Report

of the

Examination of

Madison National Life Insurance Company, Inc.

Madison, Wisconsin

As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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April 10, 2014

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

MADISON NATIONAL LIFE INSURANCE COMPANY, INC.
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Madison National Life Insurance Company, Inc. (the company or MNL) was conducted in 2008 as of December 31, 2007. The current examination covered the intervening period ending December 31, 2012, and included a review of such 2013 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance (OCI). The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, dividends to policyholders, asset adequacy analysis, and deferred life insurance premiums. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

Investment Review

The New York Department of Financial Institutions was relied upon by the Office of the Commissioner of Insurance to perform a review of the company’s invested assets portfolio as of December 31, 2012. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1961 as National Security Life Insurance Company, and the name was subsequently changed to Madison National Life Insurance Company, Inc. The company's ultimate parent is Geneve Holdings, Inc., which was wholly owned by Mr. Edward Netter and his family until Mr. Netter's passing in 2011. The Netter family continues to own 100% of Geneve Holdings, Inc. An organizational chart and additional information on MNL's affiliates are included in the "Affiliated Companies" section of this report.

The company is licensed in the District of Columbia, the U.S. Virgin Islands, American Samoa, Guam, and all states except New York where it's an accredited reinsurer. In 2012 the company collected direct premium in the following states:

Michigan	$ 30,867,183	16.5%
Indiana	16,774,732	9.0
Wisconsin	16,125,322	8.6
Minnesota	16,095,730	8.6
Iowa	11,171,785	6.0
All others	95,957,650	51.3
Total	$186,992,402	100.0%

Thirty-one states currently have over $1.0 million in premiums; however, Michigan, Indiana, Wisconsin, Minnesota, and Iowa account for 49% of direct premiums.

MNL has used a variety of niche life and health products and distribution channels. Historically the company has established preferred relationships with producers and provided these producers with personalized service and unique rewards programs. More recently they have focused on captive agencies and direct-to-consumer initiatives.

In the past ten years MNL also focused on the acquisition of blocks of business from other insurance companies, guaranty associations, and liquidators. Most of the acquired blocks have been individual life, annuities, and disability insurance policies. MNL's last significant acquisition has an effective date of April 1, 2008. The company entered into a Coinsurance Agreement with Unity Mutual Life Insurance Company (Unity) for a block of individual life, industrial life, and annuity policies with a reserve transfer of $69.1 million and a purchase price of $8.9 million. Reserves were split approximately 50/50 between the life and annuities. On November 1, 2008, MNL took over administration of the 225,000 policies.

Life and annuity products include blocks of business that were acquired from other insurance companies, individual life and annuities written through MNL's government employee division, and certain miscellaneous products. Products actively marketed by MNL are the government product (whole life policies, with an annuity rider, marketed to military personnel and state and federal employees), the final expense product (whole life policies, having face amounts between $2,500 and $50,000, sold to people in the 50 to 85 year range), the group life, and the group disability. These products are marketed through managing general underwriters (MGUs). The remaining life and annuity business is in runoff.

In 2002 MNL started marketing medical stop-loss primarily through MGUs. Medical stop-loss insurance provides coverage to employers that elect to self-insure their employees' medical coverage for losses within specified ranges. The coverage is available on a specific basis or on both a specific and aggregate basis.

On January 7, 2010, IHC Health Holding Corp. acquired a majority interest in Alliance Underwriters. Subsequently Standard Security Life Insurance Company of New York (SSLNY) acquired 100% ownership of Alliance Underwriters. Alliance Underwriters is responsible for underwriting accounts in accordance with guidelines formulated and approved by MNL, billing and collecting premiums, paying commissions to agents, third-party administrators and/or brokers, and processing claims.

In 2011 MNL paid a common stock dividend of its ownership in SSLNY, valued at $106.3 million, to its parent company, Independence Capital Corp. (ICC). The dividend resulted in SSLNY becoming a sister company of MNL rather than a subsidiary of MNL.

The company entered the fully insured health market segment as a result of several acquisitions and partnerships during 2005, 2006, and 2007. This business has evolved into what the company calls Essential Health Benefit (EHB) coverage . The EHB group major medical is sold primarily to small employers (2 – 50 covered lives) in the majority of states. It is fully insured major medical coverage that is principally designed to work with health reimbursement accounts and health saving accounts which are implemented by employers that wish to provide this benefit as a part of their employee welfare benefit plan. IHC Health Solutions, Inc. (IHC-HS), a subsidiary of SSLNY, performs marketing, sales, underwriting, and administration on the majority of the fully insured major medical business.

MNL entered into a Coinsurance and Administration Agreement, effective December 31, 2007, to cede 100% of MNL's net retained credit insurance business to Monumental Life Insurance Company (Monumental Life). The company retained the risk and reserves associated with claims incurred on or before the effective date. Credit life reserves of $11.4 million and credit health reserves of $8.3 million were ceded to Monumental Life on December 31, 2007. Administration of the business was transferred to Monumental Life on June 25, 2008. The company is currently out of the credit lines.

MNL writes group long-term disability (LTD), short-term disability (STD), and group term life (GTL) products sold primarily in the Midwest to school districts, municipalities, and hospital groups by National Insurance Services (NIS). NIS performs the premium administration and some underwriting administration on the business they produce for MNL.

Additional information is included under the "Affiliated Companies" and the "Subsequent Events" sections of this report.

The following chart is a summary of premium income as reported by the company in 2012. The growth of the company is discussed in the "Financial Data" section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Life:				
Ordinary individual	$ 21,400,494	$ 5,909,329	$ 5,200,262	$ 22,109,561
Group	22,820,880	423,353	13,439,081	9,805,152
Industrial life		61,341		61,341
Annuities	11,146,594	1,421,295		12,567,889
Accident and health:				
Group stop-loss	5,810,452	2,542,648	2,963,418	5,389,682
Group medical, dental, and vision	76,011,099	11,931,577	25,024,225	62,918,451
Group disability	48,814,826	986,998	27,705,958	22,095,866
Other group	1,308,616		25,521	1,283,095
Other individual	785,079	63	591,092	194,050
Total All Lines	$188,098,040	$23,276,604	$74,949,557	$136,425,087

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of three members who are elected annually by the shareholder. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no additional compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Larry R. Graber Austin, TX	President of Madison National Life Ins. Co., Inc.	2014
Steven B. Lapin Stamford, CT	Vice Chairman of the Board of Independence Holding Company	2014
Roy T. K. Thung White Plains, NY	Chief Executive Officer, President and Chairman of the Board of Directors of Independence Holding Company	2014

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2012 Compensation
Larry R. Graber	President and Director	$395,299
Diane L. Schauer	Chief Financial Officer and Treasurer	238,500
Adam C. Vandervoot	Secretary	0*

* Compensation is paid by Independence Holding Company (IHC).

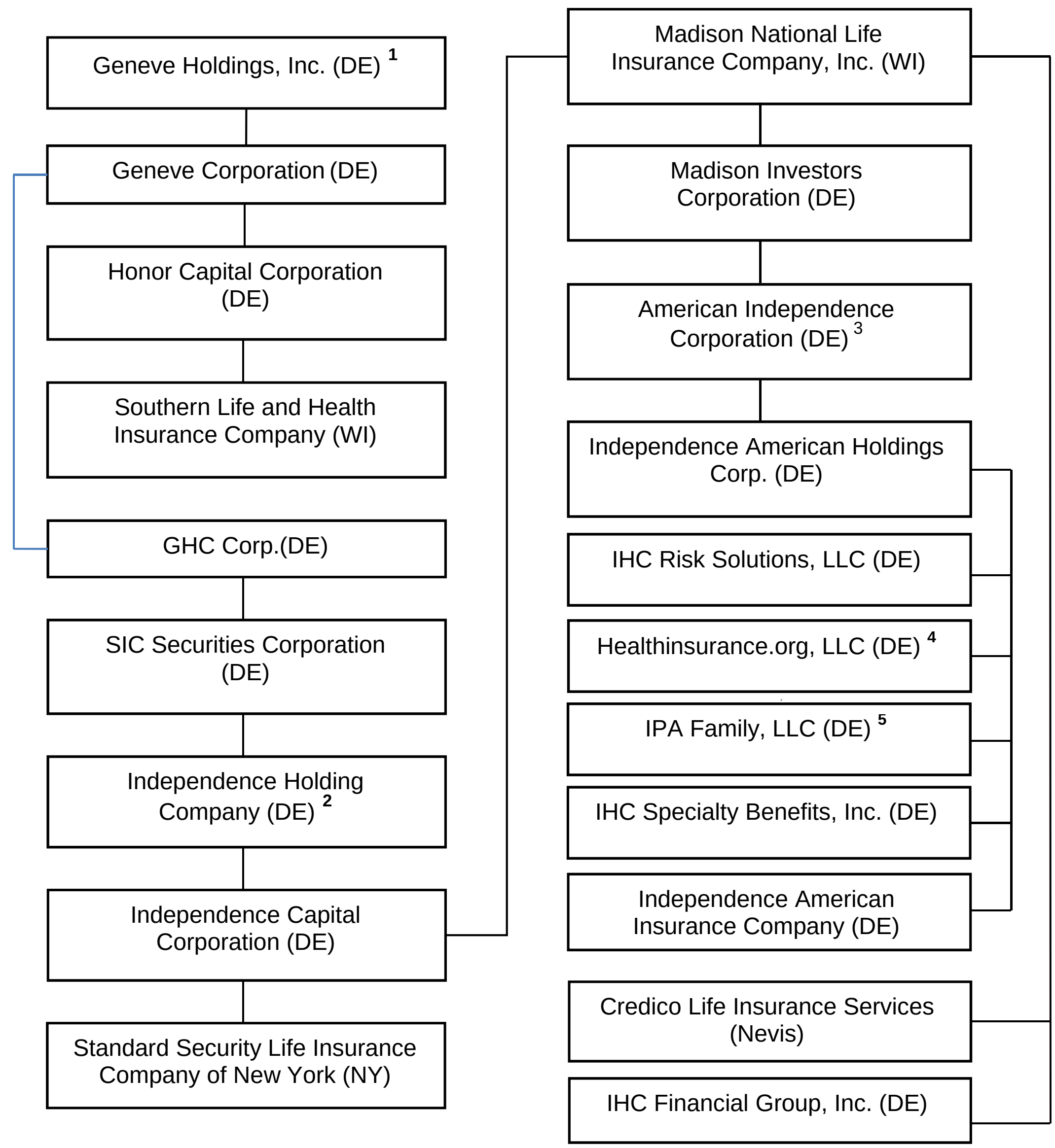
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company had no committees at the time of this examination. The audit committee resides with the company’s parent, ICC.

IV. AFFILIATED COMPANIES

Madison National Life Insurance Company is a member of a holding company system. The abbreviated organizational chart below depicts the relationships between the company and affiliates. A brief description of affiliates deemed significant follows the organizational chart.

Organizational Chart
As of December 31, 2012



[1]The Netter family own 100% of the voting stock of Geneve Holdings, Inc.
[2]Independence Holding Company (IHC) is a public company; Geneve, and its affiliates, collectively own more than 50%.
[3]American Independence Corp. (AMIC) is a public company; Madison Investors Corporation, and IHC, collectively, own 78.6%.
[4]Independence American Holding Corp. (IAHC) owns 51% of Healthinsurance.org, LLC.
[5]Independence American Holding Corp. (IAHC) owns 89.6% of IPA Family, LLC.

Geneve Holdings, Inc. (GHI)

Geneve Holdings, Inc., the ultimate parent of MNL, owns Geneve Corporation, a large diversified holding company system which, through its subsidiaries, is engaged primarily in the life and health insurance business and the manufacturing and distribution of educational, health, medical technology, and agricultural products. As of December 31, 2012, GHI’s audited consolidated financial statement reported total assets of $1,528 million, total liabilities of $1,073 million, and total stockholders’ equity of $455 million. Operations for 2012 produced a net loss of $33.4 million.

Independence Holding Company (IHC)

Independence Holding Company (IHC), a Delaware corporation, is a holding company that is engaged primarily in life and health insurance activities through its subsidiaries, Madison National Life Insurance Company, Inc., and Standard Security Life Insurance Company of New York. As of December 31, 2012, IHC's audited consolidated financial statement reported total assets of $1,262 million, total liabilities of $959 million, and stockholder’s equity of $303 million. Operations for 2012 produced a net income of $22.6 million.

Southern Life and Health Insurance Company (SLH)

Southern Life and Health Insurance Company (SLH), a wholly owned subsidiary of Honor Capital, is a Wisconsin-domiciled insurance company located in Birmingham, Alabama. The company currently does not write any new direct business. Virtually all premiums are assumed ordinary life and industrial life business. Although the operations are separate, Mr. Graber is the president for both SLH and MNL. The companies also share directors. The two companies have executed both a Cost Allocation Agreement and an Administrative Service Agreement. As of December 31, 2012, SLH’s audited financial statement reported total assets of $90 million, total liabilities of $62 million, and total capital and surplus of $28 million. Operations for 2012 produced net income of $1.8 million.

Madison Investors Corporation (MIC)

Madison Investors Corporation (MIC), a Delaware corporation, was formed by MNL in 1992 to hold investment assets, primarily partnerships and private placements. As of

December 31, 2012, MIC’s primary asset was its 32.47% ownership of American Independence Corporation (AMIC). AMIC is an insurance holding company comprised of an insurance company, Independence American Insurance Company (f/k/a First Standard Security Insurance Company), and several wholly owned managing general underwriters. The MGUs administer employer medical stop-loss and managed care business for Standard Security Life Insurance Company of New York. As of December 31, 2012, MIC's audited consolidated financial statement reported total assets of $147 million, total liabilities of $54 million, and stockholder’s equity of $93 million. Operations for 2012 produced a net income of $10.2 million.

IHC Financial Group, Inc. (IHC-FG)

MNL formed a subsidiary, IHC Financial Group, Inc., to recruit agents to sell life and annuity products to state and federal employees. IHC-FG contracts with non-affiliated insurance companies to sell life and annuity products if there is a demand for products that cannot be supplied by IHC affiliated companies. The income for IHC-FG is derived from commissions on the sale of these products. The agents and brokers who produce this business are non-salaried contractors who receive commissions. IHC-FG earned $0.7 million in 2012. MNL nonadmits any value in IHC-FG on its balance sheet and no financial audits are performed on this entity.

Credico Life Insurance Company (Credico Life)

Credico Life is a reinsurance company domiciled in Nevis, an island in the West Indies. MNL entered into a Coinsurance Agreement with Monumental Life Insurance Company to reinsure 100% of its net retained credit insurance risk, thus exiting the credit market. As a result of this agreement, Credico Life ceased operations in 2007. MNL reports a zero value on Credico Life and no financial audits are performed on this entity.

Agreements with Affiliates

MNL has an Investment Advisory Agreement with Independence Holding Company (IHC), effective January 1, 2002, under which IHC provides investment management and counsel. Fees under this agreement are three tenths of 1% of the mean value of the investment portfolio assets administered as determined following the close of the preceding year as shown in the annual statements filed with OCI, payable quarterly within 30 days of the close of each calendar quarter.

MNL has a Tax Allocation Agreement with IHC, effective July 30, 1993, under which IHC provides tax management and counsel. Under this agreement MNL will pay to IHC the amount of income taxes which MNL would otherwise be required to pay if MNL filed its own income tax return on a separate return basis annually.

MNL has a Cost Allocation Agreement with IHC under which IHC provides administrative services in the areas of investments, legal, financial, and tax matters. MNL pays allocable costs to IHC under this agreement without profit, billable quarterly within a reasonable time period.

MNL has a Cost Allocation Agreement with Southern Life and Health Insurance Company (SLH), effective April 22, 1996. The cost allocation agreement covers the sharing of two officers, one of whom is Mr. Graber, the President of MNL. All services are provided at allocated cost without profit, billable to MNL quarterly, and payable as soon as practicable.

MNL has a Service Agreement with SLH, effective September 1, 1998. Services provided under the service agreement between SLH and MNL are legal, marketing, management consulting, policy administration, and accounting. All services are provided at allocated cost without profit, and allocations are to be fair and equitable in conformity with consistently applied insurance accounting practices.

MNL also has a reciprocating Service Agreement with Madison Standard Corporation (MSC), a subsidiary of IHC. MSC is not shown on the above organizational chart. Services provided by MNL to MSC include policy administrative services including claim file maintenance, complaint logs, billing, collections, and claim payment services. Additionally the agreement provides for accounting services which include assistance in financial reporting, book and record keeping, and dealings with outside auditors on tax matters. Periodic executive functions are performed. The services provided by MSC to MNL include marketing services and management consulting. All services are provided at cost without profit.

MNL has a Service Agreement with Actuarial Management Corporation (AMC), a subsidiary of Standard Security Life Insurance Company of New York (SSLNY), effective September 1, 2008. AMC is not shown on the above organizational chart. The agreement with AMC is for professional services on several ancillary insurance programs, which include actuarial development, management, certifications, benefit design, underwriting review, monitoring, reporting, reserve analysis, case renewal pricing, strategic and tactical services. In this agreement MNL pays AMC a provisional fee of up to 6% of gross original net premium written without profit for services rendered and payable within 30 days of the end of each month.

MNL has an Administrative Service Agreement with IHC Administrative Services (IHC-AS), a subsidiary of SSLNY, effective October 1, 2007. IHC-AS is not shown on the above organizational chart. The agreement with IHC-AS is for certain administrative services performed on MNL’s group and individual health insurance business, which include claim review procedures, cost containment services, and legal services. In the original agreement MNL pays IHC-AS a provisional fee for group and individual business of up to 9% of net risk premium per month without profit. The agreement was amended twice. The second amendment increases the group payment to up to 9% of the net risk premium collected after August 1, 2010, and up to 11% for and net risk premium collected after August 1, 2010, without profit. The second amendment increases the individual payment to up to 9% of the net risk premium collected after January 1, 2010, and up to 11% for and net risk premium collected after January 1, 2010, without profit.

MNL has a Service Agreement with IHC Financial Group, Inc. (IHC-FG), effective October 1, 2008, under which MNL provides administrative services to its downstream subsidiary. IHC-FG pays an equitable share of allocable costs to MNL under this agreement without profit, billable within 30 days of the end of each quarter.

MNL has an Administrative Service Agreement with IHC Health Solutions, Inc. (IHC-HS), a subsidiary of SSLNY, effective April 23, 2007. IHC-HS is not shown on the above organizational chart. Under this agreement IHC-HS provides fully insured major medical administrative support services to MNL. IHC-HS submits a quarterly estimated expense allocation without profit to MNL within 30 days of the end of each quarter under this agreement.

MNL is required to make the payment within 15 days of the receipt. Within 60 days after the end of each fiscal year there is a certificate reflecting any differences between actual and estimated and MNL is required to pay the difference in 15 days.

MNL has a Program Management Agreement with IHC-HS effective January 1, 2010. This agreement applies to the fully insured major medical policies and grants authority to IHC-HS to secure premium rates, form filings, business training, provide actuarial data, provide actuarial consultations, reinsurance review, and perform various other key functions on behalf of MNL. The IHC-HS is paid a manager fee, which is based on a percentage of premiums without profit, for providing these services.

MNL has an Administrative and Marketing Services Agreement with IHC-HS, effective December 1, 2010. IHC-HS performs marketing, underwriting, premium collection and cost containment services in connection with the fully insured major medical business, dental, and life insurance. IHC-HS agrees to provide MNL a remittance report to MNL within 20 days of the end of the month. Negative balances are to be remitted by MNL promptly after receipt and verification of the remittance report.

MNL has a Management Agreement with Alliance Underwriters, LLC (Alliance), a subsidiary of SSLNY, effective August 1, 2009. Alliance is not shown on the above organizational chart. This managing general underwriter (MGU) agreement applies to the employer’s medical stop-loss policies, and grants broad authority to Alliance to underwrite/renew policies, collect premiums, reimburse claims, handle complaints, compensate agents, maintain records, and perform various other key functions on behalf of MNL. The MGU is paid a manager fee, which is based on a percentage of premiums without profit, for providing these services.

MNL has a Management Agreement with Majestic Underwriters, LLC (Majestic), a subsidiary of SSLNY, having an effective date of January 1, 2008. Majestic is not shown on the above organizational chart. This agreement has been amended twice. This MGU agreement also applies to the employer’s medical stop-loss policies and grants broad authority to Majestic to underwrite/renew policies, collect premiums, reimburse claims, handle complaints, compensate agents, maintain records, and perform various other key functions on behalf of MNL. The MGU is paid a manager fee, which is based on a percentage of premiums without profit, for providing these services.

MNL has a Management Agreement with IHC Risk Solutions, LLC (IHC-RS), effective January 1, 2012. This agreement has been amended once. This MGU agreement also applies to the employer's stop-loss policies and grants broad authority to IHC-RS to underwrite/renew policies, collect premiums, reimburse claims, handle complaints, compensate agents, maintain records, and perform various other key functions on behalf of MNL. The MGU is paid a manager fee, which is based on a percentage of premiums without profit, for providing these services.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Madison National Life Insurance Company utilizes primarily coinsurance agreements to transfer risk on various lines of business. The examination notes that all of the reinsurers noted below with one exception are authorized by the state of Wisconsin.

The examiners noted a significant reinsurance agreement with Alterra Bermuda, Ltd., which is an offshore entity and an unauthorized reinsurer. The use of an unauthorized reinsurer places additional collateral requirements on insurers that wish to take reserve credits for ceded premiums. The examiners confirmed that the deposits associated with this entity were sufficient to cover reserve credits taken and were subject to a trust agreement with a U.S. banking institution. The following is a listing of all significant reinsurance agreements:

Unauthorized Ceding Contract

1.	Type:	Quota share
	Reinsurer:	Alterra Burmuda, Ltd. (f/k/a Max Bermuda Ltd.)
	Scope:	This indemnification reinsurance agreement allows the company to cede a portion of the liability to the reinsurer. Covered business includes three blocks of life insurance.
	Retention:	The quota share is 80% for this indemnification agreement with no recapture. Life policies have been identified to the reinsurer which are 100% reinsured under this agreement and may be subject to assumptive reinsurance following the effective date.
	Coverage:	The agreement covers three specific blocks of life business including all riders, supplemental benefits, paid up additions, dividends, advance premiums, endowment and other accumulations.
	Premium:	The unadjusted initial premium (pricing date of May 7, 2009) was $51,572,000 and 80% of the premium received quarterly for the three blocks, less renewal allowances as defined by the contract.
	Trust account balance:	At December 31, 2012, was $51,789,331
	Reserve credit taken:	At December 31, 2012, was $45,849,211
	Statutory reserve:	At March 31, 2009, was $66,027,234

Effective date:	April 1, 2009
Termination:	This coinsurance agreement automatically terminates upon expiration of all in-force covered business.

Affiliated Ceding Contracts

1.	Type:	Quota share
	Reinsurer:	Independence American Insurance Company (IAIC)
	Scope:	This indemnification reinsurance agreement allows the company to cede a portion of the liability to the reinsurer. Covered business includes aggregate and specific stop-loss insurance, provider excess insurance, and any other contracts issued to managed care organizations.
	Retention	Retention levels vary from 50% to 90% of each loss up to $1 million to $1.25 million on each policy subject to this agreement.
	Coverage:	Ranging from 10% to 50%, varying by managing general underwriter (MGU), of each loss up to $1 million to $1.25 million on each policy subject to this agreement.
	Premium:	The proportionate share of gross collected premium, less return premium as defined by the contract.
	Claim fund:	Proportionate share of net risk premium withheld for the funding of losses between monthly settlement periods in accordance to contract terms. Interest earned on account is shared between MNL and IAIC in proportion to their percentage of risk. • Net risk premium is equal to gross collected premium less any return premium and ceding allowance. • Ceding allowance is equal to dividends, commissions and taxes and all other expenses of whatever nature.
	Effective date:	Varies by MGU; April 1, 2002, to August 1, 2012
	Termination:	On the day preceding any anniversary date, varying by MGU, by reinsurer giving 90 days' advance written notice.

Nonaffiliated Ceding Contracts

1.	Type:	Quota share
	Reinsurer:	RGA Reinsurance Co.
	Scope:	This indemnification reinsurance agreement allows the company to cede a portion of the liability to the reinsurer. Covered business includes group term life and accidental death and dismemberment.
	Retention:	50% of group life benefits up to $50,000.

	Coverage:	50% of group life benefits up to $50,000. 100% of all AD&D benefits. 100% of group life benefits in excess of $50,000 to a maximum of $250,000. Benefit amounts in excess of $250,000 shall be submitted to the reinsurer for approval prior to acceptance.
	Premium:	The proportionate share of gross premiums, less the commissions.
	Commission:	The following are subtracted from the proportionate share of gross premiums: • Agents commission allowance. • An allowance for company expenses not to exceed 8% of gross premium. • An additional allowance of 7.5% for Kentucky municipal premium tax on first year business only. • The resulting premium shall not be less than 70% of the company's gross ceded premium for any calendar quarter.
	Experience refund:	33 1/3% of the net underwriting profits.
	Effective date:	July 1, 1993
	Termination:	On any January 1 by either party giving the other 90 days' prior written notice.
2.	Type:	Quota share
	Reinsurer:	RGA Reinsurance Company
	Scope:	This indemnification reinsurance agreement allows the company to cede a portion of the liability to the reinsurer. Covered business includes basic supplemental, voluntary, and dependent group term life (GTL) and accidental death and dismemberment (AD&D) written in conjunction with GTL, including conversions, disability waiver of premium, and riders including paid-up life. Groups with 2-50 employees produced or administered by IHC Health Solutions or Employer's Direct Health are excluded from this contract.
	Retention:	50% for GTL and AD&D for NIS and MNL Life Blocks. 20% for GTL and AD&D for LLIC Life Block.
	Coverage:	50% of GTL and AD&D benefits up to a maximum of $125,000 per person for NIS and MNL Life Block. 80% of GTL and AD&D benefits up to a maximum of $200,000 per person for LLIC Life Block.
	Premium:	Proportionate share of gross GTL and AD&D premium, less a commission.
	Commission:	The following are subtracted from the proportionate share of gross GTL and AD&D premiums: • The quota share of actual sales commissions paid to non-company firms, plus

- The quota share of MNL home office expense (inclusive of premium tax) of 11% of gross earned premium.

	Effective date:	January 1, 2012
	Termination:	On any January 1; after 2015 by either party giving the other 90 days' advance written notice.
3.	Type:	Quota share
	Reinsurer:	Union Security Insurance Company
	Scope:	This indemnification reinsurance agreement allows the company to cede a portion of the liability to the reinsurer. Covered business includes basic, supplemental, voluntary and dependent group life, including, life and AD&D coverage afforded to employers pursuant to joinder agreements under an insurance trust.
	Retention:	Either 20% or 50%, depending on producer (see "Coverage")
	Coverage:	(a) 80% quota share for the company's liability under the Lafayette Life Insurance Company (LLIC) policies. (b) 50% quota share for the company's liability under non-LLIC policies.
	Recapture clause:	LLIC policies: Effective January 1, 2011, and each year thereafter, the company may give 90 days' notice and reduce the reinsured percentage by up to ten percentage points. Non-LLIC policies: Effective January 1, 2012, and on each year thereafter, the company may give 90 days' notice and reduce the reinsured percentage by up to ten percentage points. The reinsured percentage shall not drop below 10%.
	Premium:	The proportionate share of gross premiums, less the commission.
	Commission:	The following are subtracted from the proportionate share of gross premiums: • The reinsured percentage of the National Insurance Services (NIS) compensation attributable to the policies. • 11% of the gross premium, which represents company home office expense.
	Effective date:	July 1, 2009
	Termination:	After December 31, 2011, either company may terminate the contract with 180 days' written notice; the contract must end on the first of the month. This treaty is no longer effective, but in runoff, so still included on Schedule S.
4.	Type:	Quota share
	Reinsurers:	Everest Reinsurance Company 33.33% Munich Reinsurance America, Inc. 66.67%

Scope: This indemnification reinsurance agreement allows the company to cede a portion of the liability to the reinsurers. Covered business includes small group medical and dental.

Coverage: 75% of net loss of policies transferred from Guarantee Trust Life Insurance Company, Unified Life Insurance Company, and North Carolina Mutual Life Insurance Company, originally underwritten and issued on behalf of said companies by Corporate Benefits Services (CBSA) or in force, issued, or renewed at or after the effective date that were written by the company and administered by Insurers Administrative Corporation (IAC), Phoenix, Arizona.

Limits:	Medical:	$5 million individual lifetime maximum
	Dental:	$1,000 maximum annual per policy, and
	Orthodontia:	$5,000 maximum annual per policy

Retention: 25%

Premium: The proportionate share of gross original written premiums, less the commission.

Commission: Actual commission fees, administrative fees, marketing fees, issuing carrier fees, actuarial services fees, plus actual state premium tax. The aggregated ceding allowance percentage for the first contract year was estimated at 20.5% for CBSA transfer business and 24% for all other business. For contract year August 1, 2007, to July 31, 2008, the percentage for CBSA transfer business increases to 21.6% and thereafter to 22.2%.

Profit commission: 40% of the net profit accruing each contract year.

Effective date: August 1, 2006

Termination: At or after August 1, 2007, by either party giving the other 195 days' advance written notice.

5. Type: Quota share

Reinsurer: Munich Reinsurance America, Inc.

Scope: This indemnification reinsurance agreement allows the company to cede a portion of the liability to the reinsurer. Covered business includes group medical and dental.

Coverage: 50%, quota share of net loss as respects to direct group medical and dental business administered by Construction Association of Michigan Administrative Services, Inc. (CAMADS).

Limits:	Medical:	$5 million individual lifetime maximum
	Dental:	$1,000 maximum annual per policy, orthodontia
		$2,000 maximum annual per policy, other than orthodontia

Premium:	The proportionate share of gross original written net premiums, less the commission.
Commission:	Commission and administrative fees, issuing carrier fees, actuarial services fees, plus actual state premium tax. Allowance percentages vary according to group size, renewal or new, and dental versus medical.
Profit commission:	30% of the net profit accruing each contract year.
Claim fund:	Established by MNL for the payment of net loss amounts, including any assessments and extra contractual obligations that are reimbursable by the reinsurer.
Effective date:	January 1, 2007
Termination:	At or after January 1, 2008, by either party, with 195 days' advance written notice.

6. Type: Quota share

Reinsurer:	Munich Reinsurance America, Inc.
Scope:	This indemnification reinsurance agreement allows the company to cede a portion of the liability to the reinsurer. Covered business includes medical.
Retention:	Varies by year and administrator between 65%-79% (see "Coverage")
Coverage:	Varies by administrator and year: a. (i) For policies administered by IHC Health Solutions (IHCHS) and classified as the Major Medical CEBT Block, and (ii) Limited Medical Policies administered jointly by Fringe and IHCHS, a 21% quota share applies for the first year and 24.5% thereafter.[1] b. For policies administered by BenElect, a quota share of 24% applies for the first year and 28% each subsequent year.[1] c. For all other covered policies a 30% quota share for the first year and 35% each subsequent year. Limits from policies issued are up to $5 million per policy year.
Premium:	The proportionate share of ceded gross original net written premiums, less the commission.
Commission:	Percent of original gross net written collected premiums, as defined by contract, to cover producer fees and commissions, premium taxes and assessments. The ceding allowance varies by program, administrator and year. The allowance is made up of actual commission fees that are outlined in a schedule and range from 9.9%-35.47%. The

[1] This is applicable only to SSLNY and not to MNL.

		reinsurer also has a fixed allowance payable to the company, total ceding allowance ranges from 19.25%-54.07%.
	Effective date:	July 1, 2011
	Termination:	By either party, with 90 days' advance written notice, on or after January 1, 2013.
7.	Type:	Quota share with funds withheld provisions
	Reinsurer:	National Insurance Company of Wisconsin, Inc. (NICW)
	Scope:	This indemnification reinsurance agreement allows the company to cede a portion of the liability to the reinsurer. Covered business includes group long-term disability policy forms LTD2 and LTD3 and disability of the company's liability under policies written by Lafayette Life Insurance Company (LLIC).
	Retention:	50%[2] with respect to the LLIC disability business; 90%[3] with respect to all other group long-term disability policies marketed and written through NIS on MNL policy form series LTD2, LTD3, and GLDI
	Coverage:	50% with respect to the LLIC disability business; 10% with respect to all other group long-term disability policies marketed and written through NIS on MNL policy form series LTD2, LTD3, and GLDI
	Reinsurer's liability:	A maximum issue limit per person for benefits of $12,000 per month, or as agreed to facultatively by the parties.
	Premium:	The proportionate share of gross premiums, less the commission.
	Commission:	The following are subtracted from the proportionate share of gross premiums: • Agents basic commission allowance thereon, including an NIS marketing fee of not more than 1%; • An allowance for company expenses not to exceed 10% of gross premiums
	Funds withheld:	The greater of: • 100% of unearned premium reserve + 100% of all loss reserves equal to an inception to date 70% loss ratio through December 31, 2004, or • 100% of unearned premium reserve + 100% loss reserves The fund will earn interest equal to the Yahoo! Finance Web site 10-Year "A" Corporate Bond index rate. Fund balance shall be released to NICW after all policies attaching to this calendar year have expired and all losses resulting from those policies have been settled.

[2] 30% is ceded to RGA Reinsurance Company lowering the net retention of MNL to 20%.
[3] 40% is ceded to RGA Reinsurance Company lowering the net retention of MNL to 50%.

	Effective date:	January 1, 2003
	Termination:	On any January 1, by either party giving the other 180 days' advance written notice.
8.	Type:	Quota share
	Reinsurer:	RGA Reinsurance Company (f/k/a Northwestern National Life Insurance Company)
	Scope:	This indemnification reinsurance agreement allows the company to cede a portion of the liability to the reinsurer. Covered business includes group long-term disability subject to maximum per person benefit of $10,000/month.
	Retention:	25%[4] of the risk written
	Coverage:	75%[5] of the risk written
	Premium:	The proportionate share of gross premiums, less the commission
	Commission:	The following are subtracted from the proportionate share of gross premiums: • Agents basic commission allowance thereon. • An additional agent's commission allowance of 5% on groups of 5 to 50 lives for first year only. • An allowance for company expenses of 11%, not to exceed 10% of gross premium. • The total aggregate sum of such allowances shall not exceed 30.5%.
	Profit commission:	Terminated effective January 1, 2007
	Effective date:	January 1, 1994
	Termination:	On any January 1 by either party giving the other 90 days' prior written notice. The treaty is no longer effective, but in runoff, so it is still reported on the Schedule S.
9.	Type:	Quota share
	Reinsurer:	RGA Reinsurance Co.
	Scope:	This indemnification reinsurance agreement allows the company to cede a portion of the liability to the reinsurer. Covered business includes group long-term disability and group short-term disability.
	Retention:	60%[6] for NIS disability block and 70% for LLIC disability block.

[4] MNL does not actually net 25% due to multiple reinsurers being in play.
[5] 75% was the original percentage. Currently NPS coverage is 50%, NIS coverage is 40%, and LLIC coverage is 30%.
[6] MNL does not actually net 60/70% due to multiple reinsurers being in play.

Coverage:	40% of NIS disability block and 30% of LLIC disability block, up to $12,000. Benefit amounts in excess of $12,000 shall be submitted to the reinsurer for facultative reinsurance.
Premium:	The proportionate share of gross premiums, less the commission.
Commission:	The following are subtracted from the proportionate share of gross premiums: • The quota share of actual sales commission paid to non-MNL firms on bound MNL policies. • The quota share of MNL home office expense (inclusive of premium tax) of 11% gross premium. The ceding allowances subject to the following maximums: • MNL ceding allowance of 29.5% for 1/1/12- 12/31/12 • MNL ceding allowance of 29.0% for 1/1/13- 12/31/13 • MNL ceding allowance of 28.5% for 1/1/14- 12/31/14
Recapture:	Effective January 1, 2014, MNL shall have the option to recapture 30% quota share of NIS disability block and 24% quota share of the LLIC disability block. A 90-day written notice must be given to reinsurer.
Effective date:	January 1, 2012
Termination:	By either party after January 1, 2015, with 45 days' written notice.

10. | | |
|---|---|
| Type: | Quota share |
| Reinsurer: | Union Security Insurance Company |
| Scope: | This indemnification reinsurance agreement allows the company to cede a portion of the liability to the reinsurer. Covered business includes group short-term disability and long-term disability. |
| Retention: | Either 60%[7] or 70%, depending on producer (see "Coverage"). |
| Coverage: | (a) 30% quota share for business produced by Lafayette Life Insurance Company (LLIC),
(b) 40% quota share for all other than LLIC business. |
| Recapture clause: | LLIC policies: Effective January 1, 2011, and each year thereafter, the company may give 90 days' notice and reduce the reinsured percentage by up to five percentage points.

Non-LLIC policies: Effective January 1, 2012, and on each year thereafter, the company may give 90 days' notice and reduce the reinsured percentage by up to ten percentage points. The reinsured percentage shall not drop below 20%. |

[7] MNL does not actually net 60/70% due to multiple reinsurers being in play.

Premium:	The proportionate share of gross premiums, less the commission.
Commission:	The following are subtracted from the proportionate share of gross premiums: • The reinsured percentage of the National Insurance Services (NIS) compensation attributable to the policies. • 11% of the gross premium, which represents company home office expense.
Effective date:	July 1, 2009
Termination:	After December 31, 2011, either company may terminate the contract with 180 days' written notice, or the contract must end on the first of the month. The treaty is no longer effective, but in runoff, so it is still reported on the Schedule S.

11. Type: Retrocede Quota Share

Reinsurer:	London Life Reinsurance Company
Scope:	This indemnification reinsurance agreement allows the company to cede a portion to the reinsurer. Covered business includes ordinary whole life, limited pay life, endowment, and term life policies which are defined by the contract. The covered policies are from First National Life (FNL), Life Assurance Company of Pennsylvania (LACOP), and Colorado Bankers Life (CBL).
Retention:	MNL retains 10%
Coverage:	90%
Premium:	"Initial Reinsurance Premium" equal to the statutory reserves as of the effective date of the contract. Subsequently, 90% of the net premiums each accounting period corresponding with the policies.
Commission:	One time ceding allowance of $6,700,000 plus: The ceding allowance is the lower of a or b, where: a) Reinsurer's quota share of actual commission, administrative expenses, and premium taxes paid by the cedent on the polices. b) = (i) + (ii) + (iii) + (iv) where: (i) = 3.7% of reinsurance premium for the current accounting period; (ii) = an annual rate of $23.00 times the quota share times the number of policies in force on the FNL block; (iii) = an annual rate of $15.00 times the quota share times the number of policies in force on the LACOP block; (iv) = an annual rate of $20.00 times the quota share times the number of policies in force on the CBL block.
Effective date:	January 1, 2009

Termination: The ceding party may recapture the policies by giving 90 days' written notice. Otherwise the contract will terminate when there is no reserve remaining. The treaty terminated effective January 1, 2013.

Non-Affiliated Assuming Contracts

1. Type: Quota share

   Reinsurer: Madison National Life assumed business from Columbian Mutual Life Insurance Company (CMLIC)

   Scope: This indemnification reinsurance agreement allows the company to assume a portion of the liability from a primary insurer. Covered business includes life, annuity, and accident and health (including riders and supplementary contracts) which have been issued or reinsured by Columbian Mutual Life Insurance Company.

   Coverage: MNL assumes 25% of the risk.

   Premium: CMLIC pays MNL an amount equal to the quota share of premiums for the reinsured policies collected after the effective date. $34 million in life reserves and $31 million for annuity reserves transferred to MNL.

   Commission: MNL reimburses CMLIC for its proportionate share of premium taxes, initial and renewal agent appointment and licensing fees, cost of underwriting new policies and costs associated with policy reinstatements, and cost of services pursuant to the Administration Agreement. MNL paid CMLIC a ceding allowance of $8.85 million.

   Effective date: April 1, 2008

   Termination: After all of the liabilities relating to or arising from the reinsured policies have been discharged or expired.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2012, annual statement. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Madison National Life Insurance Company, Inc.
Assets
As of December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$507,855,465	$	$507,855,465
Stocks:			
Preferred stocks	23,330,490		23,330,490
Common stocks	36,504,027	7,571	36,496,456
Cash, cash equivalents, and short-term investments	27,677,740		27,677,740
Contract loans	21,491,193	50,589	21,440,604
Other invested assets	9,086,735		9,086,735
Receivables for securities	10,248,402		10,248,402
Investment income due and accrued	5,590,300		5,590,300
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	6,456,966		6,456,966
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	4,569,473		4,569,473
Reinsurance:			
Amounts recoverable from reinsurer	10,438,335	104,223	10,334,112
Funds held by or deposited with reinsured companies	2,244,229		2,244,229
Other amounts receivable under reinsurance contracts	6,816,940		6,816,940
Current federal and foreign income tax recoverable and interest thereon	4,151,682		4,151,682
Amounts receivable relating to uninsured plans	66,256		66,256
Net deferred tax asset	9,104,470	95,619	9,008,851
Electronic data processing equipment and software	1,392,896	961,437	431,459
Furniture and equipment, including health care delivery assets	802,520	802,520	
Receivable from parent, subsidiaries and affiliates	85,082		85,082
Health care and other amounts receivable	7,406,030	3,602,249	3,803,781
Write-ins for other than invested assets:			
Prepaid expenses	809,259	809,259	
Total Assets	$696,128,490	$6,433,467	$689,695,023

Madison National Life Insurance Company, Inc.
Liabilities, Surplus, and Other Funds
As of December 31, 2012

Aggregate reserve for life contracts		$434,638,104
Aggregate reserve for accident and health contracts		51,572,210
Liability for deposit-type contracts		15,732,728
Contract claims:		
Life		7,869,836
Accident and health		5,476,239
Provision for policyholders' dividends and coupons payable in following calendar year:		
Not yet apportioned		206,201
Premiums and annuity considerations received in advance		546,283
Contract liabilities not included elsewhere:		
Provision for experience rating funds		175,608
Other amounts payable on reinsurance		15,386,720
Interest maintenance reserve		6,485,826
Commissions to agents due or accrued		2,454,777
Commissions and expense allowances payable on reinsurance assumed		1,121,240
General expenses due or accrued		1,728,757
Taxes, licenses, and fees due or accrued, excluding federal income taxes		1,906,663
Unearned investment income		626,000
Amounts withheld or retained by company as agent or trustee		630,762
Amounts held for agents' account		42,086
Remittances and items not allocated		2,204,190
Miscellaneous liabilities:		
Asset valuation reserve		6,258,542
Reinsurance in unauthorized companies		49
Payable to parent, subsidiaries and affiliates		17,591
Funds held under coinsurance		61,559,625
Write-ins for liabilities:		
Deferred lease credit		750,629
Total liabilities		617,390,666
Common capital stock	$ 3,600,000	
Write-ins for other than special surplus funds:		
Gain on coinsurance treaty	6,108,624	
Gross paid in and contributed surplus	69,688,009	
Unassigned funds (surplus)	(7,092,276)	
Total capital and surplus		72,304,357
Total Liabilities, Capital and Surplus		$689,695,023

Madison National Life Insurance Company, Inc.
Summary of Operations
For the Year 2012

Premiums and annuity considerations		$136,425,085
Considerations for supplementary contracts		558,687
Net investment income		20,694,313
Amortization of interest maintenance reserve		1,291,788
Commissions and expense allowances on reinsurance ceded		19,888,715
Miscellaneous income- write-ins:		
Administration fees		2,086,391
Other fees and miscellaneous income		16,666
Total income items		180,961,645
Death benefits	$ 24,264,041	
Matured endowments	663,273	
Annuity benefits	2,201,959	
Disability benefits and benefits under A&H contracts	59,546,327	
Surrender benefits and withdrawals for life contracts	20,680,004	
Interest and adjustments on contract or deposit-type contract funds	526,843	
Payments on supplementary contracts with life contingencies	756,427	
Increase in aggregate reserves for life and accident and health contracts	(4,064,584)	
Subtotal	104,574,290	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	27,126,391	
Commissions and expense allowances on reinsurance assumed	4,877,545	
General insurance expenses	29,868,404	
Insurance taxes, licenses, and fees excluding federal income taxes	3,670,041	
Increase in loading on deferred and uncollected premiums	(576,655)	
Total deductions		169,540,016
Net gain (loss) from operations before dividends to policyholders and federal income taxes		11,421,629
Dividends to policyholders		286,044
Net gain (loss) from operations after dividends to policyholders and before federal income taxes		11,135,585
Federal and foreign income taxes incurred (excluding tax on capital gains)		140,533
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses		10,995,052
Net realized capital gains or (losses)		907,840
Net Income		$ 11,902,892

Madison National Life Insurance Company, Inc.
Cash Flow
For the Year 2012

Premiums collected net of reinsurance			$138,975,092
Net investment income			27,184,015
Miscellaneous income			20,654,525
Total			186,813,632
Benefit- and loss-related payments		$118,276,587	
Commissions, expenses paid, and aggregate write-ins for deductions		65,054,573	
Dividends paid to policyholders		368,097	
Federal and foreign income taxes paid (recovered)		(1,066,578)	
Total deductions			182,632,679
Net cash from operations			4,180,953
Proceeds from investments sold, matured, or repaid:			
Bonds	$315,938,456		
Stocks	4,443,750		
Other invested assets	9,577,368		
Miscellaneous proceeds	316		
Total investment proceeds		329,959,890	
Cost of investments acquired (long-term only):			
Bonds	308,822,906		
Stocks	2,303,468		
Other invested assets	10,780,112		
Miscellaneous applications	150,889		
Total investments acquired		322,057,375	
Net increase (or decrease) in contract loans and premium notes		(860,680)	
Net cash from investments			8,763,195
Cash from financing and miscellaneous sources:			
Net deposits on deposit-type contracts and other insurance liabilities		1,209,717	
Dividends to stockholder		3,450,000	
Other cash provided (applied)		6,291,418	
Net cash from financing and miscellaneous sources			4,051,135
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			16,995,283
Cash, cash equivalents, and short-term investments:			
Beginning of year			10,682,454
End of Year			$ 27,677,737

Madison National Life Insurance Company, Inc.
Compulsory and Security Surplus Calculation
December 31, 2012

Assets			$689,695,023
Less security surplus of insurance subsidiaries			
Less liabilities			617,390,666
Adjusted surplus			72,304,357
Annual premium:			
Individual life and health	$ 23,877,572		
Factor	15%		
Total		$ 3,581,635	
Group life and health	100,517,537		
Factor	10%		
Total		10,051,754	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		3,535,207	
Compulsory surplus (subject to a $2,000,000 minimum)			17,168,596
Compulsory Surplus Excess or (Deficit)			$ 55,135,761
Adjusted surplus (from above)			$ 72,304,357
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum of 110%)			23,520,976
Security Surplus Excess or (Deficit)			$ 48,783,381

Madison National Life Insurance Company, Inc.
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2012
(in thousands)

The following schedule is a reconciliation of total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2012	**2011**	**2010**	**2009**	**2008**
Capital and surplus, beginning of year	$70,266	$174,171	$169,301	$138,243	$136,569
Net income	11,903	15,080	12,820	21,423	(4,824)
Change in net unrealized capital gains/losses	3,706	(4,398)	(4,472)	(5,781)	(2,135)
Change in net deferred income tax	(3,032)	(2,430)	(3,373)	(3,681)	4,430
Change in nonadmitted assets and related items	444	(83)	770	14,046	(170)
Change in liability for reinsurance in unauthorized companies	31	(31)	262	(176)	90
Change in asset valuation reserve	(4,487)	(1,012)	(475)	(140)	5,441
Surplus adjustments:					
Paid in			5,822		
Dividends to stockholders	(3,450)	(108,314)	(3,450)	(3,000)	
Write-ins for gains and (losses) in surplus:					
Amortization/gain on sale of credit segment	(1,326)	(1,326)	(1,326)	(1,326)	(1,158)
Gain on coinsurance treaty	(1,752)	(1,391)	(1,709)	9,694	
Capital and Surplus, End of Year	$72,304	$ 70,266	$174,171	$169,301	$138,243

The company had positive net income in each year under examination, with the exception of 2008. The company had increasing surplus in each year under examination except 2011. In that year the company paid a dividend to its parent, ICC, transferring ownership of MNL's subsidiary SSLNY to ICC. The transfer was valued at $106.3 million. In 2010 a $5.8 million capital contribution was made to the company in the form of American Independence Corporation stock, which MNL in turn contributed to its subsidiary Madison Investors Corporation.

Madison National Life Insurance Company, Inc.
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2012

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2012**	**2011**	**2010**	**2009**	**2008**
#1	Net change in capital and surplus	3%	-60%*	-1%	22%	1%
#2	Gross change in capital and surplus	3	-60*	3	22	1
#3	Net income to total income	7	8	7	11	-3*
#4	Adequacy of investment income	120*	138	175	160	158
#5	Nonadmitted to admitted assets	1	1	1	1	3
#6	Total real estate and mortgage loans to cash and invested assets	0	0	0	0	0
#7	Total affiliated investments to capital and surplus	74	74	93	95	113*
#8	Surplus relief	21	20	9	15	7
#9	Change in premium	-4	1	16	-1	-5
#10	Change in product mix	0.5	0.8	1.2	0.5	3.4
#11	Change in asset mix	0.4	2.2	0.5	0.4	1.2
#12	Change in reserving ratio	-7	12	7	-2	1

In 2008, due to the financial crisis, MNL had $18.6 million in net realized capital losses, which caused the company to receive an unusual Ratio No. 3. The company's significant equity investment, totaling $114.3 million, in Standard Security Life Insurance Company of New York, explained most of the unusual result for Ratio No. 7. Total affiliated investments in 2008 were $156.0 million compared to capital and surplus of $138.2 million. In 2011, MNL received unusual Ratio Nos. 1 and 2 due to the transfer of SSLNY to IHC in the form of an extraordinary dividend in the amount of $106.3 million. In 2012, Ratio No. 4 was low as common stock investment income from affiliates declined sharply to $275,000 (2012), from $5.0 million (2011). This is due primarily to the transfer of SSLNY, which was approved in the third quarter of 2011.

Growth of Madison National Life Insurance Company, Inc.

Year	Admitted Assets	Liabilities	Capital and Surplus
2012	$689,695,023	$617,390,666	$ 72,304,357
2011	686,674,688	616,408,261	70,266,427
2010	801,707,676	627,536,306	174,171,370
2009	784,365,657	615,064,582	169,301,075
2008	799,124,077	660,881,297	138,242,780

Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2012	$31,976,053	$12,567,889	$558,687
2011	33,721,471	10,394,340	244,656
2010	29,306,065	9,699,173	491,099
2009	30,402,879	9,374,663	310,755
2008	31,627,004	10,220,542	454,052

Life Insurance In Force (in thousands)

Year	Gross Risk In Force	Ceded	Net
2012	$11,322,179	$5,977,226	$5,344,953
2011	11,299,321	6,180,776	5,118,545
2010	11,199,570	5,723,526	5,476,044
2009	11,740,398	6,469,609	5,270,789
2008	7,827,943	2,727,385	5,100,558

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2012	$107,422,291	$59,035,559	$21,213,005	$19,641,379	96.1%
2011	111,585,534	61,876,896	21,037,986	18,355,377	93.7
2010	120,599,972	72,833,064	24,115,181	19,083,507	100.5
2009	102,257,007	59,561,856	24,421,167	17,186,247	103.8
2008	101,054,537	56,179,291	23,003,125	17,571,780	87.8

* Includes increase in contract reserves.
** Includes taxes, licenses, and fees.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2012, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 21 specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Remittances and Items Not Allocated—Therefore, it is again recommended that the company either allocate any debit balances over 90 days old to other accounts or write them off on a timely basis.

   Action—Compliance

2. Accounts and Records—It is again recommended that the company continue with its efforts to reconcile and identify the difference between the general ledger and LifePro system regarding the policy loan asset and adequately document any conclusions.

   Action—Compliance

3. Accounts and Records—It is again recommended that the company maintain adequate work papers supporting annual statement balances such that documentation can be produced promptly.

   Action—Compliance

4. Investments – Common Stock—It is recommended that in the future the company promptly notify the commissioner of any formation or acquisition of any subsidiary as required under s. 611.26 (5), Wis. Stat.

   Action—Compliance

5. Holding Company Transactions—It is again recommended that the company report all substantial transactions with affiliates under ch. Ins 40, Wis. Adm. Code.

   Action—Partial Compliance

6. Holding Company Transactions—It is recommended that the company comply with s. Ins 40.04 (2), Wis. Adm. Code, and file all intercompany agreements at least 30 days before entering into the transaction.

   Action—Compliance

7. Write-ins—It is recommended that the company report "leasehold improvements" in the line captioned "furniture and fixtures," as required by NAIC Annual Statement Instructions - Life, Accident and Health.

   Action—Compliance

8. Write-ins—It is recommended that the company report balances in annual statement preprinted lines whenever possible and that write-in lines be used only when one of the preprinted lines clearly does not fit the item being reported using the definitions in NAIC Annual Statement Instructions - Life, Accident and Health as a guide.

   Action—Compliance

9. Write-ins—It is further recommended that when an item is reported as a write-in the company clearly separates it from preprinted lines, to the extent possible, with more descriptive names.

   Action—Compliance

10. Federal Income Tax—It is recommended that the company follow the disclosure requirements of SSAP No. 10, par. 23, by listing all participants in the consolidation of taxes in the Notes to Financial Statement.

    Action—Compliance

11. Premium Reporting—It is recommended that the company comply with s. 600.03 (38), Wis. Stat., and the NAIC Annual Statement Instructions - Life, Accident and Health and report all amounts required to be paid for an insurance policy as premium on its filed financial statements.

    Action—Compliance

12. Premium Reporting—It is also recommended that the company properly record as an expense the amount collected by MGUs that is in addition to the collected premium, as defined by the individual contracts.

    Action—Compliance

13. Due and Uncollected Premium—It is recommended that the company report Due and Uncollected Premium as required by SSAP No. 61, par. 25.

    Action—Compliance

14. Contract Claims—It is recommended that the company follow NAIC Annual Statement Instructions - Life, Accident and Health when reporting contract claim liabilities.

    Action—Compliance

15. Aggregate Policy Reserves – Life—It is recommended that the company improve its process for identification of possible valuation data errors that will result in more timely corrections once all policyholder information has been received.

    Action—Compliance

16. Aggregate Policy Reserves – Disabled Lives—It is recommended that the company review the valuation calculation to ensure it is producing the correct reserve in all instances.

    Action—Compliance

17. Aggregate Policy Reserves – Accident and Health—It is recommended that in the future the company set any negative reserves to $0 for reporting purposes.

    Action—Compliance

18. Policy Reserves – Deposit Type Contracts—It is recommended the company review these contracts and determine whether the contracts should be terminated or whether the missing information should have been there and then make the necessary corrections.

    Action—Compliance

19. Asset Adequacy Testing—It is recommended that the company include a more detailed reconciliation which compares projected amounts with the actual results at the valuation date as part of the asset adequacy testing memorandum as required under the Actuarial Opinion and Memorandum Regulation (AOMR).

    Action—Compliance

20. Asset Adequacy Testing—It is recommended that for all of the additional testing techniques employed during asset adequacy testing that more analytical analysis be documented in the Actuarial Memorandum.

    Action—Compliance

21. Due and Deferred Premium—It is recommended that the company review its methodology used to calculate deferred premiums to ensure that the system is working as intended.

    Action—Compliance

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Internal Controls – Suspense Accounts

The examination noted that there were a number of suspense accounts where the reconciliations were not completed and/or reviewed on a timely basis and that the control was not operating effectively. Three of fourteen (21.4%) audit samples had suspense account reconciliations that were not completed in a timely manner. And three of fourteen (21.4%) audit samples had suspense account reconciliations that were not reviewed in a timely manner. The target date for reviewing reconciliations is 90 days after month-end. It is recommended that suspense accounts be reconciled and reviewed in a timely manner.

Holding Company Transactions

There is one material affiliated reinsurance agreement which appears on the Schedule S of the 2012 annual statement as of December 31, 2012. The contract was reviewed by this examination and is currently effective and active. The company's annual 2012 Holding Company filing does not include a listing of the above reinsurance agreement in Item 5(f). The company's annual 2012 Holding Company filing does not include a listing of all inter-company "loans, other investments or purchases, sales or exchanges of securities of the affiliates" in Item 5(a). Transactions fitting this description are disclosed in Footnote 10 of the statutory annual statement as of December 31, 2012, but not in Item 5(f) of the Holding Company filing. It is again recommended that the company report all substantial transactions with affiliates under ch. Ins 40, Wis. Adm. Code.

Holding Company Reporting – Organizational Charts

The 2011 annual statement, Schedule Y, organization chart, differed from the organizational chart submitted with the 2011 Holding Company filing. It is recommended the company report the current organizational chart on both the Schedule Y and the annual Holding

Company filing consistently in accordance with the NAIC Annual Statement Instructions - Life, Accident & Health and ch. Ins 40, Wis. Adm. Code.

Affiliated Reinsurance Agreements

During the period under examination, the company amended its coinsurance agreement with its subsidiary, Independence American Insurance Company. The Reinsurance Agreement (the agreement) was originally executed in 2002; however, the agreement has been amended several times to add different exhibits. Each exhibit represents business from a different producer; in all there are 22 exhibits (A-Y). During 2008 through 2012 the contract added four exhibits (V-Y).

The exhibits have vague terms. Instead of specifying a specific coinsurance percentage they contain a range of coinsurance percentages, such as "up to 30%" or "up to 50%." There were similar ranges of values used with the ceding commissions and fees for each producer, such as ceding commissions of 0-5% or 0-22% and a company fee which is "up to 5%" of the reinsurer's proportionate share of the gross collected premium and a manager/administrator fee of "up to 22%" of the reinsurer's proportionate share of gross collected premium.

The examiners conclude that the agreement has unclear terms that preclude book keeping in a "manner that clearly and accurately discloses the nature and details of the transaction" as is required under s. 617.21 (1) (b), Wis. Stat. Reinsurance agreements with affiliates should have the same binding and specific terms as do reinsurance agreements with non-affiliates. It is recommended that the company amend its affiliated reinsurance agreements to replace coinsurance percentage, commission and fee ranges with specific terms in accordance with s. 617.21 (1) (b), Wis. Stat.

Affiliated Service Agreements

The testing of the company's significant affiliated agreements and their amendments showed that many of the company’s affiliated agreements contain ambiguous language regarding compensation and settlement terms. Many agreements contain settlement provisions which are "up to" a given percentage, in a similar fashion to the above affiliated reinsurance agreement.

Also, many agreements contain settlement provisions without specific due dates, which is a requirement under SSAP No. 25, par. 7. Agreements containing ambiguous terms and/or inadequate settlement provisions noted during the examination testing are as follows:

- Cost Allocation Agreement with IHC
- Cost Allocation Agreement with SLH
- Service Agreement with MSC
- Service Agreement with AMC
- Amendment No. 1 to the Service Agreement with AMC
- Administrative Services Agreement with IHC-AS
- Service Agreement with IHC-HS
- Amendment No. 1 to the Services Agreement with IHC-HS
- Management Agreement with Alliance Underwriters
- Amendment No. 1 to the Management Agreement with Alliance Underwriters
- Amendment No. 2 to the Management Agreement with Alliance Underwriters
- Management Agreement with IHC-RS
- Amendment No. 1 to the Management Agreement with IHC-RS
- Management Agreement with Majestic Underwriters
- Amendment No. 1 to the Management Agreement with Majestic Underwriters
- Amendment No. 2 to the Management Agreement with Majestic Underwriters

It is recommended that the company amend its affiliated service agreements to specify payment terms and due dates in accordance with s. 617.21 (1) (b), Wis. Stat., and SSAP No. 25, par. 7.

Actuarial Opinion Memorandum

The consulting actuary reviewed the asset adequacy testing completed as required by the Actuarial Opinion Memorandum Regulation for 2012. As a result of the asset adequacy testing analysis performed, MNL’s appointed actuary concluded that no additional reserves were required as of December 31, 2012. Based on the consulting actuary’s review, this conclusion has been accepted for the purpose of this report.

The Actuarial Opinion Memorandum Regulation indicates that the appointed actuary should address and include a description of specified items in the Actuarial Opinion Memorandum. In the opinion of the consulting actuary, some of these items were not properly addressed in the 2012 Actuarial Opinion Memorandum. It is recommended that future Actuarial Opinion Memoranda include specific descriptions of the company's products and a discussion of the specific risks of each product type the appointed actuary deems significant.

Paid-Up Life Reserve

The consulting actuary noted that MNL is including the paid-up life reserve in the miscellaneous section of Exhibit 5. It is recommended that future annual statements include the paid-up life reserve in the Life section of Exhibit 5.

Affiliated Common Stock

The number of shares and the actual cost of those shares were incorrectly reported on the Schedule D - Part 2 - Section 2 for the investment in Madison Investors Corporation (MIC) common stock. The number of shares reported was 492 and actual cost of those shares was reported as $21,632,872. Management confirmed the following: "MIC Common Stock: 1,000 authorized, 100 shares issued, $.01 par value [and] MNL paid $100 for those 100 shares in 1992." Therefore, the number of MIC shares MNL owns is 100 and these shares have an actual cost of $100.00. Additionally the audited consolidated financial statement of MIC at December 31, 2012, reports 100 shares issued and outstanding. It is recommended that management report the correct number of common shares and the correct actual cost of those shares for affiliated investments in accordance with the NAIC Annual Statement Instructions - Life, Accident & Health.

VIII. CONCLUSION

During the period under examination the company had net income in each year except 2008. The company had increasing surplus in each year under examination except 2011. In that year the company paid a dividend to its parent, ICC, transferring ownership of MNL's subsidiary SSLNY to ICC. The transfer was valued at $106.3 million. In 2010 a $5.8 million capital contribution was made to the company in the form of American Independence Corporation stock, which MNL in turn contributed to its subsidiary Madison Investors Corporation. The company has turned its focus from acquiring blocks of business from other insurance companies, guaranty associations, and liquidators to developing products for government and civil service employees and providing specialty health products in a controlled distribution.

The company had 21 examination recommendations from the prior examination. The company partially complied on 1 of these and fully complied on 20. There were 7 new examination recommendations. There were no examination reclassifications or adjustments to surplus as reported by the company.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 39 - Internal Controls – Suspense Accounts—It is recommended that suspense accounts be reconciled and reviewed in a timely manner.

2. Page 39 - Holding Company Transactions—It is again recommended that the company report all substantial transactions with affiliates under ch. Ins 40, Wis. Adm. Code.

3. Page 39 - Holding Company Reporting – Organizational Charts—It is recommended the company report the current organizational chart on both the Schedule Y and the annual Holding Company filing consistently in accordance with the NAIC Annual Statement Instructions - Life, Accident & Health and ch. Ins 40, Wis. Adm. Code.

4. Page 40 - Affiliated Reinsurance Agreements—It is recommended that the company amend its affiliated reinsurance agreements to replace coinsurance percentage, commission and fee ranges with specific terms in accordance with s. 617.21 (1) (b), Wis. Stat.

5. Page 41 - Affiliated Service Agreements—It is recommended that the company amend its affiliated service agreements to specify payment terms and due dates in accordance with s. 617.21 (1) (b), Wis. Stat., and SSAP No. 25, par. 7.

6. Page 42 - Actuarial Opinion Memorandum—It is recommended that future Actuarial Opinion Memoranda include specific descriptions of the company's products and a discussion of the specific risks of each product type the appointed actuary deems significant.

7. Page 42 - Paid-Up Life Reserve—It is recommended that future annual statements include the paid-up life reserve in the Life section of Exhibit 5.

8. Page 42 - Affiliated Common Stock—It is recommended that management report the correct number of common shares and the correct actual cost of those shares for affiliated investments in accordance with the NAIC Annual Statement Instructions - Life, Accident & Health.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Sheena Basra	Insurance Financial Examiner
Brian Jeremiason	Insurance Financial Examiner
Levi Olsen	Insurance Financial Examiner
Thomas Houston, CPA, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Gene M. Renard, CFE
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

There were several significant reinsurance transactions that took place after the end date of the examination but prior to the examination report issuance. These are arm's length transactions with non-affiliated companies.

- The company entered into a coinsurance agreement with Guggenheim Life and Annuity Company effective May 31, 2013, to cede the net retained risks of most of the company's Annuity, UL, and a portion of the Traditional Life business with reserves of $226,129,049 with purchase price of $950,000. This transaction resulted in net transfer to Guggenheim of $214,929,005.
- The company entered into an assumption reinsurance agreement with National Organization of Life and Health Insurance Guaranty Associations effective May 10, 2013, on a closed block of Long-Term Disability policies from Lumberman's Mutual Casualty Company with reserves of $15,416,429.
- Additionally, the company terminated a coinsurance agreement with London Life Reinsurance Company effective January 1, 2013. This transaction resulted in a decrease of funds withheld of $42,603,180 and in unassigned surplus of $883,061.