

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION

OF

**Life Insurance Company of Alabama**

GADSDEN, ALABAMA

AS OF DECEMBER 31, 2022

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**EXAMINER'S AFFIDAVIT**

**STATE OF ALABAMA  
COUNTY OF ETOWAH**

Matthew Milford, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Life Insurance Company of Alabama.
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 Life Insurance Company of Alabama was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.



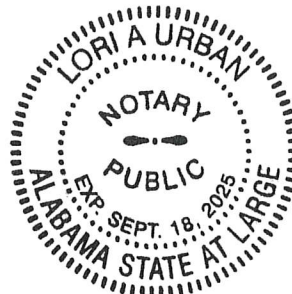
Matthew Milford, CFE  
Examiner-in-Charge

Subscribed and sworn before me by Matthew Milford on this 28<sup>th</sup> day of March 2024.

(SEAL)



(Signature of Notary Public)





**KAY IVEY  
GOVERNOR**

**MARK FOWLER  
COMMISSIONER**

**STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
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LARRY CHAPMAN  
CHIEF EXAMINER  
SHEILA TRAVIS  
STATE FIRE MARSHAL  
SCOTT F. PILGREEN  
GENERAL COUNSEL  
REYN NORMAN**

March 28, 2024

Mark Fowler, Commissioner  
Alabama Department of Insurance  
P.O. Box 303351  
Montgomery, Alabama 36130-3351

Dear Commissioner Fowler:

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

Life Insurance Company of Alabama  
Gadsden, Alabama

at its home office located at 302 Broad Street, Gadsden, Alabama 35901 as of December 31, 2022. The report of examination is submitted herewith. Where the description "Company" or "LICOA" appears herein without qualification, it will be understood to indicate Life Insurance Company of Alabama.

## SCOPE OF EXAMINATION

We have performed our multi-state examination of Life Insurance Company of Alabama (LICOA). The last examination covered the period of January 1, 2013 through December 31, 2017. This examination covers the period of January 1, 2018 through December 31, 2022.

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

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

This examination report includes significant findings of fact, as mentioned in the *Code of Alabama 1975*, as amended, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but are separately communicated to other regulators and/or the Company.

The Company's 2018 through 2022 annual statements were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology systems (IS) was conducted concurrently with the financial examination. The IS examination included a review of management and organizational 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 also conducted concurrently with the financial examination. The examination included reviews of the Company's territory, plan of operation, claims, policyholder complaints, marketing and sales, producers' licensing, underwriting, policy forms and rate filings, and privacy policy and practices. See, "**MARKET CONDUCT ACTIVITIES**" on page 13 for further discussion of the Company's market conduct examination.

The Company utilized a local CPA firm, Boatner & Pugh, LLC (BP) to perform its internal audit function. The firm, acting as the Company's internal auditors, is subject to oversight by the Audit

Committee. Reports generated by BP were made available to the examiners and were used in the examination as deemed appropriate.

Thomas Howell Ferguson P.A. (CPA) performed the Company's external audits for all years under examination. The CPAs' workpapers were reviewed and were used in the examination as deemed appropriate by the examiners.

A signed certificate of representation for the Company 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, 2022.

## **ORGANIZATION AND HISTORY**

The Company was incorporated in Etowah County on July 28, 1952, under the laws of the State of Alabama and commenced business on August 13, 1952.

The charter empowered the Company to engage in the life insurance business and the writing and making of life insurance contracts and issuing of life insurance policies of every lawful kind on the lives of human beings; and also the writing and making of insurance contracts and issuing of insurance policies of every lawful kind for health and accident insurance, insuring against injury or disability to the person by reason of accidents, illness and disease; and insuring against loss of earnings and medical and hospital expenses caused by bodily injury, illness and disease, and insuring against other causes or contingencies such as may impair or affect the life and health of a person; and generally to engage in the writing, making and issuing of contracts of life, health and accident insurance, to individuals or groups, upon such terms, conditions and provisions as may be permitted by law.

The original charter provided for authorized capital of \$500,000, comprised of 100,000 shares of \$5 par value per share common stock. The Company commenced business with 26,000 shares issued and outstanding, which provided paid-up capital of \$130,000 and surplus of \$65,000.

In 1956, the Company's charter was amended to increase the total authorized capital to \$1,000,000, with an additional 500,000 shares of common stock being authorized at a par value of \$1 per share. The \$1 par value stock was designated as Class "A" common.

In 1958, Life and Accident Insurance Company of Alabama, Gadsden, Alabama, was merged into the Company. This merger was effected through an exchange of stock, which resulted in an increase to the Company's assets of \$572,605 and an increase to insurance in-force of \$4,671,981.

In 1966, the charter was again amended to increase the total authorized capital to \$2,000,000, comprised of 100,000 shares of \$5 par value per share common stock and 1,500,000 shares of \$1 par value per share common stock.

In 1968, an amendment to the charter defined the preemptive rights of stockholders as follows:

“(a) The holders of “CLASS “A” COMMON STOCK” of the corporation shall have no pre-emptive rights to purchase any portion or part of any class of stock of the corporation, including “COMMON

STOCK,” and “CLASS “A” COMMON STOCK,” and also including Treasury Shares of both of said Classes of Stock, that may be issued or offered for sale by the corporation:

(b) The holders of “COMMON STOCK” of the corporation shall have no pre-emptive rights to purchase any portion or part of any “CLASS “A” COMMON STOCK,” including Treasury Shares of “CLASS “A” COMMON STOCK,” that may be offered or issued for sale by the corporation:

(c) Every holder of “COMMON STOCK” of the corporation shall have the pre-emptive right to purchase his portion of any “COMMON STOCK,” including Treasury Shares of “COMMON STOCK,” that may be issued or offered for sale by the corporation, according to the proportion of his holdings of such “COMMON STOCK,” at such price, which may be in excess of par value, within such time and on such terms as shall be fixed and determined by the Board of Directors of the corporation.”

In 1977, the Company acquired all of the policies in force of Vanguard Security Life Insurance Company, Montgomery, Alabama, pursuant to an agreement executed with the court appointed receiver of said company.

In 1978, the Company acquired College Investment Company, Gadsden, Alabama, as a wholly owned subsidiary of the Company and liquidated that Company during 1978.

In 1979, the Company acquired certain policies of the Life Insurance Company of America, Birmingham, Alabama pursuant to an agreement executed with the court appointed receiver of said company.

In 1987, the capital stock of the Company was increased by \$75,364 as a result of the increase in par value of the Class “A” common stock from \$1 per share to \$1.12 per share. This change in the par value of the Class “A” common stock increased the total authorized under this class of stock to \$1,680,000, which exceeded the \$1,500,000 authorized by the Company’s Charter. On February 8, 1993, the Company decreased the par value of the Class “A” common stock from \$1.12 to \$1. Also, on February 8, 1993, the Company issued 371,963 shares of authorized but unissued Class “A” common stock as treasury stock to meet the requirements of the state of Georgia.

On December 31, 2022, the authorized capital of the Company was \$2,000,000 consisting of 100,000 shares of \$5 par value per share common stock and 1,500,000 shares of \$1 par value Class “A” common stock. The issued capital stock was \$1,500,000, comprised of 100,000 shares of \$5 par value per share common stock and 1,000,000 shares of \$1 par value per share Class “A” common stock.

Treasury shares were held as follows: common stock (\$5 par) 19,035 shares at a cost of \$1,448,114 and Class “A” Common (\$1 par) 734,503 shares at a cost of \$10,866,169. The Company also purchased 5,235 shares of Class “A” Common (\$1 par) as treasury stock for a total cost of \$172,255 during 2022, but the shares were not received as of the end of the 2022 reporting period.

The 2022 Annual Statement reflected the following:

Net Admitted Assets: \$124,884,578

Liabilities: \$96,551,422



Total Capital and surplus: \$28,333,156  
 Common capital stock: \$1,500,000  
 Gross paid in and contributed surplus: \$1,810,494  
 Unassigned funds (surplus): \$37,509,200  
 Treasury stock, at cost: \$12,486,538

**MANAGEMENT AND CONTROL**

**Stockholders**

The Company is a stock corporation organized under the laws of Alabama, with ultimate control vested in its stockholders. According to Schedule Y of the Company's 2022 Annual Statement, owners with greater than 10% ownership were Clarence W. Daugette III (26.33%), Anne Daugette Renfrow (15.74%), and Alburta Daugette Lowe (17.68%).

**Board of Directors**

The following directors were elected by the stockholders and were serving at December 31, 2022:

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
Clarence William Daugette, III Gadsden, Alabama	President & Chief Executive Officer Life Insurance Company of Alabama
Raymond Rudolph Renfrow, Jr. Gadsden, Alabama	Executive VP & Chief Marketing Officer Life Insurance Company of Alabama
Anne Daugette Renfrow Gadsden, Alabama	Homemaker
Alburta Daugette Lowe Gadsden, Alabama	Homemaker
Gerald Ray Smith, Jr. Gadsden, Alabama	President River Bank & Trust
Rosalie Renfrow Causey Gadsden, Alabama	Executive VP & Chief Financial Officer Life Insurance Company of Alabama
Herman Warren Cobb, Jr. Dothan, Alabama	Attorney Cobb, Boyd, White & Cobb

**Committees**

The following committees were functioning on behalf of the Board of Directors as of December 31, 2022:

**Executive Committee**  
 Clarence William Daugette, III  
 Gerald Ray Smith, Jr.  
 Rosalie Renfrow Causey

Corporate Governance Committee

Clarence William Daugette, III  
Gerald Ray Smith, Jr.  
Herman Warren Cobb, Jr.

Audit Committee

Gerald Ray Smith, Jr.  
Rosalie Renfrow Causey

Loan and Investment Committee

Clarence William Daugette, III  
Raymond Rudolph Renfrow, Jr.  
Herman Warren Cobb, Jr.  
Rosalie Renfrow Causey

Compensation Committee

Gerald Ray Smith, Jr.  
Herman Warren Cobb, Jr.

**Officers**

The following officers were elected by the Board of Directors and were serving at December 31, 2022:

<b><u>Officer</u></b>	<b><u>Title</u></b>
Clarence William Daugette, III	President & Chief Executive Officer
Rosalie Renfrow Causey	Executive VP & Chief Financial Officer
Jack Steven Keck	Senior VP, COO, Secretary & Actuary
Raymond Rudolph Renfrow, Jr.	Executive VP & Chief Marketing Officer
Katrina Davis Hulsey	Vice President
Debbie Ann Edmondson	Vice President
Michael Phillip Causey	Vice President & Director of Agency
Kenneth Wayne Lewis	Vice President & Director of Marketing
Scott E Jones	Vice President
Timothy H Cole	Vice President
Zachery C Lindsey	Vice President

**Conflict of Interest**

The Company has an established procedure whereby directors, officers, and key employees of the Company sign a conflict of interest statement annually to disclose any conflicts of interest the individuals might have in their position with the Company. These statements were reviewed for each year under examination. No conflicts were noted, and all requested statements were provided.

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

## **HOLDING COMPANY AND AFFILIATE MATTERS**

The Company was subject to the *Alabama Insurance Company Regulatory Act of 1973* as defined in ALA. CODE § 27-29-1 (2022). In connection therewith, the Company is registered with the Alabama Department of Insurance as a registrant of an Insurance Holding Company System. The Company is responsible for holding company registration and periodic filings in accordance with ALA. CODE § 27-29-1 (2022) and ALA. ADMIN CODE 482-1-055 (2016). A review of holding company filings made during the examination period indicated that appropriate disclosures were made regarding the Company.

### **Dividends to Stockholders**

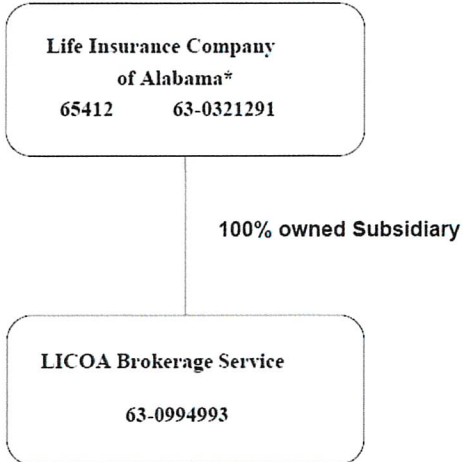
The following dividends were declared and paid to stockholders of the Company during the examination period:

<u>Year</u>	<u>Amount</u>
2022	\$324,903
2021	\$408,063
2020	\$413,198
2019	\$413,198
2018	\$413,229

The dividends were reported to the Alabama Department of Insurance in accordance with ALA. CODE § 27-29-4(d) (2022) which states in part: "...each registered insurer shall so report all dividends and other distributions to shareholders within five business days follow the declaration thereof."

### **Organizational Chart**

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2022:



\*Clarence W. Daugette, III

Ownership As of 12/31/2022	Common Stock		Class A Common Stock	
	No. Shrs	%Outstanding	No. Shrs	%Outstanding
Direct	11,670	14.41	21,830	8.22
Indirectly in CBA Partners	529	0.65	1,345	0.51
Indirectly Trustee CESTUS Properties LLC	<u>9,126</u>	<u>11.27</u>	<u>9,884</u>	<u>3.72</u>
<b>TOTAL</b>	<b>21,325</b>	<b>26.33</b>	<b>33,059</b>	<b>12.45</b>

Ownership As of 12/31/2022 in Moonglow, Jr. Properties, LLC: Directly = 16.46%

Indirectly = 83.54%

Ownership As of 12/31/2022 in Rock-A-Bye Properties, LLC: Directly = 1%

Indirectly = 99%

Moonglow, Jr. Properties, LLC and Rock-A-Bye Properties, LLC own no stock in Life Insurance Company of Alabama or LICOA Brokerage Service.

## **Affiliated Agreements**

The Company has one wholly owned subsidiary, LICOA Brokerage Services, Inc., which acted as a broker for the Company in soliciting and receiving applications for life insurance and other kinds of insurance, as well as conducting a general insurance agency in the insurance brokerage business.

The Company and LICOA Brokerage Services, Inc. are parties to a Resource Sharing Agreement. The Agreement states the responsibilities of each company in the hiring, compensation, supervising, disciplining, and discharging of full-time and part-time employees and agents. The Agreement further states the responsibilities of each company in the paying of expenses for office space, utilities, insurance and similar items of facility overhead, furniture and equipment, supplies and miscellaneous goods and services, travel and transportation, and telecommunications.

The Company and LICOA Brokerage Services, Inc. are also parties to an agreement to share agents. This agreement states that the agents who sell for and represent LICOA Brokerage Service, Inc. may also be licensed agents to buy and sell for the Company.

## **COMPLIANCE WITH 18 U.S.C. § 1033**

ALA. ADMIN. CODE 482-1-146-.11 (2009) requires the Company to determine if prospective and current employees are in conflict with 18 U.S.C. § 1033, which prohibits persons with certain felony offenses from participating in conducting the business of insurance.

The Company provided the procedures used to comply with ALA. ADMIN. CODE 482-1-146-.11 (2009), which include obtaining background checks on new hires and obtaining signed forms from existing employees on an annual basis attesting that no felony convictions exist. During the review of the Company's compliance, the Company was unable to provide the background checks obtained on three employees that were hired during the examination period. The examiners determined that the Company was not in compliance with ALA. ADMIN. CODE 482-1-146-.11 (2009), which 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.
  - c. An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.
2. Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department.

3. As part of an examination or otherwise, the Department may determine the existence of such procedures, whether and how they are being followed, and the effectiveness of the procedures.

## COMPLIANCE WITH AML REQUIREMENTS

The examination of the Company's Anti-Money Laundering program (AML) was performed as required by the NAIC Financial Condition Examiners Handbook. The Handbook requires the examination to test the Company's AML program to ensure compliance with the USA Patriot Act of 2001 (the Act). The Act requires the Company's program to include the following:

- “1. The program must incorporate policies and procedures and internal controls based on the insurance company's assessment of the money laundering and terrorist financing risks associated with its covered products.
2. The insurance company must designate a compliance officer to be responsible for implementing and monitoring compliance of its AML program, including the activities of its agents and brokers.
3. The insurance company must provide training for appropriate persons. Employees with responsibility under the program must be trained in the requirements of the program, and money laundering risks generally, so that “red flags” for suspicious activity associated with covered products can be identified.
4. The insurance company must provide for independent testing of the program on a periodic basis to ensure that it complies with the requirements of the rules and that the program functions as designed, including testing to determine compliance by the company's agents and brokers with their obligation under the program.”

Independent testing should be completed as follows:

“An outside consultant or accountant need not perform the testing. A single employee of the insurance company, or a committee comprised of more than one employee, may perform the independent testing, as long as the tester is not the compliance officer or otherwise involved in administering the program. The primary purpose of the independent testing is to determine the adequacy of the company's AML program, including whether it is operating in compliance with the requirements of the Bank Secrecy Act and the company's own policies and procedures. The scope and quality of the independent review(s) may provide examiners with a sense of particular risks in the insurance company, how these risks are being managed and controlled, and the insurance company's response to identified weaknesses. The independent reviewer's workpapers can assist examiners in understanding the review coverage and the quality and quantity of testing performed.”

At a minimum, the independent review should:

- “1. Provide a fair and unbiased appraisal of each of the required elements of the insurance company's AML program, including its Bank Secrecy Act compliance-related policies, procedures, internal controls, recordkeeping and reporting functions, and training. Internal controls should adequately identify “red flags” for potentially suspicious activity.
2. Be based on the risks of the company, should test the company's risk assessment for reasonableness, and should determine the adequacy of the risk mitigation strategies in place. The independent review should include testing of internal controls and transaction systems and procedures to identify problems and weaknesses and, if necessary, recommend to management appropriate corrective actions. If automated systems are utilized by the company

to detect potentially suspicious activity, the company should have an appropriate understanding of the parameters set to identify "red flags."

3. Include transaction testing to determine if all requirements of the company's AML program have been implemented and if policies, procedures, processes, and internal controls are working appropriately. The independent review should include transaction testing for suspicious activity and Form 8300 reports for the receipt of cash premium payments over \$10,000.
4. Cover all of the AML program actions taken by or defined as part of the responsibility of the designated compliance officer. These actions include, for example, the determination of the level of money laundering risk faced by the business, the frequency and adequacy of BSA/AML training for employees and agents, and the adoption of procedures for implementation and oversight of program related controls and transaction systems.
5. Verify that the company is taking active measures to address any significant deficiencies noted in the independent testing results.
6. Verify that the company is conducting AML training for appropriate personnel and procedures are in place to ensure agents are trained. The company should have records to verify AML training is being conducted and employees and agents have completed the training."

As a result of the examiners review, it was determined that the Company did not fully comply with the following AML requirements of the Act:

1. The Company did not have a compliance officer;
2. The Company was not requiring training for appropriate persons, specifically agents; and,
3. The Company was not performing periodic independent testing.
4. The Company does not have any procedures in place to report Form 8300's for cash receipt of cash premium payments in excess of \$10,000.

## **EMPLOYEE AND AGENT WELFARE**

The Company provides benefits to full-time hourly employees and non-exempt salaried employees on a pro-rata share based on the number of hours worked per week and also provides benefits to the full-time salaried-exempt employees without regard for the number of hours worked per week. The Company's agents are not employees of the Company and therefore do not qualify to receive any employee benefits provided by the Company. The following are the benefits provided to the employees of the Company:

- Paid Holidays
- Combined Vacation and Sick Leave
- Group Life Insurance
- Group Health Insurance
- Short-term Disability
- Long-term Disability
- Personal Leave
- Leave for Routine Health Care
- Family Leave
- On-the-Job Injury Leave

- Bereavement Leave
- Jury Duty Leave
- Uniformed Services Leave
- 401(k) Retirement Plan
- Section 125 Cafeteria Plan

### **Fidelity Bonds and Other Insurance**

As of December 31, 2022, the Company was a named insured on an insurance policy issued by The Cincinnati Insurance Company which included fidelity coverage. The amount of fidelity coverage maintained by the Company exceeded the minimum amount suggested in the Handbook.

In addition to the fidelity bond, the examiner reviewed the Company's other insurance coverages and determined that adequate coverage was in force covering the hazards to which the Company is exposed.

### **SCHEDULE OF SPECIAL DEPOSITS**

On December 31, 2022, as required or permitted by law, the Company maintained the following deposits with statutory authorities:

<b>States, etc.</b>	<b>Book/Adjusted Carrying Value</b>	<b>Fair Value</b>
Alabama	\$ 999,327	\$ 858,225
Arkansas	240,208	255,931
Florida	399,311	397,078
Georgia	110,000	110,285
North Carolina	571,405	573,063
Oklahoma	301,595	318,000
South Carolina	596,545	566,316
<b>Total</b>	<b><u>\$ 3,218,391</u></b>	<b><u>\$ 3,078,898</u></b>

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

The following information presents significant items that reflect the growth of the Company for the period under review:

	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Admitted Assets	\$124,884,578	\$130,708,074	\$130,287,659	\$126,782,802	\$123,945,615
Liabilities	\$96,551,422	\$97,508,588	\$89,715,574	\$86,364,844	\$82,577,216
Capital & Surplus	\$28,333,156	\$33,199,486	\$40,572,086	\$40,417,958	\$41,368,399
Premiums Earned	\$35,170,885	\$36,490,661	\$37,145,499	\$37,540,639	\$37,163,692



**MARKET CONDUCT ACTIVITIES**

**Territory**

As of December 31, 2022, the Company was licensed to transact business in the following eleven states:

Alabama	Kentucky	Oklahoma
Arkansas	Louisiana	South Carolina
Florida	Mississippi	Tennessee
Georgia	North Carolina	

The certificates of authority were issued by the respective states and were reviewed for the period under examination. No issues were found.

**Plan of Operation**

The products consisted of life, dental, cancer, accident, disability, critical illness, vision & hearing and hospital indemnity insurance. At December 31, 2022, the Company had 223 producers appointed in Alabama to write business on behalf of the Company. The Company's product portfolio integrates with the policyholders other insurance. The benefits from the products are paid directly to the insured during their time of need.

**Underwriting, Policy Forms and Rate Filings**

A review of the underwriting manual utilized by the Company did not evidence any discriminatory guidance for underwriters in the risk selection process. The medical information in the manual was appropriate for assessing an applicant's risk based upon specific medical conditions. The Company properly utilized the rates filed and approved by the Alabama Department of Insurance for the examination period under review. The Company wrote life coverage in a variety of forms within the basic classifications of Whole Life and Level Term. Important factors that determine rate include correct date of birth or issue age and sex along with health, occupation or avocation, personal habits, and foreign travel or immigration status. The Company offered Cancer, Accident and Health, Intensive Care and Disability Income coverages on an individual basis and collected premiums by direct billing or through payroll deduction.

The examiner verified samples of Alabama policy premiums, rejected or declined applications for insurance and cancelled policies for compliance with Alabama statutes and regulations. A sample selection of 116 Alabama new business policies were selected from a total population of 15,329 policies issued during the examination period. The Company's Alabama policyholders' policy premiums were recalculated and were determined to be in accordance with the Company's guidelines and rates.

A sample of 113 Alabama rejected applications were selected from a total population of 792 for the examination period. The sample reviewed for rejected applications indicated they were denied in a nondiscriminatory manner and were based on underwriting reasons.

The examiners reviewed both insured requested and Company initiated cancellations. A sample of 115 Alabama cancellations were selected from a total population of 2,135 for the examination period. The sample of cancellation policies were handled in a timely manner without an excessive amount of paperwork.

### **Marketing and Sales**

The Company's advertising materials were reviewed for the examination period. The Company's advertising file contained specimen copies of all the Company's advertisements that were printed, published or prepared. The examiner's review did not reveal any advertisements that misrepresented policy benefits, forms or conditions, made unfair or incomplete comparisons with other policies, or made false, deceptive or misleading statements or representations.

The Company's website (www.licoa.com) provided product information and product descriptions of life insurance and accident and health plans offered by the Company. Producer generated sales materials and internet sites are regulated by the Company's Agency/Marketing Department. Producers are required to submit proposed advertising materials or web pages to the Company before dissemination to the public.

### **Claims Payment Practices**

#### **Paid Claims**

A sample of 109 claims was taken from a total population of 59,411 Alabama paid claims for the examination period 2018-2022. The sample selection was reviewed with regards to compliance with policy provisions, timeliness of payments and adequacy of documentation. There were no discrepancies found.

#### **Denied Claims**

A sample of 76 denied claims was taken from an Alabama population total of 195 for the examination period 2018-2022. The sample selection was reviewed to determine if the claims were settled in accordance with policy provisions and applicable statutes and regulations. The documentation maintained in the claims files supported or justified the ultimate claim determination. Based on the review performed, the Company complied with ALA. ADMIN. CODE 482-1-124 (2003).

### **Complaint Handling**

There were 13 Alabama complaints documented in the Company's complaint register. The Company appropriately maintained the following information in its complaint register: line of business, function and reason for the complaint. The Company's responses fully addressed the issues raised, and the complaints were appropriately resolved within the required timeframe. The Company recorded all complaints, both consumer direct and from the Department of Insurance. Based on the review of the Company's complaint procedures, it was determined that the Company had a sufficient method for the distribution of and obtaining and recording responses to complaints. The Company's telephone number and address were provided to the policyholders for consumer inquiries and/or complaints.

### **Compliance with Producers' Licensing Requirements**

#### **Terminated Producers**

The examiner selected a sample of 84 terminated producers from a population of 373 Alabama terminated producers. There were six producers in the sample that were not provided notification of termination. The Company did not comply with ALA. CODE § 27-7-30.1 (a)(1975), 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."

#### Appointed Producers

According to the Company's listing and the State Based System (SBS), the Company had 473 appointed Alabama producers for the examination period. The examiner selected a random sample of 116 Alabama policies from a population of 15,329 Alabama life and accident & health policies issued during the examination period. The examiner verified the producer that wrote the business, held a current license and was appropriately appointed with the Company prior to writing the business. It was determined the producers were performing within their scope of authority.

#### Privacy Policy and Practices

The Company's Privacy Notice disclosed the types of information collected, how the information is used, the way the information is collected and how the information is protected. The Company's Privacy Notice also stated the customer's rights, and the Company does not disclose any information to any nonaffiliated third parties unless permitted to do so by law. In addition, the Company's HIPAA guidelines described how medical information related to the customer may be used and disclosed how the Company gained access to the information. The Company established that it makes reasonable efforts to disclose only the minimum necessary information and trains its employees on the importance of protecting customers' Protected Health Information (PHI). There were mechanisms in place to ensure the integrity of data during transmission, and a strict policy for its employees and vendors for violations of its HIPAA policy and procedure. The Company's policies, practices and procedures regarding the protection and disclosure of non-public personal information of consumers and former customers were in compliance with ALA. ADMIN. CODE 482-1-122 (2001).

### **REINSURANCE**

#### Reinsurance Assumed

*Schedule S - Part 1 - Section 1* of the Company's 2022 Annual Statement indicated that the Company assumed reinsurance under the Servicemen's Group Life Insurance (SGLI), and Federal Employees Group Life Insurance (FEGLI) pooling arrangements. Participating in these government insurance pools provides little or no financial rewards. Participation in these pooling arrangements does not require that the Company establish any reserves to cover the business reinsured.

#### Metropolitan Life Insurance Company

The Yearly Renewal Term - Group contract was effective October 1, 1979 and will continue until terminated. The FEGLI pooling arrangement contributed \$500 in assumed premiums during 2022 and the insurance in-force was \$528,000. The agreement had standard insolvency language without cut-through provisions.

#### Prudential Insurance Company of America

The Yearly Renewal Term - Group contract was effective September 29, 1965 and will continue until terminated. The SGLI pooling arrangement contributed \$4,194 in assumed premiums during 2022

and the insurance in-force was \$1,324,830,000. The agreement had standard insolvency language without cut-through provisions.

### **Reinsurance Ceded**

The Company's ceded reinsurance program consisted of automatic coinsurance and yearly renewable term reinsurance agreements with the option to negotiate facultative reinsurance over the reinsurer's maximum limits. *Schedule S - Part 3 - Section 1* indicated that the reserve credit taken in 2022 under the Life reinsurance agreements was \$2,345,985. The significant reinsurance agreements in-force were with the following reinsures: 1) Optimum Re Insurance Company, and 2) Scottish Re US Inc. The reinsurance agreements with the three reinsurers are summarized below:

#### **Optimum Re**

Treaty	Various
Type	Yearly renewable term automatic reinsurance /Facultative
Coverage	<b><u>Alphabet A – Z</u></b> Whole Life (2004 –WL142) Term (2004 –LT220) Term (2009- LT300) Term (2014 – LT400)
Effective	September 1, 2007
Retention	\$100,000 per life
Reinsurers Limits	2 times the Company's retention to a maximum of \$200,000 in excess of the Company's retention. Facultative reinsurance \$4,000,000 per life. Jumbo limit of \$4,000,000.
Amendment	Several amendments included in the reinsurance contract.
Insolvency	Standard insolvency language without cut-through provision.

#### **Optimum Re**

Treaty	781
Type	Coinsurance
Coverage	<b><u>Alphabet L – Z</u></b> 10-year term
Effective	July 1, 1991 (Amendment) August 1, 2006 (Amendment)
Retention	<b><u>Ages 0 – 60</u></b> . Standard thru table 2 - \$50,000; Table 3 thru table 6 - \$25,000; Table 8 through up, \$10,000.

***Ages 61 and over:*** Standard thru table 2 - \$25,000; Table 3 thru table 6 - \$10,000; Table 8 through up, \$5,000.  
 Waiver of premiums – Same as life  
 Reinsurers Limits 400% of ceding Company's retention.  
 Amendment Effective August 1, 2006, the coverage include alphabet A – Z.  
 Insolvency Standard insolvency language without cut-through provision.

Scottish Re

Treaty 1394 (Phoenix Mutual), ERC  
 Type Coinsurance  
 Coverage **Alphabet A – K**  
 10 years term  
 Effective March 1, 1992  
 Retention ***Ages 0 – 60:*** Standard thru table 2 - \$50,000; Table 3 thru table 6 - \$25,000; Table 8 through up, \$10,000.  
***Ages 61 and over:*** Standard thru table 2 - \$25,000; Table 3 thru table 6 - \$10,000; Table 8 through up, \$5,000  
 Waiver of premiums. Corridor: \$10,000 for all ages and ratings.  
 Reinsurers Limits Nine times the ceding Company's retention or \$450,000, whichever is less  
 Amendment Effective August 1, 2006, the parties agreed to no longer accept new business.  
 Insolvency Standard insolvency language without cut-through provision.

**ACCOUNTS AND RECORDS**

The Company's accounting records were maintained on electronic data processing equipment and manually on personal computers.

## FINANCIAL STATEMENT INDEX

The following financial statements are based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2022. The accompanying comments on the financial statement reflect any examination adjustments to the amount reported in the annual statement and should be an integral part of the financial statements.

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Summary of Operations .....	21
Capital and Surplus Account .....	22

**LIFE INSURANCE COMPANY OF ALABAMA**  
**STATEMENT OF ASSETS**  
**For the Year Ended December 31, 2022**

ASSETS	Nonadmitted	Net Admitted
	Assets	Assets
Bonds	\$ 90,285,602	\$ 90,285,602
Stocks:		
Common stocks	9,685,182	9,685,182
Real estate:		
Properties occupied by the company	6,730,982	4,141,780
Properties held for the production of income	974,796	475,000
Cash and cash equivalents	3,755,604	3,755,604
Contract loans	4,319,840	4,319,840
Other invested assets	3,117,341	3,117,341
Subtotals, cash and invested assets	\$ 118,869,347	\$ 115,780,349
Investment income due and accrued	\$ 843,059	\$ 843,059
Premiums and considerations:		
Uncollected agents' balances in the course of collection	939,899	379,417
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,854,941	2,854,941
Reinsurance:		
Amounts recoverable from reinsurers	230,500	230,500
Other amounts receivable under reinsurance contracts	174,790	174,790
Net deferred tax asset	3,955,748	1,283,564
Electronic data processing equipment and software	340,962	340,962
Furniture and equipment	251,599	-
Aggregate write-ins for other than invested assets	3,303,663	2,996,996
<b>TOTALS</b>	<b>\$ 131,764,507</b>	<b>\$ 124,884,578</b>

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

**LIFE INSURANCE COMPANY OF ALABAMA**  
**STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS**  
**For the Year Ended 2022**

<b>LIABILITIES</b>	<b><u>Current Year</u></b>
Aggregate reserve for life contracts	\$ 53,866,616
Aggregate reserve for accident and health contracts	23,626,971
Liability for deposit-type contracts	999,681
Contract claims:	
Life	921,260
Accident and health	3,415,544
Provision for policyholders' dividends and coupons payable in following calendar year-estimated amounts:	
Dividends apportioned for payment	9,752
Premiums and annuity considerations for life and accident and health contracts received in advance	380,335
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	35,591
Interest maintenance reserve	1,355,023
Commissions to agents due or accrued-accident and health	81,497
General expenses due or accrued	1,402,838
Taxes, licenses and fees due or accrued, excluding federal income taxes	94,573
Current federal and foreign income taxes, including on realized capital gains (losses)	67,488
Unearned investment income	144,502
Amounts withheld or retained by company as agent or trustee	76,480
Amounts held for agents' account	61,483
Remittances and items not allocated	348,789
Liability for benefits for employees and agents if not included above	822,711
Miscellaneous liabilities:	
Asset valuation reserve	1,896,426
Aggregate write-ins for liabilities:	
Accounts payable	22,958
Employee Appreciation Day Account	19,698
Bridge Program Account	1,278,645
<b>Total Liabilities</b>	<b><u>\$ 96,551,422</u></b>
<b>CAPITAL AND SURPLUS</b>	
Common capital stock	\$ 1,500,000
Gross paid in and contributed surplus	1,810,494
Unassigned funds (surplus)	37,509,200
Less treasury stock, at cost: shares common	<u>12,486,538</u>
<b>Total Surplus</b>	<b><u>\$ 26,833,156</u></b>
<b>Total Capital and Surplus</b>	<b><u>\$ 28,333,156</u></b>
<b>TOTAL LIABILITIES, CAPITAL AND SURPLUS</b>	<b><u>\$124,884,578</u></b>

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



**LIFE INSURANCE COMPANY OF ALABAMA**  
**SUMMARY OF OPERATIONS**  
**For the Years Ended December 31, 2022, 2021, 2020, 2019 and 2018**

<u>Income</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Premiums and annuity consideration	\$35,170,886	\$36,490,661	\$37,145,499	\$37,540,639	\$ 37,163,692
Net investment income	4,514,579	4,618,436	4,792,007	4,422,190	4,570,348
Amortization of IMR	137,258	160,843	157,634	181,258	223,938
Reserve adjustments on reinsurance ceded	160,928	-	-	-	-
<b>Aggregate write-ins for miscellaneous income</b>	<u>1,386,585</u>	<u>76,403</u>	<u>98,030</u>	<u>78,288</u>	<u>189,692</u>
<b>Total Income</b>	<u>\$41,370,236</u>	<u>\$41,346,343</u>	<u>\$42,193,170</u>	<u>\$42,222,375</u>	<u>\$ 42,147,670</u>
<b><u>Deductions:</u></b>					
Death benefits	\$ 3,677,117	\$ 4,414,004	\$ 3,253,545	\$ 2,401,340	\$ 2,845,318
Annuity benefits	317,497	246,366	202,071	164,741	145,532
Disability benefits and benefits under accident and health contracts	12,607,159	14,013,439	15,301,635	16,408,747	16,012,113
Coupons, guaranteed annual pure endowments and similar benefits	-	-	-	-	4,934
Surrender benefits and withdrawals for life contracts	861,494	708,716	770,446	815,616	928,001
Interest and adjustments on contract or deposit-type contract funds	56,081	30,704	32,496	38,794	37,437
Increase in aggregate reserves for life and accident and health contracts	<u>1,851,283</u>	<u>1,925,156</u>	<u>1,664,933</u>	<u>2,428,196</u>	<u>2,102,583</u>
<b>Totals</b>	<u>\$19,370,630</u>	<u>\$21,338,385</u>	<u>\$21,225,126</u>	<u>\$22,257,434</u>	<u>\$ 22,075,917</u>
Commissions on premiums, annuity considerations & deposit-type contract funds (direct business only)	6,798,437	7,021,998	7,212,561	7,967,156	7,864,245
General insurance expenses	12,499,540	10,587,597	10,337,747	10,731,144	11,686,249
Insurance taxes, licenses and fees, excluding federal income taxes	782,240	1,083,483	1,108,955	1,104,837	1,235,181
Increase in loading on deferred and uncollected premiums.	43,515	104,566	4,987	158,483	116,179
Aggregate write-ins for deductions	<u>26,551</u>	<u>86,333</u>	<u>-</u>	<u>93,351</u>	<u>2,745</u>
<b>Total deductions</b>	<u>\$39,520,913</u>	<u>\$40,222,362</u>	<u>\$39,889,376</u>	<u>\$42,312,405</u>	<u>\$ 42,980,516</u>
Net gain from operations before dividends to policyholders and FIT	\$ 1,849,323	\$ 1,123,981	\$ 2,303,794	\$ (90,030)	\$ (832,846)
Dividend to policyholders	<u>10,252</u>	<u>10,554</u>	<u>11,225</u>	<u>4,711</u>	<u>10,529</u>
Net gain from operations after dividends to policyholders and before FIT	\$ 1,839,071	\$ 1,113,427	\$ 2,292,569	\$ (94,741)	\$ (843,375)
Federal and foreign income taxes incurred	<u>279,720</u>	<u>439,694</u>	<u>388,196</u>	<u>(214,776)</u>	<u>(45,669)</u>
Net gain from operations after dividends to policyholders and FIT and before realized capital gains or (losses)	\$ 1,559,352	\$ 673,734	\$ 1,904,373	\$ 120,035	\$ (797,706)
Net realized capital gains or (losses) transferred to the IMR)	<u>105,495</u>	<u>16,694</u>	<u>(2,527)</u>	<u>(821)</u>	<u>521,404</u>
<b>Net income</b>	<u>\$ 1,664,848</u>	<u>\$ 690,428</u>	<u>\$ 1,901,846</u>	<u>\$ 119,214</u>	<u>\$ (276,302)</u>

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

**LIFE INSURANCE COMPANY OF ALABAMA**  
**CAPITAL AND SURPLUS ACCOUNT**  
For the Years Ended December 31, 2022, 2021, 2020, 2019, and 2018

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Capital and surplus, December 31, prior year</b>	<b>\$ 33,199,487</b>	<b>\$ 40,572,086</b>	<b>\$ 40,417,958</b>	<b>\$ 41,368,399</b>	<b>\$ 42,456,837</b>
Net income	1,664,846	690,428	1,901,846	119,214	(276,302)
Change in net unrealized capital gains or (losses)	(2,051,651)	600,357	1,255,081	-	(1,475,363)
Change in net deferred income tax	763,371	278,239	22,413	(56,300)	922,390
Change in nonadmitted assets and related items	(1,275,436)	(1,202,240)	(914,649)	(360,045)	(1,866,169)
Change in asset valuation reserve	1,080,968	(686,466)	(1,297,366)	(240,111)	2,020,234
Change in treasury stock	(4,723,523)	(6,644,854)	(399,999)	-	-
Dividend to Stockholders	(324,903)	(408,063)	(413,198)	(413,198)	(413,229)
Aggregate write-ins for gains and losses in surplus	(3)	-	-	(1)	-
<b>Net change in capital and surplus for the year</b>	<b>\$ (4,866,331)</b>	<b>\$ (7,372,599)</b>	<b>\$ 154,128</b>	<b>\$ (950,441)</b>	<b>\$ (1,088,438)</b>
<b>Capital and surplus, December 31, current year</b>	<b>\$ 28,333,156</b>	<b>\$ 33,199,487</b>	<b>\$ 40,572,085</b>	<b>\$ 40,417,958</b>	<b>\$ 41,368,399</b>

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

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Jurat Page

The Company did not include the full name of each officer on the Jurat Page of the 2022 Annual Statement. It was determined that the Company did not properly complete the Jurat Page in accordance with the NAIC Annual Statement Instructions, which requires the Jurat Page to “Show full name (initials not acceptable) and title...” for officers and directors.

### Note 2 - Commissions to agents due and accrued \$81,497

The captioned amount is the same as reported by the Company in its 2022 Annual Statement.

The commissions were calculated in the aggregate by multiplying the due premiums, first-year and renewal, by the commission and expense factors calculated by the Company's opining actuary through an unpaid commission study. The commissions to agents should be calculated on a policy-detail level by taking into consideration the type of insurance products and the commission rate for the products so that the commissions to agents due or accrued is not an approximation. The prior three examinations also recommended that the Company calculate the commissions on a policy-detail basis.

### Note 3 - Analysis of Changes to Surplus

There were no adjustments made to surplus.

## CONTINGENT LIABILITIES AND PENDING LITIGATION

The examination for contingent liabilities and pending litigation included the review of the Company's statutory financial statement disclosures, minutes of the corporate governing bodies, pending claims, and the usual examination of accounts and unrecorded items. The examiners obtained the letter of representation from management and reviewed the external auditors' summary of pending litigation as of December 31, 2022. This review did not disclose 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 conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations with the exception of the following:

### Compliance with terminated producer requirement

The prior examination recommended that the Company send termination notifications to its terminated producers in accordance with ALA. CODE § 27-7-30.1(a) (1975), 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.” The examination

determined that the Company did not comply with this recommendation. See “Compliance with Producer Licensing Requirements” on Page 12.

### **Commissions to agents due or accrued**

The prior examination recommended that the Company calculate the commissions on a policy-detail level, which is based on the type of insurance products and commission rate for the products so that the commission due and accrued liability is not an approximation. The Company has not complied with this recommendation. See “Notes to Financial Statements” on page 21.

## **COMMENTS AND RECOMMENDATIONS**

### **Compliance with 18 U.S.C. § 1033 – Page 9**

**It is recommended** that the Company comply with ALA. ADMIN. CODE 482-1-146-.11 (2009) which requires the Company to determine if prospective and current employees are in conflict with 18 U.S.C. § 1033, which prohibits persons with certain felony offenses from participating in conducting the business of insurance.

### **Anti-Money Laundering – Page 10**

**It is recommended** that the Company’s Anti-Money Laundering program comply with the requirements of the USA Patriot Act of 2001.

### **Compliance with terminated producer requirements – Page 14**

**It is again recommended** that the Company comply with ALA. CODE §27-7-30.1(a), which states "(a) 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."

### **Compliance with Annual Statement Instructions – Page 23**

**It is recommended** that the Company complete the Jurat Page of the Annual Statement in accordance with the NAIC Annual Statement Instructions, which requires the Jurat Page to “Show full name (initials not acceptable) and title...” for officers and directors.

### **Commissions to Agents Due and Accrued – Page 23**

**It is again recommended** that the Company calculate the commissions on a policy-detail level, which is based on the type of insurance products and commission rate for the products, so that the commissions due or accrued liability is not an approximation.

## **SUBSEQUENT EVENTS**

A review of events subsequent to the December 31, 2022 examination date was done. The following events were noted:

- On May 8, 2023, Mary Kinney Lowe Corley was elected to the Board of Directors.
- Effective December 31, 2023, Debbie Edmondson, Vice President Underwriting/New Business has retired.
- Effective November 13, 2023, Herman Warren Cobb and Dr. Mary Kenney Lowe Corley were added to the Audit Committee.
- Effective July 6, 2023, the Board of Directors approved the repurchase of additional treasury stock.
- One of the Company's reinsurer's, Scottish Re, has been placed into Liquidation. As a result, the reinsurance agreement with the Company was canceled in 2023.
- The Company has recently been approved to write business in Texas. As of the date of this report, no business has been written.

## CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

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

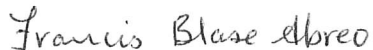
In addition to the undersigned, David Abbott, Kevin Dittman, Jackson Goodwin, James Menck, CFE, Carol Riley, AES, CISA, CGEIT, CRISC, CDPSE, Mora Perkins-Taylor, MCM, and Harland Dyer, ASA, MAAA, actuarial examiner, all representing the Alabama Department of Insurance, participated in certain phases of this examination.

Respectfully submitted,



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Matthew C. Milford, CFE  
Examiner-in-charge  
Noble Consulting Services, Inc. Representing  
State of Alabama Department of Insurance



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Francis Blase Abreo, CFE  
Insurance Examination Supervisor  
Alabama Department of Insurance