



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

**LEE HARRELL**  
Deputy Commissioner

**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>

November 10, 2006

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

Mr. James Hilbun Robertson, President  
Gulf Guaranty Insurance Company  
4785 I-55 North, Suite 200  
Jackson, MS 39206

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

Dear Mr. Robertson:

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  
          GULF GUARANTY INSURANCE COMPANY**

**CAUSE NO. 06-5293**

**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 Gulf Guaranty Insurance Company is a Mississippi-domiciled company licensed to write automobile physical damage/liability; boiler and machinery; casualty/liability; fidelity; fire/allied lines; guaranty; home/farm owners; industrial fire; inland marine; mortgage guaranty; ocean 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. 1999), called for an examination of Gulf Guaranty Insurance Company and appointed Mitch Rayborn, Examiner-In-Charge, to conduct said examination.

### IV.

That on or about September 19, 2006, the draft Report of Examination concerning Gulf Guaranty Insurance Company for the period of January 1, 2003 through December 31, 2005 was submitted to the Department by the Examiner-In-Charge, Mitch Rayborn.

### V.

That on or about October 17, 2006, 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 15-day period to submit any rebuttal to the draft report. The Department received the Company's rebuttal on or about October 30, 2006, and in response thereto, the draft report was revised.

## 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 Gulf Guaranty 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, Gulf Guaranty 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 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 10<sup>th</sup> day of November, 2006.



---

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 10<sup>th</sup> day of November, 2006, to:

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

  
\_\_\_\_\_  
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**

**Gulf Guaranty Insurance Company  
4785 I-55 North, Suite 200  
Jackson, Mississippi 39206**

**As of December 31, 2005**

**NAIC Group Code 948  
NAIC Company Code 36765  
NAIC ETS No. MS029-C19**



# **Mississippi Insurance Department**

## **Report of Examination**

**of**

**Gulf Guaranty Insurance Company  
4785 I-55 North, Suite 200  
Jackson, Mississippi 39206**

**As of December 31, 2005**

**NAIC Group Code 948  
NAIC Company Code 36765  
NAIC ETS No. MS029-C19**

STATE OF MISSISSIPPI  
COUNTY OF HINDS

Mitch Rayborn, CFE, FLMI, being duly sworn, states as follows:

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

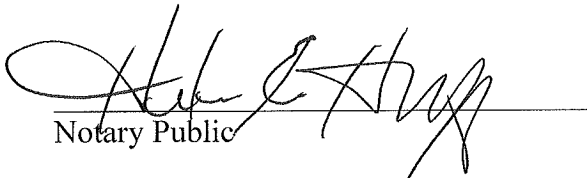
The affidavit says nothing further.



\_\_\_\_\_  
Mitch Rayborn, CFE, FLMI  
Examiner

Subscribed and sworn before me this 1st day of November, 2006.

(SEAL)



\_\_\_\_\_  
Notary Public

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

Notary Public State of Mississippi At Large  
My Commission Expires: December 31, 2008  
Bonded thru Heider, Realty, S.A.



## TABLE OF CONTENTS

Salutation.....	1
Introduction.....	2
Scope of Examination.....	2
History of the Company.....	2
Management and Control.....	3
Corporate Records.....	3
Fidelity Bond and Other Insurance.....	4
Statutory Deposits.....	4
Directors', Officers', Employees' and Agents' Welfare.....	4
Conflict of Interest.....	4
Territory and Plan of Operation.....	5
Holding Company/Related Party Transactions.....	5
Accounts and Records.....	7
Market Conduct Activities.....	8
Commitments and Contingencies.....	8
Introduction to Financial Statements.....	9
Statement of Assets, Liabilities, Surplus and Other Funds.....	10
Statement of Income.....	11
Reconciliation of Capital and Surplus.....	12
Reconciliation of Examination Changes to Surplus.....	13
Comments on Financial Statements.....	14
Comments and Recommendations.....	15
Acknowledgment.....	16



**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>

July 19, 2006

Honorable Alfred Gross  
Financial Condition (E) Subcommittee  
Southeastern Zone  
Bureau of Insurance  
1300 East Main Street  
Richmond, Virginia 23219

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

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

Pursuant to Commissioner Dale's instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2005, of the affairs and financial condition of:

## **GULF GUARANTY INSURANCE COMPANY**

**(NAIC COMPANY CODE 36765)**

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

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.

## **INTRODUCTION**

This examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered Gulf Guaranty Insurance Company's (GGIC or the Company) operations and financial condition from January 1, 2003, through December 31, 2005, including material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

For purposes of this examination report, the examination period is defined as January 1, 2003 through December 31, 2005, and the examination date is defined as December 31, 2005. The Company was previously examined by the MID as of December 31, 2002.

## **SCOPE OF EXAMINATION**

This examination was a full scope financial examination that included assessing the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with the law. A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct.

This examination was conducted in accordance with procedures recommended by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*.

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by the examiners without material change receive little or no comment.

## **HISTORY OF THE COMPANY**

The Company was incorporated on January 15, 1981, under the laws of the State of Mississippi as the Three Rivers Insurance Company and was licensed on August 1, 1981. The Company's name was changed to National General Insurance Company on October 12, 1981, and to National General Fire & Casualty Insurance Company on March 21, 1983. Effective February 13, 1991, the Company's name was changed to Gulf Guaranty Insurance Company.

## MANAGEMENT AND CONTROL

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

<u>Name and Place of Residence</u>	<u>Principal Occupation or Affiliation</u>
Jack Westbrook Robertson, Jr. Jackson, Mississippi	Chairman of the Board, Gulf Guaranty Life Insurance Company
James Hilbun Robertson Brooklyn, Mississippi	Sales, Gulf Guaranty Life Insurance Company
Richard Covey Robertson Jackson, Mississippi	President, Gulf Guaranty Life Insurance Company

The officers duly elected by the Board of Directors and holding office as of December 31, 2005, were:

<u>NAME</u>	<u>POSITION</u>
Richard Covey Robertson	President
Robert Morris Berry	Secretary/Treasurer
Christopher J. Burkhalter, FCAS, MAAA	Consulting Actuary
Dixie Gayle Odom	Vice President

As of December 31, 2005, the Company had 2,000,000 shares authorized, 600,000 issued and outstanding, common stock, par value \$1.75. The common stock was 100% owned by Gulf Guaranty Life Insurance Company (GGLIC).

The Company paid no dividends during the examination period.

## CORPORATE RECORDS

The minutes of the meetings of the Shareholders 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 transactions and actions of the Company's officers. It was noted that the minutes did not indicate that the actuarial opinion had been presented to the Board of Directors in compliance with the NAIC *Annual Statement Instructions*. It is recommended that in the future, the actuarial opinion be presented to the Board of Directors and that such action be recorded in the minutes of the Board of Directors meetings.

## FIDELITY BOND AND OTHER INSURANCE

The Company maintained a comprehensive corporate insurance program. This program included commercial general liability, and commercial property, as well as other policies, as deemed appropriate by the Company's management. GGLIC maintained a financial institutions bond with \$75,000 single loss limit of liability, which did not exceed the minimum fidelity coverage suggested by the NAIC for a company of this size. It is recommended that the Company obtain fidelity coverage in an amount of \$150,000 to \$175,000 to comply with the NAIC *Financial Condition Examiners Handbook*. Additionally, it is noted that this recommendation was included in the examination report as of December 31, 2002.

## STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-19-31 (2). The following chart displays the Company's deposits as of December 31, 2005:

<u>Type of Security</u>	<u>State Deposited</u>	<u>Book Value</u>	<u>Fair Value</u>
Certificate of Deposit	Arkansas	\$ 150,000	\$ 150,000
Certificate of Deposit	Louisiana	\$ 100,000	\$ 100,000
Bond	Mississippi	\$ 529,579	\$ 508,326

## DIRECTORS', OFFICERS', EMPLOYEES' AND AGENTS' WELFARE

The Company did not have any employees. Employees of Gulf Guaranty Life Insurance Company, the parent company, performed the day-to-day operations of the Company under an expense allocation agreement.

## CONFLICT OF INTEREST

The Company had formal procedures whereby disclosure was made to the Board of Directors of any material interest or affiliation on the part of any officers or directors that was a conflict, or would likely be a conflict, with the official duties of such persons. It appeared that not all of the officers and directors completed these statements. Subsequent to the examination date, conflict of interest affidavits were completed by the remaining officers.

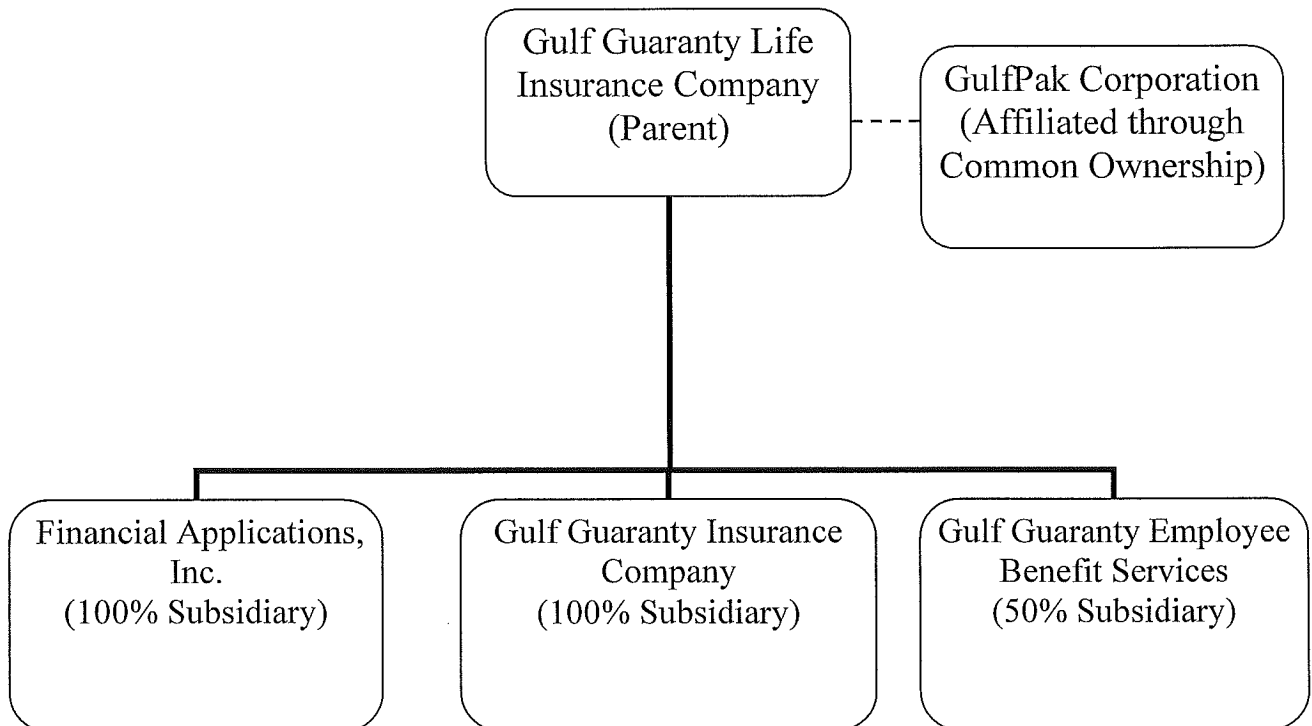
## TERRITORY AND PLAN OF OPERATION

The Company primarily markets automobile and property collateral protection insurance through financial institutions located in the states of its licensure, which are: Alabama, Arkansas, Louisiana, Mississippi and Tennessee. The Company plans to expand its operations into the State of Georgia and has applied for admittance in the State of Georgia.

## HOLDING COMPANY

The Company was a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company appears to have completed and filed with the MID the necessary documentation to comply with Miss. Code Ann. §§ 83-6-5 and 83-6-9 for the years under examination. The statements and applicable amendments that were filed during the examination period were reviewed, and it appeared that any changes and/or material transactions by and between the Company and its affiliates were reported.

The following organizational chart depicts the ownership and affiliated companies:



**GULF GUARANTY LIFE INSURANCE COMPANY (GGLIC);** This Company owned 100% of the outstanding shares of GGIC and Financial Applications, Inc. and 50% of the outstanding shares of Gulf Guaranty Employee Benefit Services. Its principal activities include the sales and service of credit insurance products that are primarily sold through commercial banking institutions located within the Company's states of licensure.

**FINANCIAL APPLICATIONS, INC. (FAI);** This company, a wholly owned subsidiary of GGLIC, was acquired on January 1, 1994. Its principal activities include the development and marketing of loan origination system software that services the needs of certain financial institutions. The valuation of this subsidiary was reflected at zero (\$0) by the Company within the December 31, 2005, financial statements.

**GULF GUARANTY EMPLOYEE BENEFIT SERVICES (GGEBS);** This company, a 50% owned subsidiary of GGLIC, was formed on July 8, 1992, under the laws of the State of Mississippi. GGEBS' principal activities include providing administrative services for employee benefit plans for both life/health and property/casualty agents throughout the States of Louisiana, Mississippi and Tennessee. The valuation of this subsidiary was reflected at zero (\$0) by the Company within the December 31, 2005, financial statements.

#### **RELATED PARTY TRANSACTIONS**

GGLIC and GGIC operate under common management and have common operating expenses. The companies have an expense allocation agreement, filed with the MID, that appears to have been consistently applied during the examination period.

## ACCOUNTS AND RECORDS

The Company's 2005 trial balance of the Company's accounts was reconciled to the balance sheet of 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 computer system consisted of two Windows 2003 servers and one SCO Unix server. The Unix server was used for the Company's commercially purchased Accounting System (Passport Software). The Company's proprietary insurance software was written in Visual Basic with an accompanying SQL database.

It was noted in the examination that the Company did not maintain written data security policies and procedures or a written data processing disaster recovery plan in compliance with the criteria established in Part 1, Section IV, Subsection B of the NAIC *Financial Condition Examiners Handbook*. It is recommended that the Company develop and implement written data security policies and procedures and a data processing disaster recovery plan in accordance with Part 1, Section IV of the NAIC *Financial Condition Examiners Handbook*.

It was noted that the Company was not appropriately escheating abandoned property (outstanding checks) in compliance with the Unclaimed Property Act (Miss. Code Ann. §§ 89-12-1 et seq.). It is recommended that the Company comply with the Unclaimed Property Act (Miss. Code Ann. §§ 89-12-1 et seq.).

The Company had a formal Privacy Policy regarding the control of non-public personal information. An initial notice was provided to the policyholder as part of the loan document package. An annual privacy notice was sent to each group policyholder to whom a master policy has been issued by GGIC.

It was noted that the custodial agreements currently in place with Trustmark National Bank, Renasant Bank, and UBS Financial Services, Inc. do not comply with the requirements provided by the NAIC. It is recommended that the Company modify the agreements to comply with all provisions set forth by the NAIC.

The Company was not able to provide appraisals for the investment properties owned by the Company. Statement of Statutory Accounting Principle (SSAP) Number 40 requires that appraisals be obtained to determine the fair value of real estate investments and that appraisals be no more than five years old. For examination purposes, examiners utilized alternative valuation procedures to obtain values for the properties reported. It is recommended that the Company obtain appraisals for all properties to determine the fair value of their real estate investments in order to comply with SSAP Number 40.



## **MARKET CONDUCT ACTIVITIES**

A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct which included: advertising, agents' licensing, claims, complaints, policy forms, and premiums. No significant exceptions were noted.

## **COMMITMENTS AND CONTINGENCIES**

The Company was named as a defendant in certain lawsuits that were still pending at the examination report date. The Company intends to contest these claims and believes that meritorious defenses exist. The ultimate outcome of these suits could not be reasonably determined for examination purposes; however, an allowance of \$240,000 was recorded in the financial statements reflecting management's best estimate of probable claims expense and estimated defense cost as of December 31, 2005. As with any lawsuit, there is always a possibility that any adverse judgement(s) could have a material effect on the surplus position of the Company.

## **INTRODUCTION TO FINANCIAL STATEMENTS**

The following financial statements, as determined by the examination, consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2005, a Statement of Income for the year ended December 31, 2005, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2005, and a Reconciliation of Examination Changes to Surplus as of December 31, 2005.

**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS  
DECEMBER 31, 2005**

**ASSETS**

Bonds	\$ 2,886,551
Common stocks	485,001
Real estate: Properties held for the production of income	341,370
Cash, cash equivalents and short-term investments	1,728,628
Other invested asset	19,061
Investment income due and accrued	46,047
Uncollected premiums in the course of collection	489,982
Electronic data processing equipment and software	<u>48,637</u>
<b>Total Assets</b>	<b><u>\$ 6,045,278</u></b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses	\$ 271,135
Loss adjustment expenses	27,114
Commissions payable, contingent commissions and other similar charges	102,898
Other expenses	259,424
Taxes, licenses and fees	17,427
Unearned premiums	1,140,029
Remittances and items not allocated	380
Payable to parent, subsidiaries and affiliates	<u>587,677</u>
<b>Total Liabilities</b>	<b>\$ 2,406,084</b>
Common capital stock	1,050,000
Gross paid in and contributed surplus	1,302,033
Unassigned funds (surplus)	<u>1,287,161</u>
Capital and Surplus	<u>3,639,194</u>
<b>Total Liabilities, Surplus and Other Funds</b>	<b><u>\$ 6,045,278</u></b>

**STATEMENT OF INCOME  
FOR YEAR ENDED DECEMBER 31, 2005**

**Underwriting Income**

Premiums earned \$ 1,563,129

Deductions

Losses incurred 1,072,880

Loss expenses incurred 58,961

Other underwriting expenses incurred 1,247,510

Total underwriting deductions \$ 2,379,351

Net underwriting gain or (loss) (816,222)

**Investment Income**

Net investment income earned 136,346

Net realized capital gains 187,719

Net investment gain 324,065

**Other income**

Miscellaneous income 58,943

Net income before dividends to policyholders and before federal income taxes (433,214)

Less: Federal income taxes incurred - 0 -

Net income (loss) \$ ( 433,214)

**RECONCILIATION OF CAPITAL AND SURPLUS  
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2005**

	<b>2003</b>	<b>2004</b>	<b>2005</b>
Capital and surplus, beginning of year	\$ 4,372,648	\$ 4,110,947	\$ 3,552,226
Net Income (loss)	(94,880)	(355,614)	(433,214)
Change in net unrealized capital gains	(164,926)	167,453	(229,404)
Change in non-admitted assets	(1,895)	(370,560)	749,586
Examination adjustments	-0-	-0-	-0-
Capital and surplus, end of the year	<u>\$ 4,110,947</u>	<u>\$ 3,552,226</u>	<u>\$ 3,639,194</u>

**RECONCILIATION OF EXAMINATION CHANGES TO SURPLUS  
DECEMBER 31, 2005**

As a result of this examination, there have been no changes affecting Surplus as regards policyholders reported by the Company in the December 31, 2005 annual statement. The Surplus as regards policyholders reported by the Company of \$3,639,194 is accepted as reasonably stated for purposes of the balance sheet per the examination.

**COMMENTS ON FINANCIAL STATEMENTS**

**ASSETS**

**Uncollected premiums in course of collection** **\$489,982**

The above captioned amount is \$459,067 more than the amount reported on the December 31, 2005, annual statement filed with the MID. This increase is a result of an underestimate of uncollected premiums by the Company and is offset by related liabilities.

**Common stocks** **\$485,001**

The above captioned amount is the same amount as reported on the December 31, 2005, annual statement filed with the MID. It was noted that the Company reported its investment in affiliates (GGLIC and GGEBS) at cost rather than the equity method as prescribed by SSAP Number 88, paragraph 8. An adjustment to the financial statements were not considered necessary due to the insignificant amount of the changes based on utilizing the equity method for calculating the value of the common stock in affiliated companies. It is recommended that the Company include its affiliated stock investments on its annual statement utilizing the methods prescribed by SSAP Number 88, paragraph 8.

**LIABILITIES**

**Commissions payable** **\$102,898**

The above captioned amount is \$91,597 more than the amount reported on the December 31, 2005, annual statement filed with the MID. This increase is a result of an underestimate of uncollected premiums by the Company and is offset by related assets.

**Unearned premiums** **\$1,140,029**

The above captioned amount is \$367,470 more than the amount reported on the December 31, 2005, annual statement filed with the MID. This increase is a result of an underestimate of uncollected premiums by the Company and is offset by related assets.

## COMMENTS AND RECOMMENDATIONS

1. It was noted that the minutes did not indicate that the actuarial opinion had been presented to the Board of Directors in compliance with the NAIC *Annual Statement Instructions*. It is recommended that in the future, the actuarial opinion be presented to the Board of Directors and that such action be recorded in the minutes of the Board of Directors meetings. (Page 3)
2. It is recommended that the Company obtain fidelity coverage in an amount of \$150,000 to \$175,000 to comply with the NAIC *Financial Condition Examiners Handbook*. Additionally, it is noted that this recommendation was included in the examination report as of December 31, 2002. (Page 4)
3. It was noted in the examination that the Company did not maintain written data security policies and procedures or a written data processing disaster recovery plan in compliance with the criteria established in Part 1, Section IV, Subsection B of the NAIC *Financial Condition Examiners Handbook*. It is recommended that the Company develop and implement written data security policies and procedures and a data processing disaster recovery plan in accordance with Part 1, Section IV of the NAIC *Financial Condition Examiners Handbook*. (Page 7)
4. It was noted that the Company was not appropriately escheating abandoned property (outstanding checks) in compliance with the Unclaimed Property Act (Miss. Code Ann. §§ 89-12-1 et seq.). It is recommended that the Company comply with the Unclaimed Property Act (Miss. Code Ann. §§ 89-12-1 et seq.). (Page 7)
5. It was noted that the custodial agreements currently in place with Trustmark National Bank, Renasant Bank, and UBS Financial Services, Inc. do not comply with the requirements provided by the NAIC. It is recommended that the Company modify the agreements to comply with all provisions set forth by the NAIC. (Page 7)
6. It is recommended that the Company obtain appraisals for all properties to determine the fair value of their real estate investments in order to comply with SSAP Number 40. (Page 7)
7. It is recommended that the Company include its affiliated stock investments on its annual statement utilizing the methods prescribed by SSAP Number 88, paragraph 8. (Page 14)



**ACKNOWLEDGMENT**

The examiners representing the MID and participating in this examination were:

Examiner:	Amy M. Deer
Automation:	J. Scott Joyner, CISA, AES
Manager:	Joseph R. May, CPA, CMA, CFE, CIE
Actuary:	Merlinos and Associates, Inc.
Examiner-in-charge:	Mitch Rayborn, CFE, FLMI
Examiner:	Kimberly D. Strong, CFE

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

Respectfully submitted,



\_\_\_\_\_  
Mitch Rayborn, CFE, FLMI  
Examiner-in-charge