

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF
EXAMINATION

OF

Jordan Funeral and Insurance Company, Inc.

CENTRE, ALABAMA

AS OF

DECEMBER 31, 2010

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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA

COUNTY OF Cherokee

Toni L. Bean, CFE, being duly sworn, states as follows:

I have authority to represent Alabama in the examination of Jordan Funeral and Insurance Company, Inc.

The Alabama Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

I have reviewed the examination workpapers and examination report, and the examination of Jordan Funeral and Insurance Company, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Toni Bean

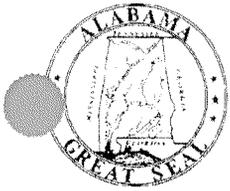
Examiner-in-Charge

Subscribed and sworn before me by Toni Bean on this
13th day of January, 2012.

(SEAL)

[Signature]

(Signature of Notary Public)



ROBERT BENTLEY
Governor

JIM L. RIDLING
Commissioner

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 502
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.gov

Deputy Commissioner
CHARLES M. ANGELL
(acting)

Chief of Staff
RAGAN INGRAM

Chief Examiner
RICHARD L. FORD

State Fire Marshal
EDWARD S. PAULK

General Counsel
REYN NORMAN

January 13, 2012

Honorable Jim L. Ridling, Commissioner
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 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 (NAIC), an examination has been made of the affairs and financial condition of

Jordan Funeral and Insurance Company, Inc.

at its home office located at 293 East Main Street, Centre, Alabama 35960, as of December 31, 2010. The Report of Examination is submitted herewith. Where the description "Company" appears herein without qualification, it will be understood to indicate Jordan Funeral and Insurance Company, Inc.

SCOPE OF EXAMINATION

The Company was last examined at December 31, 2004 by the Alabama Department of Insurance. The current examination covers the intervening period from the date of the last examination through December 31, 2010, and was conducted by examiners representing the State of Alabama. Where deemed appropriate, transactions, activities, and similar items subsequent to 2010 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the Alabama Insurance Code, 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 planned and performed to:

- Evaluate the financial condition of the Company as of December 31, 2010.
- Identify the Company's prospective risks by obtaining information about the Company such as corporate governance.
- Identify and assess the inherent risks within the Company.
- Evaluate system controls and procedures used to mitigate inherent risks.
- Assess the principles used and significant estimates made by management.
- Evaluate the overall financial statement presentation and compliance with statutory accounting principles and Annual Statement instructions.

An examination of the Company's information systems (IS) was conducted concurrently with the financial examination. The IS examination included a review of logical and physical security controls and network and internet controls.

The market conduct examination was performed concurrently with the financial examination. The examination included a review of the Company's territory and plan of operation. See "MARKET CONDUCT ACTIVITIES" on page 12 for further discussion of the market conduct examination.

The Company's Annual Statements for each year under examination (2005 through 2010) were compared with or reconciled to the corresponding general ledger account balances.

Kellum, Wilson & Associates P.C. (f/k/a Hullett, Kellum & McKinney P.C.) was the Company's certified public accountants (CPAs) for the six years under examination.

The CPAs workpapers were reviewed and utilized during the examination where 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, 2010.

ORGANIZATION AND HISTORY

Jordan Funeral and Insurance Company, Inc. was incorporated under the laws of the state of Alabama to do business as a mutual aid benefit and industrial company. The Articles of Incorporation were filed with the Judge of Probate of Cherokee County, Alabama on August 17, 1937. Business commenced in May 1938 with an initial capitalization of \$5,000 consisting of 100 shares of \$50 par value common stock. Article III, paragraph six of the Articles of Incorporation lists the purpose of the Company as “to make and issue policy contracts or agreements of insurance or burial...”

On January 10, 1977, the Company’s paid-up capital was increased to \$25,000 to comply with ALA. CODE § 27-30-6 (1975) which increased the minimum capital requirements for mutual aid companies. In 1980, the Company amended the amount of capitalization to 1,000 shares of \$50 par value common stock for a total of \$50,000. On October 21, 1992, the authorized number of shares was increased to 2,000 shares with a par value of \$50 to comply with ALA. CODE § 27-30-6-.01 (1975) which increased the amount of paid-in capital stock for mutual aids to \$100,000.

On October 23, 2006, the Company was placed under an Order to Show Cause due to continued material financial hazardous condition as defined in Regulation 101. On May 7, 2007, the Company was placed under an Order of Supervision, due to its declining financial condition. On or about November 2, 2007, Jordan’s Order of Supervision was extended another 180 days. On or about April 22, 2008, the Order of Supervision was extended again. On September 23, 2008, the Company submitted to an Order of Receivership/Rehabilitation. On November 23, 2010, the Company was released from its Order of Receivership/Rehabilitation and was allowed to begin writing new business again.

At December 31, 2010, the Company had \$100,000 of common capital stock consisting of 2,000 shares of \$50 par value common stock and \$119,926 in unassigned funds.

MANAGEMENT AND CONTROL

Stockholders

At December 31, 2010, the stockholders were as follows:

<u>Name</u>	<u>Percentage</u>
Hugh Lowe (Jay) Jordan, Jr.	50.47%
Mary J. Walden	22.02%
David Johnson	5.57%
Judith J. Anderson	5.55%
Jane J. Wilson	5.55%
Jeff Thomas Jordan	3.55%
Ralph Meade	2.50%
Nancy Meade	2.50%
Earl Westbrook*	1.10%
Cathryn Jordan	1.00%
Sharon Jordan	.20%

*Individual Deceased

Management stated that Mr. Earl Westbrook was deceased at December 31, 2010, despite the fact that he was listed as a stockholder on Schedule Y Part 1 of the 2010 Annual Statement. The exact date of death was unknown, but it was before December 31, 2010. The 22 shares owned (or 1.10%) was equally divided amongst Mr. Westbrook's beneficiaries/heirs. The following individuals owned 2.75 shares each at December 31, 2010 constituting 1.10%:

Name

Kevin Westbrook
Brenda Burgess
Odessa Rogers
Elizabeth Ann Coker
Michele Westbrook
William Thomas Jordan
Thomas Jordan
Edwin Floyd, Jr.

Because the correct stockholders were not listed on Schedule Y Part 1 of the 2010 Annual Statement, the Company was not in compliance with ALA. CODE § 27-30-22 (a) (1975), which states: “Each mutual aid association shall annually on or before March 1, file with the commissioner a full and true statement of its financial condition, transactions, and affairs as of the December 31 preceding.”

Board of Directors

The members elected to the Board of Directors and serving at December 31, 2010, were as follows:

<u>Director/Residence</u>	<u>Occupation</u>
Hugh Lowe (Jay) Jordan, Jr. Centre, Alabama	Self employed
Mary Jordan Walden Centre, Alabama	Jordan Funeral and Insurance Company, Inc. President
David Johnson Centre, Alabama	Green House and Nursery Owner
Tommy Jordan Centre, Alabama	Farmer
Glenda Sharon Johnson Centre, Alabama	Beautician
Ralph Meade Centre, Alabama	Realtor – Retired

Other than in 2005, there was no evidence in the meeting minutes that members were appointed to the Board of Directors annually in accordance with the Bylaws.

Committees

The only committee designated by the Board of Directors during the examination period was the Loan Committee. According to the meeting minutes provided, the last time members were appointed to serve on the Loan Committee was March 7, 2005. However, as indicated below under **Corporate Records** the meeting minutes

provided were sparse, incomplete and missing altogether for certain years under examination.

A similar situation was noted in the last report of examination whereby it was recommended that the members of the loan committee be designated or appointed annually by the Board of Directors in accordance with Article III, Section 2 of the Bylaws.

According to Management, the following members were serving (on the loan committee) at December 31, 2010:

- Hugh Lowe (Jay) Jordan, Jr.
- David Johnson
- Mary Jordan Walden

Officers

According to Management, the following officers were serving at December 31, 2010:

<u>Officer</u>	<u>Title</u>
Mary Jordan Walden	President
David Johnson	Treasurer and Secretary

Again, other than in 2005, there was no evidence in the corporate meeting minutes that the Board of Directors elected any officers annually as specified in the Bylaws.

Conflict of Interest

The Company's President indicated that it did not have a written, formal conflict of interest policy, and it did not have signed conflict of interest statements for the years under examination. However, the Company answered "yes" to item 14 of the *General Interrogatories* found in the 2010 Annual Statement when asked:

Are the senior officers of the reporting entity subject to a code of ethics, which includes the following standards?

- a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
- b. Full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by the reporting entity.

CORPORATE RECORDS

The Articles of Incorporation, as filed with the Cherokee County Court of Probate and the Bylaws were inspected during the course of this examination. Minutes of the meetings of stockholders, the Board of Directors, and the Loan Committee were reviewed for the period under examination.

While reviewing the meeting minutes the following was noted:

➤ Stockholders meetings were not being held in accordance with Article II, Section 1 of the Bylaws which states: “The regular annual meeting of the stockholders of said Corporation shall be held at Jordan Funeral Home in the City of Centre, Alabama, on the second Monday of January of each year at 2:00 o’clock p.m.”

➤ Board meetings were not always held in January, April, July, or October in accordance with Article III, Section 5 of the Bylaws which states:

Regular meetings of the Board of Directors shall be held quarterly on the second Monday of January, the second Monday of April, on the second Monday of July and on the second Monday of October at 5:00 p.m. and shall also be held immediately after the adjournment of each regular annual meeting of stockholders.

➤ The Board meeting minutes did not indicate or evidence that the general management, direction and control of the Company was being thoroughly discussed by the Board members. The meeting minutes did not reflect discussions regarding:

- Reserves and reserving methodologies
- Corporate Governance
- Risk Management Activities
- Strategic Planning
- Budgets
- Financial Condition
- Ratification or Approval of Investment Transactions

This was not in accordance with Article III, Section 7 of the Bylaws which states: “The general management, government and direction of the affairs of said corporation shall be vested in the Board of Directors...”

Additionally, ALA. CODE § 27-41-5 (1975) states:

An insurer shall not make any investment or loan, other than loan on policies or annuity contracts, unless the same be authorized, approved, or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize.

While the Company's meeting minutes evidenced the approval of loans (for year-end 2005 only), they did not evidence the approval of investments (stocks, bonds, etc.).

➤ The Secretary was not consistently recording the meeting minutes in accordance with the Bylaws which states: "The Secretary shall keep a record book and shall keep therein a record of all proceedings, acts and resolutions of all meetings of the Directors and stockholders."

Meeting minutes were not provided for years 2006, 2009, or 2010. Also, the meeting minutes provided for years 2005, 2007, and 2008 were either missing, or were not in-depth or detailed, and did not evidence that the financial condition and affairs of the Company were being thoroughly discussed.

The Company was placed in Receivership on September 10, 2008 and was released on November 23, 2010. As such, the Company would not have any meeting minutes for 2008 – 2010 for review, as its operations were being handled by the Alabama Department of Insurance.

CORPORATE GOVERNANCE

Management indicated that the Company did not have an Audit Committee, a written strategic plan, formal mission statement, annual budget, or code of conduct/ethics. Additionally, the Company did not have a corporate governance framework. There was no evidence or indication that management had any written plans, policies, processes or procedures pertaining to the direction, administration or control of the Company.

ALA. ADMIN. CODE 482-1-141-.03 (c) (2008) states: "...If an audit committee is not designated by the insurer, the insurer's entire board of directors shall constitute the Audit Committee..." By virtue of the aforementioned statute, the Board of Directors of the Company constituted the Audit Committee.

Section 14, further states:

(1) The audit committee shall be directly responsible for the appointment, compensation and oversight of the work of any accountant (including resolution of disagreements between management and the accountant regarding financial reporting) for the purpose of preparing or issuing the audited financial report or related work pursuant to this chapter. Each accountant shall report directly to the audit committee.

There was no evidence or documentation suggesting that the BOD (functioning as the Audit Committee) provided any oversight.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company

The Company is subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975), as amended. Appropriate filings required under the Holding Company Act were made from time to time by the Company. A review of the filings during the period under review indicated that appropriate disclosures were included regarding the Company, except as noted otherwise below.

Dividend to Stockholders

There were no dividends paid to the stockholders during the examination period.

Organizational Chart

The following details the identities of and interrelationships among all affiliated persons within the Holding Company System at December 31, 2010:

DIVIDENDS TO POLICYHOLDERS

There were no dividends paid to policyholders during the examination period.

FIDELITY BOND AND OTHER INSURANCE

The Company's President indicated that its fidelity bond coverage had lapsed, and was not renewed. The bond lapsed in November 2002, and was not renewed due to cost. According to the NAIC Financial Condition Examiners Handbook, the minimum amount of suggest coverage should be \$25,000 – \$50,000.

A similar situation was noted in the last report of examination whereby it was recommended that the Company obtain at least the minimum amount of fidelity coverage for protection against dishonest or fraudulent acts committed by officers and/or employees in accordance with the guidelines established by the NAIC Financial Condition Examiners Handbook.

EMPLOYEE AND AGENT WELFARE

At December 31, 2010, the Company had two in-house employees and four licensed and appointed agents (the President was licensed and appointed, as well as an in-house employee). The employees had no employee pension, postretirement benefits, or profit sharing plans. The Company provided the following benefits to its employees during the examination period:

- Vacation Leave
- Paid Holidays
- Sick Leave

SCHEDULE OF SPECIAL DEPOSITS

At December 31, 2010, as required or permitted by law, the Company maintained deposits with the respective statutory authority as follows:

<u>State and Territory</u>	<u>Book Value</u>	<u>Fair Value</u>
Alabama	\$ 16,000	\$ 16,000
Total	\$ 16,000	\$ 16,000

FINANCIAL CONDITION/GROWTH OF COMPANY

The following schedule presents financial data, which reflects the growth of the Company for the years indicated:

	*2010	2009	2008	2007	2006	2005
Admitted assets	\$1,445,772	\$1,552,547	\$1,611,429	\$1,665,534	\$1,676,810	\$1,711,956
Liabilities	1,225,846	1,156,955	1,138,048	1,415,389	1,470,686	1,421,349
Capital and Surplus	219,926	395,592	473,381	250,145	206,124	290,607
Premiums	43,783	55,549	65,278	67,808	76,388	74,263

*Per examination

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company wrote industrial life insurance policies ranging in amount from \$300 to \$5,000, which was consistent with the provisions of ALA. CODE § 27-30-6.1 (1975), which states:

Any association maintaining a minimum surplus of \$100,000.00 is authorized to provide contracts or policies on any one life not to exceed five percent of the capital of such association, and to provide accidental death benefits on any one life so insured not to exceed the amount of life insurance provided.

Territory

During the examination period, the Company was licensed to transact business in the state of Alabama only. The Certificate of Authority was reviewed, and no exceptions were noted.

Underwriting and Rating

The Company did not have an underwriting manual or a formal underwriting process. Information obtained from the applicant was used to calculate the premium. Applications submitted were reviewed by Management for completeness and accuracy, and proper signature. Additionally, there were no new policy forms issued during the examination period.

Marketing and Advertising

The Company did not have any formal marketing or advertising strategies, plans, processes or procedures. Management indicated that approximately three years ago calendars were given out as a form of advertisement, but this practice had ceased. Occasionally, donations were made to local charities or advertisements in the local high school periodicals were purchased, but the donations did not exceed \$50.

Claims Handling

The Company's claim registers were maintained manually during the examination period. The information contained in the claims registers were compiled into an electronic format and reconciled to the respective Annual Statements as follows:

Reporting discrepancies

The number of policies presented for payment and the amount of death benefits paid per the claims registers for each year under examination were reconciled to Exhibit 8 – Part 2 and the Exhibit of Life Insurance found in the respective Annual Statements. The results of the review were as follows:

- In 2005, the number of claims recorded in the Annual Statement was six (claims) less than the number per the claim register.
- In 2006, the Annual Statement reported \$7,777 more in paid claims.
- In 2007, the Annual Statement reported \$2,885 more in paid claims and twelve more policies paid than the claims register.
- In 2008, the Annual Statement reported \$4,424 more in paid claims and thirteen fewer policies paid than the register.
- In 2009, the Annual Statement reported \$2,100 less in paid claims and thirty fewer policies paid than the claims register.
- In 2010, the number of policies reported in the Annual Statement was 47 less than the number per the claims register.

The claims registers did not always reconcile to the amounts and figures reported in the Annual Statement. However, the amounts recorded in the general ledger were reconciled to the respective Annual Statements without exception. The amounts above were deemed immaterial and did not affect the balance sheet; however, the Company was not maintaining complete and accurate records in accordance with ALA. CODE § 27-27-29 (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of 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.

Claims files documentation and payment practices

A sample of 30 items was selected from the 67 death claims paid at December 31, 2010. The claim files were reviewed with regards to proper file documentation, settlement within a timely manner, and compliance with policy provision. The following was denoted during the review:

- Typically claims files consisted of a death certificate and a policy.
- Actual file folders were not being maintained rather the death certificate and the policy was stapled together and stored in a file cabinet.
- Other than the death certificate, policy, and in rare cases a funeral home assignment, no other documentation was being maintained. There was no proof of loss notices, documented telephone conversations, or other correspondence with the claimants being maintained.
- Death certificates were not stamped with date or time received, and there was no other evidence suggesting when the death certificate was received by the Company.
- A death certificate was not provided for one claim.
- It took the Company in excess of sixty days to settle three of the claims. There was no evidence or other documentation within the file justifying the delay of payment. Management indicated that more than likely the claims were not filed until sometime after death or were filed timely, but proper documentation needed to settle the claim was not provided until a later date. While both explanations were reasonable, there was no evidence supporting these statements.

ALA. ADMIN. CODE 482-1-124.03 (1) (2003) defines a claim file as:

(b) CLAIM FILE. Any retrievable electronic file, paper file or combination of both relative to the claim that may contain:

1. For life **insurance** and **annuities**: The file or files containing the notice of claim, claim forms, proofs of loss, medical records, correspondence to and from insureds and claimants or their representatives, claim investigation documentation, claim handling logs, copies of checks or drafts, check numbers

and amounts, releases, correspondence, all applicable notices, and correspondence used for determining and concluding claim payments or denials, any written communication, any documented or recorded telephone communication related to the handling of a claim, including the investigation, and any other documentation, maintained in a paper or electronic format, necessary to support claim handling activity.

Section 3, item (j) of this regulation defines proof of loss as:

PROOF OF LOSS. Written evidence, including but not limited to claims forms, medical bills, medical authorizations, death certificates or other reasonable evidence of this claim or its circumstances that is ordinarily required by the insurer of all insureds or beneficiaries submitting the claims.

Section 4, item (4) defines claims practices as:

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.

Producer Licensing

The Company had four licensed and appointed agents at December 31, 2010. The agents' licensing and other documentation was inspected for the period under examination and deemed in order.

Policyholder Complaints

Company Management indicated that no complaints were filed against the Company during the six year examination period. According to the documentation maintained by the Alabama Department of Insurance Consumer Complaint Division, there was one complaint filed against the Company in 2005. The complaint was an inquiry that

was resolved by the Consumer Complaint Division, and was never forwarded to the Company for resolution.

Privacy Standards

Company Management indicated that initial and annual privacy notices were not provided to its customers. The President of the Company indicated that procedures were in place regarding privacy notices; however, due to an extended illness and changes in the privacy standard procedures after the September 11, 2001, attacks privacy notices were no longer issued. This was not consistent with the provisions of ADMIN. CODE 482-1-122 (2001) which states:

This regulation requires a licensee to provide 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 third parties; and provides methods for individuals to prevent a licensee from disclosing that information...Initial notice requirement. A licensee shall provide a clear and conspicuous notice that accurately reflects its privacy policies...General rule. A licensee shall provide a clear and conspicuous notice to customers that accurately reflects its privacy policies and practices not less than annually during the continuation of the customer relationship. Annually means at least once in any period of twelve (12) consecutive months during which that relationship exists. A licensee may define the twelve-consecutive-month period, but the licensee shall apply it to the customer on a consistent basis.

COMPLIANCE WITH ALA. ADMIN. CODE 482-1-146 (2009)

ALA. ADMIN. CODE 482-1-146-.11 (2009) states:

(1) A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:

(a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.

(b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.

The Company did not comply with these requirements as it did not have internal procedures in place for determining if applicants for employment had been convicted of a Section 1033 offense or internal procedures in place to periodically ascertain if existing employees had been convicted of a Section 1033 offense since the date of hire.

Management believed that procedures were not necessary as the Company had five employees (two home office employees and three agents) during the examination period. The close knit environment in which the Company operated did not allow for the concealment of a conviction, as such, Title 1033 compliance procedures were not necessary.

ACCOUNTS AND RECORDS

The Company's general accounting and financial reporting records were maintained manually, with some information being stored electronically. Because the majority of the records were maintained manually, the number of errors and omissions were increased. For example, certain cash receipts/disbursements were recorded in the ledger books maintained by the Company but were not found on the respective bank statements or vice versa. For further discussion of errors and omissions pertaining to cash, see "Note 3 – Cash, cash equivalents and short term investments" on Page 24.

On September 8, 2000, the Alabama Department of Insurance granted the Company a "permitted practice," allowing the external auditors to prepare the Annual and Quarterly Statements and conduct the annual audits for so long a period of time as the accounting firm performed only those functions. Kellum, Wilson & Associates P.C. (f/k/a Hullett, Kellum & McKinney P.C.) utilized the accounting records and other information maintained by the Company to prepare the Annual Statements for the examination period.

Internal Controls

At December 31, 2010, the Company had two in-house employees: a Secretary and President, and three licensed and appointed agents. The Company did not have an internal audit division; there were no formalized, written policies or procedures regarding the general direction and control of the Company; and due to the small number of employees, there was little to no segregation of duties. While the in-house

employees performed duties to the best of their abilities, they did not have a vast knowledge of statutory accounting principles, and they both possessed a basic, rudimentary knowledge of insurance operations. The Company did not have any written procedures or directives for safeguarding confidential information. The risk mitigation strategies or internal controls were non-existent; as such, internal controls were not relied on for any phase of the examination.

Information Systems

The Company did not have an IT system or infrastructure; however, the Company had one workstation that was shared by its in-house employees. This workstation was equipped with anti-virus software and premiums processing software customized to fit the Company's needs. The Company's workstation was not password protected, and the monthly back-ups (created on CD's) were being stored on a shelf beneath the computer. The Company did not have any safeguards, technical or physical, in place regarding consumer information. This was not in accordance with ALA. ADMIN. CODE 482-1-126-.04 (2003), which states:

Each licensee shall implement a comprehensive written information security program that includes administrative, technical and physical safeguards for the protection of customer information. The administrative, technical and physical safeguards included in the information security program shall be appropriate to the size and complexity of the licensee and the nature and scope of all activities.

FINANCIAL STATEMENT INDEX

The Financial Statements included in this report were prepared in conformity with those accounting practices prescribed or permitted by the Commissioner of Insurance for the State of Alabama utilizing Company records and is intended to depict the statutory financial condition of the Company as of December 31, 2010. The information reported therein has been verified by the examiner to the extent deemed necessary. Amounts shown in the comparative statements for the years-end 2005 through 2009 were compiled from the Company's 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.

Jordan Funeral and Insurance Company, Inc.
Statement of Assets, Liabilities, Capital and Surplus
For the Year Ended December 31, 2010

	<u>Assets</u>	<u>Non- admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds (Note 1)	\$ 385,737	\$ -	\$ 385,737
Mortgage loans on real estate (Schedule B)			
First Liens (Note 2)	482,570	28,457	454,113
Properties held for sale	27,200		27,200
Cash, cash equivalents, and short-term investments (Note 3)	<u>563,605</u>	<u>-</u>	<u>563,605</u>
Subtotals, cash and invested assets	\$ 1,459,112	\$ 28,457	\$ 1,430,655
Investment income due and accrued	12,869	-	12,868
Premiums and Consideration:			
Uncollected premiums and agents balance in course of collection	748	-	748
Net deferred tax assets	<u>98,094</u>	<u>96,594</u>	<u>1,500</u>
Total Assets	<u>\$1,570,823</u>	<u>\$ 125,051</u>	<u>\$ 1,445,771</u>
<u>LIABILITIES, SURPLUS AND OTHER FUNDS</u>			
Aggregate reserves for life contracts (Note 4)			\$ 1,165,247
General expenses due or accrued			50,696
Taxes, licenses and fees due or accrued, excluding federal income taxes			329
Amount withheld or retained by company as agent or trustee			2,668
Asset valuation reserve			<u>6,906</u>
Total liabilities			\$ 1,186,795
Common capital stock			100,000
Unassigned funds (surplus) (Note 5)			<u>119,926</u>
Totals			<u>\$ 1,445,772</u>

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

Jordan Funeral and Insurance Company, Inc.
Summary of Operations

For the Years Ended December 31, 2010, 2009, 2008, 2007, 2006, 2005

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Premiums and annuity considerations for life and accident and health contracts	\$ 43,783	\$ 55,549	\$ 65,278	\$ 67,808	\$ 76,388	\$ 74,263
Net investment income	18,680	27,729	68,101	53,539	63,254	83,897
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	—	—	—	—	<u>612</u>	<u>976</u>
Totals	<u>\$ 62,463</u>	<u>\$ 83,278</u>	<u>\$ 133,379</u>	<u>\$ 121,347</u>	<u>\$ 140,254</u>	<u>\$ 159,136</u>
Death benefits	\$ 56,375	\$ 53,750	\$ 62,393	\$ 42,335	\$ 77,018	\$ 60,315
Surrender benefits and withdrawals for life contracts	4,472	6,328	2,203	2,897	2,431	2,696
Increase in aggregate reserves for life and accident and health contracts	<u>51,694</u>	<u>12,500</u>	<u>(259,732)</u>	<u>(49,951)</u>	<u>23,375</u>	<u>51,665</u>
Totals	<u>\$ 112,541</u>	<u>\$ 72,578</u>	<u>\$ (195,136)</u>	<u>\$ (4,719)</u>	<u>\$ 102,824</u>	<u>\$ 114,676</u>
General insurance expenses	125,256	86,608	88,948	101,517	138,475	110,716
Insurance taxes, licenses and fees, excluding federal income taxes	<u>6,617</u>	<u>6,342</u>	<u>6,294</u>	<u>7,263</u>	<u>8,221</u>	<u>8,491</u>
Totals	<u>\$ 244,414</u>	<u>\$ 165,528</u>	<u>\$ (99,894)</u>	<u>\$ 104,061</u>	<u>\$ 249,520</u>	<u>\$ 233,883</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	(181,951)	(82,250)	233,273	17,286	(109,266)	(74,747)

Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax	\$ (2,272)	\$ 11,127	\$ 20,442	\$ 22,783	\$ (51,947)	\$ -
Net income	<u>\$ (184,223)</u>	<u>\$ (71,123)</u>	<u>\$ 253,715</u>	<u>\$ 40,069</u>	<u>\$ (161,213)</u>	<u>\$ 74,747</u>
CAPITAL AND SURPLUS ACCOUNT						
Capital and surplus, December 31, prior year	\$ 395,592	\$ 473,382	\$ 250,149	\$ 206,124	\$ 290,607	\$ 336,341
Net income	(184,223)	(71,123)	253,715	40,069	(161,213)	(74,747)
Change in net unrealized capital gains (losses) less capital gain tax	1,070	9,259	(32,189)	(16,827)	64,037	(7,053)
Change in net deferred income tax	21,060	10,710	(41,482)	(5,173)	17,349	10,114
Change in nonadmitted assets	(21,060)	(20,457)	27,365	18,803	18,980	28,319
Change in asset valuation reserve	7,487	(6,179)	15,824	7,153	(23,636)	(2,367)
Aggregate write-ins for gains and losses in surplus	-	-	-	-	-	-
Net change in capital and surplus for the year	<u>\$ (175,666)</u>	<u>\$ (77,790)</u>	<u>\$ 223,233</u>	<u>\$ 44,025</u>	<u>\$ (84,483)</u>	<u>\$ (45,734)</u>
Capital and surplus, December 31, current year	<u>\$ 219,926</u>	<u>\$ 395,592</u>	<u>\$ 473,382</u>	<u>\$ 250,149</u>	<u>\$ 206,124</u>	<u>\$ 290,607</u>

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

NOTES TO FINANCIAL STATEMENT

Note 1 – Bonds

\$385,737

The captioned amount is the same as the amount reported by the Company in its 2010 Annual Statement.

The NAIC Purposes and Procedures Manual of the NAIC Securities Valuation Office states, “SVO administrative symbols convey information about the security or an administrative procedure instead of an opinion of credit quality or Unit Price.” Further, the symbol FE “means exempt from filing with the SVO and is used by an insurance company to report an NAIC Designation for an exempt security on the NAIC Financial Statement Blank. When reporting a security on its annual or quarterly financial statements, the administrative symbol **FE** is used with an **NAIC 1** through **6** Designation. ...” The Company had 28 bonds that were filing exempt (FE) securities. However, the FE designation was not used in conjunction with the NAIC 1 through 6 designations assigned to the security, as required.

Note 2 – Mortgage loans on real estate: First liens

\$454,113

The captioned amount above is the same as the amount reported by the Company in its 2010 Annual Statement.

During the examination period, the Company acquired four mortgage loans: two in 2005 and two in 2009. The two loans acquired in 2005 were approved by the Board of Directors and the Loan Committee; however, the two loans acquired in 2009 were not. Management indicated that the two loans were approved by the Board but there was no documentation attesting to the same. This was not in accordance with ALA. CODE § 27-41-5 (1975), which states:

An insurer shall not make any investment or loan, other than loan on policies or annuity contracts, unless the same be authorized, approved, or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize.

A similar situation was noted in the 2004 report of examination where it was recommended that the Company document the approval of its new mortgage loans in accordance with ALA. CODE § 27-41-5 (1975).

Note 3 - Cash, cash equivalents, and short-term investments

\$563,605

The captioned amount above is the same as the amount reported by the Company in its 2010 Annual Statement.

For the months of February, September, October, November and December 2010, bank reconciliations were not performed for the primary bank account utilized by the Company. Also, the bank reconciliations for the months of: January, March, April, May, June, and July were incomplete as there was no evidence that the reconciliations were reconciled to the ledger book balance maintained by the Company. However, for the month of August, a complete and thorough reconciliation was performed that tied to the ledger balance without exception.

The external auditors noted a similar situation for the years under examination, whereby it was determined that monthly bank reconciliations were not completely reconciled to book balances to ensure that all transactions were properly recorded and no bank errors were present.

Also, while reviewing the cash receipts records maintain by the Company for 2010, several errors and omissions were noted. For the months of January and August, there were deposits made into the Company's bank account that were not recorded in the cash receipts ledger book. Likewise, there was a deposit recorded in the cash receipt ledger book for the month of August 2010 that was actually a mortgage payment.

Additionally, during the examination period, Management asserted that all checks \$5,000 and above must be signed by the President of the Company. All checks \$5,000 or more issued during 2010 were reviewed to determine if they were properly signed. Four of the seven checks written were not signed by the President. The President indicated that as of May 2011 this policy was no longer in effect.

Note 4 - Aggregate reserves for life contracts

\$1,165,247

The captioned amount above is \$39,051 more than the \$1,126,196 reported by the Company in its 2010 Annual Statement.

The actuarial examiner for the Alabama Department of Insurance reviewed the 2010 Gross Premium Valuation prepared by the Company's opining actuary and determined that it did not take into account all of the general expenses or the discount for the future lives remaining. The Company's opining actuary revised the Gross

Premium Valuation based on the aforementioned, and it was determined that the reserves needed to be increased by \$39,051.

Additionally, the Company's in-force policies were maintained electronically and manually during the examination period. All of the in-force policies were recorded (manually) in membership roll binders or books. These binders were often referred to as books of life insurance. Each policy found in the books of life insurance had a corresponding hand written premium card as well. Once a policy was recorded in the book of life insurance, it was entered in the Company's policy administration system. The information recorded in the policy administration system was used to create the year-end in-force listing provided to the Company's opining actuary. A review was performed to verify whether the reserve determinants on the in-force listing maintained manually and the premium cards were identical to the reserve determinants found on the electronic file.

Books of Life Insurance

The Alabama Department of Insurance performed a target examination on the reserves in 2007. During this examination, an in-force listing was compiled electronically using the Company records. Since the Company had not issued any new policies for years-end 2008 – 2010 due to receivership, the actuarial examiner for the Alabama Department of Insurance determined a sample could be selected from this listing using sampling software as opposed to manually selecting a sample from each of the books of life insurance.

According to the Exhibit of Life Insurance in the 2010 Annual Statement, the number of policies in-force at 2010 was 7,486. A sample of sixty policies was selected from the listing created by the examiners in 2007. The policies were traced to the computer run, the premium cards and the respective books of life insurance. The following was noted during the review:

- For four policies, the face amount found on the listing was not the same as the amount recorded in the policy administration system
- Nine premium cards could not be located
- Two policies could not be located in the books of life insurance
- For three policies, the face amount recorded in the book of life was different from the information found in the electronic listing

Policy Administration System

A sample of sixty policies was selected from the policy administration system. The policies were traced to the December 31, 2010 in-force listing; the premium cards, and the respective books of life insurance. The following was noted during the review:

- For thirteen policies, the face amount recorded in the policy administration system differed from the face amount reported on the December 31, 2010 in-force listing
- For 23 policies, the face amount recorded in the policy administration system differed from the face amount recorded in the books of life insurance.
- One policy could not be traced to the December 31, 2010 in-force listing
- Ten premium cards could not be located
- The policy number recorded on a premium card differed (by one digit) from what was recorded on the system

The in-force policy information maintained manually was not always identical to the information found in the policy administration system. This was not in accordance with ALA. CODE § 27-27-29 (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of 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.

A review was performed to verify whether the death claims, surrenders, and lapsed policies were purged from the December 31, 2010 in-force listing. There were 67 death claims found on the 2010 claims register. Each of the death claims were found on the Company's 2010 in-force listing. The lapsed and surrendered policies per the Company's records were also traced to the December 31, 2010 in-force listing. Death claims, lapses and surrenders were not being properly purged from the Company's policy administration system. A similar situation was noted in the last report of examination whereby it was recommended that the Company review its reserve listings and remove or purge those policies for which claims have been presented in accordance with ALA. CODE § 27-27-29 (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of 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.

Finally, a review was performed to determine whether the December 31, 2010 in-force listing contained any policies with attained ages of 100 or greater. There were 74 policies with attained ages of 100 or greater. The following was noted about these policies:

- 62 policies had a lapsed status
- 11 policies had a status of paid up
- One policy had a death claim status

The aforementioned policies should have been escheated to the Unclaimed Property Division of the State of Alabama in accordance with ALA. CODE § 35-12-72 (10) (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:

(10) Amount owed by an insurer on a life or endowment insurance policy or an annuity that has matured or terminated, three years after the obligation to pay arose or, in the case of a policy or annuity payable upon proof of death, three years after the insured has attained, or would have attained if living, the limiting age under the mortality table on which the reserve is based.

Note 5 – Unassigned funds (surplus)

\$119,926

The above captioned amount is \$39,051 less than the \$158,977 reported by the Company in its 2010 Annual Statement. The following is a reconciliation of unassigned funds per the examination.

Unassigned funds per Company		\$158,977
Examination increase/ (decrease) to assets	0	
Total increase/ (decrease) to asset		0
Examination (increase)/decrease to liabilities:		
Note – 4 Aggregate reserves for life contracts	\$39,051	
Total (increase)/decrease to liabilities		\$39,051
Unassigned funds (surplus) per Examination		<u>\$119,926</u>

COMMITMENTS AND CONTINGENT LIABILITIES

Examination of these items included: reviewing the Company’s Annual Statement disclosures, generally reviewing the Company’s records and files for unrecorded items, and obtaining letters of representation from management.

As of December 31, 2010, there was no pending litigation against the Company and no material contingent liabilities were identified.

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 prior examination recommendations except for the following:

Committees

It was recommended that members of the loan committee be designated or appointed annually by the BOD in accordance with the Company's Bylaws. The Company did not comply with this recommendation.

Corporate Records

It was recommended that the investments in stocks, bonds, etc. be approved and ratified by the Board of Directors in accordance with ALA. CODE § 27-41-5 (1975) which states:

An insurer shall not make any investment or loan, other than loan on policies or annuity contracts, unless the same be authorized, approved, or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize.

The Company did not comply with this recommendation.

Fidelity Bond and Other Insurance

It was recommended that the Company obtain a fidelity bond in the minimum suggest amount per the NAIC Financial Condition Examiners Handbook. The Company did not comply with this recommendation.

Claims Handling

It was recommended that the claims register include all information concerning policies presented for payment in accordance with ALA. ALA. CODE § 27-27-29 (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of 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 was recommended that the Company maintain more substantial claims files to include proper notice of claim, claims forms, proof of loss, correspondence, etc., in accordance with 482-1-124-.03 (b) (2003).

The Company did not comply with these recommendations.

Aggregate reserves for life contracts

It was recommended that the Company review its reserve listings and remove or purge those policies for which claims have been presented in accordance with ALA. CODE § 27-27-29 (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of 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.

The Company did not comply with this recommendation.

COMMENTS AND RECOMMENDATIONS

Stockholders - Page 4

It is recommended that the correct stockholders be reflected on Schedule Y-Part 1 in accordance with ALA. CODE § 27-30-22 (a) (1975), which states:

Each mutual aid association shall, annually on or before March 1, file with the commissioner a full and true statement of its financial condition, transactions, and affairs as of the December 31 preceding.

Committees – Page 5

It is again recommended that the members of the loan committee be designated or appointed annually by the Board of Directors in accordance with Article III, Section 2 of the Bylaws, which states:

The directors of said corporation shall appoint all other officers, agents, servants of said corporation and fix their salaries, subject to any limitations or provisions in the charter or any amendment to the charter of said corporation.

This is the fourth examination report to make this recommendation.

Conflict of Interest – Page 6

It is recommended that the *General Interrogatories*, item 14 is correctly completed in accordance with the NAIC Annual Statement Instructions.

Corporate Records – Page 7

It is recommended that stockholder’s meetings be held in accordance with Article II, Section 1 of the Bylaws, which states:

The regular annual meeting of the stockholders of said Corporation shall be held at Jordan Funeral Home in the City of Centre, Alabama, on the second Monday of January of each year at 2:00 o’clock p.m.

It is recommended that the Board of Directors meetings be held in accordance with Article III, Section 5 of the Bylaws, which states:

Regular meetings of the Board of Directors shall be held quarterly on the second Monday of January, the second Monday of April, on the second Monday of July and on the second Monday of October at 5:00 p.m. and shall also be held immediately after the adjournment of each regular annual meeting of stockholders.

It is recommended that the discussion of the general management, government, and direction of the affairs of the Company be clearly documented in the Board meeting minutes in accordance with Article III, Section 7 of the Bylaws, which states:

The general management, government and direction of the affairs of said corporation shall be vested in the Board of Directors who may establish rules not inconsistent with these by-laws and the articles of incorporation and charter of said corporation.

It is recommended the Secretary keep a record of all proceedings, acts and resolution of all meetings of the Directors and Stockholders in accordance with Article IV, Section 1 of the Bylaws, which states: “The Secretary shall keep a record

book and shall keep therein a record of all proceedings, acts and resolutions of all meetings of the Directors and stockholders.”

It is again recommended that investments in stocks, bonds, etc., be approved by the Board of Directors in accordance with ALA. CODE § 27-41-5 (1975), which states:

An insurer shall not make any investment or loan, other than loan on policies or annuity contracts, unless the same be authorized, approved, or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize.

Corporate Governance – Page 8

It is recommended that the Company develop a written corporate governance framework that includes processes and procedures pertaining to the direction, administration and control of the Company such as but not limited to: (1) a mission statement, (2) strategic business plan, (3) annual budget, and (4) code of conduct.

It is recommended that the Board of Directors functioning as the Audit Committee by virtue of ALA. ADMIN. CODE 482-1-141-.03 (c) (2008); oversees the work of any accountant in accordance with ALA. ADMIN. CODE 482-1-141-.14 (2008), which states:

(1) The audit committee shall be directly responsible for the appointment, compensation and oversight of the work of any accountant (including resolution of disagreements between management and the accountant regarding financial reporting) for the purpose of preparing or issuing the audited financial report or related work pursuant to this chapter. Each accountant shall report directly to the audit committee.

Fidelity Bond and Other Insurance – Page 11

It is again recommended that the Company obtain at least the minimum amount of fidelity coverage for protection against dishonest or fraudulent acts committed by officers and/or employees in accordance with the guidelines found in the NAIC Financial Condition Examiners Handbook.

Claims Handling – Page 13

Reporting discrepancies – Page 13

It is again recommended that the Company's claims registers included all information concerning policies presented for payment in accordance with ALA. CODE § 27-27-29 (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of 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.

Claims file documentation and payment practices – Page 14

It is again recommended that the Company maintain more substantial claims files to include proper notice of claim, claims forms, proof of loss, correspondence, etc., in accordance with 482-1-124.03 (b) (2003), which defines a claim file as:

(b) CLAIM FILE. Any retrievable electronic file, paper file or combination of both relative to the claim, that may contain:

1. For life **insurance** and **annuities**: The file or files containing the notice of claim, claim forms, proofs of loss, medical records, correspondence to and from insureds and claimants or their representatives, claim investigation documentation, claim handling logs, copies of checks or drafts, check numbers and amounts, releases, correspondence, all applicable notices, and correspondence used for determining and concluding claim payments or denials, any written communication, any documented or recorded telephone communication related to the handling of a claim, including the investigation, and any other documentation, maintained in a paper or electronic format, necessary to support claim handling activity.

It is recommended that claims submitted for payment are settled within a timely manner in accordance with ALA. ADMIN. CODE 482-1-124.04 (4) (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.

Privacy Standards – Page 16

It is recommended that the Company establish and create procedures for the issuance of initial and annual privacy notices in accordance with ADMIN. CODE 482-1-122 (2001), which states:

This regulation requires a licensee to provide 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 third parties; and provides methods for individuals to prevent a licensee from disclosing that information...Initial notice requirement. A licensee shall provide a clear and conspicuous notice that accurately reflects its privacy policies...General rule. A licensee shall provide a clear and conspicuous notice to customers that accurately reflects its privacy policies and practices not less than annually during the continuation of the customer relationship. Annually means at least once in any period of twelve (12) consecutive months during which that relationship exists. A licensee may define the twelve-consecutive-month period, but the licensee shall apply it to the customer on a consistent basis.

Compliance with ALA. ADMIN. CODE 482-1-146 (2009) - Page 16

It is recommended that the Company establish internal procedures for background checks or investigations, or otherwise for applicants for employment and employees in accordance with ALA. ADMIN. CODE 482-1-146 (2009), which states:

A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:

- (a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.

(b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.

Accounts and Records – Page 17

It is recommended that the Company implement technical and physical safeguards in place to protect consumer information in accordance with ALA. ADMIN. CODE 482-1-126-.04 (2003), which states:

Each licensee shall implement a comprehensive written information security program that includes administrative, technical and physical safeguards for the protection of customer information. The administrative, technical and physical safeguards included in the information security program shall be appropriate to the size and complexity of the licensee and the nature and scope of all activities.

Bonds – Page 23

It is recommended that the FE administrative symbol be used to identify securities that are exempt from the filing requirements in accordance with the NAIC Purposes and Procedures Manual of the NAIC Securities Valuation Office, which states,

FE means exempt from filing with the SVO and is used by an insurance company to report an NAIC Designation for an exempt security on the NAIC Financial Statement Blank. When reporting a security on its annual or quarterly financial statements, the administrative symbol **FE** is used with an **NAIC 1** through **6** Designation. ...

Mortgage loans on real estate: First liens – Page 23

It is recommended that the Board of Directors approved all new mortgage loans in accordance with ALA. CODE § 27-41-5 (1975), which states:

An insurer shall not make any investment or loan, other than loan on policies or annuity contracts, unless the same be authorized, approved, or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize.

Cash, cash equivalents, and short term investments – Page 24

It is recommended that bank reconciliations are performed monthly to ensure completeness and accuracy, and to detect any and all errors made by either the bank or the Company. These reconciliations should be performed timely, should be thorough and detailed, and clearly reconciled to the ledger balance.

It is recommended that the Company adhere to its guidelines, policies, and procedures regarding the issuance of disbursements in excess of a certain amount.

Aggregate reserves for life contracts – Page 24

It is recommended that the opining actuary take into consideration all general expenses and discounts on future lives remaining when preparing the Gross Premium Valuation.

It is recommended that the in-force listing maintained manually (specifically the reserve determinants) be identical to the in-force listing maintained electronically in accordance with ALA. CODE § 27-27-29 (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of 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 again recommended that the Company review its reserve listings and remove or purge those policies for which claims have been presented in accordance with ALA. CODE § 27-27-29 (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of 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 review its reserve listing and remove or purge those policies that have been lapsed or surrendered in accordance with ALA. CODE § 27-27-29 (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of 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 policies with attained ages of 100 or greater be escheated to the Unclaimed Property Division of the State of Alabama in accordance with ALA. CODE § 35-12-72 (10) (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:

(10) Amount owed by an insurer on a life or endowment insurance policy or an annuity that has matured or terminated, three years after the obligation to pay arose or, in the case of a policy or annuity payable upon proof of death, three years after the insured has attained, or would have attained if living, the limiting age under the mortality table on which the reserve is based.

SUBSEQUENT EVENTS

The general ledger and cash transactions occurring subsequent to the balance sheet date were reviewed. In addition, the examiners inquired of management regarding any significant subsequent events. There were no significant subsequent events identified.

CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers of Jordan Funeral and Insurance Company, Inc. during the course of this examination.

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

In addition to the undersigned, Harland Dyer, FSA, MAAA, actuarial examiner, participated in this examination of Jordan Funeral and Insurance Company, Inc.

Respectfully submitted,



Toni L. Bean, CFE
Examiner-in-Charge
State of Alabama
Department of Insurance