

Reply to Examination as of December 31, 2012

COMMENTS AND RECOMMENDATIONS

Section 1033 OF Title 18 of the U.S. CODE- PAGE 9

It is **recommended** that the Company establish an internal policy or procedure, by means of background checks, to ensure that those with whom it contracts to do business of insurance with are in compliance with Section 1033 of Title 18 of the U.S. CODE and ALA. ADMIN. CODE 482-1-146.11 (2009), which states:

"Responsibilities of Section 1033 Insurers".

(1) A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:

(a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.

(b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.

(c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.

(2) Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department.

(3) As part of an examination or otherwise, the Department may determine the existence of such procedures, whether and how they are being followed, and the effectiveness of the procedures."

LOA Response:

When a new hire has been interviewed and an application has been filled out by the new hire, a "Notice to Applicant" form is signed by the applicant giving Life Insurance Company of Alabama permission to obtain an investigative consumer report. This same procedure is followed for new agents that are to be appointed in the State of Alabama.

The necessary information is reported to the company used for inspection services, currently Exam One. The report for financial and criminal background checks generally takes 2-3 days. The final report for a new employee is given to the Payroll Department where it is filed in the applicant's personnel file. The final report for a new agent appointed in the State of Alabama is given to the Agency Department where it is filed in the agents file prior to the completion of contracting and appointment.

Special Deposits - Page 11

It is **recommended** that the Company report the statutory deposit held for Oklahoma separately than Alabama on Schedule E - Part 3 in accordance with the NAIC Annual Statement Instructions.

LOA Response:

This item was corrected in an amendment to the 2013 Annual Statement. The Company will continue to show the statutory deposit held for Oklahoma separately from Alabama on Schedule E Part 3 going forward.

Compliance with Producers' Licensing- Page 15

It is recommended that the Company comply with ALA.CODE §27-7-30.1(a), which states "(a) Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier."

LOA Response:

The company will comply with this requirement.

It is recommended that the Company document in its listing all producers that are canceled and terminated in accordance with ALA. CODE§ 27-27-29 (a) (1975), which states "(a) Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

LOA Response:

The company will comply with this requirement. A list of all Agents that are terminated for any reason will be maintained by the Agency Department.

It is recommended that the Company maintain an appointed agents' listing that is both complete and current in accordance with the requirements of ALA. CODE§ 27-27-29 (a) (1975), which states "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

LOA Response:

The company will comply with this requirement.

Accounts and Records - Page 20

It is recommended the Company comply with ALA. ADMIN. CODE 482-1-126-.07, which states "Assess Risk. The licensee: (a) Identifies reasonably foreseeable internal or external threats that could result in unauthorized disclosure, misuse, alteration or destruction of customer information or customer information systems. (b) Assesses the likelihood and potential damage of these threats, taking into consideration the sensitivity of customer information. (c) Assesses the sufficiency of policies, procedures, customer information systems and other safeguards in place to control risks."

LOA Response:

The Company will work to comply with this requirement.

It is recommended the Company annually test its IT Security Contingency Plan.

LOA Response:

The company is looking into a method whereby it can completely test the IT Security Contingency Plan in accordance with the State Examiners recommendation.

It is recommended the Company establish written contracts for all IT service providers.

LOA Response:

The Company will work to ensure we have written contracts for all IT service providers.

It is recommended that the Company correctly report its in force dividend accumulations contracts within its Exhibit of Number of Policies, Contracts, Certificates, Income Payable and Account Values In Force for Supplementary Contracts, Annuities, Accident & Health and Other Policies in accordance with the NAIC *Annual Statement Instructions*.

LOA Response:

The Company correctly reported the in force dividend accumulations within the Exhibit of Number of Policies, Contracts, Certificates, Income Payable and Account Value in Force for Supplementary Contracts, Annuities, Accident & Health and Other Policies in accordance with the NAIC Annual Statement Instruction in the 2013 Annual Statement. The Company will continue to report this item correctly going forward.

It is recommended that the Company provide requested information within ten days in accordance with ALA. ADMIN. CODE 482-1-118-.06 (1999), which states "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner."

LOA Response:

The Company will do everything in its power to respond within 10 working days to requests made by the department.

Bonds, Preferred stocks and Common stocks -Page 28

It is recommended that the Company ensure it has a custodial agreement that has been approved by the Alabama Department of Insurance in place for all securities held by a custodian and follow the requirements in ALA. ADMIN. CODE 482-1-077 (2003).

LOA Response:

The custodial agreement was approved by the Alabama Department of Insurance, as was noted in the Subsequent Events section of the report. The Company will make sure future custodial agreements are approved by the Alabama Department of Insurance in a timely fashion and in accordance with Alabama Administrative Codes.

Uncollected premiums and agents' balances in the course of collection- Page 28

It is again recommended that the Company adopt a formal written cancellation/lapsing policy, which will allow the Company to take appropriate and timely actions to cancel policies and manage potential liability arising from non-cancellation of a policy.

LOA Response:

The company will adopt a written cancellation/lapsation policy in order to allow the Company to take appropriate and timely actions to cancel policies and manage potential liabilities arising from the non-cancellation of policies.

**Commissions to agents due or accrued and Amounts withheld for agents' account –
Page 28**

It is recommended that the Company report all commissions owed to agents in Commissions to agents due or accrued in accordance with the NAIC *Annual Statement Instructions*.

LOA Response:

This recommendation pertains to dental commissions that show up on the dental agents' balance report. No Check has been issued for these items, because the balance is less than \$25.00. Furthermore, no accounting is posted on these dental commissions until a check is actually issued. Previously, the Company corrected by debiting the Commissions Expense and crediting the Agents' Balances account. Going forward, the Company will include this amount within Commissions to Agents Due or Accrued on line 10 of the liability page.

It is again recommended that the Company calculate the commissions on a policy-detail level, which is based on the type of insurance products and commission rate for the products so that the commission due and accrued liability is not an approximation.

LOA Response:

The Company will work to be able to calculate the commissions due and accrued liability at the policy level.

Subsequent Events- Page 33

It is recommended that the Company's ultimate controlling parties file audited financial statements in accordance with ALA. ADMIN. CODE 482-1-0SS(Form B) item 8(b).

LOA Response:

Willis Boatner Pugh, LLC is preparing Audited Financial Statements for the controlling parties and will send them when they are ready.