

**STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
MONTGOMERY, ALABAMA**

**REPORT OF EXAMINATION OF**

**MUTUAL SAVINGS LIFE INSURANCE COMPANY**

**ST. LOUIS, MISSOURI**

**AS OF DECEMBER 31, 2014**

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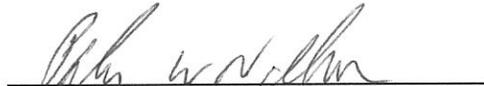
**EXAMINER'S AFFIDAVIT**

**STATE OF ALABAMA  
COUNTY OF MONTGOMERY**

Palmer W. Nelson, CFE, being duly sworn, states as follows:

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

The affiant says nothing further.

  
\_\_\_\_\_  
Examiner-in-charge

Subscribed and sworn before me by Palmer W. Nelson on this 11th day of February, 2016

(SEAL)

  
\_\_\_\_\_  
(Signature of Notary Public)

My commission expires 04/27/19\_\_\_\_\_.



**ROBERT BENTLEY**  
GOVERNOR

**JIM L. RIDLING**  
COMMISSIONER

**STATE OF ALABAMA**  
**DEPARTMENT OF INSURANCE**  
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DEPUTY COMMISSIONER  
**CHARLES M. ANGELL**

CHIEF EXAMINER  
**RICHARD L. FORD**

STATE FIRE MARSHAL  
**EDWARD S. PAULK**

GENERAL COUNSEL  
**REYN NORMAN**

Montgomery, Alabama  
February 11, 2016

Jim L. Ridling, Commissioner  
Alabama Department of Insurance  
201 Monroe Street, Suite 502  
Montgomery, AL 36104

Dear Commissioner:

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

Mutual Savings Life Insurance Company  
St. Louis, Missouri

at its home office located at 12115 Lackland Road, St. Louis, Missouri 63146 as of December 31, 2014. The report of examination is submitted herewith. Where the description "Company" appears herein without qualification, it will be understood to indicate Mutual Savings Life Insurance Company.

EQUAL OPPORTUNITY EMPLOYER

## SCOPE OF EXAMINATION

We have performed our multi-state examination of Mutual Savings Life Insurance Company. The last examination covered the period of January 1, 2005 through December 31, 2009. The current examination covers the period of January 1, 2010 through December 31, 2014.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama, 1975*, as amended, the Alabama Insurance Department regulations, bulletins and directives, and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

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

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology systems (IT) was conducted concurrently with the financial examination. The IT examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory and plan of operation, management and operations, claims, complaint handling, marketing and sales, policyholder services, producer licensing, underwriting and rating, and privacy standards.

Deloitte & Touch, LLP was the Company's certified public accountants (CPAs) for the years under examination. The examiners reviewed the CPAs' workpapers, copies of which were incorporated into the examination as deemed appropriate.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2014.

## ORGANIZATION AND HISTORY

The Company was incorporated on January 8, 1927, under the laws of the State of Alabama governing mutual aid insurance companies. The original Certificate of Incorporation was filed for record in the office of the Judge of Probate of Morgan County, Alabama, on December 28, 1926. The Company commenced business on January 10, 1927, with initial paid up capital of \$6,000.

The purpose of the corporation, as stated in the Certificate of Incorporation, was to do business as a mutual aid, benefit or industrial company or association, with the powers and privileges prescribed by the State of Alabama.

Since the date of organization, various changes in the authorized capital stock of the Company have been approved by the stockholders, as evidenced by amendments to the Certificate of Incorporation. The authorized capital stock at the date of organization, as set forth of the Certificate of Incorporation, was \$20,000, comprised of 200 shares of \$100 par value per share common stock.

On March 11, 1944, the stockholders adopted a resolution amending the Certificate of Incorporation to permit the Company to qualify as a legal reserve life insurance company with paid up capital of \$100,000.

An amendment to the Certificate of Incorporation was approved by the stockholders on March 4, 1965, which authorized the capital of the Company to be \$3,000,000, comprised of 3,000,000 shares of \$1 par value per share common stocks.

From January 6, 1971, to December 28, 1979, the Company repurchased and retired 857,545 shares of capital stock at an aggregate cost to the Company of \$7,983,465.70, for an average cost per share of \$9.31.

On December 31, 1986, the Company purchased Southern United Life Insurance Company (SULIC), Montgomery, Alabama, and its subsidiary, Southern United Fire Insurance Company (SUFIL), Montgomery, Alabama, and moved both companies' operations to Decatur, Alabama in 1987. The Company entered into an Assumption Reinsurance Agreement with SULIC, which was executed on December 31, 1986, and effective on January 1, 1987, whereby the Company assumed all of SULIC's in force ordinary and industrial life and health insurance. SUFIL was sold to an unrelated party on December 30, 1992.

As of December 31, 2002, the Company had two surplus notes issued to Primesco, Inc., totaling \$37,477,652. In March, 2003, the Executive Committee of the Board of Directors of Primesco took action to cancel the indebtedness owed by the Company totaling \$37,477,652, and deemed the funds a permanent contribution to the surplus of the Company.

On December 30, 2003, the Company issued a \$7 million surplus note to Primesco in exchange for cash. Principal and interest payments were subject to prior approval by the Alabama Commissioner of Insurance and principal cannot be repaid until surplus levels exceeding \$35 million are met. The rights of Primesco to the principal sum and/or accrued interest thereon are and shall remain subject to and subordinate to all other liabilities of the Company. On December 22, 2005, the Executive Committee of the Board of Directors of Primesco took action to cancel the indebtedness and considered the funds a permanent contribution to the surplus of the Company.

Mutual Savings Group, Inc. (MSG), a Delaware corporation, was organized in 1988, with its Certificate of Incorporation filed for record on September 14, 1988. MSG was organized by the Company for the purpose of facilitating a leveraged buy-out (LBO) of control of the Company by the Company's Employee Stock Ownership Plan (ESOP). MSG's initial capitalization in the amount of \$1,261,191 was provided by the Company. In a transaction effective September 30, 1988, the Company contributed 100% of MSG to the ESOP. Prior to the LBO, the ESOP owned 219,191 shares of the Company's stock. On September 30, 1988, the ESOP borrowed \$56,500,000 (referred to as the ESOP Funding Arrangement) to purchase 611,472 shares of the Company's stock, and purchased an additional 17,735 shares for cash, giving the ESOP a total of 848,398 shares of the Company's stock. MSG then entered into a five-for-one stock swap with the Company's ESOP, in which MSG gave five newly issued shares of its stock (848,398 shares) owned by the ESOP. This transaction was effective on September 30, 1988, and as a result, MSG initially acquired 75.2% of the common stock of the Company, and the ESOP acquired 99.75% of the outstanding common stock of MSG.

As part of a settlement in 1996 of a class action lawsuit filed in 1984, the Company conveyed equity in the Company to the plaintiffs (Class Members) amounting to approximately thirty-three percent of the total equity of the Company. The Court entered an order approving the settlement agreement on February 6, 1997. The order became final, and the settlement agreement became effective on March 21, 1997.

The settlement agreement, as approved by the court, provided for the following:

- a) The issuance by the Company to a Trustee for the benefit of the beneficiary class, 141,653 shares of new, dividend paying, non-voting class of common stock (Class B stock).
- b) The issuance by the Company to a trustee for the benefit of the policyholder class, 400,000 warrants to acquire Class A stock of the Company.
- c) The reformation of all outstanding burial policies to provide that the Company will pay cash, equal to the face value of said policy, rather than the funeral services or merchandise, as provided under the policies.
- d) The release of all claims that were or could have been asserted by or on behalf of any class member against the Company with respect to any burial policy.
- e) The payment by the Company of \$2.5 million to the plaintiff's attorneys for fees and expenses.

The Company retained the services of Willamette Management Associates (WMA), an independent valuation expert, to issue an opinion on the fair value of the Class B common stock and warrants. They concluded that the fair value of the Class B common stock was \$3.1 million, and the fair value of the warrants was \$7.5 million. The Class B stock and warrants were to be converted into either Class A stock of the Company or common stock of MSG. The converted stock will then be sold as directed by the Company and the proceeds distributed in cash to the class members.

On December 4, 1998, Primesco acquired through a cash tender offer and merger, 100% of the outstanding common stock of MSG and, by virtue of that transaction and Primesco's related cash tender offer for the class A common stock of the Company, Primesco became the owner of approximately 95% of the Class A common stock of the Company. Primesco's acquisition of MSG and the Company resulted in the termination of the ESOP. As part of the acquisition, Primesco

repaid the indebtedness arising from the 1988 LBO of the Company by the ESOP to include \$7,000,000 owed to the Company by the ESOP. In connection with the repayment of the LBO indebtedness, the common stock of MSG and the common stock of the Company pledged to secure such indebtedness was released. MSG merged with and into Primesco, and the separate existence of MSG ceased.

During 1999, management proceeded with its plan for the Company to repurchase the minority interest not owned by Primesco. The repurchase of 43,579 shares of Class A common stock as fractional shares in connection with the reverse stock split of the Class A common stock split reduced capital and surplus by approximately \$2.5 million. The Company also redeemed a warrant, which reduced capital and surplus by approximately \$5.0 million. These transactions were funded in part, by two surplus notes from Primesco totaling approximately \$10.5 million. The notes pay interest quarterly at annual rates ranging from 7.75% to 8.5% subject to the approval by the Alabama Commissioner of Insurance. Any repayment of principal is subject to approval by the ALDOI and may be paid only out of the Company's earned surplus in excess of \$35 million. As a result of these transactions, Primesco owned 100% of the Class A common stock of the Company (with the Class B common stock and the warrant being retired).

To acquire MSG and the Company, Primesco obtained equity funds of approximately \$11.6 million from investors, exchanged shares of common stock of Primesco for shares of common stock of the Company valued at an aggregate amount of \$5,911,626, and obtained a \$50.8 million line of credit from Colonial Bank, all of which was outstanding at December 31, 2000. The loan from Colonial Bank was amortized over a period of 15 years (with a balloon payment at the end of five years), and was secured by all of the outstanding capital stock of the Company owned by Primesco. A separate loan for \$6.0 million was due in one installment on January 1, 2001, and was subsequently extended to January 1, 2002, with interest due July 1, 2001, and at maturity.

The surplus notes were amended in 2001 to provide that the repayment of principal will be made only if the Company's earned surplus exceeds \$55 million. Also, the loan agreement with Colonial Bank was renegotiated in October 2001. The loan continued to amortize over a period of fifteen years, with the balloon payment due on December 31, 2006. All outstanding loans were consolidated into one loan of \$75 million, and Primesco obtained an additional line of credit pursuant to a revolving credit agreement of \$10 million from Colonial Bank.

On December 23, 2003, Colonial Bank increased the amount that could be drawn under the revolving credit loan to \$17 million. The Company and Primesco requested that Colonial Bank issue an irrevocable standby letter of credit (LOC) to Liberty Mutual Insurance Company, whereby the LOC was secured by a pledge agreement. The revolving credit loan was now set to mature on November 10, 2005.

On October 30, 2001, the Company acquired a block of policies from Atlanta Life Insurance Company (Atlanta Life) through a coinsurance/assumption agreement (Agreement). The service agreement portion of the Agreement required the Company to provide all servicing for policies transferred to the Company. The financial aspects of the transaction transferred approximately \$121 million in policy reserves and other liabilities along with approximately \$95.3 million in assets with the difference of \$25.7 million being a ceding fee to Atlanta Life. The ceding fee was a direct charge to operations in the last quarter 2001. The acquisition was funded by the Company's issuance of a surplus note to Primesco (the Company's parent) for \$27 million in cash.

On December 7, 2001, the Company closed on an assumption reinsurance agreement with Spry Life & Accident Insurance Company, Inc. (Spry) where the Company bulk reinsured and permanently assumed all of the policies of Spry. There were approximately 28,000 paid up policies with approximately \$2.7 million in policy liabilities assumed. Cash was transferred to cover all policy liabilities, less approximately \$268,000 which was a ceding fee paid to acquire the policies.

During March 2008, a form "A" filing made by Unitrin, Inc. was approved by the Alabama Department of Insurance. On April 1, 2008, Primesco, Inc. was acquired by Unitrin, Inc., a Delaware corporation. On June 1, 2009, United Insurance Company of America purchased the Company from Primesco.

The Company's authorized capital has not changed during the five year period covered by this examination. At December 31, 2014, the Company's Annual Statement reflected outstanding capital stock totaling \$2,093,426 consisting of 1,046,713 shares of \$2 par value common stock; Gross paid in and contributed surplus of \$45,109,276; and, Unassigned funds of \$(15,571,477).

## **MANAGEMENT AND CONTROL**

### **Stockholders**

The Company is a stock corporation with ultimate control vested in its stockholders. At December 31, 2014, 100% of the Company's issued and outstanding common stock was owned by United Insurance Company of America (UICA), an Illinois corporation. UICA is 100% owned by Kemper Corporation, which is the ultimate parent of the Company.

### **Board of Directors**

Members elected to the Board of Directors by the sole shareholder and serving at December 31, 2014, were as follows:

| <u>Director</u>        | <u>Residence</u>          | <u>Principal Occupation</u>  |
|------------------------|---------------------------|--|
| Charles Stanley Belter | Birmingham, Alabama       | Kemper Home Service Companies District Manager                           |
| John Michael Boschelli | Geneva, Illinois          | Senior Vice President and Chief Investment Officer of Kemper Corporation |
| Thomas David Myers     | University City, Missouri | President of Mutual Savings Life Insurance Company                       |

## Committees

No committees of the board were appointed during the examination period. The audit committee of Kemper Corporation includes in its charter the purpose of providing oversight for each of the insurance subsidiaries, including the Company.

## Officers

Officers of the Company elected by the Board of Directors and serving at December 31, 2014 were as follows:

| <u>Officer</u>        | <u>Title</u>          |
|-----------------------|-----------------------|
| Thomas David Myers    | President             |
| Clark Hubbard Roberts | Treasurer             |
| Scott Forrest Snider  | Secretary             |
| John Robert Camillo   | Senior Vice President |
| James Joseph Collins  | Senior Vice President |
| Kyle Douglas Conrad   | Senior Vice President |
| Tal Brian Kaufman     | Senior Vice President |
| Richard John Miller   | Senior Vice President |
| Deborah Lynn Quaglia  | Senior Vice President |

## Management and Service Agreements

The following agreements between the Company and its affiliates were in effect at the December 31, 2014 examination date.

### Insurance Administrative Agreement

An Insurance Administrative Agreement was made and entered into as of September 1, 2008 by and between the Company and United Insurance Company of America (UICA). This agreement was first filed with the Alabama Department of Insurance on July 21, 2008, and was approved on July 29, 2008.

Under the terms of the agreement, UICA will provide the following administrative services:

- Underwriting services for the issuance of Life and Accident and Health insurance policies in accordance with the underwriting guidelines.
- Print policies, forms, and supplies bearing the Company's logo. The policies, forms, and supplies will remain the sole property of the Company.
- Properly rate and issue policies, binders, and endorsements in accordance with the Company's procedural guidelines and will administer and service all the Company's life business.
- Data processing support necessary for the timely servicing of the Company's business.
- Maintain a phone center at its administrative office to assist and aid in responding to all inquiries received by field personnel and customers.

- Defend, adjust, settle, and pay all new and existing claims.
- Compile all statistical data necessary to comply with all financial and regulatory reporting requirements.
- Legal support for all life business and see that the operations conducted by the Company are in compliance with all applicable laws and regulations.

The Company will reimburse UICA for all direct, shared, and out-of-pocket expenses. Any expenses payable by the Company on which an amicable understanding or settlement cannot be reached will be settled by a certified independent public accounting firm not currently representing either party.

The book of records will be maintained by UICA and the Company. The books of UICA will be owned and remain the separate property of UICA and the records of the Company will be owned and remain separate property of the Company. The records of the Company and data associated with such records will be maintained and made available to the Alabama Commissioner of Insurance or the Commissioner's designees.

The Company will indemnify and hold UICA harmless from and against any and all liability, loss, costs, damages, claims, suits, and other legal proceedings, attorney fees, and expenses of any kind or nature to which UICA may become subject as a result of the provisions of services under the agreement, other than as a result of UICA's willful misconduct or gross negligence.

The agreement will be unlimited as to its duration unless terminated by either party upon not less than thirty days prior written notice to the other. The agreement may be amended from time to time by a written instrument executed by the parties to the contract.

The agreement shall be construed, interpreted, and enforced in accordance with the laws of the State of Alabama, excluding any choice or law rules that may direct the application of the laws of another jurisdiction.

### Service Agreement

A service agreement was made and entered into as of December 12, 2012, by and the Company and Kemper Corporate Services (formerly known as Unitrin Services Company) (KCS). The agreement was first filed with the Alabama Department of Insurance on November 13, 2012 (amendments filed December 5 & 6, 2012), and Alabama Department of Insurance approved in correspondence dated December 13, 2012.

According to the terms of the agreement, the Company will receive and pay for the following services:

- General Services: administration of post-retirement life and medical benefits, automobile fleet management, benefit plan regulatory reporting and support, capital project review and evaluation, cash management and bank relations, corporate secretarial functions, financial accounting and reporting, financial planning and analysis of results of operations, human resource management (including recruitment, training, and salary and performance administration), internal audit including field audit, investment accounting, legal support and

advice, loss reserving and actuarial reports and opinions, maintenance of benefit plans (such as life, health, disability, pension, and savings benefit plans), payroll processing and administration, purchasing and accounts payable, real estate management, risk management (including corporate insurance), tax accounting and tax advice, tax return preparation, trade execution and investment analysis, and consulting services in other areas, including, but not limited to media relations, branding initiatives, and other corporate functions. In exchange for these general services, the Company agrees to pay KCS its share of the corporate expenses as follows.

The Company agreed to pay KCS its share of the corporate expenses incurred by KCS for the benefit of its affiliates. The charges and fees shall be fair and reasonable; the corporate expenses associated with such general services shall be allocated in a fair and reasonable basis in conformity with customary insurance practices, and shall include no added profit factor or markup. Direct expenses shall be charged on an actually incurred basis. Out of pocket expenses shall be reimbursed based on those directly attributable to the Company. Shared or indirect expenses shall be apportioned to Company based on cost studies, usage metrics of services provided, transactions processed, hours worked and/or any other generally accepted allocation method, in accordance with the Statement of Statutory Accounting Principles (SSAP) No. 70 (or any successor SSAP replacing or amending SSAP No. 70) including, but not limited to those based on earned or written premium, net investment income, special studies of employee activities, salary ratios, premium ratios (earned or written premiums), number of employees or participants, assets, or equity.

- Computer and Information Technology Services: KCS will provide data processing and other information technology services ("computer services") to the Company using the following components (the "Systems") as KCS may from time to time maintain at any facilities of its own or of its subsidiaries, affiliates or contractors: Mainframe, midrange and minicomputer and other central processors and controllers; data storage devices, cartridge and tape drives; MVS, UNIX, and other operating system software; database management software (exclusive of applications running under such software); CICS and other transaction processing software; groupware, middleware, and network software; routers and other network and telecommunications equipment and lines located at its data center facilities; and internet and intranet access software and systems. Company, or KCS at its option, shall supply terminals, personal computers, workstations, monitors, modems, printers and other equipment necessary to use the Systems ("Company Equipment").

To the extent possible, the Company may run batch processing jobs on the Systems, as well as real time operations. KCS will supply personnel for computer operations, network operations, network security, consulting services, general Systems support and consultation, and any other services deemed necessary for the efficient operation of KCS' provision of the Computer Services, provided, however, the Company shall otherwise be responsible for performing its own operations with and on the Systems. The Company may access the Systems during hours published by KCS, which hours may be changed by KCS from time to time at its discretion. KCS will cooperate to the extent reasonably practicable for use of the System outside such hours.

KCS shall have sole responsibility for maintaining the Systems. The Company or KCS at its option, shall have responsibility for maintaining Company Equipment. The Company shall select applications software after consulting with KCS to determine compatibility with the Systems, and for loading it on the Systems, maintaining, debugging, modifying, and otherwise using such software. The Company will be responsible for conforming to KCS' published policies, and shall access the Systems using said policies. KCS will perform regular backup of the Systems, and agrees to assist the Company in backing up whatever applications software and data the Company may have on the Systems, provided that the Company shall remain solely responsible for determining the applications and data to be backed up, the frequency of such backups, and the verification of such backups.

- **Equipment:** KCS may at the Company's request, purchase, lease, license, or otherwise acquire computer hardware and equipment ("Equipment") on behalf of the Company. Said equipment may be installed at any location within the United States that the Company may request. Equipment may include, but not be limited to: mainframe computers, midrange computers, minicomputers, personal computers, computer workstations, data storage devices, drives, tapes, cartridges, laser disk devices, "juke boxes", monitors, printers, plotters, modems, multiplexers, telecommunications devices, scanners, imaging systems, local and wide area network equipment, as well as cable, connectors, chips, cards, boards, and any operating software or utilities relating to any of the foregoing.
- **Software:** KCS may, at the Company's request, license or otherwise acquire computer software ("Software"). The license for such Software and any agreements may contain reasonable terms and conditions agreeable to KCS relating to: the cost, duration and type of license; transferability of the license; vendor warranties and indemnities; maintenance and support obligations of the vendor; options, discounts, or credits on future licenses by the Company, KCS or affiliates; acquisition of software on an evaluation basis; and the right of the licensee to obtain source code upon events of default by the vendor (source code escrows).

The licensee under such license may be KCS, the Company, or an affiliate, provided that the Company acquires necessary usage rights. The license of any Software may allow the use of such Software by any affiliate of KCS or the Company, or the right of any such entities to license or acquire additional copies of Software, so long as the Company's usage rights aren't impeded.

- **Consulting and Other Services:** KCS shall provide information technology consulting and related services to the Company through its data center employees and other technical personnel, subject to the availability of personnel. Such services shall include: pre-acquisition evaluation of Equipment or Software; negotiation or advice concerning the terms and conditions of proposed acquisitions of Equipment or Software; implementation and/or installation of Equipment or Software; advice or assistance in the use, maintenance, enhancement, reconfiguration, or replacement of Equipment or Software; advice and assistance relative to network, data and systems security issues; and advice and assistance with disaster recovery capabilities.

- **Service Charges:** As consideration for Computer Services provided above, the Company agrees to pay KCS its share of the corporate expenses as follows: The fees shall be fair and reasonable, shall be allocated in accordance with the provisions of Alabama Insurance Laws and Regulations, and shall include no added profit factor or markup. Direct expenses will be charges on an actually incurred basis; out of pocket expenses shall be reimbursed based on those directly attributable to the Company. Shared expenses will be apportioned to the Company based on cost studies, usage metrics, transactions processed, hours worked, and/or any other generally accepted allocation method in accordance with regulations.
- **Service Charges for Data Processing and Systems-Related Services:** If KCS elects to bill the company based on service projections, it shall project its costs for maintaining and operating the Systems annually (or other such frequency), and shall invoice the Company no frequently less than monthly for its proportional share, plus any direct costs. The Company shall be invoiced for all taxes, if any, levied on KCS with respect to the Company's usage of the Systems. Within 45 days after the end of each calendar quarter, KCS shall reconcile its budgeted cost and the Company's projected usage with KCS' actual cost and the Company's actual usage for said period, and should the usage be less than budgeted, KCS will reimburse the Company or apply such excess for the Company's usage for the following period. Should usage be greater than budgeted, KCS will bill the Company for usage in excess of budgeted.
- **Service Charges for Equipment and Software Acquisitions Costs:** at KCS' discretion, KCS may bill the Company for either: a) its proportionate amount of the cost of Equipment or Software, including shipping charges, sales and similar taxes, b) its proportionate share of KCS' lease or license cost for Equipment or Software, or c) a reasonable depreciation charge for Equipment or Software. In no event shall the cost to the Company for any acquisition by KCS of Equipment or Services be at terms less favorable than the Company could reasonably be expected to receive if it were to acquire such Software or Equipment directly.
- **Service Charges for Consulting and Other Services:** KCS may assess reasonable charges in relation to services rendered above, which shall be the blended hourly rate based on the average salary and employee benefit cost of KCS' information technology personnel, plus any applicable overhead costs, not to exceed the total hourly rate of \$250.00, adjusted annually for inflation, based on the consumer price index.
- **General Provisions:** For purposes of this agreement, an "affiliate" of KCS or the Company shall mean any corporation or other person controlling, controlled by, or under common control with either of them.

The Company agrees that any services to be provided by KCS may be outsourced, provided: 1) KCS shall remain primarily liable for the performance of services, 2) any affiliate-performed service shall be subject to regulatory approval, 3) affiliate-performed services will be charged at actual cost, without markup or profit, and third-party-provided services shall be charged at prices and on terms no less favorable than the Company could be expected to receive if the Company were to acquire such services directly from the third party.

KCS and the Company agree that the terms of the agreement are fair and reasonable, and shall be unlimited in duration unless terminated by either party with not less than 60 days' prior written notice. The agreement may be amended from time to time, subject to the approval of both parties and any regulatory authorities.

Invoices for services previously described shall be forwarded on or before the 30th day of the month following the date the services were rendered or costs incurred. Payment for such invoices shall be due 30 days after receipt of invoices. KCS and the Company shall maintain separate books, and each company's books shall remain each company's separate property. The records will be made available upon request to the Alabama Commissioner of Insurance or the Commissioner's designees. KCS shall hold the Company harmless for any damages, judgments, settlements, costs and expenses that arise out of or result from KCS' negligence or intentional misconduct in providing the services in the agreement. If any part of the agreement is contrary to applicable law or regulation, the provision shall not apply and shall be omitted to the extent that it is contrary to law, but the remainder of the agreement shall be valid, and remain in force. The agreement shall be interpreted in accordance with the laws of the State of Alabama, excluding any choice of law rules that may direct the application of the laws of another jurisdiction.

#### Federal Income Tax Agreement

Agreement entered into effective tax year ending December 31, 1995 between Unitrin, Inc. (Parent), and United Insurance Company of America, Financial Indemnity Company, The Pyramid Life Insurance Company, Trinity Universal Insurance Company of Kansas, Inc., Southern States General Agency, Inc., Southern States Finance Corporation, Fireside Securities Corporation, Fireside Thrift Co., Fireside Mortgage Loans, United Casualty Insurance Company of America, Union National Life Insurance Company, Lehigh Valley Insurance Company, Milwaukee Insurance Group, Inc., Milwaukee Safeguard Insurance Company, Milwaukee Guardian Insurance, Inc., Alpha Property & Casualty Insurance Company, USA Insurance Services, Inc., and Union National Fire Insurance Company (referred to collectively as "Affiliates").

Agreement is to establish a method of payment of taxes under various Sections of Internal Revenue Service (IRS) Code, as a consolidated group for Federal Income Tax (FIT), rather than individually. All Affiliate members of the group will pay to the Parent the amount of regular FIT, or receive from the Parent the amount of refund of regular FIT, that they would have paid/received had the Affiliates filed FIT returns on their own. This applies to FIT, Alternative Minimum Tax, and Environmental Tax. Affiliates will have use of their own operating losses and other tax credits; the accrual method of accounting will be used. The Affiliates shall settle estimated FIT payments on or about the 15th day of April, June, September, and December of each year, with an additional settlement on or about March 15th the following year with the filing of the annual FIT return or extension, and will be made via check or wire transfer. The FIT records will be maintained at the Parent's home office.

An amendment to the Federal Income Tax Agreement entered into December 31, 1995 between Kemper (f/k/a Unitrin, Inc.) ("Parent") certain affiliates ("Affiliates") was entered into in order to establish the method of settlement of Federal Income Tax (FIT) payments and refunds between Parent and Affiliates. Mutual Savings Fire Insurance Company (MSFIC), and Mutual Savings Life Insurance Company (MSLIC) (together, "New Affiliates") became indirect, wholly-owned

subsidiaries of Parent on April 1, 2008. New Affiliates are eligible to join the consolidated FIT return with Parent once they have been members of the affiliated group for a period of 5 full taxable years from the date of acquisition. New Affiliates will be included in the Consolidated FIT return with Parent for the calendar year ending December 31, 2014, commencing with the FIT return due March 15, 2015, or the date to which said return may be extended.

It is agreed as follows:

- Parent consents to New Affiliates becoming parties to the Agreement.
- Each of the New Affiliates agrees to the terms and conditions of the Agreement and shall be included within the term Affiliates as used in the Agreement.
- The Amendment shall apply commencing with the consolidated FIT Parent group return for the calendar year ending December 31, 2014, with the return being due March 15, 2015, or such date as it may be extended.
- Except as above, all terms and conditions of the Agreement remain in full force and effect.
- A copy of the Amendment shall be attached to and become part of the Agreement.
- The Amendment may be executed in one or more counterparts, each will be deemed an original, all of which taken together shall constitute one and the same instrument.

### **Conflicts of Interest**

Annually, Conflict of Interest Statements are distributed to directors, officers and employees of the Company who are required to complete, sign and return the statement to the respondent within 30 days. A review of the Conflict of Interest Statements signed by directors and officers for the years 2010 through 2014 indicated the Company could not provide signed copies of the conflict of interest statements for 2011 for two directors. The Company was not in compliance with ALA. ADMIN. CODE 482-1-118.3 (1999), which states:

Every insurer, which term shall include every domestic insurer, ... or any legal entity regulated by the Insurance Code and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer's financial condition may be readily ascertained by the Department of Insurance, taking into consideration other records retention requirements. All records must be maintained for not less than five (5) years.

### **CORPORATE RECORDS**

The Articles of Incorporation and By-Laws and amendments thereto were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations. There were no amendments since the last examination.

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

**HOLDING COMPANY AND AFFILIATE MATTERS**

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

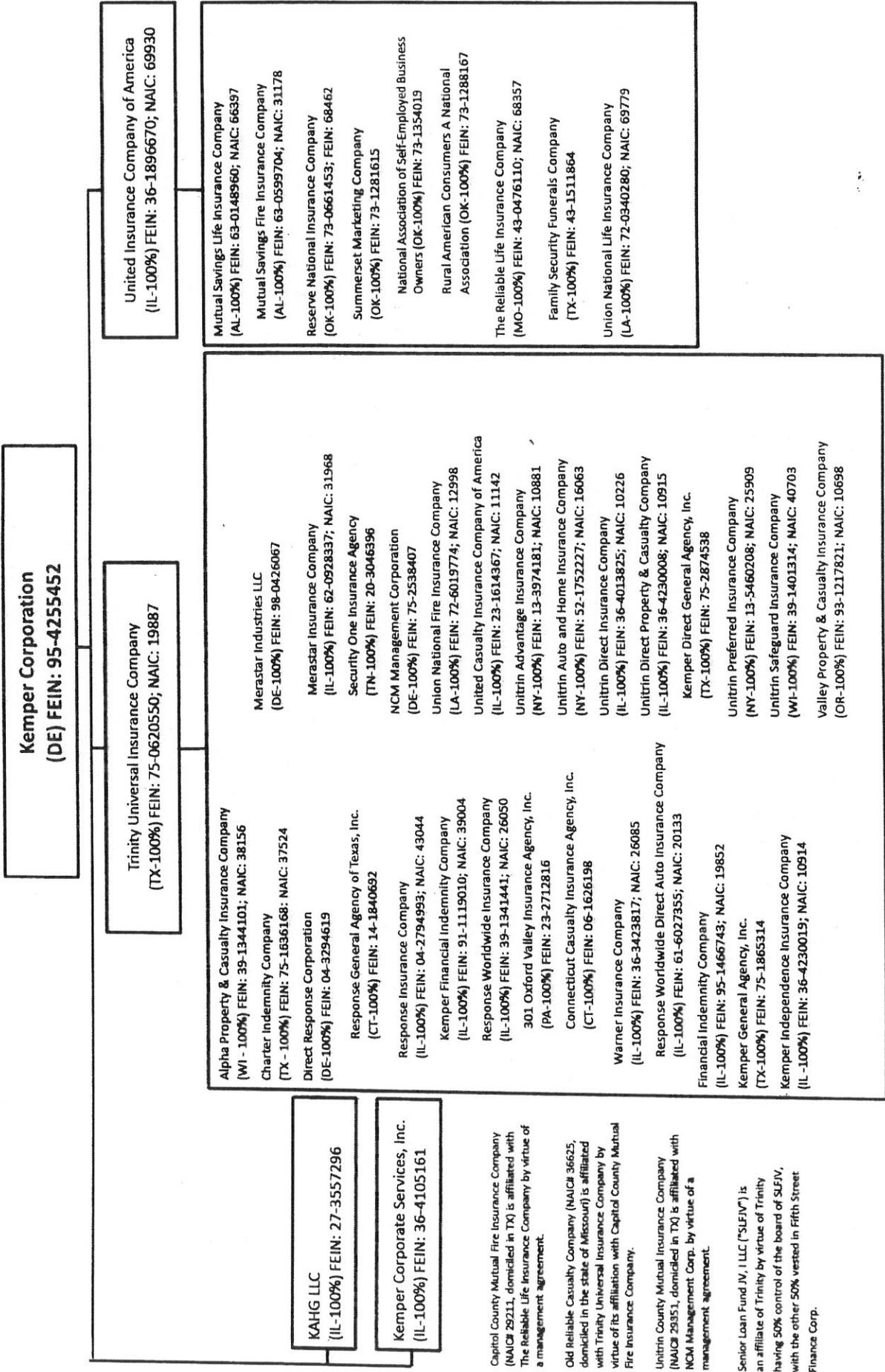
The review of the filings indicated that the required disclosures were included in the Company's filings.

**ORGANIZATIONAL CHART**

The following chart presents the identities and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2014.

**SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**

**PART 1 - ORGANIZATIONAL CHART**



## **MARKET CONDUCT ACTIVITIES**

### **Plan of Operation**

The Company focused on providing individual life and health insurance products to the lower and middle income consumers generally referred to as the “under-served market.” Products written and issued included the following lines of business: Ordinary Life (Term & Whole Life), and Accident & Health (Accident and Health and Cancer Policies). Policy face amounts for the lines of business currently written are typically lower than the industry averages. Mutual Savings Life Insurance Company has 260 captive agents that only sell the Company’s products. Agents provide policyholders with traditional in home service selling of the Company’s products, provide services for existing in-force policies, and collect premiums on a monthly basis.

The Company maintains its ability to compete in the market by utilizing appropriate product pricing, selling to selected markets, maintaining appropriate control of expenses, and its ability to provide competitive products and services to policyholders.

### **Territory**

The Company was licensed to transact business in the following states as of December 31, 2014: Alabama, Georgia, Florida, Indiana, Louisiana, Mississippi, and Tennessee.

The certificate of authorities were inspected during the period under review and found to be in order.

### **Policy Forms and Underwriting**

The examiner verified Alabama samples for compliance with Alabama statutes and regulations for the following: 2014 policies issuance and premium calculations, rejected applications, and policy cancellations. The Company’s policy premiums were calculated in accordance with the Company’s underwriting guidelines and filed rates and the policies were issued in a timely manner. The examiner reviewed a sample of rejected applications and determined that the applications were properly rejected in nondiscriminatory manner. The Company properly cancelled its policies in accordance with its policy provisions without an excessive amount of paperwork.

### **Advertising and Marketing**

The Company’s advertising and marketing strategy was executed by the use of printed sales aids that were provided to producers for soliciting prospective clients and to counsel clients during the sale of products. The Company also had a website <http://www.kemperhsc.com/mutualsavings.htm>, which included basic product information and limited product descriptions. All advertisements required to be approved by the Company prior to use. The Company’s system of control, file maintenance, and implemented procedures and guidelines for its advertisements complied with the requirements of ALA. ADMIN. CODE 482-1-135(2005).

During the review of the Company’s replacement register, the Company’s management was unable to provide one of the 55 replacement notifications. Therefore, it was determined the Company did not comply ALA. ADMIN. CODE 482-1-133-06(c), which states: “Be able to produce copies of the

notification regarding replacements as required by Rule 482-1-133-.04(2), indexed by producer, for at least five (5) years or until the next regular examination...”

## **Claims Review**

### **Review of Paid Claims**

A sample of 109 Alabama paid claims from a population of 4,274 was selected. The sample was reviewed for compliance with policy provisions, timeliness of payment and adequacy of documentation. The examiner verified the date the claim was reported and the date that proof of loss was provided. The examiner determined that the Company did not acknowledge three claims within 15 days of receipt. The Company did not comply with ALA. ADMIN. CODE 482-1-124.04(1)(2003), which states: “Every insurer, upon receiving notification of a claim shall, within fifteen (15) days of the notification, mail or otherwise provide necessary claim forms, instructions or reasonable assistance so the claimant can properly comply with the insurer’s reasonable requirements for filing a claim.”

It was determined that three Accident and Health claims were not paid in a timely manner which was not in compliance with ALA. CODE §27-1-17(a)(1975), which states:

Each insurer, health service corporation, and health benefit plan that issues or renews any policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar days upon receipt of a clean written claim or 30 calendar days upon receipt of a clean electronic claim. If the insurer, health service corporation, or health benefit plan is denying or pending the claim, the insurer, health service corporation, or health benefit plan shall, within 45 calendar days for a written claim and 30 calendar days for an electronic claim, notify the health care provider or certificate holder of the reason for denying or pending the claim and what, if any, additional information is required to process the claim.

It was determined that three life claims were not paid in a timely manner in compliance with ALA. ADMIN. CODE 482-1-124.04 (2003), which states: “(4) As to life insurance claims, upon receipt of proof of loss from a claimant, the insurer shall affirm or deny liability, or inform the claimant that the claim is being investigated, within the time set forth within the life insurance policy not to exceed sixty (60) days. If the amount of the claim is determined and not in dispute, payment should be made within a reasonable time.”

During the review, it was determined that the Company did not properly record the date the claim was reported in the claim records for 30 items. The Company also was unable to provide the complete records for the following: 13 applications files, the original cancelled checks for 16 claim files. It was determined that the Company was not in compliance with ALA. CODE §27-27-29(a)(1975), which states: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

## Review of Denied Claims

The examiner reviewed a sample of 109 Alabama denied claims from a population of 6,612. The sample was reviewed for compliance with policy provisions, timeliness of denial notifications and adequacy of documentation. The sample included 100% business assumed from Southern United Life Insurance Company's (SULIC) on December 31, 1986. The examiners determined that one claim from the SULIC assumed business was wrongfully denied by the Company. The Company communicated to the claimant that it did not assume all of SULC's policies. It was determined that the Company did not provide a reasonable basis for one claim denial which was not in accordance with ALA. ADMIN. CODE 482-1-124.04(4)(2003), which requires: "As to life insurance claims, upon receipt of proof of loss from a claimant, the insurer shall affirm or deny liability, or inform the claimant that the claim is being investigated, within the time set forth within the life insurance policy not to exceed sixty(60) days."

The examiners also determined that the Company did not send denial notification to seven claimants in the sample which was not in compliance with ALA. ADMIN. CODE 482-1-124.04(2003), which requires: "When a claim is denied, a written notification shall be sent to the claimant within fifteen days of the determination that the claim shall be denial. The insurer shall state the reason why the claim was denied."

## Policyholder Complaints

The Company recorded 305 Alabama complaints in its complaint register during the examination period. The examiner reviewed a sample of 116 complaint files. The functional cause of the complaints was for the following reasons: 1) poor customer service, 2) not following underwriting procedures, 3) disputes regarding claims denials, 4) payment discrepancy and 5) unsatisfactory claim settlements.

The Company did not send delay notices to nine Alabama complainants which was not in compliance with ALA. ADMIN. CODE 482-1-124(6)(2003), which states:

As to life insurance claims, upon receipt of proof of loss from a claimant, the insurer shall affirm or deny liability, or inform the claimant that the claim is being investigated, within the time set forth within the life insurance policy not to exceed sixty(60) days. If the amount of the claim is determined and not in dispute, payment should be made within a reasonable time. If portions of the claim are in dispute, the insurer shall tender payment for those portions that are not disputed within sixty (60) days of the date the insurer determines those portions of the claim which are not disputed. If the investigation remains incomplete, the insurer shall, forty-five (45) days from the date of initial notification and every forty-five (45) days thereafter, send to the claimant a letter stating that the claim is still under investigation.

The Company did not provide within ten business days for two complaints forwarded by the Alabama Department of Insurance. The Company was not in compliance with ALA. ADMIN. CODE 482-1-118(1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the

insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

### **Compliance with Producer Licensing Requirements**

A sample of 116 Alabama policies from a population of 92,074 was selected from Company's direct written business during the year 2014. The examiner verified that the Company's licensed appointed producers were properly licensed and appointed prior to writing business on behalf of the Company.

A sample of 113 terminated producers was selected from a population of 742. The examiner verified that the Company producers were properly terminated and the Company mailed termination notices to its producers and sent notification to the ALDOI.

### **Privacy Standards**

#### **Compliance with ALA ADMIN CODE 482-1-122(2000)**

The Company's PRIVACY NOTICE was reviewed for compliance with ALA. ADMIN. CODE 482-1-122 (2002). The Company sent out the privacy notices to new business policyholders when a policy was written or renewed and annually thereafter. The Company provided notices to its customers that indicated the types of information collected, the way the information is used and the manner that it is collected. The notice also informed the customer that the Company did not disclose any information to any nonaffiliated third parties.

The Company does not share customer and/or consumer personal information with any nonaffiliated third parties. The Company had proper controls in place for employees and producers for the disclosure of nonpublic personal financial, health or medical information.

### **REINSURANCE**

#### **Reinsurance Assumed**

Effective July 1, 2001, the Company assumed certain individual life insurance and accident and health insurance policies from Atlanta Life Insurance Company, Atlanta, Georgia, under a 100% Coinsurance Indemnity and Assumption Agreement. The Schedule S – Part 1, Section 1 (life policies) indicated that the agreement contributed \$217,351,640 to the amount of in-force business, \$72,951,395 in reserves and \$1,545,725 in premiums as of December 31, 2014. The Schedule S Part 1, Section 2 (accident and health) indicated that the agreement contributed \$79,757 in premiums, \$151,522 in reserve liability and \$4,039 in unearned premiums as of December 31, 2014.

#### **Reinsurance Ceded**

The Company's ceded reinsurance program consisted of automatic coinsurance with option to negotiate facultative reinsurance over the reinsurer's maximum limits, yearly renewable term, and Automatic Bulk Accidental Death Benefit agreements. Schedule S – Part 3, Section 1, listed Swiss Re, Greenwich Connecticut, and Optimum Reinsurance Company, Dallas, Texas, as the reinsurers

authorized to do business in Alabama. The reserve credit taken for life business was \$6,986,300. Schedule S – Part 3, Section 2, listed Optimum Reinsurance Company, Dallas, Texas, as the reinsurer of the Company's accident and health business. The reserve credit taken in 2014 was \$19,594. There have been no cessions of accident and health business under the agreement since the agreement was terminated December 31, 2009.

The material reserve credits were related to two contracts with Optimum Re Insurance Company (Optimum Re). The agreements were Automatic Coinsurance Agreements.

#### Automatic Coinsurance Agreements

The Automatic Coinsurance Agreement Number 798-97AC18 was effective August 1, 1997. This agreement covers Life and Accelerated Living Benefit Riders. The Automatic Coinsurance Agreement Number 798-00AY01 was effective October 1, 1999. The agreement covers life policies. For each of these agreements, the Company's retention limit is 50% up to \$50,000. Optimum Re will automatically reinsure amounts up to \$250,000 per life.

#### ACCOUNTS AND RECORDS

The Company maintained its accounting, premiums and losses data electronically. The Company maintained additional electronic workpapers, reconciliations and statements in its database of imaged records.

The Company's independent audit was performed by Deloitte & Touch, LLP, a certified public accounting firm.

#### Unclaimed Property

The examiners filtered the Company's in-force file for policies that may have reached the age of limitation and the period of time had passed for the policy benefits to have been escheated to the respective states as required by unclaimed property statutes. The in-force files were filtered for policyholders in excess of 103 years old because the Alabama statute requires such unclaimed property to be escheated after three years and the age of limitation for the Company's policies are 100. There were four policies identified. The Company provided documents supporting that the policy benefits had been paid on one of the four policies. The policy should not have been in the in-force file since the policy had terminated.

The Company managers responded to indicate that the other three policies identified were non-premium paying and had a suspended status in the Company's administrative system. It was explained that a report was being run periodically of all premium paying suspended policies to resolve any issues. The non-premium paying suspended policies were not included in the report or process. The Company response indicated that the omission of the non-premium paying policies from the suspended status report was discovered during the preparation for the conversion to the new administrative system. Furthermore, as a result of the discovery, all of the policies that were identified by the examiners have been processed and terminated in 2015 and the Company has modified the suspended status report to include non-premium paying policies. The policy benefits have been designated as unclaimed property and are subject to escheat to the respective states in the next reporting if the beneficiaries cannot be paid.

One policy that had reached the age of limitation and the subsequent unclaimed property holding period had passed involved an Alabama policyholder. The other two policies involved benefits due in Florida and South Carolina. With respect to the benefits due to an Alabama resident, it was determined that the company did not properly escheat the unclaimed property to the State of Alabama in accordance ALA. CODE §35-12-72 (1975), which states: “(a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property...(18) All other property, three years after the owner’s right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs.”

All Alabama unclaimed property is to be included in the unclaimed property reports in accordance with the reporting procedures described in ALA. CODE §35-12-76 (1975), which states: “(a) A holder of property presumed abandoned shall make a report to the Treasurer concerning the property. The report shall be filed electronically and the monies remitted electronically. ... (c) The report shall be filed before November 1 of each year and cover the 12 months next preceding July 1 of that year...”

#### Inaccurate Policy Records

To test the policy determinants for reserving, the examiners randomly selected a sample of 100 policies from the Company’s in-force listing at December 31, 2014. The sample included 60 life policies, 30 accident and health policies, and 10 deposit type contracts. Determinants for issue age, issue date, sex code and number of units were traced from the original policy application to the Company’s electronic records of in-force policies. Twenty exceptions were noted from the review as follows.

| <u>Product Type and Policy Number</u> | <u>Description</u>                                    |
|---------------------------------------|---|
| Life:                                 |   |
| 10067933                              | Sex code did not match                                |
| 10182274                              | Sex code did not match                                |
| 10197617                              | Sex code did not match                                |
| 10197857                              | Sex code did not match                                |
| 10233526                              | Sex code did not match                                |
| 10480049                              | Sex code did not match                                |
| 10485468                              | Sex code did not match                                |
| 11311645                              | Sex code did not match                                |
| 36030724                              | Issue age did not match                               |
| 11334799                              | No application provided                               |
| Accident and Health:                  |   |
| 8010737466                            | Application was not readable in the electronic system |
| 8010930837                            | Sex code did not match                                |
| 8010934919                            | Sex code did not match                                |
| 8010907145                            | Issue age did not match                               |
| 8010669280                            | No application provided                               |
| 8020673636                            | Sex code did not match                                |
| Deposit Type Contracts:               |   |
| 802000777A                            | Date of birth did not match                           |
| 802001772A                            | Date of birth did not match                           |
| 802004792A                            | Date of birth did not match                           |
| 802008737A                            | Date of birth did not match                           |

The Company should maintain complete and accurate records in accordance with ALA. CODE §27-27-29(e)(1975) ), which states:

With the written permission of the commissioner, a domestic insurer may maintain its executive offices outside the State of Alabama and keep therein complete records of its assets, transactions, and affairs in accordance with the methods and systems as are customary or suitable for the kind or kinds of insurance transacted. All records kept at the executive offices outside Alabama shall be made available to the commissioner of Alabama upon reasonable notice by the commissioner.

The Company should implement procedures to ensure the completeness and accuracy of information, including all policy determinants for reserve calculations, submitted on the application for insurance is correctly in-put into the Company's policy administrative system.

## FINANCIAL STATEMENTS

The financial statements included in this report were based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

|   |                 |
|---|-----------------|
| Statement of Assets, Liabilities, Surplus and Other Funds | Pages 24 and 25 |
| Summary of Operations                                     | Page 26         |
| Capital and Surplus Account                               | Page 25         |

**MUTUAL SAVINGS LIFE INSURANCE COMPANY**  
**STATEMENT OF ASSETS**  
**For the Year Ended December 31, 2014**

|   | <u>Assets</u>         | <u>Assets<br/>Not Admitted</u> | <u>Net Admitted<br/>Assets</u> |
|---|-----------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>   |                       |                                |                                |
| Bonds   | \$ 388,944,143        |                                | \$ 388,944,143                 |
| Stocks:   |                       |                                |                                |
| Common stocks   | 4,123,516             |                                | 4,123,516                      |
| Cash (\$2,246,161 Sch. E-Part 1), cash equivalents<br>(\$0 Sch. E – Part 2) & short-term investments<br>(\$12,180,542, Sch. DA) | 14,426,703            |                                | 14,426,703                     |
| Contract loans  | 19,290,719            |                                | 19,290,719                     |
| Other invested assets (Schedule BA)   | 483,328               |                                | 483,328                        |
| <b>Subtotals, cash and invested assets</b>  | <b>\$ 427,268,409</b> |                                | <b>\$ 427,268,409</b>          |
| Investment income due and accrued   | \$ 5,829,868          |                                | \$ 5,829,868                   |
| Premiums and considerations:  |                       |                                |                                |
| Uncollected premiums and agents' balances in<br>course of collection  | 621,234               | 4,509                          | 616,725                        |
| Deferred premiums, agents' balances &<br>installments booked but deferred & not yet<br>due                                      | 7,031,045             |                                | 7,031,045                      |
| Other amounts receivable under reinsurance<br>contract  | 155,614               |                                | 155,614                        |
| Net deferred tax asset  | 12,474,927            | 8,782,412                      | 3,692,515                      |
| Guaranty funds receivable or on deposit   | 5,825                 |                                | 5,825                          |
| Electronic data processing equipment and<br>software  | 12,701                |                                | 12,701                         |
| Furniture and equipment, including health care<br>delivery assets   | 3,458                 | 3,458                          |                                |
| Receivable from parent, subsidiaries and affiliates   | 219,354               |                                | 219,354                        |
| Aggregate write-ins for other than invested assets:   |                       |                                |                                |
| Other assets  | 364,100               | 55,300                         | 308,800                        |
|   |                       |                                |                                |
| <b>TOTALS</b>   | <b>\$ 453,986,533</b> | <b>\$ 8,845,679</b>            | <b>\$ 445,140,854</b>          |

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

**MUTUAL SAVINGS LIFE INSURANCE COMPANY**  
**STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS**  
**For the Year Ended December 31, 2014**

|  |                              |
|--|------------------------------|
| <b>LIABILITIES</b>   |                              |
| Aggregate reserve for life contracts <b>(Note 1)</b>   | \$ 379,645,949               |
| Aggregate reserve for accident and health contracts  | 9,966,617                    |
| Liability for deposit-type contracts   | 581,113                      |
| Contract claims:   |                              |
| Life   | 4,519,843                    |
| Accident and health  | 1,360,442                    |
| Dividends apportioned for payment  |                              |
| Coupons and similar benefits   | 4,946                        |
| Premiums and annuity considerations for life and accident and health contracts received in advance | 294,371                      |
| Contract liabilities not included elsewhere:   |                              |
| Other amount payable on reinsurance  |                              |
| Interest Maintenance Reserve   | 4,203,992                    |
| Commissions to agents due or accrued-life contract   |                              |
| General expenses due or accrued  | 721,316                      |
| Taxes, licenses and fees due or accrued, excluding federal income taxes                            | 92,431                       |
| Current federal and foreign income taxes   | 2,925,392                    |
| Unearned investment income   | 32,705                       |
| Amounts withheld or retained by company as agent or trustee  | 9,541                        |
| Amount held for agents' account  |                              |
| Remittances and items not allocated  | 298,649                      |
| Miscellaneous liabilities:   |                              |
| Asset valuation reserve  | 2,223,164                    |
| Payable to parent, subsidiaries and affiliates   | 3,157,113                    |
| Aggregate write-ins for liabilities  |                              |
| Reserve for escheat funds  | 3,386,244                    |
| Other liabilities  | 85,802                       |
| <b>Total Liabilities</b>   | <b>\$ <u>413,509,629</u></b> |
| <b>CAPITAL AND SURPLUS</b>   |                              |
| Common capital stock   | \$ 2,093,426                 |
| Gross paid in and contributed surplus  | 45,109,276                   |
| Aggregate write-ins for special surplus funds  |                              |
| Unassigned funds (surplus)   | (15,571,477)                 |
| Less treasury stock, at cost   |                              |
| <b>Total Surplus</b>   | <b>\$ <u>29,537,799</u></b>  |
|  |                              |
| <b>Total Capital and Surplus</b>   | <b>\$ <u>31,631,225</u></b>  |
| <b>TOTAL LIABILITIES, CAPITAL AND SURPLUS</b>  | <b>\$ <u>445,140,854</u></b> |

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

**MUTUAL SAVINGS LIFE INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
**For the Years Ended December 31, 2014, 2013, 2012, 2011, and 2010**

| <b>Income</b>   | <b>2014</b>          | <b>2013</b>         | <b>2012</b>         | <b>2011</b>          | <b>2010</b>         |
|---|----------------------|---------------------|---------------------|----------------------|---------------------|
| Premiums and annuity consideration  | \$39,910,057         | \$41,596,072        | \$43,252,678        | \$44,314,103         | \$43,945,231        |
| Net investment income   | 24,913,160           | 23,063,396          | 23,567,786          | 23,735,953           | 24,096,630          |
| Amortization of IMR   | 409,992              | 420,261             | 421,546             | 614,251              | 698,021             |
| Commissions and expenses allowances on reinsurance ceded  | 165,918              | 171,818             | 152,611             | 166,871              | 280,614             |
| Aggregate write-ins for miscellaneous income  | 7,715                | 6,790               | 7,209               | 1,927                | 2,658               |
| <b>Total Income</b>   | <b>\$65,406,842</b>  | <b>\$65,258,338</b> | <b>\$67,401,830</b> | <b>\$68,833,104</b>  | <b>\$69,023,155</b> |
| <b>Deductions:</b>  |                      |                     |                     |                      |                     |
| Death benefits  | \$19,311,517         | \$20,720,311        | \$19,688,057        | \$20,477,900         | \$19,899,446        |
| Matured endowments  | 933,200              | 809,406             | 856,217             | 872,650              | 802,123             |
| Annuity benefits  | 893,131              | 948,828             | 973,736             | 927,829              | 1,050,626           |
| Disability benefits and benefits under accident and health contracts  | 2,469,063            | 3,680,894           | 2,716,637           | 3,283,773            | 5,328,418           |
| Coupons, guaranteed annual pure endowments and similar benefits   | (2,638)              | (1,396)             | 2,366               | (1,616)              | (2,452)             |
| Surrender benefits and withdrawals for life contracts   | 3,898,542            | 3,963,886           | 6,289,190           | 4,180,300            | 4,740,745           |
| Interest and adjustments on contract or deposit-type contract funds   | 412,963              | 263,418             | 236,202             | 251,175              | 462,866             |
| Increase in aggregate reserves for life and accident and health contracts                                       | 1509,273             | 1,334,960           | (655,570)           | 687,413              | (190,030)           |
| <b>Totals</b>   | <b>\$29,425,051</b>  | <b>\$31,720,307</b> | <b>\$30,106,835</b> | <b>\$30,679,424</b>  | <b>\$32,091,742</b> |
| Commissions on premiums, annuity considerations & deposit-type contract funds                                   | 8,125,032            | 8,539,403           | 10,258,303          | 9,895,915            | 8,665,887           |
| General insurance expenses  | 13,451,886           | 13,065,230          | 12,527,433          | 11,321,390           | 13,927,101          |
| Insurance taxes, licenses and fees, excluding federal income taxes  | 1,605,289            | 1,639,163           | 1,740,764           | 1,791,792            | 2,017,640           |
| Increase in loading on deferred and uncollected premiums.   | (565,324)            | (266,262)           | (104,502)           | 169,768              | (340,123)           |
| Aggregate write-ins for deductions  | (126,000)            | 0                   | 5,114               | 26,971               | 28,883              |
| <b>Total deductions</b>   | <b>\$51,915,933</b>  | <b>\$54,697,841</b> | <b>\$54,533,947</b> | <b>\$53,885,260</b>  | <b>\$56,391,130</b> |
| Net gain from operations before dividends to policyholders and FIT  | \$ 13,490,909        | \$10,560,497        | \$ 12,867,883       | \$ 14,947,845        | \$12,632,025        |
| Dividends to policyholders  | 19,326               | 24,408              | 31,806              | 31,390               | 35,294              |
| Net gain from operations after dividends to policyholders and before FIT  | \$ 13,471,583        | \$ 10,536,089       | \$ 12,836,077       | \$14,916,455         | \$12,596,731        |
| Federal and foreign income taxes incurred   | 3,994,530            | 4,073,437           | 4,754,853           | 4,781,854            | 4,655,185           |
| Net gain from operations after dividends to policyholders and FIT and before realized capital gains or (losses) | 9,477,053            | 6,462,652           | 8,081,224           | 10,134,601           | 7,941,546           |
| Net realized capital gains or (losses)  | 766,067              | 216,051             | 58,941              | 18,058               | (34,120)            |
| <b>Net income</b>   | <b>\$ 10,243,120</b> | <b>\$ 6,678,703</b> | <b>\$ 8,140,165</b> | <b>\$ 10,152,659</b> | <b>\$7,907,426</b>  |

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

**MUTUAL SAVINGS LIFE INSURANCE COMPANY**  
**STATEMENT OF CHANGES IN CAPITAL AND SURPLUS**  
**For the Years Ended December 31, 2014, 2013, 2012, 2011, and 2010**

|   | <u>2014</u>            | <u>2013</u>          | <u>2012</u>         | <u>2011</u>          | <u>2010</u>          |
|---|------------------------|----------------------|---------------------|----------------------|----------------------|
| <b>Capital and surplus, December 31, prior year</b>   | \$57,292,177           | \$ 50,584,606        | \$ 42,700,780       | \$ 33,423,747        | \$33,823,527         |
| <b>Gains and (losses) in surplus:</b>                 |                        |                      |                     |                      |                      |
| Net income  | 10,243,120             | 6,678,703            | 8,140,165           | 10,152,659           | 7,907,426            |
| Change in net unrealized capital gains or (losses)    | (2,091,254)            | 217,270              | 186,903             | 120,169              | 270,245              |
| Change in net deferred income tax                     | 187,412                | 444,543              | 343,156             | (234,146)            | 692,825              |
| Change in nonadmitted assets and related items        | (28,933)               | (95,880)             | (267,888)           | (287,966)            | (835,313)            |
| Change in asset valuation reserve                     | 1,028,703              | (537,065)            | (518,510)           | (458,553)            | (648,786)            |
| Dividends to stockholders                             | (35,000,000)           |                      |                     |                      | (7,450,000)          |
| Aggregate write-ins for gains and losses in surplus   |                        |                      |                     | (15,130)             | (336,177)            |
| <b>Net change in capital and surplus for the year</b> | <u>\$ (25,660,952)</u> | <u>\$ 6,707,571</u>  | <u>\$ 7,883,826</u> | <u>\$ 9,277,032</u>  | <u>\$(399,780)</u>   |
| <b>Capital and surplus, December 31, current year</b> | <b>\$ 31,631,225</b>   | <b>\$ 57,292,177</b> | <b>\$50,584,606</b> | <b>\$ 42,700,780</b> | <b>\$ 33,423,747</b> |

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

## NOTES TO FINANCIAL STATEMENTS

### Note 1 - Aggregate reserve for life contracts

\$379,645,949

The examiners questioned the managers about a discrepancy between the Company's ceded reinsurance reserve credits for reinsurance with Optimum Reinsurance Company (Optimum Re) and the assumed reserves by Optimum Re from the Company. The Company reported reserve credits associated with the reinsurer of \$6.98 million and the reinsurer reported assumed reserves of \$10.58 million in the respective 2014 Annual Statements.

The Company managers determined it to be necessary to review and consider the appropriateness of its reserving methodology for the business ceded to the reinsurer, particularly one plan of insurance that comprised the bulk of the reinsured business. Upon review and consideration, Company management determined it to be appropriate to re-compute its policy reserves utilizing the methodology used by the reinsurer. Following this computation, the Company determined it to be necessary to increase its gross reserves for the business that was reinsured and increase the reinsurance reserve credits corresponding to this business in which the reserves were re-computed. The net of the increase in reserves less the increase in reinsurance reserve credits was \$3,169,590 as of November 30, 2015. Management indicated that the appropriate reserve increases will be recorded in the fourth quarter of 2015 and will be reflected in the 2015 Annual Statement.

As for the increases in the gross reserves and reinsurance reserve credits as of the December 31, 2014 examination date, Company personnel calculated that the December 31, 2014 gross reserves should have been increased \$6,228,987, from \$1,641,601 to \$7,870,588 and the reserve credits for reinsurance should have been increased by \$3,333,911, from \$875,339 to \$4,209,250; therefore, the Aggregate reserve for life contracts was understated in the 2014 Annual Statement by \$2,895,076 on the account of the reserving errors. The exam actuary reviewed the Company's calculations as of December 31, 2014, and as of November 30, 2015, and determined that the calculations were appropriate.

| <b>Analysis of Changes to Surplus</b>                   |                        |                        |                      |
|---|------------------------|------------------------|----------------------|
|   | <b><u>Increase</u></b> | <b><u>Decrease</u></b> |                      |
| Surplus at Dec. 31, 2014 per Annual Financial Statement |                        |                        | \$29,537,799         |
| Aggregate reserve for life contracts                    | \$2,895,076            |                        |                      |
| Net increase (or decrease)                              |                        |                        | <u>\$(2,895,076)</u> |
| Surplus at Dec. 31, 2014 after adjustment               |                        |                        | <u>\$26,642,723</u>  |

## SUMMARY OF SIGNIFICANT FINDINGS

### Conflicts of Interest – Page 13

**It is recommended** again that the Company maintain evidence of its conflict of interest statement signed by its officers, directors and responsible employees as required by its Conflict of Interest Policy, and in accordance with ALA. ADMIN. CODE 482-1-118.3 (1999), which states:

Every insurer, which term shall include every domestic insurer, ... or any legal entity regulated by the Insurance Code and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer's financial condition may be readily ascertained by the Department of Insurance, taking into consideration other records retention requirements. All records must be maintained for not less than five (5) years.

### Advertising and Marketing – Page 16

**It is recommended** that the Company keep complete records of its notifications of replacements in accordance with ALA. ADMIN. CODE 482-1-133-06(c)(2003), which states: “Be able to produce copies of the notification regarding replacements as required by Rule 482-1-133-.04(2), indexed by producer, for at least five (5) years or until the next regular examination...”

### Claims Review – Page 16

**It is recommended** that the Company acknowledge its claimants within 15 days in accordance with ALA. ADMIN. CODE 482-1-124.04(1)(2003), which states: “(1) Every insurer, upon receiving notification of a claim shall, within fifteen (15) days of the notification, mail or otherwise provide necessary claim forms, instructions or reasonable assistance so the claimant can properly comply with the insurer’s reasonable requirements for filing a claim.”

**It is recommended** that the Company pay its Accident and Health claims within 45 days of the receipt of the claim in accordance with in accordance with ALA. CODE §27-1-17(a)(1975), which states:

Each insurer, health service corporation, and health benefit plan that issues or renews any policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar days upon receipt of a clean written claim or 30 calendar days upon receipt of a clean electronic claim. If the insurer, health service corporation, or health benefit plan is denying or pending the claim, the insurer, health service corporation, or health benefit plan shall, within 45 calendar days for a written claim and 30 calendar days for an electronic claim, notify the health care provider or certificate holder of the reason for denying or pending the claim and what, if any, additional information is required to process the claim.

**It is recommended** that the Company issue payment within 60 days from the date the proof of loss was provided in accordance with ALA. ADMIN. CODE 482-1-124.04(4)(2003), which requires: “(4) As to life insurance claims, upon receipt of proof of loss from a claimant, the insurer shall affirm or

deny liability, or inform the claimant that the claim is being investigated, within the time set forth within the life insurance policy not to exceed sixty(60) days.”

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

**It is recommended** that the Company properly pay its claims in accordance with ALA. ADMIN. CODE 482-1-124.04(4)(2003), which requires: “(4) As to life insurance claims, upon receipt of proof of loss from a claimant, the insurer shall affirm or deny liability, or inform the claimant that the claim is being investigated, within the time set forth within the life insurance policy not to exceed sixty(60) days.”

**It is recommended** that the Company send notifications of the denials in accordance with ALA. ADMIN. CODE 482-1-124.04(9)(2003), which requires: “(9) When a claim is denied, a written notification shall be sent to the claimant within fifteen days of the determination that the claim shall be denial. The insurer shall state the reason why the claim was denied.”

### **Policyholder Complaints – Page 18**

**It is recommended** that the Company send delay notices in accordance with ALA. ADMIN. CODE 482-1-124(6)(2003), which states:

As to life insurance claims, upon receipt of proof of loss from a claimant, the insurer shall affirm or deny liability, or inform the claimant that the claim is being investigated, within the time set forth within the life insurance policy not to exceed sixty(60) days. If the amount of the claim is determined and not in dispute, payment should be made within a reasonable time. If portions of the claim are in dispute, the insurer shall tender payment for those portions that are not disputed within sixty (60) days of the date the insurer determines those portions of the claim which are not disputed. If the investigation remains incomplete, the insurer shall, forty-five (45) days from the date of initial notification and every forty-five (45) days thereafter, send to the claimant a letter stating that the claim is still under investigation.

**It is recommended** that the Company provide a response when notified of complaints by the Alabama Department of Insurance within 10 business days in accordance with ALA. ADMIN. CODE 482-1-118(1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

## **Accounts and Records – Page 20**

**It is recommended** that the Company properly include all unclaimed property in its unclaimed property filings to the respective states. Alabama unclaimed property is defined in ALA. CODE §35-12-72 (2013), which states: “(a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property...(18) All other property, three years after the owner’s right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs.” All Alabama unclaimed property is to be included in the unclaimed property reports in accordance with the reporting procedures described in ALA. CODE §35-12-76 (2013).

**It is recommended** that the Company comply with ALA. CODE §27-27-29(e)(1975), which states:

With the written permission of the commissioner, a domestic insurer may maintain its executive offices outside the State of Alabama and keep therein complete records of its assets, transactions, and affairs in accordance with the methods and systems as are customary or suitable for the kind or kinds of insurance transacted. All records kept at the executive offices outside Alabama shall be made available to the commissioner of Alabama upon reasonable notice by the commissioner.

**It is recommended** that the Company implement procedures to ensure the completeness and accuracy of information, including policy determinants for reserve calculations, submitted on the application for insurance is correctly in-put into the Company’s policy administrative system.

## **Notes to Financial Statements – Page 28**

**It is recommended** that the Company record the appropriate reserves for life contracts as were re-computed for the examiners during the course of the examination.

## **Compliance with Previous Recommendations – Page 31**

**It is recommended** that the Company comply with all recommendations in this Report of Examination.

### **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

The examiners performed procedures to determine whether the Company complied with the recommendations in the Report of Examination as of December 31, 2009 conducted by the Alabama Department of Insurance.

The Company did not comply with the recommendation to require and retain signed Conflict of Interest Statements from each officer and director.

It was recommended in the previous exam report that the Company escheat unclaimed property to the State of Alabama that is over three years old as required by ALA. CODE §35-12-72 (2013). The examination indicated that the Company did not comply with the recommendation.

It was recommended that the Company keep complete records of its resisted claims in accordance with ALA. CODE §27-27-29(a)(1975). The Company did not comply with the recommendation.

The Company did not comply with a recommendation for the Company to properly document its complaint register in accordance with ALA. CODE §27-27-29(1975)(a).

The Company did not comply with a recommendation for the Company to provide a response to the Alabama Department of Insurance concerning complaints within 10 business days in accordance with ALA. ADMIN. CODE 482-1-118(1999).

### **SUBSEQUENT EVENTS**

The review of the events subsequent to December 31, 2014, did not reveal anything material in amount or noteworthy in nature.

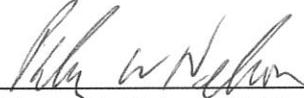
**CONCLUSION**

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing Mutual Savings Life Insurance Company during the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Regina Barnhart, Theo Goodin, MCM, Jerry Hyche, AIE, FMLI, MCM, Charles Turner, CISA, Examiners; and Harland Dyer, ASA, MAAA, Consulting Actuary; all representing the Alabama Department of Insurance, participated in the examination of Mutual Savings Life Insurance Company.

Respectfully submitted,

  
\_\_\_\_\_  
Palmer W. Nelson, CFE  
Examiner-in-charge  
Alabama Department of Insurance