Report

of the

Examination of

Southern Life and Health Insurance Company

Birmingham, Alabama

As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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***Theodore K. Nickel,*** *Commissioner*

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January 30, 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:

SOUTHERN LIFE AND HEALTH INSURANCE COMPANY
Birmingham, Alabama

and this report is respectfully submitted

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## I. INTRODUCTION

The previous examination of Southern Life and Health Insurance Company (SLH or the company) 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. EisnerAmper, LLP, provides the auditing services for the company.

**Independent Actuary's Review**

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. 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 conclusions.

## II. HISTORY AND PLAN OF OPERATION

The company was organized in 1890 and incorporated in the state of Alabama. In 1981, the company merged with Standard Security Insurance Company and redomiciled to Delaware. As a result of the merger, SLH became a wholly owned subsidiary of Geneve Capital Group, Inc., now called Honor Capital Corp. The ultimate parent of the group is Geneve Holdings, Inc., which is wholly owned by the Edward Netter family. During the course of the period under examination, Mr. Edward Netter passed away, and control of the company remains with the surviving Netter family members.

In 2012, the company collected no direct premium. All direct policies outstanding are paid up or extended term through nonforfeiture election and in run-off. The company is licensed in the following states:

Alabama
Delaware
Florida
Louisiana
Mississippi
Texas
Wisconsin

SLH had historically concentrated on writing individual home service life, disability, and hospitalization policies. Effective March 1, 1992, the company sold all of its premium-paying business, other than annuities, to United Insurance Company of America (United). United then transferred all Louisiana policies from the block to its affiliate, Union National Life Insurance Company (Union National). Effective December 31, 1992, SLH entered into a coinsurance agreement with Union National, under which SLH assumed 100% of Union National's extended term and paid-up life insurance policies in Louisiana. Effective December 27, 1993, the company entered into a coinsurance agreement with United, under which SLH assumed a block of paid-up and extended term life insurance. With these two assumptions, SLH agreed to coinsure policies that become paid-up or extended term through nonfortfeiture election (with some coming from the block that SLH had originally written), while United and Union National continued to insure the premium-paying business. Effective September 30, 2004, the coinsurance agreement with Union

National was recaptured and, effective January 1, 2005, the coinsurance agreement with United was recaptured.

At present, SLH is not marketing any new direct business and remains in run-off. A small amount of direct annuity business was reported by the company for 2009 and 2010 from considerations received on flexible premium annuities. SLH's current business consists mostly of direct life policies that have become paid-up or extended term through nonforfeiture election and assumed annuity policies.

Premium income for 2012 consisted of $45,387 of individual annuity consideration from assumed reinsurance business. The growth of the company is discussed in the "Financial Data" section of this report.

## III. MANAGEMENT AND CONTROL

### Board of Directors

The board of directors consists of three members. All directors are elected annually to serve a one-year term. 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 do not receive any compensation for serving on the board.

Currently the board of directors consists of the following persons:

| Name and Residence | Principal Occupation | Term Expires |
|---|---|---|
| Steven B. Lapin<br>Stamford, CT | Chairman, Chief Executive Officer and President<br>Geneve Corporation | 2014 |
| Roy T.K. Thung<br>White Plains, NY | Executive Vice President<br>Geneve Corporation | 2014 |
| Larry R. Graber<br>Austin, TX | President<br>SLH and Madison National Life | 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 | $500,640* |
| H. William Smith | Secretary | 0** |
| Donna C. Nelson | VP and Controller | 116,655 |

* Compensation is paid by Madison National Life Insurance Company (MNL) and SLH reimburses MNL through a cost allocation agreement for the amount allocated to SLH.

** Salary is paid by Geneve Corporation. SLH currently pays Geneve Corporation $125,000 per quarter under the terms of a management services agreement.

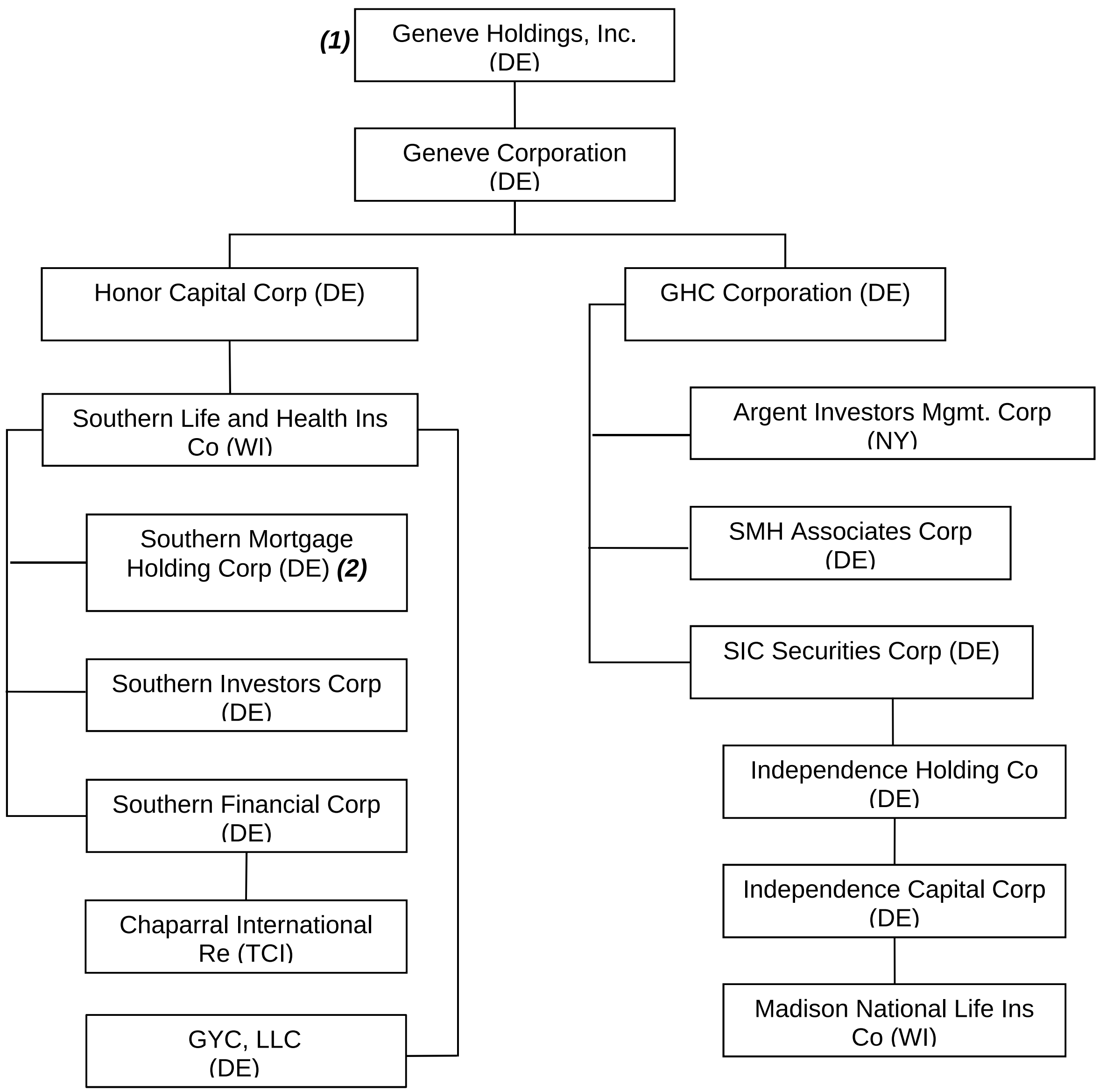
### Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. At the time of the examination, there are no board-appointed committees. The members of the board serve as the audit committee.

## IV. AFFILIATED COMPANIES

SLH is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. Geneve Corporation, Independence Holding Company, and Madison National Life Insurance Company have other subsidiaries not depicted in this organizational chart. A brief description of affiliates deemed significant follows the organizational chart.

**Organizational Chart**
**As of December 31, 2012**




(1) The Netter family owns 100% of the voting stock of Geneve Holdings, Inc.
(2) SLH owns 100% of the common stock and 39.189% of the preferred stock of Southern Mortgage Holding Corp.

**Geneve Holdings, Inc. (GHI)**

GHI is the ultimate parent of SLH and the owner of a large diversified holding company system whose products and services include the retail distribution of educational, health and agricultural products, and financial services and insurance.

**Southern Financial Corp. (SFC)**

SFC is a financial holding company that owns Chaparral International Re (Chaparral), a Turks and Caicos property and casualty reinsurance company. As of December 31, 2012, SFC's unaudited financial statement reported assets of $13,877,115, liabilities of $21,880,248, and stockholders' equity of $(8,003,133). Operations for 2012 produced a net loss of $(482,165). SFC is nonadmitted on the 2012 annual statement of SLH.

**Southern Investors Corp. (SIC)**

SIC is an entity whose primary business has been to provide administrative services to SLH. As of December 31, 2012, SIC's audited financial statement reported assets of $32,805,024, liabilities of $378,724 and stockholders' equity of $32,426,300. Operations for 2012 produced net income of $1,572,049.

**Southern Mortgage Holding Corp. (SMH)**

SMH is an entity whose primary business has been to provide administrative services to SLH. As of December 31, 2012, SMH's audited financial statement reported assets of $36,561,081, liabilities of $1,626,212, and stockholders' equity of $34,934,869. Operations for 2012 produced net income of $1,555,305.

**Madison National Life Insurance Company (MNL)**

MNL is a Wisconsin-domiciled life insurer engaged in providing group and credit insurance products and acquiring blocks of business from other insurers. Major products marketed by MNL include group disability, group term life, credit disability, and credit life insurance.

Although their operations are separate, SLH and MNL share two officers. SLH and MNL have executed a cost allocation agreement and a service agreement which are described below in “Agreements with Affiliates.”

As of December 31, 2012, MNL's annual statement, as filed with the Office of the Commissioner of Insurance (OCI), reported assets of $689,695,023, liabilities of $617,390,666, and capital and surplus of $72,304,357. Operations for 2012 produced net income of $11,902,892.

**Chaparral International RE (CIR)**

CIR is a wholly owned insurance subsidiary of SFC. CIR was formed in the Turks and Caicos Islands in 1997 to write employer-funded reinsurance business. Later in 1997, First International Reinsurance Company, Inc. (FIRC), an affiliated property and casualty reinsurer domiciled and licensed in the state of Alabama, was merged with and into CIR. This business combination was accounted for similar to a pooling of interests and, accordingly, the results of operations of FIRC prior to the merger were included in the financial statements of CIR as of December 31, 2007. As a result of the merger with FIRC, CIR assumed the liabilities of FIRC which mainly consist of a loss reserve run-off from reinsurance pools that FIRC participated in during underwriting years of 1972 to 1981. The reinsurance contracts consist primarily of excess casualty treaty business which reinsured general liability business, including environmental and asbestos exposures.

As of December 31, 2012, CIR’s audited financial statement reported assets of $13,801,401, liabilities of $12,490,249, and stockholders’ equity of $1,311,152. Operations for 2012 produced a net loss of $(521,416).

**GYC, LLC (GYC)**

GYC is a wholly owned subsidiary of SLH. GYC was an entity created to hold various intercompany notes for NHI, LLC, a Wisconsin corporation. As of December 31, 2012, GYC reported assets of $64,007,614, liabilities of $63,703,567, and stockholder’s equity of $304,047. Operations for 2012 produced a net income of $6,155,880.

**Agreements with Affiliates**

SLH and Geneve Corporation (Geneve) have entered into a management services agreement. Under the agreement, Geneve provides advice and counsel on accounting practices and procedures and on tax returns, legal matters, tax planning, and general business matters.

The fee for these services is $125,000 per quarter. SLH also has an investment counsel agreement with Argent Investors Management Corp., an indirect subsidiary of Geneve Holdings, Inc. The fee for this service is .45% of the mean value of the investment portfolio assets as determined following the end of each fiscal year.

SLH and Honor Capital (the direct parent of SLH) have a tax-sharing agreement whereby both companies are included in the consolidated tax filing system of the GHI group.

SLH has a cost-allocation agreement and a service agreement with MNL. The cost-allocation agreement exists so MNL and SLH can share certain personnel, facilities, and/or systems for the benefit of both companies. Each party bills the other quarterly for its share of the allocated costs. Services provided under the service agreement between SLH and MNL are legal, marketing, management consulting, policy administration, and accounting. All services are provided at cost without profit.

SLH has administrative service agreements with its subsidiaries (SIC and SMH) to provide consulting, administrative, general management, accounting and other services for $50,000 per year for each subsidiary. SLH also provides administrative services through a similar agreement with Incopoint (a limited partnership) for $25,000 a year and SLH provides to its subsidiary, GYC, a Delaware limited liability company, administrative services for $2,400 per year.

SLH has an administrative service agreement with SLH Associates Limited Partnership (SLH-ALP). Under the agreement, SLH provides accounting services and tax return preparation. The fee for these services is $2,400 per year.

## V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A description of the significant reinsurance agreements in force at the time of the examination follows. The contracts contained proper insolvency provisions.

**Assuming Contracts**

SLH entered into a 100% coinsurance agreement with Guaranty Income Life Insurance Company (GILICO) on September 30, 2004, under which SLH assumes 100% of a closed block of individual annuity business with a fund value of $40,169,055 as of the closing date. Assets were transferred as of the closing date of the agreement and were reduced by a ceding fee of $1,575,000. SLH is maintaining assets in a custodial account with a market value equal to or greater than 102% of the statutory reserves on the reinsured policies until such time as the assets in the custodial account are less than $5,000,000, at which time SLH may request GILICO’s approval to convert the custodial agreement to a letter of credit. The agreement states that neither party may terminate the agreement, said agreement remaining in force and effect until all of the liabilities related to the agreement have been discharged or have otherwise expired.

SLH entered into a coinsurance agreement with Variable Annuity Life Insurance Company (VALIC), on December 30, 1982, where SLH assumed a certain block of group annuity business. At the same time, SLH entered into a retrocession agreement with Life and Casualty Insurance Company of Tennessee (now known as American General Life and Accident Insurance Company), where SLH retroceded 99% of the block of group annuity business. The coinsurance agreement with VALIC and the retrocession agreement with American General Life and Accident Insurance Company were recaptured by their respective companies effective April 1, 2008.

## 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."

**Southern Life and Health Insurance Company**
**Assets**
**As of December 31, 2012**

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|---|---|---|
| Bonds | $42,310,482 | $ | $42,310,482 |
| Stocks: | | | |
| Preferred stocks | 18,820,035 | | 18,820,035 |
| Common stocks | 16,776,236 | | 16,776,236 |
| Cash, cash equivalents, and short-term investments | 7,865,856 | | 7,865,856 |
| Contract loans | 107,965 | 91 | 107,874 |
| Other invested assets | 353,246 | | 353,246 |
| Receivables for securities | 2,191,834 | | 2,191,834 |
| Investment income due and accrued | 1,263,096 | | 1,263,096 |
| Net deferred tax asset | 1,088,777 | 422,355 | 666,422 |
| Electronic data processing equipment and software | 4,137 | | 4,137 |
| Receivable from parent, subsidiaries and affiliates | 8,623 | | 8,623 |
| Write-ins for other than invested assets: | | | |
| Interest maintenance reserve | 2,258,969 | 2,258,969 | |
| Due from Loughlin Water Partners, L.P. | 3,333 | | 3,333 |
| Total Assets | $93,052,589 | $2,681,415 | $90,371,174 |

**Southern Life and Health Insurance Company**
**Liabilities, Surplus, and Other Funds**
**As of December 31, 2012**

| | | |
|---|---|---|
| Aggregate reserve for life contracts | | $54,619,606 |
| Liability for deposit-type contracts | | 373,657 |
| Contract claims: | | |
| Life | | 1,895,145 |
| Commissions and expense allowances payable on reinsurance assumed | | 103,200 |
| General expenses due or accrued | | 618,863 |
| Taxes, licenses, and fees due or accrued, excluding federal income taxes | | 41,103 |
| Current federal and foreign income taxes | | 241,405 |
| Unearned investment income | | 3,220 |
| Amounts withheld or retained by company as agent or trustee | | 657,745 |
| Liability for benefits for employees and agents if not included above | | 74,253 |
| Miscellaneous liabilities: | | |
| Asset valuation reserve | | 3,440,263 |
| Payable to parent, subsidiaries and affiliates | | 4,167 |
| Payable for securities | | 121,718 |
| Total liabilities | | 62,194,345 |
| Common capital stock | $ 1,600,000 | |
| Preferred capital stock | 3,325,000 | |
| Gross paid in and contributed surplus | 300,000 | |
| Unassigned funds (surplus) | 22,951,829 | |
| Total capital and surplus | | 28,176,829 |
| Total Liabilities, Capital and Surplus | | $90,371,174 |

**Southern Life and Health Insurance Company**
**Summary of Operations**
**For the Year 2012**

| | | |
|---|---|---|
| Premiums and annuity considerations for life and accident and health contracts | | $ 45,387 |
| Net investment income | | 10,280,191 |
| Amortization of interest maintenance reserve | | (737) |
| Miscellaneous income: | | |
| Write-ins for miscellaneous income: | | |
| Miscellaneous income | | 133,133 |
| Total income items | | 10,457,974 |
| | | |
| Death benefits | $2,383,536 | |
| Matured endowments | 406,229 | |
| Annuity benefits | 2,078,221 | |
| Surrender benefits and withdrawals for life contracts | 1,536,302 | |
| Interest and adjustments on contract or deposit-type contract funds | (170,084) | |
| Payments on supplementary contracts with life contingencies | 3,707 | |
| Increase in aggregate reserves for life and accident and health contracts | 1,050,084 | |
| Subtotal | 7,287,995 | |
| | | |
| Commissions and expense allowances on reinsurance assumed | 19,973 | |
| General insurance expenses | 1,015,303 | |
| Insurance taxes, licenses, and fees excluding federal income taxes | 34,015 | |
| Write-in for deductions: | | |
| Increase in reserves-employee benefits | (2,256) | |
| Total deductions | | 8,355,030 |
| | | |
| Net gain (loss) from operations after dividends to policyholders and before federal income taxes | | 2,102,944 |
| | | |
| Federal and foreign income taxes incurred (excluding tax on capital gains) | | 378,308 |
| | | |
| Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses | | 1,724,636 |
| | | |
| Net realized capital gains or (losses) | | 51,039 |
| | | |
| Net Income | | $ 1,775,675 |

**Southern Life and Health Insurance Company**
**Cash Flow**
**For the Year 2012**

| | | | |
|---|---|---|---|
| Premiums collected net of reinsurance | | | $ 45,387 |
| Net investment income | | | 10,119,506 |
| Miscellaneous income | | | 133,133 |
| Total | | | 10,298,026 |
| Benefit- and loss-related payments | | $ 4,394,606 | |
| Commissions, expenses paid, and aggregate write-ins for deductions | | 1,112,100 | |
| Total deductions | | | 5,506,706 |
| Net cash from operations | | | 4,791,320 |
| Proceeds from investments sold, matured, or repaid: | | | |
| Bonds | $16,427,541 | | |
| Stocks | 14,219,032 | | |
| Mortgage loans | 1,136,182 | | |
| Other invested assets | 2,072,219 | | |
| Miscellaneous proceeds | 4,542 | | |
| Total investment proceeds | | 33,859,516 | |
| Cost of investments acquired (long-term only): | | | |
| Bonds | 15,219,697 | | |
| Stocks | 13,415,803 | | |
| Miscellaneous applications | 1,620,251 | | |
| Total investments acquired | | 30,255,751 | |
| Net increase (or decrease) in contract loans and premium notes | | 4,392 | |
| Net cash from investments | | | 3,599,373 |
| Cash from financing and miscellaneous sources: | | | |
| Dividends to stockholders | | 6,532,000 | |
| Other cash provided (applied) | | 517,316 | |
| Net cash from financing and miscellaneous sources | | | (6,014,684) |
| **Reconciliation:** | | | |
| Net change in cash, cash equivalents, and short-term investments | | | 2,376,009 |
| Cash, cash equivalents, and short-term investments: | | | |
| Beginning of year | | | 5,489,847 |
| End of Year | | | $ 7,865,856 |

**Southern Life and Health Insurance Company**
**Compulsory and Security Surplus Calculation**
**December 31, 2012**

| | | |
|---|---|---|
| Assets | | $90,371,174 |
| Less liabilities | | 62,194,345 |
| Adjusted surplus | | 28,176,829 |
| Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds | $536,780 | |
| Compulsory surplus (subject to a $2,000,000 minimum) | | 2,000,000 |
| Compulsory Surplus Excess or (Deficit) | | $26,176,829 |
| Adjusted surplus (from above) | | $28,176,829 |
| 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%) | | 2,800,000 |
| Security Surplus Excess or (Deficit) | | $25,376,829 |

**Southern Life and Health Insurance Company**
**Analysis of Surplus**
**For the Five-Year Period Ending December 31, 2012**

The following schedule details items affecting the company's 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 | $31,784,111 | $32,175,312 | $31,264,401 | $32,809,764 | $35,997,660 |
| Net income | 1,775,675 | 6,250,856 | 4,304,729 | 957,375 | (2,583,209) |
| Change in net unrealized capital gains/losses | 77,603 | (51,557) | 600,608 | 872,354 | (2,923,597) |
| Change in net deferred income tax | (105,547) | (137,382) | (1,092,740) | 279,837 | 383,096 |
| Change in nonadmitted assets and related items | 1,365,051 | 18,531 | 886,282 | 601,440 | 587,670 |
| Change in asset valuation reserve | (188,064) | 60,351 | (555,968) | (1,224,369) | 4,880,144 |
| Surplus adjustments: | | | | | |
| Paid in | | | 300,000 | | |
| Dividends to stockholders | (6,532,000) | (6,532,000) | (3,532,000) | (3,032,000) | (3,532,000) |
| Capital and Surplus, End of Year | $28,176,829 | $31,784,111 | $32,175,312 | $31,264,401 | $32,809,764 |

During the year 2008 the company had a net gain from operations of $368,143 and had realized capital losses of $2,951,352. This resulted in net income for 2008 of $(2,583,209). The 2008 realized capital losses were largely concentrated in the unaffiliated common stock investments owned by the company. After the effect of dividends the company had a 9% decline in capital and surplus in the year 2008.

The year 2012 had a much higher level of benefits than experienced in 2011. The capital and surplus levels of the company will decline due to increased benefit payments as the closed block of business ages and policies obligations are liquidated.

**Southern Life and Health Insurance Company**
**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 | -11%* | -1% | 2% | -5% | -9% |
| #2 | Gross change in capital and surplus | -11* | -1 | 3 | -5 | -9 |
| #3 | Net income to total income | 17 | 63 | 59 | 24 | -1,009* |
| #4 | Adequacy of investment income | 520 | 499 | 334 | 167 | 134 |
| #5 | Nonadmitted to admitted assets | 3 | 4 | 4 | 5 | 2 |
| #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 | 111* | 99 | 97 | 100* | 98 |
| #8 | Surplus relief | 0 | 0 | 0 | 0 | 0 |
| #9 | Change in premium | -10* | 25 | 42 | -50* | 113* |
| #10 | Change in product mix | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| #11 | Change in asset mix | 0.6 | 0.4 | 0.6 | 1.7 | 1.7 |
| #12 | Change in reserving | 0 | 0 | 0 | 0 | 0 |

Ratio No. 1 and Ratio. No. 2 compares the net change and gross change in capital and surplus between years, respectively. Unusual results are those over 50% or under 10%. The exceptional results for 2012 were due to a net decrease in surplus of $3,607,282 compared to 2011 ending surplus. Surplus decreased due to a decrease in net income from the prior year along with a dividend payment.

Ratio No. 3 compares net income to the total income including realized capital gains and losses for a given year. The 2008 result was -1,009% due to the company having a negative total net income of $2,583,209 in 2008, as compared to a positive net income of $2,398,212 in 2007. Total income was negative primarily due to the large change in net realized capital losses of $2,951,352 for 2008.

Ratio No. 7 compares Total Affiliated Investments to Capital and Surplus. An unusual result is over 100%. The company has always maintained a significant portfolio of investments in affiliated companies. Capital and Surplus continues to decrease due to the company's payment of substantial dividends to stockholders each year from 2008 through 2012. Surplus has declined from

$35,997,660 at the beginning of 2008 to $28,176,829 for the end of 2012. Ratio No. 7 was slightly increased for 2009 and 2012 due to this issue.

The results for Ratio No. 9, Change in Premium, for 2008, 2009 and 2012, is primarily due to the company's lack of premium paying policies since the company is no longer writing any new business. A small amount of premium is collected each year for ordinary individual annuities.

**Growth of Southern Life and Health Insurance Company**

| Year | Admitted Assets | Liabilities | Capital and Surplus |
|---|---|---|---|
| 2012 | $ 90,371,174 | $62,194,345 | $28,176,829 |
| 2011 | 90,673,405 | 58,889,294 | 31,784,111 |
| 2010 | 93,535,792 | 61,360,480 | 32,175,312 |
| 2009 | 94,667,022 | 63,402,621 | 31,264,401 |
| 2008 | 96,598,881 | 63,789,117 | 32,809,764 |
| 2007 | 110,959,980 | 74,962,320 | 35,997,660 |

**Net Life Premiums, Annuity Considerations, and Deposits**

| Year | Life Insurance Premiums | Annuity Considerations | Deposit-type Contract Funds |
|---|---|---|---|
| 2012 | $0 | $45,387 | $0 |
| 2011 | 0 | 50,537 | 0 |
| 2010 | 0 | 40,310 | 0 |
| 2009 | 0 | 28,449 | 0 |
| 2008 | 0 | 56,400 | 0 |
| 2007 | 0 | 26,485 | 0 |

**Life Insurance In Force (in thousands)**

| Year | Risk In Force End of Year |
|---|---|
| 2012 | $43,354 |
| 2011 | 45,925 |
| 2010 | 47,920 |
| 2009 | 50,073 |
| 2008 | 52,598 |
| 2007 | 54,945 |

**Accident and Health**

At the time of the examination, SLH had no accident and health business. The company remains in run-off.

The company's admitted assets, liabilities, and surplus have generally decreased each year between 2007 and 2012. The company is not currently marketing direct business and has not assumed additional policies since 2004. SLH's in-force life and annuity business are in run-off status.

Premium income reported for 2008 through 2012 was for additional annuity considerations on an existing block of assumed annuities. The company's life insurance business consists of either paid-up or extended term policies and no premium income was reported for 2008 to 2012. The company provided projected run-off of reserves and policyholder claims until 2020. That projection indicated reserves will continue for a substantial period of time after that 2020 period. The company expects that surplus will be adequate to run off all policies.

**Reconciliation of Surplus per Examination**

The following schedule is a reconciliation of surplus between that reported by the company and as determined by this examination:

| | | | |
|---|---|---|---|
| Surplus December 31, 2012, per annual statement | | | $23,251,829 |
| | **Increase** | **Decrease** | |
| Surplus | $ | $(304,047) | |
| Net increase or (decrease) | $ | $(304,047) | (304,047) |
| Surplus December 31, 2013, per examination | | | $22,947,782 |

The surplus at this company was adjusted for equity recorded in GYC of $304,047, which did not have a U.S. GAAP audit and therefore the value was reduced to zero.

There were no examination reclassifications as a result of this examination.

## VII. SUMMARY OF EXAMINATION RESULTS

**Compliance with Prior Examination Report Recommendations**

There were two 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. Affiliated Companies—It is recommended the company properly complete Column 8 of Schedule Y, according to the NAIC Annual Statement Instructions – Life, Accident and Health.

   Action—Compliance.

2. Other Invested Assets—It is recommended that the company disclose the percentage of ownership for all limited partnerships in accordance with the NAIC Annual Statement Instructions – Life, Accident and Health.

   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.

**Accounts and Records**

The review of the company's annual statements for the period under examination noted that the company has been recording the outstanding escheat liability amount under Liabilities, line 17, as amounts withheld or retained by the company as agent or trustee. According to the NAIC Annual Statement Instructions – Life, Accident and Health, this escheat liability should be recorded as a Write-In, line 25, for liabilities. It is recommended that the company report its outstanding escheat liability under Write-Ins, line 25, in accordance with the NAIC Annual Statement Instructions – Life, Accident and Health.

**Affiliated Companies**

The review of the cost allocation agreement between SLH and MNL, revealed that the agreement contained ambiguous language regarding compensation terms and also failed to identify settlement terms regarding a payment date. According to SSAP No. 25, paragraph 7, "Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date." It is recommended that the company amend its existing cost allocation agreement with MNL, in accordance with SSAP No. 25, paragraph 7.

The examination review of GYC, LLC., a U.S. noninsurance SCA, noted that GYC did not have an audit. According to SSAP No. 97, paragraph 8 (b) (iii), subsidiaries are to be recorded at audited GAAP equity value. An exam adjustment to reduce surplus by $304,047 is reflected in the "Reconciliation of Surplus per Examination." It is recommended that the company value GYC, LLC, based on the audited U.S. GAAP equity of the investee, in accordance with SSAP No. 97, paragraph 8 (b) (iii), in future annual statements.

**Asset Adequacy Analysis**

The consulting actuary's review included the company's asset adequacy testing. For their review the consulting actuary obtained a copy of SLH's 2012 Actuarial Memorandum including Asset Adequacy Analysis which was prepared by its actuary. Based on that review, the actuary accepted SLH's conclusion that additional actuarial reserves of $3.9 million were required as of December 31, 2012. The consulting actuary also noted some areas for improvement on future Actuarial Memoranda. Pursuant to s. Ins 50.79, Wis. Adm. Code, it is recommended that future Actuarial Memoranda:

a. Include a table of actuarial liabilities net of reinsurance ceded as of the valuation date showing the amounts tested and the amounts;

b. Contain product descriptions, including market, underwriting and other aspects of a risk profile for all products and the specific risks associated with the products that the appointed actuary deems significant; and

c. Include an analysis of the sensitivity of variations in some of the critical assumptions such as mortality, persistency, returns on preferred stock and expenses.

## VIII. CONCLUSION

The examination resulted in adjustment to surplus of $304,047. Surplus was reduced to $22,947,782, to properly reflect the unaudited GAAP equity value of GYC, LLC, in accordance with SSAP No. 97, paragraph 8, (b) (iii). The company complied with all of the prior examination recommendations. This examination resulted in four recommendations. The recommendations deal with Accounts and Records, Affiliated Companies, and Asset Adequacy Analysis.

The company's admitted assets, liabilities, and surplus have decreased since the prior examination, with only two minor exceptions. The company's in-force life and annuity business is in run-off status. In addition, SLH is not currently marketing direct business and has not assumed additional policies since 2004.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - Accounts and Records—It is recommended that the company report its outstanding escheat liability under Write-Ins, line 25, in accordance with the NAIC Annual Statement Instructions – Life, Accident and Health.

2. Page 24 - Affiliated Companies—It is recommended that the company amend its existing cost allocation agreement with MNL, in accordance with SSAP No. 25, paragraph 7.

3. Page 24 - Affiliated Companies—It is recommended that the company value GYC, LLC, based on the audited U.S. GAAP equity of the investee, in accordance with SSAP No. 97, paragraph 8 (b) (iii), in future annual statements.

4. Page 25 - Asset Adequacy Analysis—Pursuant to s. Ins 50.79, Wis. Adm. Code, it is recommended that future Actuarial Memoranda:

   a. Include a table of actuarial liabilities net of reinsurance ceded as of the valuation date showing the amounts tested and the amounts;

   b. Contain product descriptions, including market, underwriting and other aspects of a risk profile for all products and the specific risks associated with the products that the appointed actuary deems significant; and

   c. Include an analysis of the sensitivity of variations in some of the critical assumptions such as mortality, persistency, returns on preferred stock and expenses.

## 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 |
|---|---|
| Angelita Romaker | Insurance Financial Examiner |
| Scott Bleifuss | Insurance Financial Examiner |
| Thomas R. Houston | IT Specialist |
| Jerry C. DeArmond | Examiner – Advanced, Reserve Specialist |
| Frederick H. Thornton | Examiner – Advanced, Workpaper Review Specialist |

Respectfully submitted,

Richard A. Onasch, CFE
Examiner-in-Charge