentation during the period under examination. All complaints appeared to have been appropriately resolved and no policyholder abuse was noted.

### **Underwriting and Rating**

Based upon procedures performed during the course of the examination, the Company appeared to be appropriately applying premium rates for insured policies based on application data. It appeared that all applicable policy forms and rates had been appropriately approved by the MID.

### **Claims Handling**

Claim files were reviewed for general indicators of policyholder treatment concerns. No significant areas of concern noted.

### **Producer Licensing**

The Company appeared to have the appropriate licensure to issue its products and agents appeared to be properly licensed and appointed.

### **Privacy**

Privacy notices were sent to the Company's policyholders annually, and based upon the procedures performed during the course of the examination, these annual notices appeared to be in compliance with applicable laws and regulations.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

Procedures performed during the course of the examination revealed no pending litigation outside of the normal course of business, commitments or other contingent liabilities to which the Company was a party.

## **COMMENTS AND RECOMMENDATIONS**

1. It is recommended that the Company obtain a financial institutions bond in the amount suggested by the NAIC *Financial Condition Examiners Handbook*.
2. It is recommended that the Company execute a safekeeping agreement with Trustmark National Bank that complies with the requirements of the NAIC *Financial Condition Examiners Handbook*.
3. It is recommended the Company execute a new mortgage agreement for the loan. Additionally, it is also recommended the Company properly report mortgage loans in default in the Annual Statement in compliance with NAIC *Annual Statement Instructions*.

## **SUBSEQUENT EVENTS**

Subsequent to the examination date, the following documentation was submitted to the MID in regard to items contained within the "Comments and Recommendations" section of this report:

- A new mortgage agreement was executed on August 1, 2013 effective September, 2012.

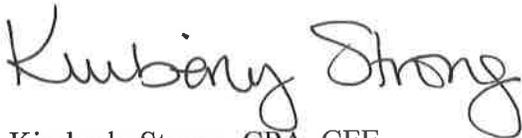
## ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Administrative Examiner	Jimmy Blissett, CFE
Examiner-in-charge	Kimberly Strong, CPA, CFE
IT Specialist	Steve Sartin, CISA, CRISC
Consulting Actuary	Jeff Beckley, FSA, MAAA
Examiner	Mary Anne King, CPA
Examiner	Todd Merchant

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Kimberly Strong, CPA, CFE  
Examiner-in-charge