



**GEORGE DALE**  
Commissioner of Insurance  
State Fire Marshal

**LEE HARRELL**  
Deputy Commissioner of Insurance

**STATE OF MISSISSIPPI**  
Mississippi Insurance Department

501 N. West Street  
1001 Woolfolk Building (39201)  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
(601) 359-3569  
<http://www.doi.state.ms.us>

March 26, 2007

**CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

Mr. Tommy Tomlinson, President  
Commerce National Insurance Company  
Post Office Box 1187  
Starkville, MS 39760

**RE: Report of Examination as of December 31, 2005**

Dear Mr. Tomlinson:

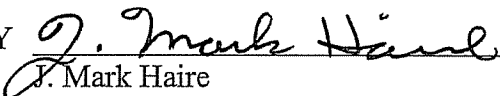
In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), 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,

GEORGE DALE  
COMMISSIONER OF INSURANCE

BY   
J. Mark Haire  
Special Assistant Attorney General

GD/JMH/bs  
Encls. Order w/exhibit

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

**IN RE:   REPORT OF EXAMINATION OF  
          COMMERCE NATIONAL INSURANCE COMPANY**

**CAUSE NO. 06-5374**

**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. 1999). 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. 1999).

**II.**

That Commerce National Insurance Company is a Mississippi-domiciled company licensed to write Accident and Health; Credit Life, Credit Accident and Health, and Life coverages.

## FINDINGS OF FACT

### III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), called for an examination of Commerce National Insurance Company and appointed Dale Miller, Examiner-In-Charge, to conduct said examination.

### IV.

That on or about January 2, 2007, the draft Report of Examination concerning Commerce National Insurance Company for the period of January 1, 2003 through December 31, 2005, was submitted to the Department by the Examiner-In-Charge, Dale Miller.

### V.

That on or about February 6, 2007, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. The Department received the Company's rebuttal in writing on or about February 27, 2007, with no objections to the draft report.

## CONCLUSIONS OF LAW

### VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), 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 Commerce National Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

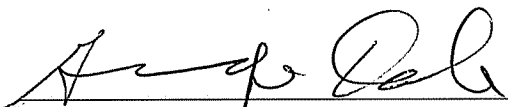
**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

**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. 1999).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, Commerce National 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 Commerce National 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.

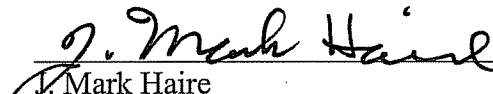
**SO ORDERED**, this the 26<sup>th</sup> day of March 2007.

  
\_\_\_\_\_  
GEORGE DALE  
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 26<sup>th</sup> day of March 2007, to:

**Mr. Tommy Tomlinson, President  
Commerce National Insurance Company  
Post Office Box 1187  
Starkville, MS 39760**

  
\_\_\_\_\_  
J. Mark Haire  
Special Assistant Attorney General

J. Mark Haire  
Special Assistant Attorney General  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 2065



# **Mississippi Insurance Department**

**Report of Examination**

**of**

**Commerce National Insurance Company**

**301 East Main Street  
Starkville, Mississippi 39759**

**As of December 31, 2005**

**NAIC Company Code 82767  
NAIC ETS No. MS029-C26**

**COMMERCE NATIONAL INSURANCE COMPANY  
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DECEMBER 31, 2005**

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

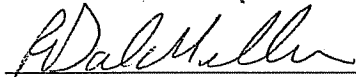
State of Mississippi,

County of Hinds,

R. Dale Miller, CFE, CPA, being duly sworn, states as follows:

1. I have authority to represent the State of Mississippi in the examination of Commerce National Insurance Company as of December 31, 2005.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have prepared the examination report, and the examination of Commerce National Insurance Company, as of December 31, 2005, was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

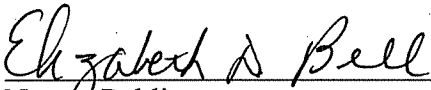
The affiant says nothing further.



R. Dale Miller, CFE, CPA  
Examiner-In-Charge

Subscribed and sworn before me by Dale Miller on March 6, 2007.

(SEAL)

  
Notary Public

My commission expires \_\_\_\_\_

MISSISSIPPI STATEWIDE NOTARY PUBLIC  
MY COMMISSION EXPIRES NOV 23, 2010  
BONDED THRU STEGALL NOTARY SERVICE





**GEORGE DALE**  
Commissioner of Insurance  
State Fire Marshal

**LEE HARRELL**  
Deputy Commissioner of Insurance

**STATE OF MISSISSIPPI**  
Mississippi Insurance Department

501 N. West Street  
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December 15, 2006

Honorable George Dale  
Commissioner of Insurance  
State of Mississippi  
Mississippi Insurance Department  
501 N. West Street  
1001 Woolfolk Building (39201)  
Post Office Box 79  
Jackson, Mississippi 39205-0079

Honorable Eleanor Kitzman  
Secretary, Southeastern Zone  
South Carolina Department of Insurance  
Director of Insurance  
300 Arbor Lake Drive, Suite 1200  
Columbia, South Carolina 29223

Honorable Alfred W. Gross  
Chair, Financial Condition (E) Committee  
Commissioner of Insurance  
State of Virginia  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Post Office Box 1157  
Richmond, Virginia 23218

Dear Sirs and Madam:

Pursuant to the instructions and authorization from the Commissioner of Insurance for the State of Mississippi, and in compliance with statutory provisions, an examination as of December 31, 2005 has been conducted of the affairs and financial condition of:

**COMMERCE NATIONAL INSURANCE COMPANY**  
**(NAIC COMPANY CODE 82767; NAIC-ETS No. MS029-C26)**  
**Statutory Home Office**  
301 East Main Street  
Starkville, Mississippi 39759

Since Commerce National Insurance Company's (CNIC or Company) records were maintained at various locations, this examination was primarily completed at the offices of the Mississippi Insurance Department (MID) in Jackson, Mississippi. This examination was conducted in accordance with Miss. Code Ann. §83-5-201 et seq., and the report of examination is herewith submitted for your review.

## **INTRODUCTION**

The examination period, for purposes of this report, is January 1, 2003 through December 31, 2005, and the examination date is December 31, 2005. The examination was performed by examiners representing the MID and covered the Company's operations and financial condition through the examination period, including material transactions and/or events that occurred subsequent to the examination date and were noted during the course of the examination. The Company's previous examination was as of December 31, 2002, and the previous report of examination was dated May 5, 2004.

## **SCOPE OF EXAMINATION**

The examination of the Company was a full scope financial examination conducted in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, as amended, as well as the MID, and included an assessment of the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations and compliance with applicable laws. A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company's market conduct.

The examiners tested the underlying data that supported the Company's aggregate reserves and related premium accounting. The amounts included within the financial statements contained in this report for the aggregate reserves and related premium accounting were based on the review and opinion of the Examination Actuary who was assigned to the examination by the MID.

## **HISTORY OF THE COMPANY**

The Company was incorporated on June 1, 1988, under the laws of the State of Mississippi. The Articles of Association authorized capital of \$2,000,000 (2,000,000 shares of \$1 par value common capital stock).

Effective January 31, 2005, the Company repurchased the 84,000 shares of common stock owned by MS Life Insurance Company for \$1,702,476. The Company also issued 84,000 shares of common stock to NBC Service Corporation for \$84,000. As of December 31, 2005, the Company's 400,000 shares outstanding of its \$1 par value common stock were owned by NBC Service Corporation.

## **MANAGEMENT AND CONTROL**

The Articles of Association and Bylaws vest the management and control of the Company's business affairs with the Board of Directors (Board). As of December 31, 2005, the members of the duly elected Board along with their place of residence and principal occupation were as follows:

**Name and Place of Residence**

**Principal Occupation**

Mr. Mark A. Abernathy  
Starkville, Mississippi

President and Chief Operating Officer  
Cadence Bank

Mr. Aubrey Adair  
Starkville, Mississippi

Senior Vice President, Controller  
Cadence Bank

Mr. Bobby L. Harper  
Columbus, Mississippi

Chairman, Executive Committee  
Cadence Bank

Mr. Richard T. Haston  
Starkville, Mississippi

Chief Financial Officer  
Cadence Bank

Mr. Lewis F. Mallory, Jr.  
Starkville, Mississippi

Chairman and Chief Executive Officer  
Cadence Bank

Mr. Thomas J. Prince, Jr.  
Starkville, Mississippi

President  
Commerce National Insurance Company

Mr. Tommy M. Tomlinson  
Starkville, Mississippi

Executive Vice President  
Cadence Bank

The following officers were duly elected by the Board and held the following offices as of December 31, 2005:

**Name**

**Title**

Mr. Thomas J. Prince, Jr.      President

Mr. Richard T. Haston      Secretary

Mr. Aubrey Adair      Treasurer

**CORPORATE RECORDS**

The minutes of the meetings of the Board, taken during the period covered by the examination, were reviewed and appeared to be complete and in order with regard to recording the actions and deliberations of the Company's Board. It was noted that the Company's Bylaws do not specifically prohibit the offices of President and Treasurer from being held by the same individual and this appears to be in conflict with Miss. Code Ann. §83-19-15. It is recommended that the Company amend its Bylaws to correspond with the requirements of the above referenced code section.

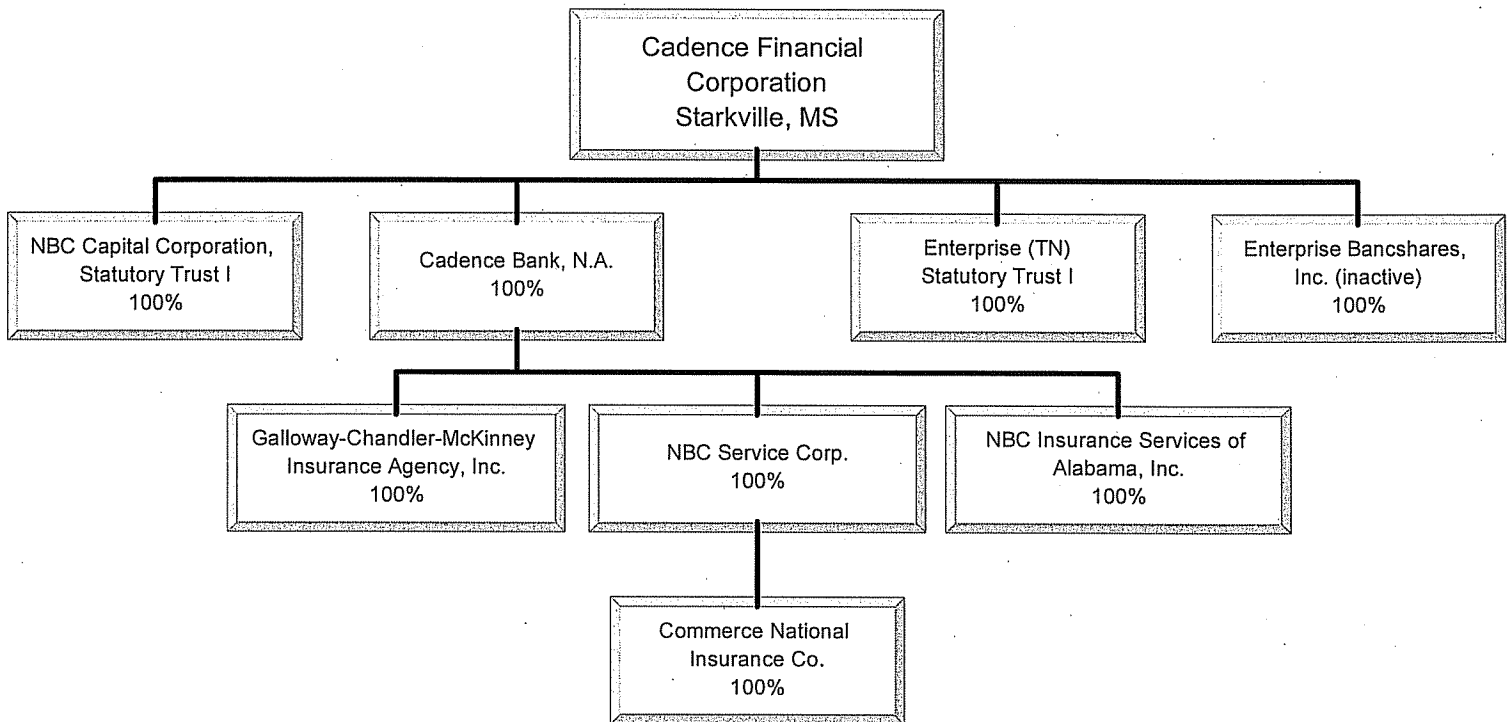
## CONFLICT OF INTEREST

The directors and officers of the Company prepared conflict of interest statements for the period under examination. These statements were reviewed, and no conflicts of interest were disclosed.

## 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 filed Holding Company Registration Statements with the MID in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9. The statements and applicable amendments that were filed during the examination period were reviewed and it appeared that any changes and material transactions by and between the Company and its parent and affiliates were reported.

The following organizational chart depicts the Company's ownership structure as of December 31, 2005:



## RELATED PARTY TRANSACTIONS

The Company had a custodial arrangement with Cadence Bank (formerly National Bank of Commerce) for the investment management and safeguarding of its assets. The Company paid investment management fees to Cadence Bank of \$37,375 in 2005, \$43,040 in 2004, and \$43,560 in 2003. During this examination, it was noted that the Company's safekeeping agreement with Cadence Bank did not contain certain safeguards and controls as prescribed by the NAIC. It is recommended that the Company amend its safekeeping agreement in order to include all of the requirements set forth by the NAIC.

## ADMINISTRATIVE AGREEMENT

The Company had an administrative services agreement with MS Diversified Corporation (MSD), a member of the Assurant Group. MSD is the parent company of MS Life Insurance Company, which owned 21% of the Company until early 2005. Effective January 1, 2005, the Company and the Assurant Group amended the financial terms of the agreement. Under the terms of the amended agreement, the Company is obligated to pay the Assurant Group an annual administrative fee of \$5,000 through 2008 and \$2,500 per year thereafter until the agreement is cancelled.

## FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on a fidelity bond with an aggregate limit of \$8,000,000, which exceeded the NAIC's suggested minimum amount of coverage for an insurance company of this size.

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2005, the Company was licensed to transact business in the State of Mississippi. During the examination period, the Company did not issue new policies and the previously written business was in run-off.

## STATUTORY DEPOSITS

The Company had the following statutory deposits as of the examination date:

<b>Description of Security</b>	<b>Par Value</b>	<b>Fair Value</b>
US Treasury Note	\$200,000	\$197,110
US Treasury Note	<u>\$100,000</u>	<u>\$ 99,305</u>
Total	<u>\$300,000</u>	<u>\$296,405</u>

The \$296,405 fair value of the Company's statutory deposits, as displayed above, with the State of Mississippi did not comply with Miss. Code Ann. §§83-19-31(2) and 83-7-21, where the Company's statutory deposits should have had a fair value of at least \$300,000 as of the examination date. It is recommended that the Company, at all times, maintain

statutory deposits with the State of Mississippi in compliance with the above referenced code sections.

### **MARKET CONDUCT REVIEW**

A full scope market conduct examination was not performed; however, limited procedures were performed on the Company's refund calculations and claims handling. No significant exceptions were noted in regard to the limited procedures performed.

### **ACCOUNTS AND RECORDS**

The Company's 2005 trial balance was reconciled to the balance sheet within the Company's statutory annual statement filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm.

The Company's records were maintained at various locations utilizing client-server architecture as well as a mainframe processing center in Woodbury, Minnesota.

## FINANCIAL STATEMENTS

The following financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2005, a Summary of Operations for the year ended December 31, 2005, a Reconciliation of Surplus and Other Funds for the examination period ended December 31, 2005, and a Reconciliation of Adjustments to Surplus as of December 31, 2005.

**COMMERCE NATIONAL INSURANCE COMPANY**  
**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS**  
**DECEMBER 31, 2005**

**Assets**

Bonds	\$ 6,505,551
Cash and short-term investments	364,292
Investment income due and accrued	52,550
Amounts recoverable from reinsurers	8
Deferred tax asset	<u>1,022</u>
 Total Assets	 <u>\$ 6,923,423</u>

**Liabilities, Surplus and Other Funds**

Aggregate reserve for life contracts	\$ 11,309
Aggregate reserve for accident and health contracts	4,482
Life contract claims	1,829
Accident and health contract claims	500
Interest maintenance reserve	21,100
General expenses due or accrued	5,000
Taxes, licenses and fees due or accrued	241
Federal income taxes payable	10,644
Amount due reinsurer	231
Asset valuation reserve	<u>5,508</u>
 Total Liabilities	 <u>60,844</u>
 Common capital stock	 400,000
Gross paid in and contributed surplus	553,000
Unassigned funds	<u>5,909,579</u>
 Total Surplus and Other Funds	 <u>6,862,579</u>
 Total Liabilities, Surplus and Other Funds	 <u>\$ 6,923,423</u>



**COMMERCE NATIONAL INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
**FOR YEAR ENDED DECEMBER 31, 2005**

**INCOME:**

Premium income	\$ (987)
Commissions and expense allowances on reinsurance ceded	(3,871)
Amortization of interest maintenance reserve	18,219
Net investment income	<u>286,173</u>
Total income	<u>299,534</u>

**BENEFITS AND OPERATING EXPENSES:**

Death benefits	(948)
Disability benefits	3,475
Decrease in policy benefit reserves	(13,919)
Commissions on premiums	(2,145)
General insurance expenses	37,192
Insurance taxes, licenses and fees	<u>12,984</u>
Total benefits and operating expenses	<u>36,639</u>
Net gain from operations before realized capital gains	<u>262,895</u>
Realized capital losses	<u>(398)</u>
Net income	<u>\$ 262,497</u>

**COMMERCE NATIONAL INSURANCE COMPANY  
RECONCILIATION OF SURPLUS AND OTHER FUNDS  
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2005**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Surplus and other funds, beginning of year	\$7,550,412	\$7,910,846	\$ 8,205,723
Net income/(loss)	245,508	179,522	262,497
Change in unrealized capital gains/(losses)	15,316	0	0
Change in net deferred tax asset	(5,076)	(1,416)	0
Change in nonadmitted assets	1,620	399	0
Change in liability for reinsurance in unauthorized companies	60,784	87,601	0
Prior year federal income tax adjustment	24,738	10,381	(2,249)
Stock repurchase	0	0	(1,618,476)
Change in asset valuation reserve	<u>17,544</u>	<u>18,390</u>	<u>15,084</u>
Surplus and other funds, end of year	<u>\$7,910,846</u>	<u>\$8,205,723</u>	<u>\$6,862,579</u>

**COMMERCE NATIONAL INSURANCE COMPANY  
RECONCILIATION OF ADJUSTMENTS TO SURPLUS  
DECEMBER 31, 2005**

There were no changes made within this examination report to the Assets, Liabilities, or Surplus and Other Funds balances reported by the Company within its 2005 Annual Statement. The Surplus and Other Funds reported by the Company of \$6,862,579 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31.

## COMMENTS AND RECOMMENDATIONS

1. It was noted that the Company's Bylaws do not specifically prohibit the offices of President and Treasurer from being held by the same individual and this appears to be in conflict with Miss. Code Ann. §83-19-15. It is recommended that the Company amend its Bylaws to correspond with the requirements of the above referenced code section. (Page 4)
  
2. It was noted that the Company's safekeeping agreement with Cadence Bank did not contain certain safeguards and controls as prescribed by the NAIC. It is recommended that the Company amend its safekeeping agreement in order to include all of the requirements set forth by the NAIC. (Page 6)
  
3. The \$296,405 fair value of the Company's statutory deposits did not comply with Miss. Code Ann. §§83-19-31(2) and 83-7-21, where the Company's statutory deposits should have had a fair value of at least \$300,000 as of the examination date. It is recommended that the Company, at all times, maintain statutory deposits with the State of Mississippi in compliance with the above referenced code sections. (Page 6)

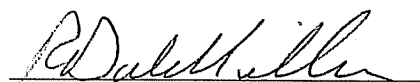
## ACKNOWLEDGEMENT

The examiners representing the Mississippi Insurance Department who participated in the examination are listed below:

Manager:	Mr. Joseph R. May, CFE, CPA, CMA, CIE
Examiner-In-Charge:	Mr. R. Dale Miller, CFE, CPA
Examination Actuary:	Mr. Thomas L. Burger, FSA, MAAA

The courteous cooperation extended by the officers and/or employees of the Company and its administrator is hereby acknowledged and appreciated.

Respectfully,



R. Dale Miller, CFE, CPA  
Examiner-in-Charge