

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION

OF

Life Insurance Company of Alabama

GADSDEN, ALABAMA

AS OF DECEMBER 31, 2017

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EXAMINER'S AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF ETOWAH**

Rhonda B. Ball, CFE, being duly sworn, states as follows:

1. I have the authority to represent Alabama in the examination of Life Insurance Company of Alabama.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Life Insurance Company of Alabama was performed in a manner consistent with the standards and procedures required by the State of Alabama.

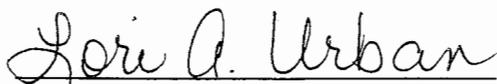
The affiant says nothing further.



Examiner-in-charge

Subscribed and sworn before me by Rhonda B. Ball on this 16th day of November, 2018.

(SEAL)



(Signature of Notary Public)

My commission expires Sept. 18, 2021.



KAY IVEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

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DEPARTMENT OF INSURANCE
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SCOTT F. PILGREEN

GENERAL COUNSEL
REYN NORMAN

November 16, 2018

Jim L. Ridling, Commissioner
Alabama Department of Insurance
P.O. Box 303351
Montgomery, Alabama 36130-3351

Dear Commissioner Ridling:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

Life Insurance Company of Alabama
Gadsden, Alabama

at its home office located at 302 Broad Street, Gadsden, Alabama 35901 as of December 31, 2017. The report of examination is submitted herewith. Where the description "Company" or "LICOA" appears herein without qualification, it will be understood to indicate Life Insurance Company of Alabama.

SCOPE OF EXAMINATION

We have performed our multi-state examination of Life Insurance Company of Alabama (LICOA). The last examination covered the period of January 1, 2009 through December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2017.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama 1975*, as amended, the Alabama Insurance Department regulations, bulletins and directives and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices. All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment was documented separately following the Company's financial statements.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

This examination report includes significant findings of fact, as mentioned in the *Code of Alabama 1975*, as amended, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but are separately communicated to other regulators and/or the Company.

The Company's 2013 through 2017 annual statements were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology systems (IS) was conducted concurrently with the financial examination. The IS examination included a review of management and organizational controls, system and program

development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was also conducted concurrently with the financial examination. The examination included reviews of the Company's territory, plan of operation, claims, policyholder complaints, marketing and sales, producers' licensing, underwriting, policy forms and rate filings, and privacy policy and practices. See "**MARKET CONDUCT ACTIVITIES**" on page 13 for further discussion of the Company's market conduct examination.

The Company utilized a local CPA firm, Willis, Boatner Pugh, LLC, (WBP) to perform the internal audit function. This firm, acting as the Company's internal auditors, is subject to oversight by the Audit Committee. Reports generated by WBP were made available to the examiners and were used in the examination as deemed appropriate.

Thomas, Howell, Ferguson, P.A. (THF) was the Company's certified public accountant for all years under examination. THF's workpapers were reviewed and were used in the examination as deemed appropriate by the examiners.

A signed certificate of representation for the Company was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2017.

ORGANIZATION AND HISTORY

The Company was incorporated in Etowah County on July 28, 1952 under the laws of the State of Alabama and commenced business on August 13, 1952.

The charter empowered the Company to engage in the life insurance business and the writing and making of life insurance contracts and issuing of life insurance policies of every lawful kind on the lives of human beings; and also the writing and making of insurance contracts and issuing of insurance policies of every lawful kind for health and accident insurance, insuring against injury or disability to the person by reason of accidents, illness and disease; and insuring against loss of earnings and medical and hospital expenses caused by bodily injury, illness and disease, and insuring against other causes or contingencies such as may impair or affect the life and health of a person; and generally to engage in the writing,

making and issuing of contracts of life, health and accident insurance, to individuals or groups, upon such terms, conditions and provisions as may be permitted by law.

The original charter provided for authorized capital of \$500,000, comprised of 100,000 shares of \$5 par value per share common stock. The Company commenced business with 26,000 shares issued and outstanding, which provided paid-up capital of \$130,000 and surplus of \$65,000.

In 1956, the Company's charter was amended to increase the total authorized capital to \$1,000,000, with an additional 500,000 shares of common stock being authorized at a par value of \$1 per share. The \$1 par value stock was designated as Class "A" common.

In 1958, Life and Accident Insurance Company of Alabama, Gadsden, Alabama, was merged into the Company. This merger was effected through an exchange of stock, which resulted in an increase to the Company's assets of \$572,605 and an increase to insurance in-force of \$4,671,981.

In 1966, the charter was again amended to increase the total authorized capital to \$2,000,000, comprised of 100,000 shares of \$5 par value per share common stock and 1,500,000 shares of \$1 par value per share common stock.

In 1968, an amendment to the charter defined the preemptive rights of stockholders as follows:

"(a) The holders of "CLASS "A" COMMON STOCK" of the corporation shall have no pre-emptive rights to purchase any portion or part of any class of stock of the corporation, including "COMMON STOCK," and "CLASS "A" COMMON STOCK," and also including Treasury Shares of both of said Classes of Stock, that may be issued or offered for sale by the corporation:

(b) The holders of "COMMON STOCK" of the corporation shall have no pre-emptive rights to purchase any portion or part of any "CLASS "A" COMMON STOCK," including Treasury Shares of "CLASS "A" COMMON STOCK," that may be offered or issued for sale by the corporation:

(c) Every holder of "COMMON STOCK" of the corporation shall have the pre-emptive right to purchase his portion of any "COMMON STOCK," including Treasury Shares of "COMMON STOCK," that may be issued or offered for sale by the corporation, according to the proportion of his holdings of such

“COMMON STOCK,” at such price, which may be in excess of par value, within such time and on such terms as shall be fixed and determined by the Board of Directors of the corporation.”

In 1977, the Company acquired all of the policies in force of Vanguard Security Life Insurance Company, Montgomery, Alabama, pursuant to an agreement executed with the court appointed receiver of said company.

In 1978, the Company acquired College Investment Company, Gadsden, Alabama, as a wholly-owned subsidiary of the Company and liquidated that Company during 1978.

In 1979, the Company acquired certain policies of the Life Insurance Company of America, Birmingham, Alabama pursuant to an agreement executed with the court appointed receiver of said company.

In 1987, the capital stock of the Company was increased by \$75,364 as a result of the increase in par value of the Class “A” common stock from \$1 per share to \$1.12 per share. This change in the par value of the Class “A” common stock increased the total authorized under this class of stock to \$1,680,000, which exceeded the \$1,500,000 authorized by the Company’s Charter. On February 8, 1993, the Company decreased the par value of the Class “A” common stock from \$1.12 to \$1. Also, on February 8, 1993, the Company issued 371,963 shares of authorized but unissued Class “A” common stock as treasury stock to meet the requirements of the state of Georgia.

These changes resulted in an issued and authorized capitalization of \$500,000 (common stock) and \$1,000,000 (Class “A” common stock) for an aggregate of \$1,500,000. 12,452 shares of common stock (\$5 par) and 412,496 shares of Class “A” common stock (\$1 par) were held by the Company as treasury stock at a net repurchase cost of \$727,342.

On December 31, 2017, the authorized capital of the Company was \$2,000,000 consisting of 100,000 shares of \$5 par value per share common stock and 1,500,000 shares of \$1 par value Class “A” common stock. The issued capital stock was \$1,500,000, comprised of 100,000 shares of \$5 par value per share common stock and 1,000,000 shares of \$1 par value per share Class “A” common stock. Treasury shares were held as follows: common stock (\$5 par) 12,437 shares at a cost of \$244,325 and Class “A” Common (\$1 par) 404,821 shares at a cost of \$473,837.

The 2017 Annual Statement reflected the following:

- Net Admitted Assets: \$124,819,220
- Liabilities: \$82,362,383
- Total Capital and surplus:
 - Common capital stock: \$1,500,000
 - Gross paid in and contributed surplus: \$1,810,494
 - Unassigned funds (surplus): \$39,864,505
 - Treasury stock at cost: \$718,162

MANAGEMENT AND CONTROL

Stockholders

The Company is a stock corporation organized under the laws of Alabama, with the ultimate control residing with the stockholders of the Company. The common stock of the Company is made up of two classes of common stock, with each class fully participating on a pro-rata basis according to par value. The common class shares of common stock have a \$5 par value with one vote per share on all matters that come before the shareholders at the shareholders' meetings. The class "A" shares of common stock has a \$1 par value and has a one-fifth vote per share on matters pertaining to the disposition of the entire properties of the Corporation, the consolidation and merger of the Corporation, and the dissolution of the Corporation.

Board of Directors

Members elected to the Board of Directors by the stockholders on May 8, 2017 and serving at December 31, 2017 were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Clarence William Dugette, III Gadsden, Alabama	Chief Executive Officer, President and Chairman of the Board Life Insurance Company of Alabama
Raymond Rudolph Renfrow, Jr Gadsden, Alabama	Executive Vice President & Chief Marketing Officer Life Insurance Company of Alabama
Herman Warren Cobb, Jr. Dothan, Alabama	Attorney Boyd, White & Cobb

Alburta Daugeette Lowe Gadsden, Alabama	Homemaker
Marvin Lynn Lowe Gadsden, Alabama	Executive Vice President & Treasurer Life Insurance Company of Alabama
Thomas Wesley Miller, Sr. Birmingham, Alabama	President TWH LLC
Anne Daugeette Renfrow Gadsden, Alabama	Homemaker
Rosalie Renfrow Causey Gadsden, Alabama	Vice President, Chief Investment Officer & Assistant Secretary
Gerald Ray Smith, Jr. Gadsden, Alabama	President River Bank and Trust

Officers

Officers elected by the Board of Directors on May 8, 2017 and serving at December 31, 2017 were as follows:

<u>Officers</u>	<u>Title</u>
Clarence William Daugeette, III	President and Chairman of the Board
Marvin Lynn Lowe	Executive Vice President and Treasurer
Raymond Rudolph Renfrow, Jr.	Executive Vice President and Chief Marketing Officer
Jack Steven Keck	Senior Vice President, Chief Operating Officer, Actuary and Secretary
Hoyt Russel Casey	Vice President – Claims
Kattina Davis Hulseley	Vice President – Accounting
Rosalie Renfrow Causey	Vice President, Chief Investment Officer and Assistant Secretary
Michael Phillip Causey	Vice President – Director of Agency
Kenneth Wayne Lewis	Vice President – Director of Marketing
Libby Alaine Belyeu	Assistant Vice President and Assistant Treasurer
Debbie Ann Stearns Edmondson	Assistant Vice President – New Business and Underwriting

Board Committees

The following committees were appointed by the Board of Directors and were the active committees of the Board of Directors as of December 31, 2017:

Executive Committee

Clarence William Daugette, III, Chairman
Marvin Lynn Lowe

Audit Committee

Gerald Ray Smith, Jr., Chairman
Rosalie Renfrow Causey

Compensation Committee

Herman Warren Cobb, Jr.
Thomas Wesley Miller, Sr.

Loan and Investment Committee

Clarence William Daugette, III
Marvin Lynn Lowe
Rosalie Renfrow Causey

Raymond Rudolph Renfrow, Jr.
Herman Warren Cobb, Jr.

Corporate Governance Committee

Thomas Wesley Miller, Sr.
Clarence William Daugette, III

Gerald Ray Smith, Jr.

Conflict of Interest

The Company has an established procedure whereby the directors, officers and key employees of the Company sign a conflict of interest statement annually to disclose any conflict of interest or conflicting affiliations the individuals might have in their position with the Company. The conflict of interest policy is part of the Company's "Employee Handbook," which was revised February 2017 and is under section 3.0: CODE OF ETHICS. These statements were reviewed for each year under examination. No conflicts were noted and all requested statements were provided.

CORPORATE RECORDS

The Company's Articles of Incorporation, By-Laws, and amendments thereto were inspected and found to provide for the operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

Minutes of the meetings and actions of the Board of Directors during the examination period were reviewed. The minutes appeared to be complete with regard to recording actions taken on matters before the respective bodies for deliberation and action.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company is subject to the *Alabama Insurance Holding Company Regulatory Act* as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System. The Company is responsible for holding company registration and periodic filings in accordance with ALA. CODE § 27-29-4 (1975) and ALA. ADMIN. CODE 482-1-055 (1994).

Appropriate filings required under the Holding Company Act are made from time to time by the Company as registrant of an Insurance Holding Company System. A review of the Company's filings during the period under review indicated that required disclosures were included in the Company's filings.

Dividends to Stockholders

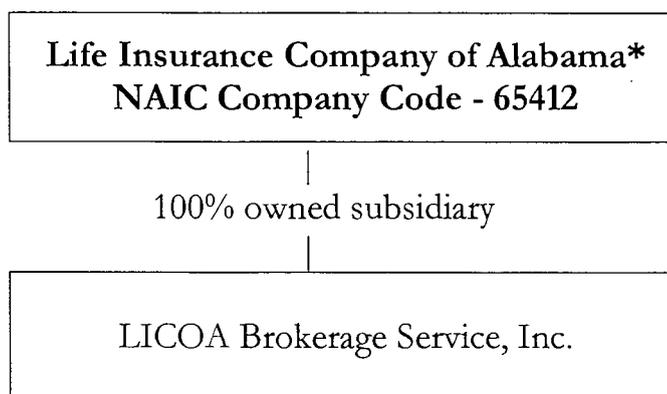
The following dividends were declared and paid to stockholders of the Company during the period under examination:

<u>Year</u>	<u>Dividend Paid</u>
2013	\$216,917
2014	\$216,917
2015	\$464,822
2016	\$413,467
2017	\$413,166

The dividends were reported to the Alabama Department of Insurance in accordance with ALA. CODE § 27-29-4(d) (1975), which states in part: "...each registered insurer shall so report all dividends and other distributions to shareholders within five business days following the declaration thereof."

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2017:



***Clarence W. Daugette, III**

Ownership as of December 31, 2017

	<u>Common Stock</u>		<u>Class A Common Stock</u>	
	<u>No. Shrs</u>	<u>%Outstanding</u>	<u>No. Shrs</u>	<u>%Outstanding</u>
Direct	11,476	13.11	21,052	3.54
Indirectly in CBA Partners	1,589	1.81	4,035	0.68
Indirectly Trustee CESTUS Properties LLC	<u>27,374</u>	<u>31.27</u>	<u>29,650</u>	<u>4.98</u>
TOTAL	40,439	46.19	54,737	9.20

In Moonglow, Jr. Properties, LLC**: Directly- 16.46% and Indirectly- 83.54%

In Rock-A-Bye Properties, LLC**: Directly- 1% and Indirectly- 99%

**Owned no stock in the Company or LICOA Brokerage Service.

Transactions and Agreements with Affiliates

The Company has one wholly-owned subsidiary, LICOA Brokerage Services, Inc., which acted as a broker for Life Insurance Company of Alabama in soliciting and receiving applications for life insurance and other kinds of insurance, as well as conducting a general insurance agency in the insurance brokerage business.

Life Insurance Company of Alabama and LICOA Brokerage Services, Inc. are parties to a Resource Sharing Agreement, which is an agreement that spells out the relationship between the two companies as well as the sharing of resources between the two companies. The agreement states the responsibilities of each company in the hiring, compensation, supervising, disciplining, and discharging of full-time and part-time employees and agents. The agreement further states the responsibilities of each company in the paying of expenses for office space, utilities, insurance and similar items of facility overhead, furniture and equipment, supplies and miscellaneous goods and services, travel and transportation, and telecommunications.

Life Insurance Company of Alabama and LICOA Brokerage Services, Inc. are also parties to an agreement to share agents. This agreement states that the agents who sell for and represent LICOA Brokerage Service, Inc., may also be licensed agents to buy and sell for Life Insurance Company of Alabama.

COMPLIANCE WITH 18 U.S.C. § 1033

18 U.S.C. § 1033 of the U.S. Code and ALA. ADMIN. CODE 482-1-146 (2009) requires the Company to determine if prospective and current employees are in compliance with 18 U.S.C. § 1033, which prohibits persons with certain felony offenses from participating in conducting the business of insurance.

Employees attested to 18 U.S.C. § 1033 compliance when hired and reaffirmed compliance on an annual basis. The Company performed pre-employment screenings of applicants to determine if they had been convicted of a felony or had a criminal history that would require the Commissioner's approval to work in the state. The Company's "Felony Form" required employees to annually disclose any felony convictions during their annual salary appraisal. A sample of new employees, hired during the examination period, was selected, and it was determined that the Company was in compliance with 18 U.S.C. § 1033 and ALA. ADMIN. CODE 482-1-146 (2009) during the examination period.

EMPLOYEE AND AGENT WELFARE

The Company provides benefits to full-time hourly employees and non-exempt salaried employees on a pro-rata share based on the number of hours worked per week and also provides benefits to the full-time salaried-exempt employees without regard for the number of hours worked per week. The Company's agents are not employees of the Company and therefore do not qualify to receive any employee benefits provided by the Company. The following are the benefits provided to the employees of the Company:

- Paid Holidays
- Vacation Leave
- Sick Leave
- Group Life Insurance
- Group Health Insurance
- Short-term Disability
- Long-term Disability
- Personal Leave
- Leave for Routine Health Care
- Family Leave
- On-the-Job Injury Leave
- Bereavement Leave
- Jury Duty Leave
- Uniformed Services Leave
- 401(k) Retirement Plan
- Section 125 Cafeteria Plan

STATUTORY DEPOSITS

The Company had the following securities on deposit with state authorities as of December 31, 2017 in order to satisfy the statutory deposit requirements of the various states in which the Company writes business:

<u>State</u>	<u>Book/Adjusting Carrying Value</u>	<u>Fair Value</u>
Alabama *	\$ 1,000,000	\$ 1,006,482
Arkansas	237,824	307,239
Florida	399,890	421,900
Georgia	109,805	105,550
North Carolina	464,256	571,074
Oklahoma	302,613	380,567
South Carolina	499,114	479,773
TOTALS	\$ 3,013,502	\$ 3,272,585

*Held for the protection of all policyholders.

The deposits were confirmed through the use of the custodial confirmations obtained by the Company's external auditors.

FINANCIAL CONDITION/GROWTH OF COMPANY

The following information presents significant items that reflect the growth of the Company for the period under review:

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Premiums Earned</u>
2013	\$107,972,087	\$74,931,785	\$33,040,302	\$37,162,421
2014	\$113,480,640	\$76,227,942	\$37,252,698	\$37,398,233
2015	\$116,623,020	\$77,882,977	\$38,740,042	\$36,313,370
2016	\$120,837,639	\$80,208,776	\$40,628,863	\$36,013,266
2017	\$124,819,220	\$82,362,383	\$42,456,837	\$36,666,687

MARKET CONDUCT ACTIVITIES

Territory

As of December 31, 2017, the Company was licensed to transact business in the following eleven states:

Alabama Kentucky Oklahoma

Arkansas	Louisiana	South Carolina
Florida	Mississippi	Tennessee
Georgia	North Carolina	

The certificates of authority were issued by the respective states and were reviewed for the period under examination. No issues were found.

Plan of Operation

The Company's products are designed for middle-income America. Their products consisted of life, dental, cancer, accident, disability, critical illness, vision & hearing and hospital indemnity insurance. At December 31, 2017, the Company had 302 producers appointed in Alabama to write business on behalf of the Company. The Company's product portfolio integrates with other insurance to "fill the gap." The benefits from the products are paid directly to the insured during their time of need.

Underwriting, Policy Forms and Rate Filings

A review of the underwriting manual utilized by the Company did not evidence any discriminatory guidance for underwriters in the risk selection process. The medical information in the manual was appropriate for assessing an applicant's risk based upon specific medical conditions.

Policy Forms and Rate Filings

The Company properly utilized the rates filed and approved by the Alabama Department of Insurance for the examination period under review. Electronic and manual rate tables were utilized by agents on the basis of the underwriting criteria of a consumer to calculate the policy premium. Inspection Reports and information obtained from the Medical Information Bureau was not used as the sole basis for the Company's underwriting standards.

Life

The Company wrote life coverage in a variety of forms within the basic classifications of Whole Life and 10, 15, 20 and 30 Year Term. The Company's life insurance is priced on a class basis and perspective clients are classed using the following rating factors:

- Age
- Gender

- Health
- Occupation and Avocation
- Personal Habits and
- Foreign Travel or Recent Immigration

Accident and Health

The Company offered Cancer, Accident and Health, Intensive Care and Disability Income coverages on an individual basis and collected premiums by direct billing or through payroll deduction.

The examiner verified samples of Alabama policy premiums, rejected or declined applications for insurance and cancelled policies for compliance with Alabama statutes and regulations. A sample of 116 Alabama new business policies were selected from a total population of 33,681 policies issued during the examination period. The Company's Alabama policyholders' policy premiums were recalculated and were determined to be in accordance with the Company's guidelines and rates.

A sample of 113 Alabama rejected applications were selected from a total population of 924 for the examination period. The sample reviewed for rejected applications indicated they were denied in a nondiscriminatory manner and were based on underwriting reasons.

The examiners reviewed both insured requested and Company initiated cancellations. A sample of 115 Alabama cancellations, including both insured requested and Company initiated, were selected from a total population of 2,006 for the examination period. The sample of policy cancellations indicated the cancellations were handled in a timely manner without an excessive amount of paperwork.

Marketing and Sales

The Company's advertising and marketing strategy was executed through the distribution of printed solicitation materials utilized by producers and the Company's website. The website provided product information and product descriptions of life insurance and accident and health plans offered by the Company. The Company designs, develops and produces all advertising materials used in the sale of its products. Producer generated sales materials and internet sites are regulated by the Company's Agency/Marketing Department. Producers are required to submit proposed advertising materials or web pages to the Company before dissemination to the public.

The Company's advertising materials were reviewed for the examination period. The examiners' review did not reveal any advertisements that misrepresented policy benefits, made unfair or incomplete comparisons with other policies, or made false, deceptive or misleading statements or representations.

Claims Payment Practices

Paid Claims

A sample of 105 claims was taken from a total population of 746 Alabama paid claims for the examination period 2013-2017. The sample selection was reviewed with regards to compliance with policy provisions, timeliness of payments and adequacy of documentation. There were three discrepancies found. Based on the examiners review, there was one policy with three claims in the sample that the Company was unable to provide the Waiver of Premium (Disability Forms). However, after it was discovered the forms were not in the file, the Company mailed the forms to the insured to update the Company's records. It was determined that the Company did not properly maintain documentation in the claim file, which was not in accordance with ALA. CODE § 27-27-29(a) (1975). This statute states "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state 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."

Denied Claims

A sample of 108 denied claims was taken from an Alabama population total of 3,224 for the examination period 2013-2017. The sample selection was reviewed to determine if the claims were settled in accordance with policy provisions and applicable statutes and regulations. The documentation maintained in the claims files supported or justified the ultimate claim determination. Based on the review performed, the Company complied with ALA. ADMIN. CODE 482-1-124 (2003).

Policyholders' Complaints

During the examination period, there were Alabama complaints documented in the Company's complaint register. The Company had a total of 27 complaints for the examination period. It was determined that twelve of the 27 complaints were for Alabama. The Company appropriately maintained the following information in its complaint register: line of business, function and reason for the complaint. The

Company's responses fully addressed the issues raised, and the complaints were appropriately resolved within the required timeframe. The Company recorded all complaints, both consumer direct and from the Department of Insurance. Based on the review of the Company's complaint procedures, it was determined that the Company had a sufficient method for the distribution of and obtaining and recording responses to complaints. The Company's telephone number and address were provided to the policyholders for consumer inquiries and/or complaints.

Compliance with Producers' Licensing Requirements

Terminated Producers

The examiner selected a sample of 84 terminated producers from a population of 293 Alabama terminated producers. There were three producers in the sample that were not provided notification of termination. The Company did not comply with ALA. CODE § 27-7-30.1 (a) (1975), which states "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."

Appointed Producers

According to the Company's listing and the State Based System (SBS), the Company had 302 appointed Alabama producers for the examination period. The examiner selected a random sample of 116 Alabama policies from a population of 33,681 Alabama life and accident & health policies issued during the examination period. The examiner verified the producer that wrote the business, held a current license and was appropriately appointed with the Company prior to writing the business. It was determined the producers were performing within their scope of authority.

Privacy Policy and Practices

New employees are trained on the Company's privacy policy during the employee orientation program. Any material change in the Company's policy will result in all affected employees being re-trained according to the new privacy provisions prior to or within a reasonable time following the effective date of the change. All employees are required to sign a confidentiality agreement acknowledging receipt of the Company's privacy policy and procedures, certifying completion of training, and agreement to abide by the provisions of the policies and HIPAA privacy requirements.

The Company's privacy policy does not allow for an opt out provision. There is not an opt out provision because the Company does not disclose any personal

financial or health information. The Company's "Privacy Notice" included the following disclosure: "We will not disclose the financial and health information described above to anyone outside of Life of Alabama unless you have authorized us to do so, or as permitted or required by law. Examples of disclosures permitted by law would include disclosures to organizations that provide claims administration, underwriting, investigation or policyholder services for us or on our behalf."

The Company established that it makes reasonable efforts to disclose only the minimum necessary information, trains its employees on the importance of protecting policyholders PHI, has mechanisms in place to ensure integrity of data during transmission, and has a strict policy for its employees and vendors for violations of its HIPAA policies and procedures.

The Company's policies, practices and procedures regarding the protection and disclosure of nonpublic personal information of consumers and former customers were in compliance with ALA. ADMIN. CODE 482-1-122 (2001).

REINSURANCE

Reinsurance Assumed

Schedule S - Part 1 - Section 1 of the Company's 2017 Annual Statement indicated that the Company assumed reinsurance under the Servicemen's Group Life Insurance (SGLI) and Federal Employees Group Life Insurance (FEGLI) pooling arrangements. Participating in these government insurance pools provides little or no financial rewards. Participation in these pooling arrangements does not require that the Company establish any reserves to cover the business reinsured.

Metropolitan Life Insurance Company

The Yearly Renewal Term - Group contract was effective October 1, 1979 and will continue until terminated. The FEGLI pooling arrangement contributed \$500 in assumed premiums during 2017 and the insurance in-force was \$990,000. The agreement had standard insolvency language without cut-through provisions.

Prudential Insurance Company of America

The Yearly Renewal Term - Group contract was effective September 29, 1965 and will continue until terminated. The SGLI pooling arrangement contributed \$3,524 in assumed premiums during 2017 and the insurance in-force was



\$1,198,750,000. The agreement had standard insolvency language without cut-through provisions.

Reinsurance Ceded

The Company's ceded reinsurance program consisted of automatic coinsurance and yearly renewable term reinsurance agreements with the option to negotiate facultative reinsurance over the reinsurer's maximum limits. *Schedule S - Part 3 - Section 1* indicated that the reserve credit taken in 2017 under the life reinsurance agreements was \$1,751,163. The significant reinsurance agreements in-force were with the following reinsurers: 1) Swiss Re Life & Health America as of December 20, 2001, formerly Lincoln National Life Insurance Company, 2) Optimum Re Insurance Company, and 3) Scottish Re US Inc. The reinsurance agreements with the three reinsurers are summarized below:

Swiss Re

Treaty	None
Type	Yearly renewable term automatic reinsurance /Facultative
Coverage	1) Ordinary life, 2) Waiver of premium disability, & 3) Accidental death
Effective	July 7, 1971
Retention	<u>Amendment # 5 - Effective January 1, 1980</u> <u>Ages 0-60:</u> Standard - \$40,000; Tables A - B retention is \$10,000; Tables C - D retention is \$5,000; and Table E - P retention is \$2,000. <u>Ages 61:</u> Standard - \$10,000; Tables A - B retention is \$5,000; Tables C - D retention is \$2,500; and Table E - P retention None.
Reinsurer's limit	<u>Ages 0-60:</u> Standard - \$200,000; Tables A - B \$50,000; Tables C - D \$25,000; Table E - P \$10,000 <u>Ages 61 - 65:</u> Standard - \$50,000; Tables A - B \$25,000; Table C - D \$12,500.
Amendment	Several amendments included in the reinsurance contract.
Insolvency	Standard insolvency language without cut-through provision

Swiss Re

Treaty	64434071
Type	Coinsurance
Coverage	Whole Life 140/141
Effective	July 7, 1971
Retention	\$50,000.
Reinsurer's limit	\$100,000
Amendment	January 1, 1980 – Added bulk ADB
Insolvency	Standard insolvency language without cut-through provision

Optimum Re

Treaty	261 – 07AY17/261 – 10AC18
Type	Yearly renewable term automatic reinsurance /Facultative
Coverage	Alphabet A – Z Whole Life (2004 –WL142)-YRT Whole Life (2014 –WL143)-YRT Term (2004 –LT220)-YRT Term (2009 –L T300)- Coinsurance Term (2014 –LT400)- Coinsurance
Effective	September 1, 2007
Retention	\$100,000 per life
Reinsurers Limits	2 times the Company’s retention to a maximum of \$200,000 in excess of the Company’s retention. Facultative reinsurance \$4,000,000 per life. Jumbo limit of \$4,000,000.
Amendment	Several amendments included in the reinsurance contract.
Insolvency	Standard insolvency language without cut-through provision.

Optimum Re

Treaty	781
Type	Coinsurance
Coverage	Alphabet L – Z 10 years term
Effective	July 1, 1991 (Amendment) August 1, 2006 (Amendment)
Retention	Ages 0 – 60: Standard thru table 2 - \$50,000; Table 3 through table 6 - \$25,000; Table 8 through up, \$10,000. Ages 61 and over: Standard thru table 2 - \$25,000; Table 3 through table 6 - \$10,000; Table 8 through up, \$5,000. Waiver of premiums – Same as life
Reinsurers Limits	400% of ceding Company’s retention.
Amendment	Effective August 1, 2006, the coverage includes alphabet A – Z.
Insolvency	Standard insolvency language without cut-through provision.

Scottish Re

Treaty	1394 (Phoenix Mutual), ERC
Type	Coinsurance
Coverage	Alphabet A – K 10 years term
Effective	March 1, 1992
Retention	Ages 0 – 60: Standard thru table 2 - \$50,000; Table 3 thru table 6 - \$25,000; Table 8 through up, \$10,000. Ages 61 and over: Standard thru table 2 - \$25,000; Table 3 thru table 6 - \$10,000; Table 8 through up, \$5,000 Waiver of premiums. Corridor: \$10,000 for all ages and ratings.
Reinsurers Limits	Nine times the ceding Company’s retention or \$450,000, whichever is less

Amendment	Effective August 1, 2006, the parties agreed to no longer accept new business.
Insolvency	Standard insolvency language without cut-through provision.

ACCOUNTS AND RECORDS

The Company's accounting records were maintained on electronic data processing equipment and manually on personal computers.

Information Systems Review

During a review of the Company's IT Security Contingency Plan, the controls governing testing of the plan were examined. It was determined that the plan had not been tested. Without testing, business management cannot measure the effectiveness or completeness of the plan. Reports of the testing, to include problems identified and fix actions, should be developed by IT and reviewed by business management to ensure the plan is effective and complete. Without annual testing to validate business continuity plans, the Company is at a significantly increased risk that IT restoral plans will fail or provide unacceptable business functionality following an adverse event.

Information Requests

The Company did not always provide requested information within ten working days, as is required by 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."

FINANCIAL STATEMENT INDEX

The following financial statements are based on the statutory financial statements filed by the Company with the State of Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on the financial statement reflect any examination adjustments to the amount reported in the annual statement and should be an integral part of the financial statements.

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THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

LIFE INSURANCE COMPANY OF ALABAMA
STATEMENT OF ASSETS
For the Year Ended December 31, 2017

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
ASSETS			
Bonds	\$ 101,745,053	\$ -	\$ 101,745,053
Stocks:			
Preferred stocks	19,150		19,150
Common stocks	6,484,407	-	6,484,407
Real estate:			
Properties occupied by the company	661,841	67,704	594,137
Properties held for the production of income	148,682	37,209	111,473
Cash and cash equivalents	2,970,102		2,970,102
Contract loans	3,815,341		3,815,341
Other invested assets	386,090		386,090
Subtotals, cash and invested assets	<u>\$ 116,230,666</u>	<u>\$ 104,913</u>	<u>\$ 116,125,753</u>
Investment income due and accrued	\$ 1,260,843		\$ 1,260,843
Premiums and considerations:			
Uncollected agents' balances in the course of collection	870,957	394,491	476,466
Deferred premiums, agents' balances and installments booked but not deferred and not yet due	2,653,254		2,653,254
Reinsurance:			
Amounts recoverable from reinsurers	37,191		37,191
Other amounts receivable under reinsurance contracts	3,323		3,323
Current federal and foreign income tax recoverable and interest thereon	55,209		55,209
Net deferred tax asset	2,025,636	579,932	1,445,704
Electronic data processing equipment and software	103,117		103,117
Furniture and equipment	50,089	50,089	-
Aggregate write-ins for other than invested assets:			
Cash surrender value corporate owned life insurance	2,658,360		2,658,360
Agents' credit balances	15,936	15,936	-
Loans unsecured	6,283	6,283	-
Cash advanced to agents	200	200	-
Company automobile	7,741	7,741	-
Prepaid expense	<u>101,805</u>	<u>101,805</u>	<u>-</u>
TOTALS	<u>\$ 126,080,609</u>	<u>\$ 1,261,390</u>	<u>\$ 124,819,220</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

LIFE INSURANCE COMPANY OF ALABAMA
STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended 2017

LIABILITIES	
Aggregate reserve for life contracts	\$ 44,878,376
Aggregate reserve for accident and health contracts	22,643,062
Liability for deposit-type contracts	1,191,887
Contract claims:	
Life	573,064
Accident and health	4,078,329
Provision for policyholders' dividends and coupons payable in following calendar year-estimated amounts:	
Dividends apportioned for payment	11,875
Coupons and similar benefits	5,280
Premiums and annuity considerations for life and accident and health contracts received in advance	344,242
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	4,034
Interest maintenance reserve	1,979,565
Commissions to agents due or accrued-accident and health	116,623
General expenses due or accrued	1,218,131
Taxes, licenses and fees due or accrued, excluding federal income taxes	129,840
Unearned investment income	204,418
Amounts withheld or retained by company as agent or trustee	144,625
Amounts held for agents' account	15,936
Remittances and items not allocated	257,702
Liability for benefits for employees and agents if not included above	641,973
Miscellaneous liabilities:	
Asset valuation reserve	2,773,684
Payable for securities	4,812
Aggregate write-ins for liabilities:	
Accounts payable	58,982
Employee Appreciation Day Account	1,571
Bridge Program Account	1,077,862
Section 125 account	6,512
Rounding	<u>-2</u>
Total Liabilities	\$ <u>82,362,383</u>
CAPITAL AND SURPLUS	
Common capital stock	\$ 1,500,000
Gross paid in and contributed surplus	1,810,494
Unassigned funds (surplus)	39,864,505
Less treasury stock, at cost: shares common	<u>718,162</u>
Total Surplus	\$ <u>40,956,837</u>
Total Capital and Surplus	\$ <u>42,456,837</u>
TOTAL LIABILITIES, CAPITAL AND SURPLUS	\$ <u>124,819,220</u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

LIFE INSURANCE COMPANY OF ALABAMA
SUMMARY OF OPERATIONS
For the Years Ended December 31, 2017, 2016, 2015, 2014 and 2013

<u>Income</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Premiums and annuity consideration	\$ 36,666,687	\$ 36,013,266	\$ 36,313,370	\$ 37,398,233	\$ 37,162,421
Net investment income	5,065,072	5,270,610	4,941,274	4,268,583	4,060,663
Amortization of IMR	214,600	211,709	133,440	87,620	110,180
Aggregate write-ins for miscellaneous income	<u>85,743</u>	<u>114,645</u>	<u>16,559</u>	<u>429,764</u>	<u>33,578</u>
Total Income	<u>\$ 42,032,102</u>	<u>\$ 41,610,230</u>	<u>\$ 41,404,643</u>	<u>\$ 42,184,200</u>	<u>\$ 41,366,842</u>
<u>Deductions:</u>					
Death benefits	\$ 2,592,533	\$ 2,820,754	\$ 3,239,306	\$ 1,954,762	\$ 2,208,418
Annuity benefits	164,003	180,612	212,099	315,203	257,601
Disability benefits and benefits under accident and health contracts	15,387,558	15,371,374	16,202,132	14,960,757	15,398,231
Coupons, guaranteed annual pure endowments and similar benefits	4,796	5,936	6,938	7,475	8,002
Surrender benefits and withdrawals for life contracts	833,035	825,446	822,966	979,408	1,045,271
Interest and adjustments on contract or deposit-type contract funds	40,479	43,786	47,801	47,246	47,236
Increase in aggregate reserves for life and accident and health contracts	<u>1,711,860</u>	<u>1,399,098</u>	<u>1,578,843</u>	<u>1,766,750</u>	<u>2,637,945</u>
Totals	<u>\$ 20,734,263</u>	<u>\$ 20,647,006</u>	<u>\$ 22,110,085</u>	<u>\$ 20,031,601</u>	<u>\$ 21,602,703</u>
Commissions on premiums, annuity considerations & deposit-type contract funds (direct business only)	7,302,359	6,899,348	6,839,254	7,438,257	7,536,051
General insurance expenses	10,217,839	9,920,324	8,859,834	9,023,409	8,363,171
Insurance taxes, licenses and fees, excluding federal income taxes	1,255,357	1,042,287	1,023,389	1,054,235	1,116,762
Increase in loading on deferred and uncollected premiums.	135,315	36,124	28,354	(33,191)	34,165
Aggregate write-ins for deductions	<u>-</u>	<u>674,886</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deductions	<u>\$ 39,645,133</u>	<u>\$ 39,219,975</u>	<u>\$ 38,860,916</u>	<u>\$ 37,514,311</u>	<u>\$ 38,652,852</u>
Net gain from operations before dividends to policyholders and FIT	\$ 2,386,969	\$ 2,390,255	\$ 2,543,727	\$ 4,669,889	\$ 2,713,990
Dividend to policyholders	<u>11,452</u>	<u>11,716</u>	<u>12,961</u>	<u>13,890</u>	<u>14,044</u>
Net gain from operations after dividends to policyholders and before FIT	\$ 2,375,517	\$ 2,378,539	\$ 2,530,766	\$ 4,655,999	\$ 2,699,946
Federal and foreign income taxes incurred	<u>236,729</u>	<u>264,512</u>	<u>144,698</u>	<u>1,018,357</u>	<u>242,813</u>
Net gain from operations after dividends to policyholders and FIT and before realized capital gains or (losses)	\$ 2,138,789	\$ 2,114,028	\$ 2,386,068	\$ 3,637,642	\$ 2,457,133
Net realized capital gains or (losses) transferred to the IMR)	<u>34,071</u>	<u>85,757</u>	<u>448,978</u>	<u>3,388,123</u>	<u>208,364</u>
Net income	<u>\$ 2,172,861</u>	<u>\$ 2,199,785</u>	<u>\$ 2,835,046</u>	<u>\$ 7,025,765</u>	<u>\$ 2,665,497</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

LIFE INSURANCE COMPANY OF ALABAMA
CAPITAL AND SURPLUS ACCOUNT
For the Years Ended December 31, 2017, 2016, 2015, 2014, and 2013

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital and surplus, December 31, prior year	\$ 40,628,863	\$ 38,740,042	\$ 37,252,698	\$ 33,032,245	\$ 29,354,965
Net income	2,172,861	2,199,784	2,835,046	7,025,765	2,665,497
Change in net unrealized capital gains or (losses)	680,442	363,951	(1,000,840)	(2,852,458)	2,221,109
Change in net deferred income tax	(1,302,455)	66,790	285,208	753,721	(598,508)
Change in nonadmitted assets and related items	1,190,244	166,504	(84,157)	(731,896)	329,401
Change in asset valuation reserve	(499,952)	(494,742)	(83,090)	242,239	(723,303)
Change in treasury stock		204			
Surplus adjustment- paid in		(204)			
Dividend to Stockholders	(413,166)	(413,467)	(464,822)	(216,917)	(216,917)
Aggregate write-ins for gains and losses in surplus	-	1	-	(1)	-
Net change in capital and surplus for the year	\$ 1,827,974	\$ 1,888,821	\$ 1,487,345	\$ 4,220,453	\$ 3,677,280
<u>Capital and surplus, December 31, current year</u>	\$ 42,456,837	\$ 40,628,863	\$ 38,740,042	\$ 37,252,698	\$ 33,032,245

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

<u>Note 1- Bonds</u>	<u>\$101,745,053</u>
<u>Other invested assets</u>	<u>\$ 386,090</u>

The captioned amounts are the same as reported by the Company in its 2017 Annual Statement.

The Company reported five of its investments that were surplus notes as bonds in Schedule D- Part 1 instead of in Schedule BA- Part 1, which was not in accordance with the NAIC *Annual Statement Instructions* and the NAIC *Accounting Practices and Procedures Manual* - SSAP No. 26R, paragraph 3, which states “Bonds shall be defined as any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payments. This definition includes:... f. Fixed-income instruments specifically identified:... iii. Hybrid securities, excluding: surplus notes... .” This misclassification had no effect on the Company’s surplus at December 31, 2017.

<u>Note 2- Uncollected premiums and agents’ balances in the course of collection</u>	<u>\$476,466</u>
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The captioned amount is the same as reported by the Company in its 2017 Annual Statement.

In the prior two examinations, it was 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. The Company did not adopt a formal written cancellation/lapsing policy during this examination period.

<u>Note 3- Commissions to agents due and accrued</u>	<u>\$116,623</u>
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The captioned amount is the same as reported by the Company in its 2017 Annual Statement.

The \$116,623 reported was determined to be commissions on due premiums on life and accident & health insurance policies written by the Company. The commissions were calculated in the aggregate by multiplying the due premiums, first year and renewal, by the commission and expense factors calculated by the Company’s opening actuary through an unpaid commission study. The

commissions to agents should be calculated on a policy-detail level by taking into consideration the type of insurance products and the commission rate for the products, so that the Commission to agents due and accrued is not an approximation. The prior two examinations also recommended that the Company calculate the commissions on a policy-detail basis.

Note 4- Analysis of Changes to Surplus

There were no adjustments made to surplus.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The examination for contingent liabilities and pending litigation included the review of the Company's statutory financial statement disclosures, minutes of the corporate governing bodies, pending claims, and the usual examination of accounts and unrecorded items. The examiners obtained the letter of representation from management and reviewed the external auditors' summary of pending litigation as of December 31, 2017. This review did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations with the exception of the following:

Compliance with Producers' Licensing

The prior examination recommended that the Company send termination notifications to its terminated producers in accordance with ALA. CODE § 27-7-30.1(a) (1975), which states "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." This examination found that the Company did not comply with this recommendation. See "Compliance with Producers' Licensing Requirements" on page 17.

Accounts and Records

The prior examination recommended that the Company annually test its IT Security Contingency Plan. The Company did not comply with this recommendation. See “Accounts and Records” on page 21.

The prior examination also recommended that the Company provide requested information within ten days in accordance with ALA. ADMIN. CODE 482-1-118-.06 (1999). The Company did not comply with this recommendation. See “Accounts and Records” on page 21.

Uncollected premiums and agents’ balances in the course of collection

In the prior two examinations, it was 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. The Company did not adopt a formal written cancellation/lapsing policy during this examination period. See “Note 2- Uncollected premiums and agents’ balances in the course of collection” on page 27.

Commissions to agents due or accrued

The prior examination recommended that the Company calculate its 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. The Company did not calculate the commissions on a policy-detail level for this examination period. See “Note 3- Commissions to agents due or accrued” on page 27.

COMMENTS AND RECOMMENDATIONS

Claims Payment Practices – Page 16

It is recommended that the Company maintain proper documentation supporting claims payments in accordance with 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 in this state 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.”

Compliance with producers' licensing requirements – Page 17

It is recommended that the Company send termination notifications to its terminated producers in accordance with ALA. CODE § 27-7-30.1(a) (1975), which states “ 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.”

Accounts and Records – Page 21

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

It is again 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.”

Bonds and Other invested assets - Page 27

It is recommended that the Company correctly report its surplus notes investments in Schedule BA- Part 1 in accordance with the NAIC *Annual Statement Instructions* and the NAIC *Accounting Practices and Procedures Manual*- SSAP No. 26R, paragraph 3, which states “Bonds shall be defined as any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payments. This definition includes:... f. Fixed-income instruments specifically identified:... iii. Hybrid securities, excluding: surplus notes... .”

Uncollected premiums and agents' balances in the course of collection – Page 27

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 the non-cancellation of a policy.

Commissions to agents due or accrued – Page 27

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.

SUBSEQUENT EVENTS

A review of events subsequent to the December 31, 2017 examination date was done. The following events were noted:

- Effective January 1, 2018, the Company's investment management firm changed to New England Asset Management.
- Rosalie Causey was promoted to Executive Vice President and Chief Financial Officer effective May 7, 2018.
- Debbie Edmondson was promoted to Vice President effective May 7, 2018.

CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Mora Perkins-Taylor, MCM, Kristina Rhodes, Chemeka Thomas, Charles Turner, CISA, Kizzy Williams, and Harland Dyer, ASA, MAAA, actuarial examiner, all representing the Alabama Department of Insurance, participated in certain phases of this examination.

Respectfully submitted,



Rhonda B. Ball, CFE,
Examiner-in-charge
State of Alabama Department of Insurance