



## MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

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WOOLFOLK BUILDING  
JACKSON, MISSISSIPPI 39201  
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MARK HAIRE  
Deputy Commissioner of Insurance

MAILING ADDRESS  
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Jackson, Mississippi 39205-0079  
TELEPHONE: (601) 359-3569  
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January 24, 2014

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

Ms. Mary Carol Pigott, CEO & President  
Bluebonnet Life Insurance Company  
3545 Lakeland Drive  
Flowood, MS 39232

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

Dear Ms. Pigott:

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.

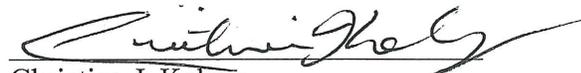
Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department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

**CAUSE NO. 14-6723**

**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 Bluebonnet Life Insurance Company is a Mississippi-domiciled company licensed to write Life; Accident and Health 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 Bluebonnet Life Insurance Company and appointed Kim Strong, Examiner-In-Charge, to conduct said examination.

#### IV.

That on or about December 12, 2013, the draft Report of Examination concerning Bluebonnet 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 December 30, 2013, 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 rebuttal in writing on or about January 13, 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 Bluebonnet 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 information 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, Bluebonnet 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 Bluebonnet Life Insurance Company take the necessary actions and implement the necessary procedures to properly and promptly comply with all recommendations contained in the Report of Examination.

**SO ORDERED**, this the 24<sup>th</sup> day of January 2014.

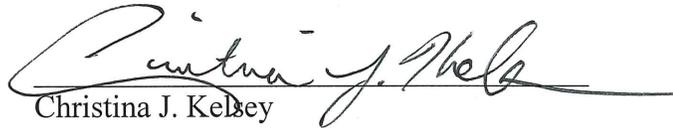


  
\_\_\_\_\_  
MIKE CHANEY  
COMMISSIONER OF INSURANCE  
STATE OF MISSISSIPPI

**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 24<sup>th</sup> day of January 2014, to:

**Ms. Mary Carol Pigott, CEO & President  
Bluebonnet Life Insurance Company  
3545 Lakeland Drive  
Flowood, MS 39232**



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**

**BLUEBONNET 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,

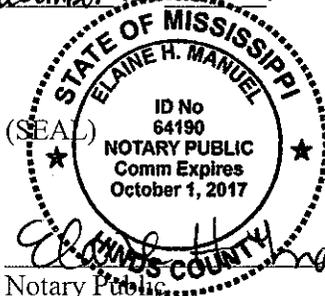
Kimberly Strong, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of BlueBonnet 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 BlueBonnet 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 30<sup>th</sup> day of December 2013



Elaine H. Manuel  
Notary Public

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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October 1, 2013

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:

**BLUEBONNET LIFE INSURANCE COMPANY**

3545 Lakeland Drive  
Flowood, MS 39232

License #	NAIC Group #	NAIC #	FEETS#	ETS
8700018	NA	68535	68535-MS-2011-5	MS120-M21

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 *et seq.* and was performed in Flowood, 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 BlueBonnet Life Insurance Company ("Company" or "BBLIC"). 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**

There were no comments or recommendations of the Report of Examination as of December 31, 2008.

## **HISTORY OF THE COMPANY**

The Company was incorporated under the laws of the State of Louisiana on June 11, 1984, and commenced business on that same date. The Company was originally capitalized by Louisiana Health Service Indemnity Company, d/b/a Blue Cross & Blue Shield of Louisiana (BCBSLA), with 100,000 shares of \$1.00 par value capital stock and \$1,000,000 of gross paid-in and contributed surplus.

Per the Articles of Incorporation, the Company was formed to enter into forms of insurance contracts insuring perils similar to those described within Miss. Code. Ann. § 83-19-1 "Class Two (2)(a)(b) – Life and Accident and Health", and to carry on any other business activities and financial services that an insurance company can lawfully conduct under the laws of the State of Louisiana.

On October 13, 1989, the Company was acquired by Capstone Corporation, a Mississippi for-profit holding company and wholly-owned subsidiary of Blue Cross & Blue Shield of Mississippi, a Mutual Insurance Company (BCBSMS). Shares are not actively traded and neither management nor members of the Board of Directors hold any shares of BBLIC or Capstone Corporation.

On February 18, 1997, the Board of Directors of BBLIC resolved to re-domesticate from Louisiana to Mississippi, effective at the close of business March 31, 1997. Amendments were made to the Bylaws and Articles of Incorporation, and approval was granted by the Commissioner of Insurance of the State of Mississippi for the Company to re-domesticate to Mississippi.

## **CORPORATE RECORDS**

The minutes of the meetings of the policyholders 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**

### **Stockholder**

As of December 31, 2012, the Company had issued and outstanding two hundred fifty thousand (250,000) shares of common capital stock with a par value of \$4.00 per share. The common capital stock was owned 100% by Capstone Corporation, a for-profit holding company for the interests of BCBSMS. No dividends were paid to Capstone Corporation during the examination period.

### **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:

<b>Name and Residence</b>	<b>Principal Occupation</b>
Richard John Hale, Chairman Madison, Mississippi	Owner, RJ Farms
James Herbert Finley, Vice Chairman Morton, Mississippi	Owner, Finley Manufacturing Services, LLC
Arthur Claiborne Kelly Starkville, Mississippi	Owner, Kelly Consulting Group
Robert Mark Ledbetter Tupelo, Mississippi	Vice President and General Manager, WTVA, Inc.
Carol Todd Puckett Jackson, Mississippi	President, The Everyday Gardener, Inc. and Director of Special Projects, Viking Range Corporation

Mary Carol Pigott Jackson, Mississippi	President and Chief Executive Officer – Blue Cross & Blue Shield of Mississippi
Robin Young McCormick West Point, Mississippi	Partner, Watkins, Ward and Stafford, CPAs, PLLC
Ralph Brooks Vance, M. D. Jackson, Mississippi	Development Officer, University of Mississippi Medical School

### **Committees**

There were no active committees of the Board as of the examination date.

### **Officers**

Name	Title
Mary Carol Pigott	President and Chief Executive Officer
Jeffery Thomas Leber	Chief Operating Officer & Treasurer
John Hamiter Proctor, III	Vice President, Legal and Audit & Corporate Secretary

### **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 of Directors.

### **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 CEO, COO and Corporate Secretary. In accordance with the Company's Bylaws (as amended April 22, 2010) the Board consisted of eight board members with a majority being public members. Ms. McCormick met the standard of a "financial expert". 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 our understanding of the organizational structure. Our consideration also encompassed understanding the assignment of authority and responsibility. It was noted that the Company maintained formal internal control policies. Oversight of operational processes, business planning, non-routine transactions, and material events were reviewed and approved by appropriate levels of management and the Board. Management maintained effective controls over its IT environment through utilization of systems of its affiliate BCBSMS pursuant to a service agreement and maintained 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 provides appropriate segregation of duties, review and oversight for the size and nature of the Company.

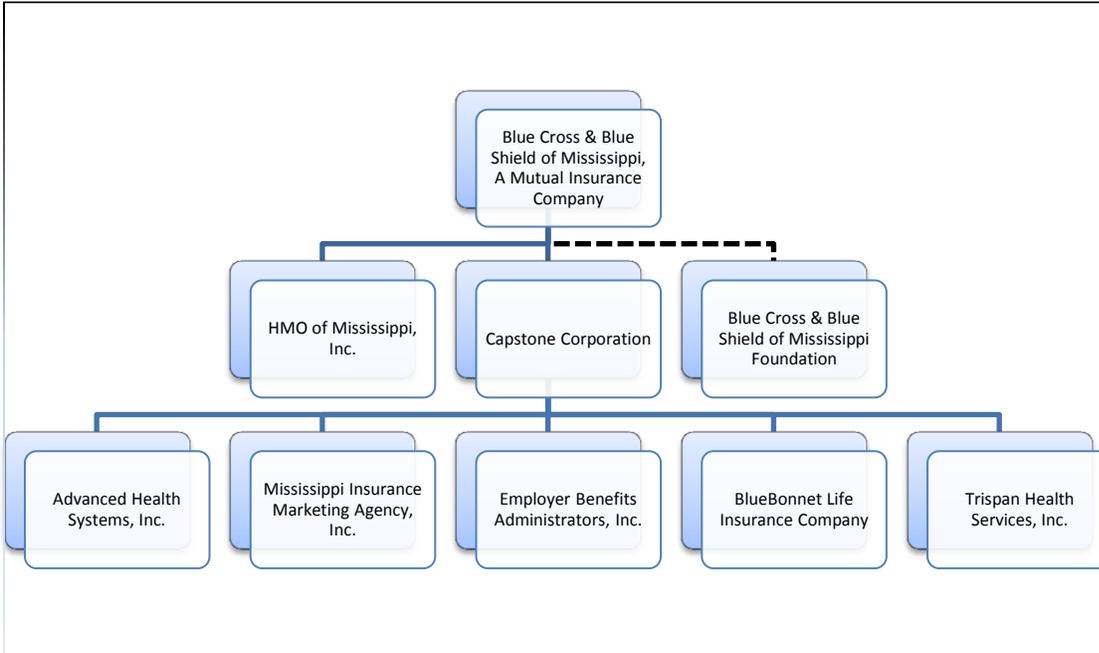
Management competence was a consideration in the overall assessment of corporate governance. In our review of this area, we considered factors such as management's experience level and management turnover. Management had significant experience with the Company and the life insurance industry; as well as, access to resources available through BCBSMS.

The Company's enterprise risk management was informal. Risk management was practiced by all levels of management. 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. Management reports were sufficiently detailed to allow management to make sound business decisions.

### **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



### Parent and Affiliated Companies

**BLUE CROSS & BLUE SHIELD OF MISSISSIPPI, A MUTUAL INSURANCE COMPANY (BCBSMS):** BCBSMS was the ultimate controlling entity and was incorporated in 1947 under the laws of the State of Mississippi. It provided hospitalization and other health care benefits under contract to subscribers. BCBSMS also performed administrative services and processed claims for other Blue Cross & Blue Shield plans and for certain other programs.

**HMO OF MISSISSIPPI, INC. (HMOMS):** HMOMS, a wholly owned subsidiary of BCBSMS, was incorporated on June 21, 1995, under the laws of the State of Mississippi, as a health maintenance organization whose products were included within BCBSMS' managed care offerings. As of the examination date, HMOMS was inactive.

**CAPSTONE CORPORATION (CAPSTONE):** Capstone, a wholly owned subsidiary of BCBSMS, was incorporated on November 2, 1984, under the laws of the State of Mississippi, as a for-profit holding company for the interests of BCBSMS.

**BLUE CROSS & BLUE SHIELD OF MISSISSIPPI FOUNDATION (BCBSMSFD):** BCBSFD, a non-profit corporation, was a philanthropic affiliate of BCBSMS. It was a private, charitable foundation operated exclusively to fund and support 501(c)(3) organizations and programs that positively impact the health of Mississippians. It is reflected with a dotted line denoting the lack of control by its parent, BCBSMS.

**ADVANCED HEALTH SYSTEMS, INC. (AHS):** AHS, a wholly owned subsidiary of Capstone Corporation, was incorporated on December 14, 1984, under the laws of the State of Mississippi, as Automated Health Systems, Inc., with its business being the facilitation of electronic submission of claims by providers. The Company's name was changed to Advanced Health Systems, Inc., and, in 1994, its business purposes were expanded to include utilization management, managed care services for clients, employers and groups; the development and maintenance of provider networks; providing health care provider management and consulting; and providing computerized information management.

**MISSISSIPPI INSURANCE MARKETING AGENCY, INC. (MIMA):** MIMA, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 19, 1986, under the laws of the State of Mississippi. The primary purpose of this company was that of a general insurance agency, which included the selling and brokerage of insurance coverage and the administration of claims and other services.

**EMPLOYER BENEFITS ADMINISTRATORS, INC. (EBA):** EBA, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 18, 1986, under the laws of the State of Mississippi, as a third party administrator for self-insured, partially insured and insured employee benefit plans. The name was changed from Bluestone Administrative Services, Inc. in February 1987. As of the examination date, EBA was inactive.

**TRISPAN HEALTH SERVICES, INC. (THS):** THS, a wholly owned subsidiary of Capstone Corporation, was incorporated on April 21, 2005, under the laws of the State of Mississippi. The primary purpose of this company was to execute contracts related to federal and/or state government health care programs. As of the examination date, THS was inactive.

#### **Affiliated and Related Party Transactions**

##### **Tax Sharing Agreement with BCBSMS:**

Effective January 1, 1996, the Company was a party to a Tax Sharing Agreement with BCBSMS which provided for an allocation of tax liability based on the amount of taxable income or taxable loss. This agreement was in effect during the examination period.

##### **Service Agreement with Capstone Corporation:**

The Company entered into a Service Agreement on January 1, 1997, with Capstone Corporation. Under the terms of this agreement, Capstone agreed to provide business services as requested to BBLIC. The services were to be provided by Capstone's parent company, BCBSMS, in compliance with a service agreement between Capstone and BCBSMS.

##### **Property Lease with Capstone Corporation:**

The Company entered into a Property Lease on January 1, 1997, with Capstone Corporation. Under the terms of this agreement, Capstone agreed to lease or sublease certain office space,

furniture, fixtures, and equipment business services as requested to BBLIC. The property to be leased or subleased was provided by Capstone's parent company, BCBSMS, in compliance with a service agreement between Capstone and BCBSMS.

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

The Company's parent maintained a commercial insurance policy for employee theft with a limit of \$4,000,000. This amount meets the NAIC suggested minimum fidelity coverage for a company of its size. The Company also maintained an insurance program that appeared to provide adequate coverage to protect it from hazards that it may encounter. All subsidiaries and affiliates of BCBSMS were named insureds on the policies.

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

The Company did not have any employees. Pursuant to a service agreement, the day-to-day operations of the Company were performed by BCBSMS. As such, no provision was made in financial statements for obligations under any benefit plan.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2012, the Company was authorized to write life and accident and health insurance in the State of Mississippi. In addition, BBLIC was licensed in the states of Alabama, Arkansas, Illinois, Louisiana, and Tennessee. Approximately 99% of written premiums were in Mississippi with the remaining premiums being written in Louisiana.

### **GROWTH OF COMPANY**

The combined net change in capital and surplus increased 34.64% during the examination period. However, the ratio of premium – to – surplus decreased from 0.23 as of December 31, 2008 to 0.13 as of December 31, 2012. The Company's ratio of assets to liabilities decreased from 13.00 to 8.21 over the examination period and revenues to expenses decreased from 2.69 to 2.11.

### **REINSURANCE**

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

*Assumed:*

Quota Share Assumption Reinsurance Contract with State Life Insurance Company

Under this agreement, BBLIC assumes 50% for each policy or rider reinsured not to exceed the maximum cession amount of \$30,000.

*Ceded:*

Automatic Group Reinsurance Contract with Swiss Re Life & Health America, Inc. written through Innovative Reinsurance Group

Under this agreement, BBLIC cedes Group Term Life, Voluntary Group Term Life, Group Accidental Death and Dismemberment and Voluntary Accidental Death and Dismemberment policies (including waiver of premium disability benefits).

With respect to Group Term Life insurance written by the Company, BBLIC retains \$30,000 per person up to \$570,000 per person for BCBSMS employees and \$300,000 per person all other business.

With respect to the BCBSMS employee pension plan, BBLIC cedes 100% of the Company's insurance limit, subject to a maximum of \$400,000 per person. For Group Accidental Death and Dismemberment BBLIC cedes 100% of the Company's insurance limit per person.

With respect to Voluntary Group Term Life Insurance, BBLIC retains 50% of up to \$60,000 per person (\$30,000) and cedes up to 50% of \$60,000 and 100% in excess of \$60,000 per person.

With respect to Voluntary Group Accidental Death and Dismemberment insurance and Voluntary Accidental Death and Dismemberment benefits, BBLIC cedes 100% of the Company's insurance limit per person not to exceed \$250,000.

Yearly Renewable Term Automatic Reinsurance Agreement with Swiss Re Life & Health America, Inc. written through Innovative Reinsurance Group

Under this agreement, BBLIC cedes all amounts in excess of \$30,000 up to the maximum limit of \$70,000. This agreement was originally with Connecticut General Life Insurance Company and was changed by addendum to Swiss Re in 2001. Effective July 1, 2006, the Company ceased writing this product and the contract was amended (addendum 7) to cover only in-force business as of that date.

Group Long-Term Disability Facultative Reinsurance Agreement with Union Security Insurance Company written through Disability Reinsurance Management Services, Inc.

Under this agreement, BBLIC cedes 100% of all group long-term disability policies written by the Company. Effective July 1, 2005, the Company ceased writing this product and the contract was amended to cover only in-force business as of that date. This agreement was

originally with London Life Reinsurance Company and was transferred via novation agreement to Union Security Insurance Company effective April 1, 2007.

Cancer Excess Reinsurance Contract with American National Insurance Company written through Innovative Reinsurance Group

Under this contract, BBLIC retains the first \$20,000 of ultimate net loss arising out of claims incurred during the contract year and paid by the Company within 12 months after the end of the contract year. The Reinsurer is then liable for the amount by which the Company's ultimate net loss per insured person, per contract year exceeds \$20,000, but not to exceed \$230,000 per insured lifetime. Effective June 1, 2003, the Company ceased writing this product and the contract was amended to cover only in-force business as of that date.

Facultative Group Long Term Disability Monthly Income Reinsurance Agreement with UNUM Life Insurance Company written through Innovative Reinsurance Group

Under this contract, BBLIC cedes 100% of all Group Long-Term Disability monthly income benefits.

Automatic Coinsurance Reinsurance Agreement with Swiss Re Life & Health America, Inc. written through Innovative Reinsurance Group

Under this agreement, the Company retains 50% of each policy related to its BlueCare products with a face value up to \$60,000 per policy. Reinsurer agrees to accept 50% of each policy up to \$120,000. If the Company has filled its maximum retention on the life as specified above, the Reinsurer's percentage will automatically increase to 100%; however, their limits will not exceed \$120,000.

## **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.

The Company is licensed as a single-line insurance company pursuant to Miss. Code Ann. § 83-19-31(a), which requires the Company to maintain a minimum capital and surplus of \$400,000 and \$600,000, respectively.. 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 risk-based capital (RBC) reports for each of its NAIC annual statement filings 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.

<b>Description of Security</b>	<b>State Deposited</b>	<b>Fair Value</b>
Bonds	Mississippi	\$ 961,498
Certificate of deposit	Arkansas	<u>100,000</u>
Total		<u><u>\$ 1,061,498</u></u>

## **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 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**

**Assets**

Bonds	\$ 40,322,715
Stock – common stock	328,694
Cash and short-term investments	7,809,260
Investment income due and accrued	356,701
Uncollected premiums and agents' balances	97,534
Deferred premiums, agents' balances and installments booked	8,390
Reinsurance – amounts recoverable from reinsurers	82,677
Net deferred tax asset	115,435
Receivables from parent, subsidiaries and affiliates	17,446
Aggregate write-ins for other than invested assets	43,184

**Total assets** \$ 49,182,036

**Liabilities, Surplus and Other Funds**

Aggregate reserve for life contracts	\$ 391,295
Aggregate reserve for accident and health contracts	10,647
Contract claims: life	550,597
Contract claims: accident and health	2,000
Premiums and annuity consideration for life and accident and health contracts	3,978
Interest maintenance reserve	256,746
Commissions due to agents	44,938
General expenses due or accrued	624,637
Taxes, licenses and fees due or accrued	(87,264)
Current federal and foreign income taxes	1,296,824
Amounts withheld or retained by the Company as agent or trustee	2,000
Asset valuation reserve	169,009
Payable to parent, subsidiaries and affiliates	96,630
Aggregate write-ins for liabilities	422,121

**Total liabilities** 3,784,158

Common capital stock, \$4 par value; 600,000 shares authorized; 250,000 shares issued and outstanding 1,000,000

Gross paid-in and contributed surplus 899,660

Unassigned funds (surplus) 43,498,218

**Total capital, surplus and other funds** 45,397,878

**Total liabilities, surplus and other funds** \$ 49,182,036

**Summary of Operations**  
**For the examination period ended December 31, 2012**

<b>Revenue</b>	
Premiums earned	\$ 5,591,009
Net investment income	1,631,699
Amortization of interest maintenance reserve	18,061
Aggregate write-ins for miscellaneous income	89,667
<b>Total income</b>	<b>7,330,436</b>
<b>Expenses</b>	
Death benefits	\$ 1,900,390
Disability benefits and benefits under accident and health contracts	34,329
Increase in aggregate reserves for life policies	(47,261)
Commissions of premiums and annuity considerations	570,399
General insurance expenses	799,910
Insurance taxes, licenses and fees	218,948
<b>Total expenses</b>	<b>3,476,715</b>
Net gain from operations before dividends to policyholders and federal income tax	3,853,721
Federal and foreign income taxes incurred	1,219,181
Net realized capital gains	5,648
<b>Net income</b>	<b>\$ 2,640,188</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	\$ 42,773,262	\$ 40,010,073	\$ 36,898,116	\$ 33,719,100
Net income	2,640,188	2,859,440	3,009,460	3,062,119
Change in net unrealized capital gains	(5,019)	(3,946)	57,709	89,931
Change in net deferred income tax	(43,325)	211,265	3,500	(60,640)
Change in non-admitted assets	29,196	(200,530)	3,912	73,121
Change in asset valuation reserve	(54,163)	(103,040)	37,376	14,485
Cumulative effect of changes in accounting principles	57,739	-	-	-
Capital and surplus, end of the year	\$ 45,397,878	\$ 42,773,262	\$ 40,010,073	\$ 36,898,116

**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 \$45,397,878 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 and 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 had been appropriately approved by the MID.

### **Claims Handling**

Claim files were reviewed for general indicators of policyholder treatment concerns without material exception.

### **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.

## **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**

The examination did not identify any material adjustments, comments, or recommendations.

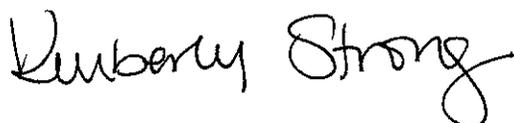
## ACKNOWLEDGMENT

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

Jimmy Blissett, CFE	Administrative Examiner, Consultant
Kimberly Strong, CPA, CFE	Examiner-in-charge, Harper, Rains, Knight & Co.
Steve Sartin, CISA, CRISC	IT Specialist, Harper, Rains, Knight & Co.
Joanna Latham, CFE, AES, CPA, CISA, CRISC	IT Specialist, AGI Services, Inc.
John Humphries, ASA, MAAA, CFE, AES	Managing Actuary, AGI Services, Inc.
Mike Presley, FSA, MAAA	Consulting Actuary, AGI Services, Inc.
Mary Anne King, CPA	Financial Examiner, Harper, Rains, Knight & Co.
Stacey McFarland	Financial Examiner, Harper, Rains, Knight & Co.
Todd Merchant	Financial Examiner, Harper, Rains, Knight & Co.
Darren Smith	Market Conduct Examiner, AGI Services, Inc.
Trina Barton, CPA, AMCM	Market Conduct Examiner, AGI Services, Inc.
Kristina Gaddis, CFE, CISA	Market Conduct Examiner, AGI Services, Inc.

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