

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

**REPORT OF EXAMINATION OF**

**NATIONAL SECURITY INSURANCE COMPANY**

**ELBA, ALABAMA**

**AS OF DECEMBER 31, 2013**

**PARTICIPATION:  
SOUTHEASTERN ZONE, NAIC  
ALABAMA**

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**EXAMINER'S AFFIDAVIT**

**STATE OF ALABAMA  
COUNTY OF COFFEE**

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

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

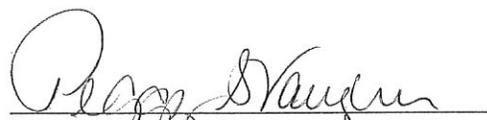
The affiant says nothing further.

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

Subscribed and sworn before me by PALMER W. NELSON on this  
30th

day of January, 2015.

(SEAL)

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

My commission expires 2/7/2015.



ROBERT BENTLEY  
GOVERNOR

JIM L. RIDLING  
COMMISSIONER

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DEPARTMENT OF INSURANCE  
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RICHARD L. FORD

STATE FIRE MARSHAL  
EDWARD S. PAULK

GENERAL COUNSEL  
REYN NORMAN

Elba, Alabama  
January 30, 2015

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

Dear Commissioner:

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

National Security Insurance Company  
Elba, Alabama

at its home office located at 661 Davis Street, Elba, Alabama 36323 as of December 31, 2013. The report of examination is submitted herewith. Where the description "Company" appears herein without qualification, it will be understood to indicate National Security Insurance Company.

## SCOPE OF EXAMINATION

The Company was last examined for the five year period ended December 31, 2009, by the examiners representing the Southeastern Zone, NAIC. The current examination covers the intervening period from the date of the last examination through December 31, 2013, and was conducted by examiners from Alabama, representing the Southeastern Zone, NAIC. Where deemed appropriate, transactions, activities and similar items subsequent to 2013 were reviewed.

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

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2013, and to identify the Company's prospective risks by obtaining information about the Company including corporate governance, by identifying and assessing inherent risks within the Company and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and NAIC *Annual Statement Instructions*.

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

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

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

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

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2013.

## **ORGANIZATION AND HISTORY**

The Company was incorporated on February 5, 1947, as a mutual aid company in Coffee County, Alabama. It commenced business with paid up capital of \$25,000 divided into 250 shares of \$100 par value common stock and \$7,500 paid in surplus.

In 1955, the authorized capital stock was increased to 500,000 common shares, with a one dollar par value, and the Company was converted to a legal reserve life insurance company. The Company merged with two Birmingham, Alabama based insurance companies, Alabama Life and Casualty Company in 1959, and Mercantile Life Insurance Company in 1961. The Company survived the mergers, and its subsequent capital stock was 1,200,000 common shares, with a par value of one dollar per share.

In 1988, the authorized capital stock of the Company was increased to 10,000,000 common shares, with a par value of one dollar per share. Also, 10,000,000 shares of preferred stock, with a par value of one dollar per share were authorized; however, no preferred stock had been issued at year end 2013.

As a result of a proposed plan of exchange/reorganization, approved by the stockholders on April 19, 1990, the Company became a wholly owned subsidiary of The National Security Group, Inc. Also, pursuant to the reorganization, the Company's subsidiary, National Security Fire & Casualty Company, was contributed to The National Security Group, Inc.

The Company's capital structure at December 31, 2013, consisted of common capital stock of \$1,500,000, gross paid in and contributed surplus of \$401,752, and unassigned funds of \$9,675,520. The Company's reported capital and surplus \$11,577,272 in its 2013 Annual Statement.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

The Company is a stock corporation with ultimate control vested in its stockholders. At December 31, 2013, 100% of the Company's issued and outstanding common stock was owned by National Security Group, Inc., a Delaware corporation.

### **Board of Directors**

Members elected to the Board of Directors by the sole shareholder and serving at December 31, 2013, were as follows:

<u>Director</u>	<u>Residence</u>	<u>Principal Occupation</u>
William Lister Brunson, Jr.	Elba, Alabama	President, National Security Insurance Company and CEO of The National Security Group, Chairman of the Board of National Security Insurance Company, National Security Fire & Casualty Company, and Omega One Insurance Company
Brian Richard McLeod	Elba, Alabama	Treasurer and Chief Financial Officer of National Security Insurance Company, National Security Fire & Casualty Company, and Omega One Insurance Company
Patricia Bowdoin Henderson	Elba, Alabama	Vice President of National Security Insurance Company

### **Committees**

No committees of the board were appointed during the examination period.

### **Officers**

Officers of the Company elected by the Board of Directors and serving at December 31, 2009 were as follows:

<u>Officer</u>	<u>Title</u>
William Lister Brunson, Jr.	President and Chairman of the Board
Brian Richard McLeod	Treasurer and Chief Financial Officer
Tonya Mathews Jones	Secretary
Patricia Bowdoin Henderson	Vice President
Kelly Holland Jackson	Controller
Laura Williams Jordan	Assistant Secretary

### **Management and Service Agreements**

The following agreements between the Company and its affiliates were in effect during the examination period.

### Holding Company Management Service Agreement

Effective July 1, 2010, National Security Group (the Holding Company) entered into a Holding Company Management Service Agreement among and between, National Security Fire and Casualty Company, Omega One Insurance Company and National Security Insurance Company.

The one year term of the Holding Company Management Service Agreement is renewable for successive one year periods until either party terminates or until modified, amended or superseded by subsequent agreement.

The purpose is to provide remuneration for services provided by the Holding Company on behalf of and/or to the benefit subsidiaries. The primary intent of this fee is to cover operating cost of National Security Group related to providing additional risk management, board oversight and various other benefits to its subsidiaries. The Holding Company Management Fee is calculated and paid on a monthly basis.

### Agreement for the Allocation of General and Administrative Expenses

On December 1, 2011, an Amendment to the Memorandum Agreement for Allocation of General and Administrative Expenses, Adjuster Employees and Income Taxes was filed. A Form D Prior Notice of a Transaction was filed with the Alabama Department of Insurance by the National Security Group, Inc. on behalf of the following companies: National Security Insurance Company, Inc., National Security Fire & Casualty, Omega One Insurance Company, Inc., and Natsco, Inc. The Amendment provided for allocation of common expenses, adjuster fees and income taxes between NSG and its subsidiaries.

In consideration for the settlement of common expenses adjuster fees and income taxes between NSG and its subsidiaries, each subsidiary agreed to pay the respective amounts to the respective company as calculated using the most pertinent means which shall be construed as reimbursement of all direct costs. The term of the agreement was for one year, renewable for successive one year periods until any party elects to terminate or until modified, amended or superseded by subsequent agreement.

### Conflicts of Interest

The conflict of interest statements filed by the officers and directors of the Company were reviewed for the period covered by this examination. There were no disclosures that indicated that any officers or directors had a conflict of interest.

### CORPORATE RECORDS

The Company's Articles of Incorporation, By-Laws, and amendments thereto were inspected and found to provide for the operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

Minutes of the meetings of the stockholder and board of directors meetings from December 31, 2009, through the most recent meetings held at the conclusion of the examination were reviewed.

The minutes appeared to be complete and to adequately document the actions of the respective governing bodies.

### **HOLDING COMPANY AND AFFILIATE MATTERS**

The Company was subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA. CODE §27-29-1 (1975). The Company's sole owner, National Security Group, Inc., 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 registrant. A review of the Company's filings during the period under examination indicated that all required filings were made.

#### **Dividends to Stockholder**

The Company paid stockholder dividends in the following amounts during the period under examination.

<u>Year</u>	<u>Dividends Paid</u>
2010	\$0
2011	\$300,000
2012	\$1,000,000
2013	\$500,000

#### **Dividends to Policyholders**

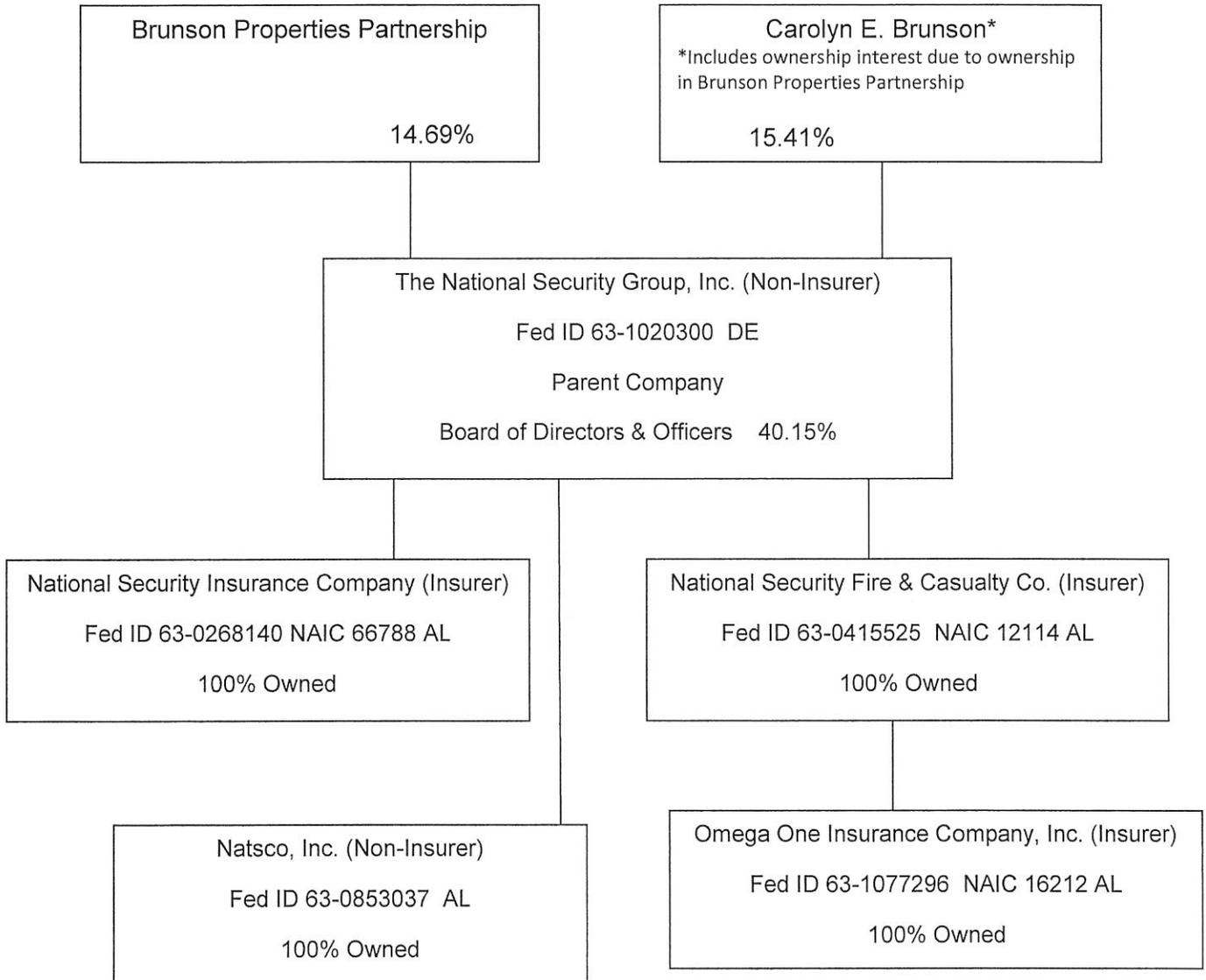
During the period under examination the following policyholder dividends were paid to policyholders.

<u>Year</u>	<u>Dividends Paid</u>
2010	\$4,055
2011	\$4,548
2012	\$3,721
2013	\$3,723

#### **Organizational Chart**

The following chart presents the identities and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2013.

Organizational Chart



## **FIDELITY BONDS AND OTHER INSURANCE**

The Company was insured by a Financial Institution Bond issued by Liberty Mutual Insurance Company; Boston Massachusetts at December 31, 2013. The bond provided dishonesty and fraud coverage for salaried officers, employees and contractors. The bond did not provide coverage for forgery or alteration and securities. The amount of the fidelity bond maintained by the Company exceeded the minimum amount suggested in the NAIC Financial Condition Examiners Handbook.

In addition, to the above coverage, the Company was named insured under policies affording the following protections at December 31, 2013:

- Property
- General Liability
- Electronic Data Processing Equipment
- Business Auto
- Excess Liability

The coverage and limits of the Company's insurance program were reviewed and were deemed to adequately protect the Company's interests.

## **EMPLOYEE AND AGENT WELFARE**

Benefits provided by the Company to its employees as of December 31, 2013, included the following:

- Paid Holidays
- Retirement 401(k) and ESOP
- Medical and Dental Benefits
- Life Insurance
- Funeral and Jury Duty Leave
- Paid Time Off and Extended Illness Leave

### **Compliance with ALA. ADMIN. CODE 482-1-146 (2009)**

The examiners reviewed the Company's internal procedures for determining whether applicants for employment or potential contract employees had a felony conviction for a Section 1033 offense and the Company's internal procedures for determining if existing employees were convicted of a Section 1033 offense since the hire date. The review indicated that the Company was in compliance with ALA. ADMIN. CODE 482-1-146-.11(2009).

## **STATUTORY DEPOSITS**

At December 31, 2013, as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows.

<u>State</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Alabama	\$1,002,253	\$965,212
Georgia	50,000	50,000
South Carolina	150,000	150,568

### **FINANCIAL CONDITION/GROWTH OF COMPANY**

The following information presents significant items that reflect the growth of the Company for the years indicated.

	2009*	2010	2011	2012	2013*
Admitted Assets	\$43,883,533	\$46,014,956	\$47,475,135	\$48,316,070	\$49,869,892
Liabilities	34,757,733	35,995,984	37,082,753	37,972,144	38,292,621
Premiums Earned	7,198,992	7,027,152	6,869,835	6,608,911	6,590,636
Common Capital Stock	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Gross Paid in and Contributed Surplus	401,752	401,752	401,752	401,752	401,752
Unassigned Funds	\$7,224,044	\$8,117,220	\$8,490,635	\$8,442,170	\$9,675,520

\*Per Examination

### **MARKET CONDUCT ACTIVITIES**

#### **Plan of Operation**

The Company wrote life and accident & health insurance. The types of life products written were whole life, term life and group life. The types of accident and health products written were accident, critical illness, cancer, disability, and hospital confinement.

As of December 31, 2013, the Company's agency force consisted of a small staff of seven home service agents and 512 independent agents. The agency force was under the direction of one home service manager and the overall supervision of the Company's Agency Director and Marketing Director. The Company's claim office was located at its home office in Elba, Alabama.

#### **Territory**

At December 31, 2013, the Company was licensed to transact business in following states:

Alabama  
Georgia  
Florida  
Mississippi  
South Carolina  
Texas

The Certificates of Authority from the respective jurisdictions were inspected and found to be in order.

## **Policy Forms and Underwriting**

### **Policy Forms**

The Company filed twelve policy form filings with the Alabama Department of Insurance during the examination period. All of the Company's filings were approved by the Alabama Department of Insurance prior to being used.

### **Underwriting Practices**

The examiner verified samples of Alabama policy premiums, policies issued, rejected applications for insurance, policy reinstatements, and lapsed policies for compliance with Alabama statutes and regulations. The Company's Alabama policyholders' policy premiums were calculated in accordance with Company's underwriting guidelines and filed rates. The examiners reviewed a sample of Alabama applications for insurance that were denied insurance. The review indicated that the applications were denied in a nondiscriminatory manner and denied for underwriting reasons. The review of the sample of policy cancellations indicated that the cancellations were handled in a timely manner without an excessive amount of paperwork to be completed to cancel the policy. The review of policies issued indicated that policies and endorsements were issued to the applicants in a timely manner. Reinstatements were applied consistently and in a nondiscriminatory manner.

## **Advertising and Marketing**

The National Security Group, Inc., the holding company, did general corporate advertising with very little specific advertisement of its products. The Company had a limited number of advertisements appearing in insurance periodicals during the examination period. Brochures and advertising materials were distributed to potential customers through the Company's agents. The Company filed certificates of compliance by an authorized officer of the Company with its annual statements.

The Company's website ([www.nationalsecuritygroup.com](http://www.nationalsecuritygroup.com)) provided information such as information about its products, access to claim forms that can be submitted over the website, finding an agent, learning how to become an agent, investor information, and other information about NSG. It was determined that the Company's internet advertising was not misleading and contained appropriate language to identify the policy form(s) that was being advertised.

## **Claims Review**

### **Paid Claims**

A sample of 105 claims was selected from the population of 1,964 Alabama 2013 paid claims. The sample was reviewed for compliance with policy provisions, timeliness of payment and adequacy of documentation. It was determined that one file was not completely documented in accordance with ALA. CODE §27-27-29(a), which states, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

## Denied Claims

A sample of 108 claims was selected from the population of 226 Alabama 2010-2013 denied claims. A review of the claim documents was made to determine whether the claim documentation supported or justified the ultimate claim determination and whether the Company complied with ALA. ADMIN. CODE 482-1-124 (2003). The review did not result in any discrepancies.

## Policyholder Complaints

The Company had six complaints reported on its Alabama Complaints Register during the examination period. The examiner verified that the Company fully responded to and addressed all of the issues of the complaints reported in the complaint register.

## Compliance with Producer Licensing Requirements

### Appointment of Producers

The examiners selected a random sample of 107 Alabama premium transactions during the year 2013 from a population of 1262. It was determined that the Company's producers were properly licensed and appointed in accordance with ALA. CODE §27-7-30(1975)(a), which states:

Each insurer appointing a producer in this state shall file with the commissioner in a format approved by the commissioner, a notice of appointment within 15 days from the date agency contract is executed or the first insurance application is submitted, whichever occurs first. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding company system by the filing of a single appointment request.

### Terminated Producers

The examiners selected a random sample of 76 Alabama terminated producer files from a population of 181. It was determined that the Company did not properly send termination notifications to the producers' last known address for three terminated producers as required by statute. ALA. CODE §27-7-30.1(1975)(a) states,

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

## Privacy Standards

### Compliance with ALA. ADMIN. CODE 482-1-122 (2002)

The Company's Privacy Notice was reviewed for compliance with ALA. ADMIN. CODE 482-1-122 (2002). The Company sent out the notices to new business policyholders when a policy was written or renewed and annually thereafter. The Company provided notices to its customers that

indicated the types of information collected, the way the information is used and the manner that it is collected. The notice also informed the customer that the Company did not disclose any information to any nonaffiliated third parties.

The Company's privacy notice emphasized and explained the Company's policies. The Company's policies followed the guidelines established in ALA. ADMIN. CODE 482-1-122 (2002).

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

## **REINSURANCE**

### **Reinsurance Ceded**

The Company had ceded reinsurance provided by reinsurance agreements with three reinsurers as of December 31, 2013. The total reserve credits taken at December 31, 2013, in relation to the ceded business was \$36,055. In 2013, the Company had coinsurance reinsurance provided by Optimum Re. The Company had yearly renewable term reinsurance provided by Swiss Re and Optimum Re.

The Optimum Re reinsurance agreement became effective January 1, 2001. Under the Optimum Re reinsurance agreement, the Company's retention for automatic reinsurance on any one life is 50% up to a maximum of \$50,000 for insureds under 45. The retention is 50% up to a maximum of \$25,000 for insureds age 45 and older. The automatic reinsurance limit is four times the Company's retention to a maximum of \$200,000. The automatic reinsurance reinsures policies written on a ten year level term plan, renewable to age 70, and convertible at age 65. The policies written under this plan are reinsured on a coinsurance basis. All cases in which business submitted does not meet the criteria for automatic reinsurance may be submitted for facultative assessment. The facultative reinsurance limit is \$1,000,000. The jumbo limit is \$4,000,000.

The Swiss Re agreement has been effective since April 1, 1986. The agreement also allows for facultative submissions for reinsurance. The business that was ceded is in run off.

The Company also has an agreement with Optimum Re effective May 15, 1987. Under this agreement the Company's retention for automatic reinsurance for any one life is 100% up to \$50,000 for insureds under age 45 and up to \$25,000 for insureds 45 and older. The automatic reinsurance limit is five times the Company's retention to a maximum of \$250,000. The policies written under this plan are reinsured on a YRT basis. Cases which do not meet the criteria for automatic reinsurance may be submitted on a facultative basis.

The Company had a group life and accidental death and dismemberment reinsurance agreement with General Re. The agreement became effective January 1, 2004. For submissions meeting the contractually stated criteria, the reinsurance was automatic. The agreement also allowed for facultative submissions for reinsurance. The agreement reinsured on an automatic basis new and in-force Basic Group Term Life and Basic Accidental Death and Dismemberment (AD&D) policies issued to employers. The Company ceded 50% quota share of the first \$100,000 per insured. The maximum reinsurance was \$250,000 per insured. For group AD&D, 50% quota share for the first

\$100,000 and 100% of the amount over \$100,000 up to a maximum of \$250,000 was reinsured. The treaty was terminated December 31, 2012.

### **ACCOUNTS AND RECORDS**

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

The Company's independent audit was performed by Warren Averett, LLC, a certified public accounting firm of Birmingham, Alabama.

### **Unclaimed Property**

The Company provided its outstanding checks detail as of December 31, 2013. The Company had fourteen outstanding checks totaling \$796.12 payable to Alabama residents that were beyond the three year dormancy period. These outstanding checks were unclaimed property per the Alabama Code. The Company's management indicated that they intended to void and reissue the checks prior to the three year escheatment period for the State of Alabama. However, the Company failed to void and reissue the checks prior to the date the outstanding checks became escheatable to the State of Alabama as was intended.

It was determined that the company did not properly escheat the unclaimed property to the State of Alabama in accordance ALA. CODE §35-12-72 (2013), which states, "(a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property...(18) All other property, three years after the owner's right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs." All Alabama unclaimed property is to be included in the unclaimed property reports in accordance with the reporting procedures described in ALA. CODE §35-12-76 (2013).

## FINANCIAL STATEMENTS

The financial statements included in this report were reported on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2013. Amounts shown in the comparative years 2010, 2011, and 2012 were compiled from the Company's copies of the filed Annual Statements. The statements were presented in the following order.

Statement of Assets, Liabilities, Surplus and Other Funds	Pages 15 and 16
Summary of Operations	Page 17
Capital and Surplus Account	Page 18

**National Security Insurance Company**  
**Statement of Assets, Liabilities, Surplus and Other Funds**  
**for the Year Ended December 31, 2013**

Assets

	Assets	Non- admitted Assets	Admitted Assets
Bonds	\$40,031,047	\$ 0	\$40,031,047
Common stocks	2,570,433	0	2,570,433
Mortgage loans on real estate: First liens	333,348	0	333,348
Real estate: Properties occupied by the company	1,657,420	0	1,657,420
Real estate: Properties held for sale	538,523	0	538,523
Cash and short-term investments	809,909	0	809,909
Contract loans	1,442,511	0	1,442,511
Other invested assets	3,875,000	3,550,000	325,000
Investment income due and accrued	489,062	0	489,062
Premiums and considerations: Uncollected premiums and agents' balances in the course of collection	116,984	0	116,984
Premiums and considerations: Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,052,203	78,390	973,813
Net deferred tax asset	652,955	298,820	354,135
Electronic data processing equipment and software	186,868	6,612	180,256
Furniture and equipment, including health care delivery assets	180,633	180,633	0
Receivables from parent, subsidiaries and affiliates	47,450	0	47,450
Aggregate write-ins for other than invested assets:			
Premium tax over payment	5,559	5,559	0
Clearing account	25,000	25,000	0
<b>Total Assets</b>	<b>\$54,014,904</b>	<b>\$4,145,013</b>	<b>\$49,869,892</b>

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

### Liabilities, Surplus and Other Funds

Aggregate reserve for life contracts	\$31,694,229
Aggregate reserve for accident and health contracts	2,380,819
Liability for deposit-type contracts	1,443,275
Contract claims: Life	562,905
Contract claims: Accident and health	278,702
Policyholders' dividends and coupons due and unpaid	3,884
Premiums and annuity considerations for life and accident and health contracts received in advance	14,644
Interest Maintenance Reserve	530,070
Commissions to agents due or accrued	21,822
General expenses due or accrued	349,507
Taxes, licenses and fees due or accrued	38,481
Current federal and foreign income taxes	44,941
Unearned investment income	47,922
Amounts withheld or retained by company as agent or trustee	1,453
Amounts held for agents' account	6,192
Remittances and items not allocated	67,346
Asset valuation reserve	805,667
Payable to parent, subsidiaries and affiliates	761
<b>Total Liabilities</b>	<b>\$38,292,621</b>
Common capital stock	\$1,500,000
Gross paid in and contributed surplus	401,752
Unassigned funds <u>(Note 1)</u>	<u>9,675,520</u>
<b>Total Capital and Surplus</b>	<b>\$11,577,272</b>
<b>Totals</b>	<b>\$49,869,893</b>

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

**National Security Insurance Company**  
**Summary of Operations**  
**for the Years Ended December 31, 2010, 2011, 2012 and 2013**

	2010	2011	2012	2013
Premiums and annuity considerations for life and accident and health contracts	\$7,027,152	\$6,869,835	\$6,608,911	\$6,590,636
Net investment income	2,380,546	2,199,372	2,349,420	2,490,203
Amortization of Interest Maintenance Reserve	86,161	107,022	165,956	135,687
Charges and fees for deposit-type contracts				40
Aggregate write-ins for miscellaneous income:				
Adjuster's fees	591,291	514,735	282,667	719,458
Miscellaneous income	2,447	2,489	2,088	5,169
Totals	<u>10,087,597</u>	<u>9,693,453</u>	<u>9,409,042</u>	<u>9,941,193</u>
Death benefits	3,193,293	2,744,066	3,138,908	2,792,951
Disability benefits and benefits under accident and health contracts	990,321	1,005,475	971,455	596,982
Surrender benefits and withdrawals for life contracts	540,395	557,893	656,041	588,248
Interest and adjustments on contract or deposit-type contract funds	64,672	60,267	53,604	77,404
Increase in aggregate reserves for life and accident and health contracts	<u>774,351</u>	<u>814,367</u>	<u>880,265</u>	<u>855,440</u>
Totals	<u>5,563,033</u>	<u>5,182,067</u>	<u>5,700,273</u>	<u>4,911,025</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	1,182,419	957,056	849,778	774,572
General insurance expense	2,092,183	2,335,919	2,304,150	2,563,853
Insurance taxes, licenses and fees	382,820	312,503	214,624	228,811
Increase in loading on deferred and uncollected premiums	<u>(79,736)</u>	<u>(13,071)</u>	<u>(90,090)</u>	<u>367</u>
Totals	<u>9,140,718</u>	<u>8,774,474</u>	<u>8,978,735</u>	<u>8,478,628</u>
Net gain from operations before dividends to policyholders and federal income taxes	946,879	918,979	430,307	1,462,566
Dividends to policyholders	<u>4,055</u>	<u>4,548</u>	<u>3,721</u>	<u>3,723</u>
Net gain from operations after dividends to policyholders and before federal income taxes	942,823	914,432	426,586	1,458,843
Federal and foreign income taxes incurred	<u>77,316</u>	<u>113,456</u>	<u>(81,487)</u>	<u>187,994</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	865,507	800,976	508,074	1,270,849
Net realized capital gains less capital gains tax	<u>(46,578)</u>	<u>(54,259)</u>	917,204	156,477
Net income	<u>\$818,929</u>	<u>\$746,717</u>	<u>\$1,425,278</u>	<u>\$1,427,326</u>

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

**National Security Insurance Company**  
**Capital and Surplus**  
**for the Years Ended December 31, 2010, 2011, 2012 and 2013**

	2010	2011	2012	2013
Surplus as regards policyholders, December 31 prior year	\$9,125,795	\$10,018,972	\$10,392,386	\$10,343,920
Net income	818,929	746,717	1,425,278	1,427,326
Change in net unrealized capital gains (losses)	525,312	(34,684)	(1,191,431)	184,842
Change in net deferred income tax	563,816	(17,974)	(1,145,353)	(10,314)
Change in nonadmitted assets	(577,101)	100,048	786,791	189,227
Change in asset valuation reserve	(437,780)	(120,693)	327,090	(57,729)
Cumulative effect of changes in accounting principles	0	0	749,159	0
Dividends to stockholders	0	(300,000)	(1,000,000)	(500,000)
Change in surplus as regards policyholders	893,176	373,414	(48,465)	1,233,352
Surplus as regards policyholders, December 31 current year	<u>\$10,018,972</u>	<u>\$10,392,385</u>	<u>\$10,343,920</u>	<u>\$11,577,272</u>

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

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Unassigned funds

\$9,675,520

The above captioned amount is the same as reported by the Company in its 2013 Annual Statement. The following is a reconciliation of Unassigned funds per the examination.

Unassigned funds per Company	\$9,675,520
Examination increase/(decrease) to assets:	
Examination decrease/(increase) to liabilities:	
Total Unassigned funds per examination	<u>\$9,675,520</u>

## COMMENTS AND RECOMMENDATIONS

### Market Conduct Activities – Page 9

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

**It is recommended** that the Company send termination notifications to its producers last known address in accordance with ALA. CODE §27-7-30.1(1975)(a) which states:

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

### Accounts and Records – Page 13

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

## CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of the contingent liabilities and pending litigation included an inspection of representations made by the Company’s managers, a review of the Company’s records and files for

the period under examination, and a review of the records subsequent to the examination date. The reviews performed did not identify any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

#### **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

A review was performed to determine if the Company had complied with the recommendations made in the last examination report. The review indicated that the Company complied with all of the recommendations contained in the previous Report of Examination.

#### **SUBSEQUENT EVENTS**

The review of the events subsequent to December 31, 2013, did not reveal anything material in amount or noteworthy in nature.

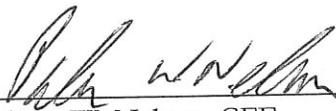
## CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing National Security Insurance Company during the examination.

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

In addition to the undersigned, Toni Bean, CFE, Theo Goodin, Mora Perkins-Taylor, MCM, Denise Riggins, Charles Turner, CISA, Examiners; and Harland Dyer, FSA, MAAA, Consulting Actuary; all representing the Alabama Department of Insurance, participated in the examination of National Security Insurance Company.

Respectfully submitted,



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