

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION

ON

PEOPLES SAVINGS LIFE INSURANCE COMPANY, INC.

ALEXANDER CITY, ALABAMA

AS OF

DECEMBER 31, 2006

PARTICIPATION:

ALABAMA

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STATE OF ALABAMA

COUNTY OF TALLAPOOSA

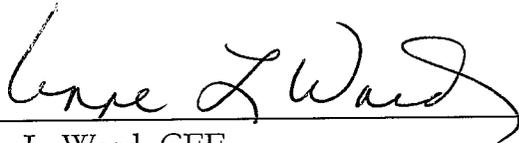
Anne L. Ward, being first duly sworn, upon her oath deposes and says:

THAT she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

THAT an examination was made of the affairs and financial condition of *PEOPLES SAVINGS LIFE INSURANCE COMPANY*, Alexander City, Alabama, for the period of January 1, 2004 through December 31, 2006;

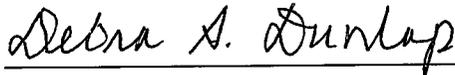
THAT the following 40 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

AND THAT the statements, exhibits and data therein contained are true and correct to the best of her knowledge and belief.



Anne L. Ward, CFE
(Examiner-in-Charge)

Subscribed and sworn to before the undersigned authority this 1st day of February, 2008.



(Signature of Notary Public)

Debra S. Dunlap

(Print Name)

Notary Public

in and for the State of Alabama

My Commission expires 1-29-11



BOB RILEY
GOVERNOR

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February 1, 2008

Honorable Walter A. Bell
Commissioner of Insurance
State of Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, AL 36104

Dear Commissioner:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2006, has been made of the affairs and financial condition of

PEOPLES SAVINGS LIFE INSURANCE COMPANY, INC.

at its home office located at 854 Airport Drive, Alexander City, Alabama 35010. The report of examination is submitted herewith.

Where the description "Company," "Peoples Savings" or "PSLIC" appears herein, without qualification, it will be understood to indicate *Peoples Savings Life Insurance Company, Inc.*

SCOPE OF EXAMINATION

The Company was last examined for the three-year period ended December 31, 2003, by examiners from Alabama representing the National Association of Insurance Commissioners (NAIC), Southeastern Zone. The current examination covers the intervening period from the date of the last examination through December 31, 2006, and was conducted by examiners from the Alabama Department of Insurance (ALDOI).

A financial examination was authorized pursuant to the instructions of the Alabama Insurance Commissioner and in accordance with the statutory requirements of the *Alabama Insurance Code* and the ALDOI's regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards and practices in connection with the verification of assets and determination of liabilities.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, a general review of records and files pertaining to operations, administrative practices, and compliance with statutes and regulations. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2006, as shown in the financial statements contained herein. However, the discussion of specific assets or liabilities contained in this report is confined to those items where a change was made by the examiners, or which indicated violation of the *Alabama Insurance Code* and the ALDOI's rules and regulations or other insurance laws or rules, or which were deemed by the examiners to require comments or recommendations.

A copy of the filed Annual Statement for the year 2006 was compared with or reconciled to account balances with respect to ledger items.

The market conduct review consisted of a limited review of the Company's territory, plan of operation, complaint handling, marketing and sales, compliance with agents' licensing requirements, policyholder services, underwriting and rating practices, claim handling practices, and privacy policy and practices.

The Company's accounts were audited by Don Thornell, CPA, Inc., Certified Public Accountant (CPA), for each of the three years under examination. Audit reports and workpapers were made available to the examiners and were used where deemed appropriate in the completion of this examination.

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 non-existence of unrecorded liabilities as of December 31, 2006.

ORGANIZATION AND HISTORY

The Company was incorporated under the laws of the State of Alabama, and the original *Articles of Incorporation* filed on August 25, 1950. Business commenced on October 3, 1950, as a Mutual Aid Association. The *Restated and Amended Articles of Incorporation* were filed for record in the office of the Judge of Probate of Tallapoosa County, Alabama, on October 6, 2000. According to the articles, the objects and purposes for which the corporation was organized is "to do business as an Alabama Mutual Aid Association, organized as a stock insurer, and to engage in all lawful activity after first obtaining any necessary regulatory approval."

The total amount of capital stock with which the Company began business was \$5,000 obtained from contributions made by the stockholders of record. Authorized capital stock was \$25,000, which consisted of 250 shares of stock with a par value of \$100 each. On December 28, 1984, the capital stock was increased to \$100,000, divided into 25,000 shares of stock, each was a par value of \$4.

Mr. William B. Sexton purchased the Company on April 26, 1996. Before this acquisition, the Company redeemed 12,499 shares of stock for the sum of \$338,008, thereby reducing the capital to \$50,004, and *Unassigned surplus* by the difference. The Company's Certificate of Authority was suspended on April 26, 1996, due to the sale of assets and statutory deposits without prior approval from the Commissioner. The suspension was lifted on May 22, 1996, when \$20,000 was deposited with the State Treasurer for the statutory deposit.

The Company's charter was nullified at the February 5, 1998 hearing, where the Company was found to be in violation of ALA. CODE § 27-27-50(b) (1975), which requires that action if a company does not engage in the business as a domestic insurer for a period of 36 consecutive months. Upon appeal and presentation of new evidence, the Company's charter was reinstated on May 18, 1998.

Mr. Nathan Wayne Stark purchased the stock of Peoples Saving Life Insurance Company, Inc., on June 2, 1998, and the Company was then relocated to Alexander City, Alabama. From 1998 through 2000, the Company did not write any new business. On September 19, 2000, a hearing took place on the basis of an *Order to Show Cause* (violation of *Regulation No. 101*). The Company had experienced a significant operational loss within a twelve month period, which was determined to be 50% of the

insurer's remaining *Surplus as regards policyholders* in excess of the minimum requirement. Consequently, the Company was deemed to be operating under hazardous financial conditions, as defined in the referenced regulation. As a result of the hearing, the Company was ordered to address every request contained in an August 8, 2000 letter to the Company from the ALDOI.

During the second quarter of 2001, in accordance with ALA. CODE § 27-30-6.1 (a) (1975), the Company increased its capital by \$150,000 in order to issue \$10,000 policies.

On October 2, 2001, the Company was issued an *Order to Show Cause* for violations pertaining to ALDOI *Regulation No. 118* (failure to file timely), and ALA. CODE § 27-3-21 (b)(2) (1975).

On October 10, 2001, the Company reduced its outstanding shares of stock from 20,000 to 12,500, and increased the par value from \$10 per share to \$16 per share.

An *Order to Show Cause* was issued on November 15, 2006, when the Company failed to provide complete responses to information requests from the ALDOI in accordance with ALA. ADMIN. CODE 482-1-118 (1999). Subsequently, the Company sufficiently addressed departmental inquires. The Company has complied with all requirements of the aforementioned citations and the *Orders* were lifted.

At the December 31, 2006 examination date, the Company's Annual Statement reflected outstanding *Common capital stock* of \$200,000, consisting of 12,500 shares of \$16 par value common stock; *Gross paid in and contributed surplus* totaling \$197,000; and \$331,554 in *Unassigned funds (surplus)*.

MANAGEMENT AND CONTROL

Stockholders

The Company is a family-owned stock corporation with ultimate control vested in its stockholders. At the examination date, the ultimate controlling person was Mr. Nathan Wayne Stark, who owned 12,494 shares of the 12,500 authorized and issued shares of common stock. Mr. Stark's wife, Wanda, and their five children (Daniel, Meika, Melanie, Mindy and Misty) own one share each. This information was detailed in *Schedule Y – Part 1*, of the 2006 Annual Statement, as shown in the "Organizational Chart" on page 9, of this report.

Board of Directors

The Company's *Articles of Restatement and Amendment and Certificate of Restatement* provided that the "business and affairs of the Corporation shall be under the management and control of a Board of Directors consisting of at least seven persons who are stockholders..." Article 2.1, of the amended By-Laws require directors to be elected by the shareholders at the annual meeting of the stockholders for terms of one year. Any director may be removed with or without cause.

The members elected to the Board of Directors by the stockholders and serving at December 31, 2006, were as follows:

<u>Director/Residence</u>	<u>Principal Occupation</u>
Nathan Wayne Stark Alexander City, Alabama	President of the Company, and Chairman of the Board of Directors
Wanda Claybrook Stark Alexander City, Alabama	Executive Vice President of the Company, and Vice Chairman of the Board of Directors
Melanie Stark Fields Auburn, Alabama	School Teacher
Mindy Stark Haynes Birmingham, Alabama	Human Resources Director
Meika Stark Hilsman Columbus, Georgia	Accountant
Misty Stark Sanders Alexander City, Alabama	School Teacher
Nathan Wayne Daniel Stark Washougal, Washington	Civil Engineer

Officers

Article 3.1, of the amended By-Laws specifies that the Board of Directors shall elect, appoint, and remove as necessary, the following officers, who may in turn, appoint assistant officers unless the Board overrides such appointments of assistants.

On May 18, 2006, the following officers were re-elected to their respective positions by the Board of Directors, and were serving at the examination date:

<u>Officer</u>	<u>Title</u>
Nathan Wayne Stark	President
Wanda Claybrook Stark	Secretary, Treasurer, and Executive Vice President
Reginald Allen Brewer	Chief Operating Officer
Wallis Haynes	Assistant Secretary
Crystal Dunn	Assistant Treasurer

Committees

Executive Committee

At a special meeting of the Board of Directors on September 27, 2000, the Board established an Executive Committee to “make all decisions not expressly reserved to the entire Board by statute, regulations, or the restated and amended Articles or By-Laws.” The Board appointed Nathan Wayne Stark, the Company’s President and Chairman of the Board, to serve as the sole member of that committee. Although there was reference to an Executive Committee in the corporate minutes, there were no formal meetings of this committee during the examination period.

Conflict of Interest

Item #15 of the 2006 Annual Statement’s *General Interrogatories* reported that the Company has an established procedure for disclosure to the Board of Directors of any material interest or affiliation on the part of its officers, directors, trustees or responsible employees. During the examination period, the Company formalized its conflict of interest policy and created a written policy statement.

Management indicated that the Company’s Conflict of Interest Policy was unanimously approved by the Board of Directors on two separate instances, the most recent of which was at the July 18, 2005 Board meeting where the amended By-Laws were approved, which evidenced the Board’s approval of the policy as noted in Sections 2.2 and 3.2 of the By-Laws. The referenced sections instruct the directors to avoid prohibited conflicts of interest and abide by pecuniary interest regulations governing the Company, as well as the Company’s own conflict of interest policy. The Board approved the By-Laws referencing the policy, not the policy itself. The Board minutes do not include evidence that the policy was approved and adopted by the Board. The Board’s approval of the policy is inferred.

Only conflict of interest statements signed in 2004 were provided. According to management, the Company does not require new or repeated signatures each year because the policy indicates an ongoing duty of the Company's officers and directors to notify the Company of "any potential conflict of interest that should arise hereafter." It is the Company's opinion that the officers' and directors' commitments under the policy are not limited to just one calendar year. Any new officers and directors would be required to sign the policy. Neither the NAIC's Annual Statement Instructions, nor ALA. CODE § 10-2B-8.6 (1975), *Division F – Directors' Conflicting Interest Transactions*, require the annual execution of conflict of interest statements.

A review of the conflict of interest statements executed during the three-year examination period indicated that all officers and directors had signed statements, with the exception of the Assistant Treasurer. During the course of the examination, that officer and the Administrative Assistant signed statements. The review of these statements indicated that no material conflicts had been reported.

CORPORATE RECORDS

The Company's Articles of Incorporation and By-Laws, and amendments thereto, were inspected and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations.

On July 18, 2005, the By-Laws were amended and filed with the ALDOI pursuant to ALA. CODE § 27-27-22(c) (1975). Two of the items addressed were revisions to Article 1.1 and Article 2.3, which had previously required the Shareholders and Board of Directors to meet on the second Tuesday in March. The amendment changed the articles to read: "The annual meeting of the shareholders (Directors) shall be held on the second Tuesday in March or at such other time as the Directors shall set in their discretion..." According to management, these revisions allow more flexibility in the scheduling of annual meetings of both the Directors and shareholders.

The review of the minutes of the meetings of the Shareholders and Board of Directors for the period under examination determined the following:

- The Shareholders minutes during the examination period documented that the shareholders voted unanimously to re-elect all incumbent Directors; however, the Directors were not listed by name.
- The Board of Directors minutes during the examination period documented that the Board of Directors voted unanimously to re-elect

all incumbent officers to the same positions; however, the individuals and their respective positions were not listed.

- The 2005 Board of Directors minutes reported that the Board considered and approved the proposed amendments to the Company's By-Laws; however, there was no information concerning the content of the amendments, no corporate resolution, and no attached documentation.
- The minutes during the examination period did not evidence the authorization of salaries for the Chief Operating Officer and an Administrative Assistant, the Company's only two employees.

During the course of the examination, all the relevant information was provided by management; however, by not including all the details of the corporation's actions in the minutes of its meetings, the Company did not maintain complete and accurate corporate records. ALA. CODE § 27-30-21(a) (1975) requires that:

“Every mutual aid association shall keep complete and accurate accounts and records of its affairs and transactions, in accordance with the usual and accepted methods and principles of insurance accounting and record keeping as applicable to the kind of business transacted by the association.”

The minutes appear to be complete with regard to actions taken on matters before the respective bodies for deliberation and action, except as otherwise noted.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company is deemed to be subject to the *Alabama Insurance Holding Company System Regulatory Act*, as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company was registered with the Alabama Department of Insurance as Registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company. A review of the Company's filings during the period under review indicated that all required disclosures were included in the Company's filings.

Dividends to Stockholders

The Company did not pay dividends to its stockholders during the period covered by this examination.

Schedule Y – Part 2

The previous examination recommended that the Company complete *Schedule Y – Part 2*, of its Annual Statement to show all transactions between related parties and affiliates. The NAIC's Annual Statement Instructions, instructs insurers to: "Include transactions between insurers and non-insurers within the holding company system." The Company did not include this schedule in any of its Annual Statement filings during the examination period, in spite of the various agreements with affiliated companies and a number of related transactions. When this matter was discussed with the Company, management stated that:

"The omission of Schedule Y regarding the details of inter-company transactions was an inadvertent oversight. We are preparing the 2007 Annual Statement at this time and will include the information in a Schedule Y."

Transactions and Agreements with Affiliates

The following agreements between the Company and its affiliates were in effect during the examination period and at December 31, 2006:

Client Service Agreement

The agreement between the Company and Skilstaf, Inc., is dated August 24, 1998, and was executed September 23, 1998. Peoples Savings' two employees are leased through Skilstaf in order to perform the administrative duties of the Company, for which the Company pays service fees to Skilstaf. The service fee is equal to the rate percentage specified in *Schedule I* of the agreement, multiplied time the gross earnings, as adjusted, of the assigned employees filling job function positions for the Company.

The agreement is renewed automatically for a period of twelve months. Termination is with thirty days prior written notice provided to the other party.

This agreement was submitted to and approved by the Alabama Insurance Commissioner on August 9, 2002.

Agency Agreement

The Company and its wholly-owned subsidiary Peoples Savings Agency (PSA), its wholly-owned subsidiary, entered into an *Agency Agreement* on May 10, 2002, retroactive to the 1995 date of PSA's incorporation.

The Company gives full authority to PSA to solicit life, accident, disability, and health insurance on its behalf. All commissions resulting from such solicitations become income for PSA. The Company is responsible for all necessary filings on behalf of

the Company and PSA, including, but not limited to, quarterly statements, annual statements, tax returns, etc.

The agreement will remain in force until either party gives written notice, at which time, the agreement will terminate on the first day of the month immediately following the notification.

This agreement was submitted to and approved by the Alabama Insurance Commissioner on August 9, 2002.

The *Agency Agreement* was amended on December 15, 2006, effective January 1, 2007. After discussions with the ALDOI on the agreement's wording, the document was submitted on a Form D to the ALDOI on April 6, 2007, and was approved by the Commissioner on April 10, 2007. It was noted that the Board of Directors minutes did not indicate disclosure and approval of this affiliate contract.

Terms of the new Agency Agreement:

- The Company gives full authority to PSA to solicit life, accident, disability, health, and any other legal insurance on its behalf.
- Commissions shall be fair and reasonable and negotiated based on the services provided
- All commissions resulting from such solicitations will become income for PSA.
- PSA will pay to the Company, or the Company shall have the right otherwise to deduct from any commissions, for the fair and reasonable value of any services or supplies provided by the Company to PSA, including but not limited to office, management and payroll services, and office equipment and supplies.
- PSA will service and maintain all business it solicits.
- PSA will appoint agents as necessary to solicit business on behalf of PSA.
- The Company is responsible for all necessary filings on behalf of the Company and PSA, including, but not limited to, quarterly statements, annual statements, tax returns, etc.
- PSA shall provide that any manager or producer of its business shall, within ninety days after expiration of the calendar year, furnish the Company with a written statement of amounts received under, or on account of, the contract and amounts expended there under during such calendar year, including the emoluments received there from by the respective directors, officers and other principal management personnel of the manager or producer, and with such classification of items and further detail that the Company may reasonably require.
- PSA agrees to abide by the Company's Privacy Policy
- Termination – in force until either party gives written notice, at which time, the agreement will terminate on the first day of the month immediately following the notification. Either party may terminate upon the happening of any of the following: bankruptcy, insolvency, default in payment of any indebtedness, by either party; failure of either party to remedy a breach of contract and provide written evidence thereof to the other party within 30 days.

- The agreement may be modified or amended only in a writing signed by an authorized officer of both parties to the agreement.
- Any controversy or claim arising out of this contract, or the breach thereof, which cannot be amicably settled shall be settled by arbitration administered by the American Arbitration Association

Management Services Agreement

The Company and its affiliate, Management Controls, Inc. (MCI), entered into this agreement on May 10, 2002, retroactive to the June 1998 date of the purchase of the Company by its current shareholders.

MCI will appoint a designated representative of their company to assume the responsibilities as outlined in the terms of the contract. Subject to the Company's direction, MCI will include various services, including but not limited to the following:

- Maintenance of receivables and payables, and preparation of income and expense reports.
- Maintenance of the checking account, including the reconciliation of statements.
- Preparation of all information pertaining to quarterly and annual statements, and tax filings.
- Implementation of investment decisions and preparation of investment statements.

Services provided by MCI will be billed annually in the amount of \$2,000.

The agreement shall remain in force until either party issues a written notice of termination to the other. Upon notification, the agreement will terminate on the last day of the month in which notice is issued.

This agreement was submitted to and approved by the Alabama Insurance Commissioner on August 9, 2002.

Lease Agreement

On January 21, 2002, a *Lease Agreement* was entered into by the Company and its affiliate, Skilstaf, Inc. An addendum, dated May 10, 2002, defined the effective date as May 1, 2001.

Skilstaf agreed to sub-lease office space located in its annex building at 1977 Cherokee Drive, Alexander City, AL 35010. The monthly rent was \$250, which represents one third of the lease amount for the entire complex. Any modifications or remodeling of

the office space must be approved by the property owner and will be at the expense of the occupant (the Company).

The lease shall remain in effect until either party issues a written notice to the other, upon which, the sub-lease will terminate on the last day of the month in which notice is issued.

As a result of recommendations made in the previous examination, the *Lease Agreement* was submitted to the ALDOI on June 28, 2004, and approved by the Commissioner on July 20, 2004. It was noted that the Board of Directors minutes did not indicate disclosure and approval of this affiliate contract.

On October 25, 2004, the Company informed the ALDOI that the Company had relocated to 854 Airport Drive, Alexander City, AL 35010, its current address, and noted that the agreement will remain in effect with no changes other than the physical address.

Information Concerning Parent, Subsidiaries, and Affiliates

It was noted that in Note #10 (Information Concerning Parent, Subsidiaries, and Affiliates), of the 2006 Annual Statement's *Notes to Financial Statements*, the Company reported the following:

“The Company’s only subsidiary is Peoples Savings Agency, Inc., which is wholly-owned. Income received from the subsidiary is reported as agency fees in the accompanying financial statements.”

No mention was made of the affiliated companies with which the Company has the aforementioned agreements. The NAIC’s Annual Statement Instructions require disclosure of all material related party transactions, including but not limited to the nature of the relationship, description of the transactions, the dollar amount of the transactions, amounts due from or to related parties, a description of material management and service contracts and cost-sharing arrangements, etc.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2006, the Company had a Financial Institution Bond issued by Federal Insurance Company, Indianapolis, Indiana, through the Chubb Group of Insurance Companies. The single loss limit liability of the bond met and exceeded the minimum requirements for fidelity coverage required by *Exhibit I*, of the NAIC’s Financial Condition Examiners Handbook. In addition, the Company maintained

Executive Liability and Indemnification, and Insurance Agents and Brokers Professional Liability policies.

The Company had other coverages under commercial insurance policies which covered the various hazards the Company could incur in the normal course of business, which included the following:

- Commercial Excess and Umbrella Insurance,
- Property Insurance, and
- Commercial Business Auto Coverage.

The types, coverages, and maximum limits indicated for each occurrence appear to have been adequate in order to cover the Company from the liabilities arising from employee injuries and other perils to which it might be exposed.

EMPLOYEE AND AGENTS' WELFARE

At the December 31, 2006 examination date, the Company employed two individuals, the Chief Operating Officer and an Administrative Assistant. The Company does not offer these employees pension plans or profit sharing system, retirement plans, deferred compensation, post-employment benefits, or compensated absences. Each employee receives an annual Christmas bonus based on one weeks' salary.

The Company does provide the following benefits:

- holiday pay
- sick leave
- medical, dental and vision insurance.

Due to the small size of the organization, and the limited number of employees, there is no Company handbook for employees.

Compliance with ALA. ADMIN. CODE 482-1-121 (2003)

The *Violent Crime Control and Law Enforcement Act of 1994*, US Code, Public Law 103-322, H.R. 3355; 18 U.S.C. §§ 1033-1034 ("the Act") became effective September 13, 1994. It provides criminal and civil enforcement provisions for insurance fraud committed by persons in the insurance industry. The Act also provides penalties for persons who have been convicted of certain prior criminal acts and who willfully engage in the

business of insurance affecting interstate commerce, unless such person receives written consent from the appropriate regulatory official.

The *Introduction* section to *Guideline 1*, of ALA. ADMIN. CODE 482-1-121 (2003) states that:

“The Act has broad, far-reaching implications for persons involved in the business of insurance or reinsurance in the United States. Insurers, officers, directors, producers, and any employee of an insurance company engaged in the business of insurance could be subject to the requirements of this Act.

It appears to cover all acts necessary or incidental to the writing of insurance or reinsurance and the activities of persons who act as or are officers, directors, producers, or employees and includes those authorized to act on their behalf.”

Section 1033(e)(2) provides the framework, and the Alabama Department of Insurance has a procedure for a prohibited person to seek approval and written consent to transact the business of insurance. *Guideline 1*, of the referenced regulation also states that:

“Failure to initiate a screening process in an attempt to identify prohibited persons in current or prospective employment relationships may be a factor in determining if a violation of this statute has occurred.”

In response to the examiners’ request to provide a brief narrative describing how the Company is complying with this act during the screening and hiring of prospective employees, management indicated that the Company only has two employees – its Chief Operating Officer and an Administrative Assistant. The COO stated:

“...federal law applies...only to insurance companies engaged in “interstate commerce.” 18 U.S.C. § 1033(a)(1). The statute further defines what constitutes interstate commerce for purposes of this particular Act. 18 U.S.C. § 1033(f)(3). Please note that Peoples Savings Life Insurance Company, Inc. (PSL) engages in no interstate commerce as described therein. PSL only has one policy, written to one policyholder located in Alexander City, Alabama. PSL’s business operations are located entirely within the confines of the State of Alabama. Nevertheless, PSL does abide by the statute, regardless of its technical inapplicability to PSL. The Company performs background and reference checks on any employees hired. As the Company now only has two employees, those employees’ crime-free backgrounds extending to their youth are well known to the Company’s President and/or Board of Directors. The Company monitors any filing of criminal charges that might be made against either of the Company’s two employees.”

In order to qualify for annual license renewal, the Company's field force is required to complete a question on the Alabama Department of Insurance's *Producer License Renewal Form*, which asked "Have you EVER been charged with or convicted of a felony or misdemeanor?"

The Act contains no grandfather provision for persons already transacting the business of insurance, and contains no automatic waivers for individuals who may possess a state insurance license. Although the Company does not have a formal policy for monitoring current employees, it appears that management keeps up to date on its employees' and agents' illegal activity thereby satisfying the requirements of ALA. ADMIN. CODE 482-1-121 (2003).

SPECIAL DEPOSITS

In order to comply with the statutory requirements for doing business in the state in which it is licensed, the Company had the following securities on deposit at the December 31, 2006 examination date:

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
<i>Alabama: Statutory Deposit</i>			
Certificate of deposit, 3.350%; Colonial Bank, DTD 1/14/2003; due 1/14/2009 (auto renewal)	\$20,000	\$20,080	\$20,080
TOTAL	\$20,000	\$20,080	\$20,080

Confirmations of this deposit were obtained from the State Treasurer by the Alabama Department of Insurance, and directly from the bank.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Premiums Earned</u>	<u>Losses and Loss Expenses Incurred</u>	<u>Percentage Losses and Loss Expenses Incurred to Premiums Earned</u>
2006 *	\$762,202	\$53,648	\$708,554	\$262,772	\$104,979	40.00%
2005	736,676	34,456	702,320	282,198	175,600	62.20%
2004	722,071	34,932	687,139	351,809	118,239	33.60%
2003 *	702,198	117,648	584,550	407,677	140,725	34.50%

* Per Examination

MARKET CONDUCT ACTIVITIES

Territory

The Company was licensed to transact business only in the State of Alabama. The *Certificate of Authority* and relevant documentation was inspected for the three-year examination period and found to be in order. The authorized line was compared with the line of business shown in the *Analysis of Operations by Lines of Business* exhibit of the 2006 Annual Statement, and no discrepancies were noted.

No license applications were pending at the December 31, 2006 examination date, or at the date of this report.

Business in Force – By States

<u>ALABAMA</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<i>Group:</i>			
In force end of prior year	\$64,570,000	\$ 80,720,000	\$101,340,000
Issued during year	<u>12,470,000</u>	<u>20,750,000</u>	<u>14,570,000</u>
Totals	<u>\$77,040,000</u>	<u>\$101,470,000</u>	<u>\$115,910,000</u>
Deductions during year:			
Death	110,000	180,000	120,000
Expiry	<u>11,530,000</u>	<u>36,720,000</u>	<u>35,070,000</u>
Totals	<u>\$11,640,000</u>	<u>\$ 36,900,000</u>	<u>\$ 35,190,000</u>
In force end of year	<u>\$65,400,000</u>	<u>\$ 64,570,000</u>	<u>\$ 80,720,000</u>
Premiums:			
Premium income – Group life insurance	<u>\$ 262,772</u>	<u>\$ 282,198</u>	<u>\$ 351,809</u>

Plan of Operation

The Company is located in Alexander City, Alabama. The office staff consists of the Chief Operating Officer (COO) and an administrative assistant. The President and the COO are the Company's only licensed agents.

When the Company was purchased by its current owners in 1998, there were no life insurance policies in force. According to management: "Since that time, the company has issued certificates on a master policy exceeding a volume of one hundred million dollars of life insurance in force, generating almost a half million dollars in premium annually." With its current capital base, the Company has the capacity to offer group term policies up to a face value amount of \$35,000. Currently,

with the one major group term policy in effect, the Company issues certificates equal to \$10,000 each.

The Company's primary goal is to provide employers with a low-cost benefits package that they can offer their employees, which promotes employee retention at the client level. Management regards the Company's group term life insurance policy to be very cost-effective and competitive in the current market. In the coming years, the Company is considering positioning itself to do business in other states. One possibility for such an expansion would be the Florida market. Management considers opportunities with the clients and employees of some of the leading professional employer organizations in Florida and elsewhere to appear promising.

It was noted that premium income has been steadily declining since the previous examination date. Management indicated that they have been able to specifically pinpoint the causes. As the Company has only a group master policyholder, its premium levels are a function of the number of employees serviced by that policyholder. During the 2000 – 2003 period, the policyholder experienced dramatic growth, with a corresponding increase in premiums collected. Subsequent business fluctuations and decisions by the policyholder, including in 2005 and 2006, to eliminate less profitable employee groups have likewise reduced the premium volume.

Subsequent to the examination period, increases in premium volume were reflected in the 2007 Annual Statement. Management expects the volume to level off and remain fairly consistent over the next 12-14 months. On a going forward basis, a Company official stated:

“Due to the lack of commission expense, coupled with low administrative overhead, the Company believes that it can maintain its Capital and Surplus even at reduced premium volumes if necessary, even though it might not reflect the same profitability as in recent years. However, the Company continually seeks other large employer groups in which to market our product. The Company must make sure that any such group represents viable business with numbers large enough for the premium income to offset the potential claims and still remain profitable. The Company and its management will continue to seek and examine such potential new business. In addition, a premium rate increase should have a positive impact on the premium income.”

In 2006, the company filed a Form D amending its previous *Agency Agreement* (see discussion on this contract on page 10 of this report) with its subsidiary, Peoples Savings Agency, Inc. (PSA). The Company records the fees as “Miscellaneous Income.” This item fluctuated dramatically during the examination period; in 2004, the Company did not report any amount; \$85,000 in 2005, and in 2006, only \$25,000.

In response to inquiries as to why these amounts varied so radically between reporting periods, management stated:

“Full disclosure has been made with respect to the timing and amount of the agency fee income from People’s Savings Agency, Inc. All such fees were in accordance with the agreement approved by the Department. These fees are directly related to the amount of work dedicated to the Company by the Agency. With the declining premium in 2006 the related work and fees also declined.”

Complaint Handling Practices

According to documentation maintained in the Consumer’s Division of the Alabama Department of Insurance, the Company had no complaints against it during the three-year examination period. Company records indicated the same.

Marketing and Sales

The Company’s wholly-owned subsidiary, Peoples Savings Agency, Inc. (PSA), solicits business on behalf of the Company in accordance with the *Agency Agreement* discussed previously in this report. The Company’s Chief Operating Officer (COO) is also the Executive Vice President of PSA, and its Chief Marketing Officer. PSA has over 350 employer-level clients, employing more than 10,000 employees nationwide. Its clients are involved in various aspects of American industry, including retail, transportation, manufacturing, production, lawn care, apparel, food service, construction, accounting, hospital, nursing home, assisted living, management/consulting, computer and software.

The Company relies mainly on past experience and the relationships among the agency, the agents, and the clients. No formal marketing or advertising campaigns have been undertaken. The market most commonly targeted is the worksite market place.

The Company’s products are distributed through two main channels:

1. Every newly hired employee receives a “Benefits Selection Booklet” with a brief description of the products available to them. They can complete the booklet, return it to the agency, and an application is generated for their signature.
2. The main way that the agency and the Company’s products are presented on a regular basis is through the agents. The agents appointed to represent PSA are trained to the Company’s specific way of marketing and the Company’s products. The agents, including the Company’s COO, visit the client

locations on an ongoing basis and handle the enrollments on site, thereby building a relationship with each employee.

Advertising

During the three-year examination period, the Company did not have a formal advertising program, and did not participate in any form of advertising. Management considers its best type of advertising is customer satisfaction and customer referrals. While most of the Company's sales take place in the client's home or business, there is no need for outdoor advertising or signage, and the Company's location is not considered a factor.

The Company does not have an Internet web site.

Compliance with Agents' Licensing Requirements

An inspection of Company records was conducted in order to determine that producers representing the Company were appropriately appointed. A register of licensed agents was obtained from the Agents' Licensing Division of the Alabama Department of Insurance and compared to a current list of agents provided by the Company. The review determined that each agent was properly licensed and appointed by the Company.

In accordance with the *Agency Agreement*, the Company's subsidiary, Peoples Savings Agency, Inc., appoints agents as necessary to solicit business on behalf of the Company.

At December 31, 2006, the Company had only one active, licensed agent, its Chief Operating Officer, who was on salary and received no commissions. The President, also a licensed agent, is no longer actively soliciting business.

Policy Forms and Underwriting Practices

During the examination period, the Company wrote only group term life insurance under its Group Policy #G-0001, which was approved by the Alabama Department of Insurance on January 4, 2000. The affiliated Skilstaf, Inc., is the Company's sole customer under this group life insurance policy.

All policies are written for a face value of \$10,000, which is in compliance with ALA. CODE §§ 27-30-6.1 and 27-30-15(c) (1975), with regards to policy limits. These sections of the *Alabama Insurance Code* define the requirements whereby the Company is authorized to write up to \$10,000 (or five percent of its \$200,000 capital) on any one life, and accidental death benefits not to exceed the amount of life insurance.

Benefit eligibility period

During the review of denied and closed-without-payment claims, policyholder brochures, which were included in the file documentation, stated: "You are eligible for coverage if you are actively working full-time at least 30 hours per week for 90 days. You are also eligible for coverage if you are actively working part-time at least 20 hours per week for 90 days." In addition, a letter, dated in 2007, to one of the claimants stated that the insured "...would have been eligible for coverage after meeting a 90-day waiting period." This is not in accordance with the ALDOI approved G-0001 policy provisions, which stipulates a 60-day waiting period. While the review of denied claims indicated that all had been appropriately denied in accordance with policy provisions, the existence of the 90-day eligibility documentation in employee files could be construed to be misleading. Management indicated that the Company no longer provides an employee benefit information package. A Company official stated:

"PSL has continued to abide by the 60 day waiting period as specified in the policy, even though this was not the original intent of the policyholder. The documentation in these files, while containing inaccurate information, remains irrelevant. These employees had only been employed 1 and 33 days consecutively, and would not be affected by the difference of the 30 days which is in question. PSL **will** be filing to amend the policy, on behalf of the policyholder, in the first quarter of 2008."

The Company does not have an underwriting manual or formal underwriting procedures. In accordance with the terms of the *Agency Agreement*, PSA performs all underwriting functions. Since all certificates are written for \$10,000, premium is calculated in accordance with standard policy provisions.

Claims Payment Practices

A selected number of open, closed, denied, and closed-without-payment claims files were reviewed in order to evaluate the Company's compliance with policy provisions, timeliness of payment, adequacy of documentation and reserving. In accordance with the sampling methods in the NAIC's Market Regulation Handbook, sample sizes were limited to 50 and 100 items, contingent on the population of specific files. During the examination period, a total of 55 claims were reported. Because the field size was less than 5,000, all sample sizes were fifty claims, unless otherwise documented, for the purposes of this examination.

Based on the reviews of sampled files, no claims were identified that were not paid within a reasonable or fair time frame. Those claims for which payment was not made were closed with justifiable cause in accordance with policy provisions. Documentation

maintained in the claims files was complete and appeared to be sufficient to be able to determine the precise reason for denial.

Privacy Policies and Practices

[Compliance with ALA. ADMIN. CODE 482-1-122 (2001), formerly known as Alabama Department of Insurance Regulation No. 122.]

ALA. ADMIN. CODE 482-1-122 (2001), the *Privacy of Nonpublic Personal Financial Information* regulation, governs the treatment of nonpublic personal and financial information about individuals by all licensees of the Alabama Department of Insurance. This regulation requires a licensee to provide “a clear and conspicuous notice” to individuals about its privacy policies and practices; describes the conditions under which a licensee may disclose nonpublic personal financial information about individuals to affiliates and nonaffiliated parties; and provides methods for individuals to prevent a licensee from disclosing that information.

General Examination OPERATIONS/MANAGEMENT Standard 12, of the NAIC’s Market Regulation Handbook requires that:

“The regulated entity has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.”

Standard 13 of the referenced handbook requires that:

“The regulated entity provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.”

At the previous examination date, the Company did not have a privacy policy and did not send notices to its customers. As a result of the recommendation made in the 2003 *Report on Examination*, management developed and initiated the *Privacy Policy of Peoples Savings Life Insurance Co., Inc.* The adopted privacy policy was reviewed and updated annually by management during the examination period. The following categories were discussed in the policy:

- Non-public personal financial information collected by the Company;
- Non-public personal financial information disclosed by the Company;
- Affiliates and non-affiliated third party receiving disclosures;

- Categories of non-public personal financial information about former customers;
- Right to opt-out or make inquiries;
- Disclosures under the Federal Fair Credit Reporting Act; and
- Protection of confidentiality and security of non-public financial information.

The review of the Company's privacy policy and procedures indicated that the Company provided notice to the appropriate individuals concerning its privacy policies and practices. The policy described the conditions under which the Company discloses non-public personal financial information and contains opt-out methods. The Company's policies, practices and procedures are in accordance with ALA. ADMIN. CODE 482-1-122 (2001), and the above referenced *General Examination Standards* of the NAIC's Market Regulation Handbook.

REINSURANCE

During the three-year examination period, the Company did not assume nor cede any business as reinsurance.

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained both manually and on Electronic Data Processing (EDP) equipment. Company employees performed certain of the record-keeping functions. Personnel of the affiliated Skilstaf, Inc., and Management Controls, Inc., conducted management, service, accounting and administrative functions in accordance with the agreements detailed in the "Transactions and Agreement with Affiliates" section of this report. A consultant was retained to supervise the preparation of required regulatory statement filings and the compilation of various other accounting records and workpapers.

In general, the accounting records appeared to reflect the operations during the period under review and the condition of the Company at the examination date, unless otherwise commented upon under appropriate captions, elsewhere in this report.

External Audit

The Company was audited annually by the independent CPA firm of Don Thornell, CPA, Inc. Mr. Thornell is a sole practitioner, who conducted all of the Company's audits for the three-year period covered by this examination. The audit workpapers of

the opening CPA were made available for review and were tested and utilized in this examination where deemed appropriate.

Relief from Audit Partner Rotation Requirement

At the December 31, 2006 examination date, the Company's CPA, had acted in the capacity of audit partner for eight years. ALA. ADMIN. CODE 482-1-100-.07(4)(a) (2004) stipulates that:

“No partner or other person responsible for rendering a report may act in that capacity for more than seven (7) years. Following a period of service the person shall be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of two (2) years.”

The Company made application to the ALDOI for relief from the above rotation requirement and was granted retroactive relief for 2006. However, the Alabama Insurance Commissioner denied further relief from the audit partner rotation requirement and instructed the Company to obtain a new independent auditor in order to comply with the aforementioned regulation. On December 27, 2007, the Company engaged a different CPA, thereby complying with the Commissioner's directive.

Actuarial Services

An actuary was retained by the Company to prepare a *Statement of Actuarial Opinion*. Mr. Steven P. Zoldos, FSA, MAAA, CFA, of the consulting actuarial firm of Wakely Consulting Group, Inc., Clearwater, Florida, was appointed by the Board of Directors on April 3, 2002, and certified the reserve/claim liability calculations for 2004 – 2006.

Anti-fraud initiatives

The Company has not established any formal fraud initiatives to advertise, identify, investigate and report fraudulent acts. Management indicated that the Company is too small to establish a program of this nature; consequently, a fraud program is not advertised or promoted to the Company's insureds. Claim forms and applications do not advise that a person presenting a false or fraudulent claim for payment of a loss or benefit, or knowingly providing false information in an application for insurance is guilty of a crime and may be subject to fines and confinement in prison.

A Company official stated that:

“With respect to detection of fraudulent insurance acts, the Company does routinely investigate all claims. Regarding financial transactions, every transaction of any kind

is reviewed by at least two different officers of the Company. The financial transactions of the Company subsequently are reviewed by the Company's Board of Directors and also by an independent, outside auditor."

OPERATIONS/MANAGEMENT General Examination Standard 3, of the NAIC's Market Regulation Handbook states that the Company should have "antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent acts."

FINANCIAL STATEMENT INDEX

The Financial Statements included in this report were prepared on the basis of the Company's records and the valuations and determinations made during the course of the examination for the year 2006. Amounts shown in the comparative statements for the years 2004 and 2005 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

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**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART
THEREOF.**

PEOPLES SAVINGS LIFE INSURANCE COMPANY
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2006

	<u>Assets</u>	<u>Non- admitted Assets</u>	<u>Net Admitted Assets</u>
<u>ASSETS</u>			
Common stocks (Note 1)	\$ 1,000	\$ 1,000	\$ 0
Cash, cash equivalents and short-term investments	<u>762,202</u>	<u>0</u>	<u>762,202</u>
Subtotals, cash and invested assets	\$ 763,202	\$ 1,000	\$ 762,202
Furniture and equipment	<u>1,558</u>	<u>1,558</u>	<u>0</u>
Total assets	<u>\$ 764,760</u>	<u>\$ 2,558</u>	<u>\$ 762,202</u>
 <u>LIABILITIES</u>			
Contract claims:			
Life (Note 2)			\$ 50,000
General expenses due or accrued (Note 3)			0
Taxes, licenses and fees due or accrued (Note 3)			0
Current federal and foreign income taxes			3,648
Amounts withheld or retained by company as agent or trustee (Note 4)			<u>0</u>
Total liabilities			<u>\$ 53,648</u>
 <u>CAPITAL AND SURPLUS</u>			
Common capital stock			\$ 200,000
Gross paid in and contributed surplus		\$ 197,000	
Unassigned funds (surplus) (Note 5)		<u>311,554</u>	
Surplus			<u>508,554</u>
Total Capital and Surplus			<u>\$ 708,554</u>
TOTAL LIABILITIES, CAPITAL AND SURPLUS			<u>\$ 762,202</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART
THEREOF.

PEOPLES SAVINGS LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
For the Years Ended December 31, 2006, 2005, and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Premiums and annuity considerations for life and accident and health contracts	\$ 262,772	\$ 282,198	\$ 351,809
Net investment income	20,577	10,559	4,576
Aggregate write-ins for miscellaneous income:			
Fee Income	<u>25,000</u>	<u>85,000</u>	<u>0</u>
TOTALS	<u>\$ 308,349</u>	<u>\$ 377,757</u>	<u>\$ 356,385</u>
Death benefits	<u>\$ 104,979</u>	<u>\$ 176,500</u>	<u>\$ 118,239</u>
TOTALS	<u>\$ 104,979</u>	<u>\$ 176,500</u>	<u>\$ 118,239</u>
General insurance expenses	\$ 172,236	\$ 180,586	\$ 165,664
Insurance taxes, licenses and fees, excluding federal income taxes	<u>3,256</u>	<u>4,917</u>	<u>24,268</u>
TOTALS	<u>\$ 280,483</u>	<u>\$ 362,003</u>	<u>\$ 308,171</u>
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 27,866	\$ 15,754	\$ 48,214
Federal and foreign income taxes incurred	<u>2,078</u>	<u>3,171</u>	<u>4,051</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	<u>\$ 25,788</u>	<u>\$ 12,583</u>	<u>\$ 44,163</u>
Net income	<u>\$ 25,788</u>	<u>\$ 12,583</u>	<u>\$ 44,163</u>

CAPITAL AND SURPLUS ACCOUNT
For the Years Ended December 31, 2006, 2005, and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Capital and surplus, December 31, prior year	<u>\$ 702,321</u>	<u>\$ 687,138</u>	<u>\$ 660,067</u>
Net income	\$ 25,788	\$ 12,583	\$ 44,163
Change in nonadmitted assets and related items	446	2,600	2,600
Examination adjustment (Note 5)	-20,000		
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>0</u>	<u>-19,692</u>
Net change in capital and surplus for the year	<u>\$ 6,234</u>	<u>\$ 15,183</u>	<u>\$ 27,071</u>
Capital and surplus, December 31, current year	<u>\$ 708,555</u>	<u>\$ 702,321</u>	<u>\$ 687,138</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART
THEREOF.**

NOTES TO FINANCIAL STATEMENTS

Note 1 – Common stocks

\$0

The referenced asset is the same as reported by the Company in its 2006 Annual Statement and as determined by this examination.

In 1995, the Company acquired its wholly-owned subsidiary, Peoples Savings Agency, Inc. (PSA). The Company elected not to file a SUB-1 form with the NAIC's Securities Valuation Office (SVO), and has not admitted the \$1,000 value of PSA since acquisition. This accounting treatment is appropriate in accordance with section (3) of ALA. ADMIN. CODE 482-1-098 (1994) *Valuation of Investments*, which stipulates that:

“Any security not valued in accordance with this rule shall be carried as a non-admitted asset on all financial statements of the insurer until such time as the insurer has complied with Paragraph (1)...of this rule.”

A Company official stated that:

“In the interest of saving the costs incurred in maintaining an active SVO filing, the Company reverted to a cost basis carrying value and non-admitted that cost basis.”

The Company's Annual Statements during the examination period did not disclose how the Company was valuing its subsidiary. The Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO Manual) does not provide “cost” as a basis for valuation of SCA investments. In response to the examiner's request for the subsidiary's financial statements, management stated: “Peoples Savings Agency does not have audited financial statements.”

Without audited financial statements on this SCA company, the examiners were unable to determine the true equity value of the Company's investment. If audited financial statements are not available hereafter, PSA is potentially subject to future audit by the Alabama Department of Insurance in order to determine the true financial position of PSA and to determine the nature and extent of transactions occurring through PSA.

Note 2 – Contract claims: Life

\$50,000

The captioned liability is \$20,000 more than the \$30,000 reported by the Company in its 2006 Annual Statement. At year-end 2006, the Company had one pending claim for \$10,000, and one claim for \$10,000 that was the result of a finding in the previous examination. Both claims, totaling \$20,000, were paid in 2007, subsequent to the examination period. These pending items should have been listed as a liability under the caption “*In the course of settlement*” in *Exhibit 8 – Part 1*, at line 2.21 (Other - Direct) of the 2006 Annual Statement in accordance with *SSAP No. 55*, paragraph 6b(iii), of the NAIC’s Accounting Practices and Procedures Manual, which states:

“Other Claims in the Course of Settlement: Liability for claims that have been reported but the reporting entity has not received all of the required information or processing has not otherwise been completed as of the statement date...”

The Company’s claim liability was sufficient to cover these claims; however, the \$30,000 is an IBNR reserve, estimated by management to cover those claims that were incurred prior to year-end but had not yet been reported. The \$20,000 consisted of known claims that should have been added to the reserve, thereby increasing the liability to \$50,000 at the examination date.

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Note 3 – General expenses due or accrued

\$ 0

Taxes, licenses and fees due or accrued

\$ 0

The captioned amounts are the same as reported by the Company in its 2006 Annual Statement. During the search for unrecorded liabilities, the following items were not accrued by the Company nor reported on the balance sheet:

General expenses due or accrued:

Claims adjustment expenses	\$ 900	\$
General expenses	<u>9,182</u>	10,082
Taxes, licenses and fees due or accrued		<u>1,558</u>
TOTAL		<u>\$11,640</u>

Claims adjustment expenses:

The Company did not report claim adjustment expenses during the three-year examination period. *SSAP No. 5*, of the NAIC's Accounting Practices and Procedures Manual requires insurance companies to record claims adjustment expenses for life insurance claim liabilities each year to include "[c]osts expected to be incurred (including legal and investigation) in connection with the adjustment and recording of life claims..." In addition, *SSAP No. 55*, paragraph 6, makes it clear that an adjustment expense must be set up for due and unpaid, in course of settlement, and incurred but not reported claims for life insurance. Item d., of the latter referenced paragraph states:

"Claim Adjustment Expenses for Life Reporting Entities: Cost expected to be incurred (including legal and investigation) in connection with the adjustment and recording of life claims defined in subparagraph 6 b."

In response to the examiner's request for the detail of claim adjustment expenses for the examination period, management indicated that there have been no claims adjustment expenses during this period, and the only expenses that have been incurred are the actual claims themselves. There are no administrative costs, attorneys fees, nor any other applicable expenses related to the claims. When asked if the Company sets up a separate reserve for expenses associated with paying these reserves, a Company official stated: "There is no separate reserve account set up for these types of expenses. Historically we have never incurred any such expenses, nor do we anticipate any in the future."

Typically, a claims adjustment expense liability is recorded for unpaid claims. The amount of unpaid claims was \$30,000. Per the ALDOI's actuarial examiner, a normal

claims adjustment expense percentage would be approximately three percent of unpaid claims. Thus, the claims adjustment expense liability would be \$900, which is an immaterial amount, and no adjustment will be made for the purposes of this examination. However, the Company should set up the claims adjustment expense liability in future Annual Statements in order to account for the expenses of administering the unpaid claims. The expense should be included in *Exhibit 2 – General Expenses*, on line 4.5 (*Expense of investigation and settlement of policy claims*), and the liability reported on liability line 12 (*General expenses due or accrued*) of the balance sheet in accordance with the NAIC's Annual Statement Instructions.

General expenses due or accrued:

A sample of expense payments made after the “as of” date (December 31, 2006) indicated that \$9,182 was not reported as a liability on line 12 of the balance sheet. Items in the referenced amount included, but were not limited to, equipment fees, cost of EDP equipment, and fees of consulting accountants and actuaries. These classifications of expenses should be accrued and reported in accordance with the NAIC's Annual Statement Instructions.

Taxes, licenses and fees due or accrued:

The above referenced sample also determined that \$1,558 was not reported as a liability on line 14 of the balance sheet, and included tax, interest and/or penalty on corporate income tax, premium tax, and state and NAIC filing fees. These items should also have been accrued and reported in accordance with the NAIC's Annual Statement Instructions.

The amount of the differences, both individually and collectively, were not material for the purposes of this examination, and no changes were made to the financial statements in this report.

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Note 4 – Amounts withheld or retained by company as agent or trustee **\$ 0**

The referenced amount is the same as was reported by the Company in its 2006 Annual Statement but \$363 less than the amount determined by this examination. The Company did not report any amount under this caption during the three-year examination period.

Unclaimed property filings

ALA. CODE § 35-12-23 (1975) was repealed in May 2004, and replaced by ALA. CODE § 35-12-76 (8)(c) (1975). According to the Alabama Dormancy Period and Reporting Guide for Classifying and Remitting Property Unclaimed/Abandoned, the dormancy period for unclaimed checks and all other insurance property is now three years instead of five years. Insurance companies are required to file by November 1st for the accounting period ending June 30th, beginning in 2004.

The Company indicated that unclaimed property reports were filed with the State Treasurer but copies of the documents were not maintained. ALA. CODE § 27-30-21(a) (1975) requires:

“Every mutual aid association shall keep complete and accurate accounts and records of its affairs and transactions, in accordance with the usual and accepted methods and principles of insurance accounting and record keeping as applicable to the kind of business transacted by the association.”

A brief narrative discussing the Company’s procedures for addressing outstanding checks and/or other unclaimed or abandoned property was requested. A Company official stated:

“There is no formal procedure in place for unclaimed benefit checks. Historically, there have been none, and the issue has never arisen. The company exhausts all efforts in contacting the beneficiary or next of kin in order to expedite the payment of any benefit.”

Even if a company has no unclaimed property, an insurance company is required to file annual zero remittance reports (filing of no property to report). ALA. CODE §§ 35-12-76(a) and (8)(c) (1975) require that:

“A holder of property assumed abandoned shall make report to the Treasurer concerning the property. The report must be verified and must contain, at a minimum, all of the following:...(8) (c) The report shall be filed before November 1 of each year and cover the 12 months next preceding July 1 of that year.”

During the cash review and the tracing of outstanding checks to subsequent bank statements, it was noted that three checks, totaling \$363, were outstanding on all bank statements during the examination period. The checks were issued in 1999 and 2000. These items were not material, in part or in aggregate, for the purposes of this examination, and no changes were made to the financial statements in this report. Nevertheless, the \$363 should have been reported on the referenced liability line in accordance with the NAIC's Annual Statement Instructions, and escheated in compliance with the aforementioned statutory requirements of the *Alabama Disposition of Unclaimed Property Act of 2004*.

Note 5 – Unassigned funds (surplus) **\$ 311,554**

Unassigned funds (surplus), as determined by this examination, was \$20,000 less than the \$331,554 amount reported by the Company in its 2006 Annual Statement. The following presents a reconciliation of unassigned funds per the Company's filed Annual Statement to that developed by this examination:

Unassigned funds (surplus) per Company	\$ 331,554
Examination increase (decrease) to assets:	
Total increase/(decrease) to assets	\$ <u>0</u>
Examination (increase)/decrease to liabilities:	
<u>Note 2</u> – Contract claims: Life	\$ <u>(20,000)</u>
Total (increase)/decrease to liabilities	\$ <u>(20,000)</u>
Net Increase/(Decrease)	\$ <u>(20,000)</u>
Unassigned funds (surplus) per Examination	\$ <u>311,554</u>

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of representations made by Company management, a review of CPA workpapers on pending litigation, performance of a search for unrecorded items, and a general review of the Company's records and files conducted during the examination, including a review of claims. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

The Company reported that there were no lawsuits pending at year-end 2006. Management was not aware of any material contingent liabilities at the examination date and had committed no reserves to cover such liabilities.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

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

Holding Company Registration and Reporting – The Company did not complete *Schedule Y – Part 2*, showing all transactions between related parties and affiliates in accordance with the NAIC's Annual Statement Instructions.

Corporate Records – The review of the Company's corporate records indicated certain omissions in its Shareholders and Board of Directors minutes as detailed on page 7 of this report. Although the relevant information was ultimately provided by management, by not including all the details of the corporation's actions in its minutes, the Company did not maintain complete and accurate corporate records in accordance with ALA. CODE § 27-30-21(a) (1975). As a result, the Company did not comply with the previous recommendation.

Accounts and Records

Repurchase agreement – The previous examination recommended that the Company comply with the NAIC's Annual Statement Instructions regarding the required disclosure in its *Notes to Financial Statements* for its repurchase agreement. The Company did not comply with that recommendation.

SSAP No. 55 – The Company did not report its pending claims as a liability under the caption *In the course of settlement* in *Exhibit 8 – Part 1*, at line 2.21 (Other – Direct) of the 2006 Annual Statement in accordance with *SSAP No. 55*, Paragraph 6b (iii), of the NAIC’s Accounting Practices and Procedures Manual; therefore, the Company did not comply with the recommendation made in the previous examination report. See “Note 3 – Contract claims: Life,” in the NOTES TO FINANCIAL STATEMENTS section of this report for further details.

COMMENTS AND RECOMMENDATIONS

The following summary presents the comments and recommendations that are made in the current *Report of Examination*.

Organizational Chart – Schedule Y – Part 2 – Page 10

It is again recommended that the Company complete *Schedule Y – Part 2*, of its Annual Statement in accordance with NAIC instructions thereto in order to disclose all transactions between related parties and affiliates and demonstrate the scope and direction of major fund and/or surplus flows through the holding company system. A similar recommendation was also made in the previous examination report.

Transactions and Agreements with Affiliates – Page 10

It is recommended that the Board of Directors minutes record and disclose its approval of affiliate contracts.

Information Concerning Parent, Subsidiaries, and Affiliates – Page 13

It is recommended that the Company complete the “Information Concerning Parent, Subsidiaries, and Affiliates” section of the Annual Statement’s *Notes to Financial Statements* in accordance with the NAIC’s Annual Statement Instructions, which require disclosure of all material related party transactions, including but not limited to the nature of the relationship, description of the transactions, the dollar amount of the transactions, amounts due from or to related parties, a description of material management and service contracts and cost-sharing arrangements, etc.

Corporate Records – Pages 7 and 34

It is recommended that the Company record and all maintain the details of its corporate actions in the minutes of its meetings in accordance with ALA. CODE § 27-30-21(a) (1975), which requires that: “Every mutual aid association shall keep complete and

accurate accounts and records of its affairs and transactions, in accordance with the usual and accepted methods and principles of insurance accounting and record keeping as applicable to the kind of business transacted by the association.”

Benefit eligibility period – Page 21

It is recommended that the Company remove language from its policy form, which references a 90-day eligibility waiting period, so as to be in compliance with the ALDOI approved G-0001 form that specifies a 60-day waiting period.

Accounts and Records – Antifraud initiatives – Page 24

It is recommended that the Company establish a formal, written antifraud plan in accordance with OPERATIONS/MANAGEMENT General Examination Standard 3, of the NAIC’s Market Regulation Handbook, which states that the Company should have “antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent acts.”

Accounts and Records – Compliance with Previous Recommendations – Page 34

It is recommended that the Company comply with the NAIC’s Annual Statement Instructions regarding the required disclosure in its *Notes to Financial Statements* for its repurchase agreement. This recommendation was also made in the previous examination report.

Common stocks – Page 28

It is recommended that the Company disclose its method of valuation for its SCA investment in the Annual Statement in accordance with NAIC instructions thereto.

It is recommended that the Company value the common stock of its wholly-owned subsidiary in accordance with an accepted method of valuation as defined by the NAIC’s Securities Valuation Office.

It is recommended that the Company obtain audited financial statements for its subsidiary in order that the true equity value of the SCA investment can be verified by the ALDOI. It should be noted that if audited financial statements are not available henceforth, PSA is potentially subject to future audit by the ALDOI in order to determine the true financial position of PSA, and to determine the nature and extent of transactions occurring through PSA.

Contract claims: Life – Page 29

It is recommended that the Company report its pending claims liability under the caption “*In the course of settlement*” in *Exhibit 8 – Part 1*, at line 2.21 (Other – Direct) of the Annual Statement in accordance with *SSAP No. 55*, paragraph 6b (iii), of the NAIC’s Accounting Practices and Procedures Manual, which states: “Other Claims in the Course of Settlement: Liability for claims that have been reported but the reporting entity has not received all of the required information or processing has not otherwise been completed as of the statement date...”

General expenses due or accrued – Page 30

Claims adjustment expense liability – Page 30

It is recommended that the Company record a claims adjustment expense liability in future Annual Statements to account for the cost of administering the unpaid claims in compliance with *SSAP No. 5*, of the NAIC’s Accounting Practices and Procedures Manual, which requires insurance companies to record claims adjustment expenses for life insurance claim liabilities each year to include “[c]osts expected to be incurred (including legal and investigation) in connection with the adjustment and recording of life claims...”

It is also recommended that the Company comply with *SSAP No. 55*, paragraph 6.b., of the NAIC’s Accounting Practices and Procedures Manual, which requires that an adjustment expense must be set up for due and unpaid, in course of settlement, and incurred but not reported claims for life insurance.

It is recommended that claim adjustment expenses be included in *Exhibit 2 – General Expenses*, on line 4.5 (*Expense of investigation and settlement of policy claims*), and the liability reported on liability line 12 (*General expenses due or accrued*) of the balance sheet in accordance with the NAIC’s Annual Statement Instructions.

General expenses due or accrued – Page 31

Taxes, licenses and fees due or accrued – Page 31

It is recommended that the Company report its due and accrued general expenses, and taxes, licenses in fees in accordance with the NAIC’s Annual Statement Instructions.

Unclaimed property filings – Page 32

It is recommended that the Company file its unclaimed property reports each year by the November 1st deadline in compliance with ALA. CODE §§ 35-12-76(a) and (8)(c) (1975), which require that: “A holder of property assumed abandoned shall make report to the Treasurer concerning the property. The report must be verified and must contain, at a minimum, all of the following:...(8) (c) The report shall be filed before November 1 of each year and cover the 12 months next preceding July 1 of that year.”

It is recommended that the Company maintain copies of all unclaimed property filings, including zero remittance reports, in accordance with ALA. CODE § 27-30-21(a) (1975), which requires: “Every mutual aid association shall keep complete and accurate accounts and records of its affairs and transactions, in accordance with the usual and accepted methods and principles of insurance accounting and record keeping as applicable to the kind of business transacted by the association.”

It is recommended that the Company report its unclaimed/abandoned property on liability line 17 (*Amounts withheld or retained by company as agent or trustee*) in accordance with the NAIC’s Annual Statement Instructions, which require that “...any other funds that the company holds in a fiduciary capacity for the account of others...” be included in this balance sheet item.

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SUBSEQUENT EVENTS

The review of events subsequent to the December 31, 2006 examination date did not reveal anything material in amount, or noteworthy in nature.

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CONCLUSION

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and evaluation of assets and the determination of liabilities.

In addition to the undersigned, Harland A. Dyer, ASA, MAAA, FCA, Consulting Actuarial Examiner representing the Alabama Department of Insurance, participated in this examination of *Peoples Savings Life Insurance Company, Inc.*

Respectfully submitted,



Anne L. Ward, CFE
Examiner-in-Charge
State of Alabama
Department of Insurance

February 1, 2008