

REPORT OF
EXAMINATION

OF

UNITED TRUST INSURANCE COMPANY
HOOVER, ALABAMA

AS OF

DECEMBER 31, 2012

TABLE OF CONTENTS

EXAMINER’S AFFIDAVIT	iii
SCOPE OF EXAMINATION	2
ORGANIZATION AND HISTORY	3
MANAGEMENT AND CONTROL.....	5
Stockholder.....	5
Board of Directors.....	5
Officers	5
Conflict of Interest	6
CORPORATE RECORDS	6
HOLDING COMPANY AND AFFILIATE MATTERS	6
Holding Company	6
Dividends to Stockholders	7
Management and Service Agreements	7
<i>Administrative Service Agreement - BCBSAL</i>	7
<i>Network Marketing Services Agreement – ABS and BCBSAL</i>	8
<i>Agency Agreement – BCS Insurance Company</i>	9
<i>Operating Agreement – Companion Life Insurance Company/Medical Risk Managers, Inc.</i>	10
<i>Operating Agreement – Glencairn Health & Specialty</i>	11
ORGANIZATIONAL CHART	13
FIDELITY BOND AND OTHER INSURANCE.....	14
EMPLOYEE AND AGENT WELFARE.....	14
18 U.S.C § 1033 Compliance.....	14
MARKET CONDUCT ACTIVITIES.....	15
Territory	15
Plan of Operation	15
Advertising and Marketing	16
Policyholders’ Complaints	16
Claims Payment Practices	16
Compliance with Producer Licensing Requirements	16
<i>Terminated Producers</i>	16
Underwriting and Ratings	17
Privacy Standards.....	17
SPECIAL DEPOSITS	18
FINANCIAL CONDITION AND GROWTH OF THE COMPANY.....	18
SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN	18
LOSS EXPERIENCE	19
REINSURANCE.....	19
Assumed Reinsurance	19
<i>100% Reinsurance Agreement – BCS Insurance Company</i>	19
<i>100% Reinsurance Agreement – Blue Cross and Blue Shield of Alabama</i>	20

Ceded Reinsurance	20
<i>Automatic Long-Term Care Retrocession Agreement - Coinsurance Basis Treaty – #3297</i>	20
<i>Automatic Long-Term Care Agreement – Treaty #2707</i>	21
ACCOUNTS AND RECORDS	21
FINANCIAL STATEMENTS.....	23
NOTES TO FINANCIAL STATEMENTS.....	27
CONTINGENT LIABILITIES AND PENDING LITIGATION	28
SUBSEQUENT EVENTS	28
COMPLIANCE WITH PREVIOUS RECOMMENDATIONS.....	28
COMMENTS AND RECOMMENDATIONS.....	29
CONCLUSION.....	31

EXAMINER'S AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF JEFFERSON**

Mary B. Packard, CPA, CFE, being duly sworn, states as follows:

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

The affiant says nothing further.

Mary B. Packard
Examiner-in-Charge

Subscribed and sworn before me by Mary B. Packard on this 18th day of December.

(SEAL)

Kristi Lea Pitto
(Signature of Notary Public)

My commission expires 11/30/2014.



ROBERT BENTLEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 502
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351

TELEPHONE: (334) 269-3550

FACSIMILE: (334) 241-4192

INTERNET: www.aldoi.gov

DEPUTY COMMISSIONER
CHARLES M. ANGELL

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
EDWARD S. PAULK

GENERAL COUNSEL
REYN NORMAN

December 18, 2013

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

Dear Commissioner Ridling:

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

**United Trust Insurance Company
Hoover, Alabama**

at the home office located at 450 Riverchase Parkway East, Hoover, Alabama 35244, as of December 31, 2012. The report of examination is submitted herewith.

Where the description "Company" or "UTIC" appears herein, without qualification, it will be understood to indicate United Trust Insurance Company.

SCOPE OF EXAMINATION

The Company was last examined for the five-year period ended December 31, 2007. The current examination covers the intervening period from the date of the last examination through December 31, 2012, and was conducted by examiners representing the State of Alabama. Where deemed appropriate, transactions, activities and similar items subsequent to 2012 were reviewed. The examination was conducted concurrently with the examination of the Company's ultimate parent, Blue Cross and Blue Shield of Alabama (BCBSAL), located in Hoover, Alabama.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama, 1975*, as amended, which included the Alabama Insurance Code, Alabama Insurance Department regulations, bulletins and directives in addition to the procedures and guidelines promulgated by the National Association of Insurance Commissioners (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, 2012 and to identify prospective risks by obtaining information about the Company including corporate governance. In addition, the examination was planned and performed to identify and assess inherent risks within the Company and to evaluate 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, management's compliance with statutory accounting principles and annual statement instructions.

The Company has the same information systems (IS) environment as its ultimate parent, BCBSAL. As such, an examination of BCBSAL's IS environment was conducted concurrently with this financial examination. The IS 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. See page 21 for further discussion of the IS examination.

A market conduct examination was performed concurrently with this financial examination. The market conduct examination included a review of the Company's territory and plan of operation, advertising and marketing, policyholders' complaints,

claims payment practices, compliance with agents' licensing requirements, underwriting and ratings, and privacy standards. See page 15 for further discussion of the market conduct examination.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances. During the examination period, the Company was audited by Ernst & Young, LLP, certified public accountants (CPA's). The CPAs' workpapers were reviewed for years-ending 2011 - 2012 and were used in the examination as deemed appropriate by the examiners.

BCBSAL Internal Audit (I/A) Department functioned as the Company's I/A Department for the examination period.

A signed certificate of representation was obtained during the examination. In the certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2012.

ORGANIZATION AND HISTORY

The Company was incorporated on January 31, 1964 in Birmingham, Alabama as the Modern American Life Insurance Company, a legal reserve life company. It commenced business with 10,000 shares of \$1 par value (\$10,000) common stock and 1,700 shares of \$55 par value preferred stock (\$93,500), which resulted in \$103,500 aggregate capital.

The following summary chronologically presents significant changes affecting the Company prior to the current examination period:

1966 – Articles of Incorporation were amended. The number of shares of common stock was increased and par value was increased. The preferred stock was retired and converted to common stock.

1968 - Acquired by Veterans Life Insurance Company in Atlanta, Georgia, and its name was changed to Physicians and Educators Life Insurance Company.

1972 - Merged with United Trust Life Insurance Company, a subsidiary of United Financing and was relocated to Opp, Alabama. The surviving company was United Trust Life Insurance Company.

1982 - Acquired by Columbia Life Insurance Company and Peoples Savings Life Insurance (Peoples Savings), each owning 50% of the outstanding stock, and the home office moved to Tuscaloosa, Alabama.

1983 - Peoples Savings assumed all the Company's insurance business, and Willoughby and Association, Inc. acquired all of the capital stock.

1984 - Acquired by Alabama Industries Financial Corporation (AIFC).

1986 - AIFC was acquired by Blue Cross and Blue Shield of Alabama (BCBSAL).

1986 - The Articles of Incorporation were amended to increase the authorized shares of common stock from 40,000 to 400,000 shares of \$2.50 par value. The Company's home office was moved to Birmingham, Alabama, and AIFC contributed \$875,000 as additional paid-in surplus that same year.

1988 - The Certificate of Authority was changed from life to disability coverage only following a lawsuit filed in January 1986 by Protective Life Insurance Company in which the Circuit Court entered an order holding that BCBSAL could not own and operate a life insurance company.

1988 - Amended its Articles of Incorporation to change its name to United Trust Insurance Company.

2004 - Assumed 100% of the risk for one specific long-term care (LTC) policy issued by BCS Insurance Company.

2011 - Assumed 100% of the risk associated with LTC policies previously written by its ultimate parent, BCBSAL.

2012 - Sold its short-term disability (STD) business to US Able Life in the fourth quarter 2012.

At December 31, 2012, the Company had \$1,000,000 in common capital stock and \$986,029 in gross paid-in and contributed surplus.

MANAGEMENT AND CONTROL

Stockholder

The Company is a stock corporation with ultimate control vested in its stockholder. The Company's sole stockholder is Alabama Industries Financial Corporation (AIFC), which is wholly-owned by Blue Cross and Blue Shield of Alabama (BCBSAL).

Board of Directors

Directors are elected at the annual meeting of the stockholders and serve until their successors are elected and qualified which is in accordance with the Company's By-Laws. The following Directors were serving at December 31, 2012.

<u>Name and Address</u>	<u>Principal Occupation</u>
Manley Eugene Moor, Jr. Birmingham, Alabama	Retired AmSouth Bank
Terry Dee Kellogg Birmingham, Alabama	Chief Executive Officer Blue Cross and Blue Shield of Alabama
Cynthia Mizell Vice Birmingham, Alabama	Treasurer Blue Cross and Blue Shield of Alabama
Timothy Lee Kirkpatrick Birmingham, Alabama	Executive Vice President Blue Cross and Blue Shield of Alabama

Officers

Article II, Section VI of the By-Laws states:

The board of directors shall elect from their number a President, a Secretary, and a Treasurer. One person may serve as President and also as Treasurer. One person may serve as Secretary and also as Treasurer, but the offices of President and of Secretary shall not be combined in one person.

The following officers were elected by the Board of Directors and were serving as of December 31, 2012:

<u>Name</u>	<u>Title</u>
Terry Dee Kellogg	President
Timothy Lee Kirkpatrick	Vice President
John Matthew Bolling Moor	Vice President
Cynthia Mizell Vice	Treasurer
Michael Lenard Patterson	Secretary

Conflict of Interest

The Company did not have a written policy regarding conflict of interest. The Company adhered to the conflict of interest policy of its ultimate parent, BCBSAL. The Company's directors, officers, and key employees completed conflict of interest statements annually for the examination period.

CORPORATE RECORDS

The Articles of Incorporation, By-Laws including the amendments thereto and the minutes of the corporate meetings from May 27, 2008 to May 22, 2012 were reviewed and appeared to provide for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations. Effective April 21, 2009, the Company's By-Laws were amended to reflect the following:

- The annual meeting of the stockholders would be held at such time and place as may be designated by the notice of meeting.
- The board of directors shall consist of not less than three (3) nor more than fifteen (15) persons.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company

The Company, a wholly-owned subsidiary of Alabama Industries Financial Corporation (AIFC), is deemed to be subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as a registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company, as registrant.

Dividends to Stockholders

The following table depicts the dividends paid to the Company's sole stockholder, AIFC, during the examination period:

<u>YEAR</u>	<u>DIVIDEND</u>
2008	\$4,000,000
2009	-
2010	\$ 50,000
2011	-
2012	-

Management and Service Agreements

Administrative Service Agreement - BCBSAL

Effective, May 31, 2010, the agreement was between the Company and BCBSAL. The Company was responsible for:

- Providing daily sales and marketing efforts of Able Benefit Solutions (ABS). See the discussion on page 8 regarding the network services agreement with ABS.
- Issuing master policies and other appropriate forms to persons enrolled in disability insurance.
- Providing BCBSAL with a written description of the benefits provided and other descriptive literature regarding procedures and operations.
- Reimbursing BCBSAL for administrative services provided.
- Invoicing ABS quarterly for costs.

BCBSAL provided the following administrative services to the Company:

- Preparing forms of master policies and other related legal documents necessary to conduct the Company's business.
- Compensating US Able Life (US Able) in accordance contractual provisions. The agreement with US Able was terminated at December 31, 2012.
- Providing or making available the Company's reports and records in accordance with contractual provisions.
- Acting on behalf of the Company for the purpose of servicing activities necessary to implement the agreement.

- Providing all accounting, legal and auditing services necessary for the operation of the Company.
- Supplying personnel staffing as needed.
- Providing such other managerial, administrative, and professional services as may reasonably be necessary for the conduct of the Company's business.
- Filing with the Department of Insurance master policies and all other required documents.
- Invoicing the Company for expenses to be reimbursed relating to ABS cost centers reported on BCBSAL books.
- Invoicing the Company for commissions paid on its behalf.

All stop-loss reinsurance agency fees received (including commissions) were remitted to the Company. The Company reimbursed BCBSAL for any costs incurred for collecting the reinsurance agency fees. All amounts owed were billed and reimbursed monthly. The agreement was automatically renewable for successive terms of one year and could be terminated by written notice 180 days before the end of any one-year term.

The agreement was approved by the Commissioner of Insurance on June 7, 2010.

Network Marketing Services Agreement – ABS and BCBSAL

Effective August 1, 2006, the agreement was between BCBSAL, the Company and Able Benefit Solutions, Inc. (ABS).

Per the terms of the agreement, the Company was responsible for:

- Reimbursing ABS for underwriting, rating, risk analysis, contract issuance, licensing fees and related functions performed on behalf of the Company for its customers in accordance with the terms negotiated by ABS and the Company.

ABS was responsible for:

- Selecting suitable insurers to provide employee group programs not otherwise available through BCBSAL or UTIC.
- Obtaining and maintaining appropriate licensing status as a corporate agency under all applicable laws and regulations.

- Obtaining and monitoring individual agent license and licensing status of all marketing representatives.
- Overseeing and assuring that all appropriate licenses are obtained, maintained, and are appropriately monitored consistent with all applicable laws and regulations.
- Coordinating in conjunction with BCBSAL and the Company all proposals, request for rates, training, preparation, and distribution of marketing literature and other similar requirements related to the marketing and servicing of ABS, BCBSAL, and the Company's products.
- Reimbursing BCBSAL for all direct and indirect costs incurred that was mutually agreed upon in the agreement.
- ABS did not have binding authority and had the responsibility of advising all group applicants that the insurance coverage applied for would not become effective until the application had been accepted by the selected carriers.

ABS reimbursed BCBSAL for all direct costs incurred related to providing services to customers which were attributable to the marketing of ABS products. BCBSAL did not share in the profits/losses of ABS.

The agreement contained dispute resolution/arbitration, confidentiality, and termination provisions. The agreement was continuous and could be terminated by either party via sixty days prior written notice.

Agency Agreement – BCS Insurance Company

Effective, January 1, 2010, the agreement was between the Company and BCS Insurance Company (BCS). The Company served as a marketing representative for BCS's excess and stop-loss insurance products, providing the following services:

- Soliciting insurance applications and related documents required by BCS for the negotiation of policies with group customers.
- Transmitting quotes as provided by BCS for the policies.
- Collecting (from group customers) all information and other material as requested regarding new and renewal policies.
- Delivering policies.
- Collecting and remitting premiums, net of commissions and premium collection fees.

- Assisting in administrative communications with its insured group customers.
- Delivering notices of non-renewal or termination to insured group customers in accordance with policy provisions and applicable laws or regulations.

In turn, BCS was responsible for:

- Accepting or declining applications for coverage.
- Allowing commissions and/or administration fees on premium collected for applications accepted for coverage.
- Indemnifying and holding the Company, its officers, directors, partners, employees and licensed agents harmless from and against any damages resulting from any act, error or omission whether intentional or unintentional.

The Company received an administrative fee equal to a specified percentage of actual premiums received. The agreement contained arbitration, errors and omissions, and termination provisions.

Operating Agreement – Companion Life Insurance Company/Medical Risk Managers, Inc.

Effective January 1, 2005, the agreement was between BCBSAL; Companion Life Insurance Company (Companion); and Medical Risk Managers Inc. (MRM).

BCBSAL's responsibilities were as follows:

- Marketing stop-loss insurance products to various health benefit plan groups.
- Marketing Companion's stop-loss insurance products to various health benefit plan groups through MRM.
- Soliciting and transmitting the group's quotes as provided by MRM.
- May not modify or change the quotes, terms, conditions or rates provided by MRM.
- Cannot bind MRM or Companion to issue any stop-loss insurance policy.
- Must use MRM as the managing general underwriters for Companion.

MRM responsibilities were as follows:

- Issuing quotes for stop-loss insurance to BCBSAL for delivery to Groups

- Issuing Companion's stop-loss insurance contracts.
- Billing and collecting premiums from groups that purchase Companion's stop-loss insurance.
- Reviewing, approving and denying claims submitted by groups that purchase Companion's stop-loss insurance.
- Distributing stop-loss premiums as appropriate.
- Collecting payable amounts under the stop-loss contracts.

BCBSAL was paid a commission that was a specified percentage of gross premiums on all Companion stop-loss insurance products sold by BCBSAL and issued by MRM Groups. BCBSAL paid any sub-producer commissions due from such commission. Per the Administrative Services Agreement discussed on page 7, commissions were remitted to the Company.

The agreement contained termination, severability, limitation of damages, and arbitration provisions. The Company provided the services enumerated above to Companion, not BCBSAL. However, the Company was not a named party to the agreement.

Operating Agreement – Glencairn Health & Specialty

Effective January 1, 2005, the agreement was between Glencairn Health & Specialty (Glencairn); BCBSAL; and Cox Insurance Group (CIG). BCBSAL responsibilities were as follows:

- Marketing stop-loss insurance products offered by Glencairn to its insured groups.
- Soliciting and transmitting quotes as provided by Glencairn to its insured groups.
- Using CIG as the managing general underwriters for stop-loss insurance provided through Glencairn.

Glencairn/CIG responsibilities were as follows:

- Issuing quotes for delivery to insured groups.
- Issuing stop-loss insurance contracts.

- Billing and collecting premiums from insured groups.
- Reviewing, approving or denying claims submitted by groups.
- Distributing stop-loss premiums as appropriate.
- Collecting payable amounts under stop-loss contracts.
- Distributing payments to appropriate insured groups.

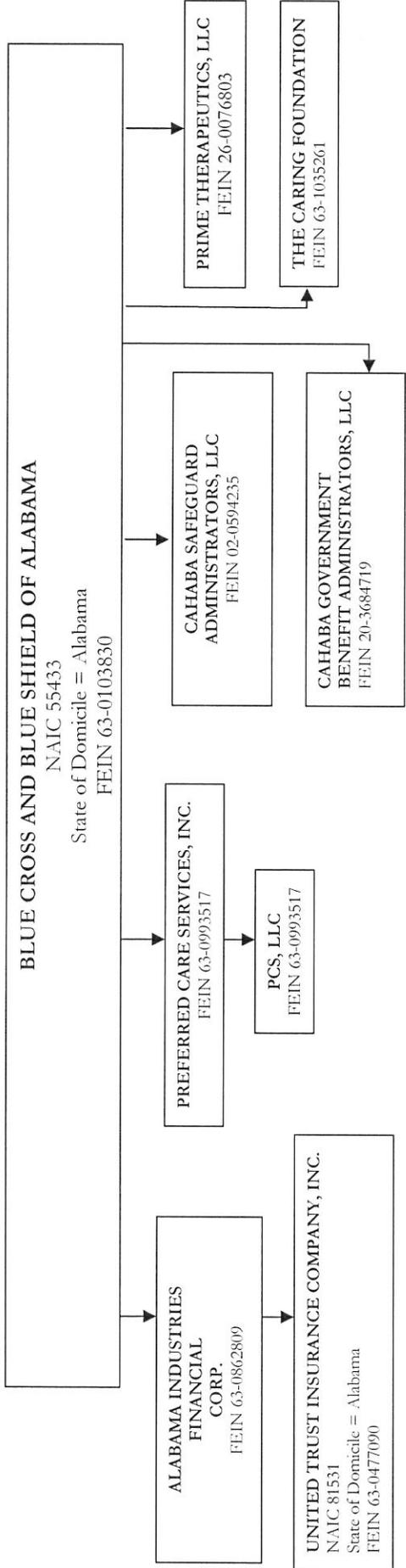
BCBSAL received an administrative fee equal to a specified percentage of gross premiums on all stop-loss insurance provided by Glencairn. BCBSAL paid any sub-producer commissions due. Per the Administrative Services Agreement discussed on page 7, the administrative fee was remitted to the Company. The agreement contained indemnification, termination, severability, and arbitration provisions. On January 1, 2012, Glencairn Health & Specialty was merged into Faber Global. The agreement was not amended to reflect the change.

The Company provided the services enumerated above to Glencairn, not BCBSAL. However, the Company was not a named party to the agreement.

ORGANIZATIONAL CHART

The following chart presents the corporate affiliations of the Company as of December 31, 2012. See page 13 for organizational chart.

ORGANIZATIONAL CHART



FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured on a financial institution bond issued by St. Paul Fire and Marine Company, which met the suggested minimum requirements of the NAIC *Financial Condition Examiners Handbook*. In addition to the aforementioned fidelity bond, the Company was a named insured on the following policies to protect the Company against hazards to which it may be exposed:

- Managed Care Errors and Omissions
- Directors and Officers Liability
- Traveler's Fidelity Bond Package (Building)
- Automobile Coverage

The coverages and limits carried by the Company were reviewed during the course of the examination and appeared to adequately protect the Company's interests at the examination date.

EMPLOYEE AND AGENT WELFARE

The Company had no employees, provided no direct benefits other than payment of commissions and had no employee benefit plans in effect during the examination period. All administrative and employee services were provided by Blue Cross and Blue Shield of Alabama (BCBSAL) via the administrative services agreement discussed on page 7 under the heading "**Management and Service Agreements.**"

18 U.S.C § 1033 Compliance

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

- (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.

The Company was deemed a 1033 insurer because it was engaged in the business of insurance and its activities affected interstate commerce. However, the Company did not have any employees; provided no direct benefits other than payment of commissions; and had no employment benefit plans in effect during the examination period. Thusly, compliance with 18 U.S.C. § 1033 was not applicable.

MARKET CONDUCT ACTIVITIES

Territory

As of December 31, 2012, the Company was licensed to provide disability insurance in the state of Alabama only. The Certificate of Authority was inspected and found to be in effect at December 31, 2012.

Plan of Operation

During the examination period, the Company was licensed to provide disability coverage in the state of Alabama only. In the fourth quarter 2012, the Company sold all of its short-term disability (STD) policies to US Able Life (US Able).

During the examination period, the Company marketed stop and excess-loss (re)insurance products on behalf of: (1) BCS Insurance Company (BCS); (2) Companion Life Insurance Company (Companion); and (3) Glencairn Health & Specialty (Glencairn). See the section entitled “**Management and Services Agreements**” on page 7 where these agreements were discussed. Additional services provided included but were not limited to: (1) aggregation and submission of claims data; (2) policy administration services (i.e. accepting applications, transmitting quotes etc.); and (3) billing, collecting, and remitting premiums (BCS only).

In 2004 and 2011, the Company began assuming 100% of the risk associated with specific long-term care (LTC) policies issued by BCS and Blue Cross and Blue Shield of Alabama (BCBSAL), respectively. The Company ceded 50% to 80% of the risk assumed from the aforementioned insurers to Munich American Reinsurance Company (MARC) depending on the claims payment period.

Advertising and Marketing

The Company had no marketing or advertising programs in place. The Company used captive agents of BCBSAL, ultimate parent, to market its STD products and the stop-loss (re) insurance products it solicited on behalf of various entities.

Policyholders' Complaints

According to records provided by the Company and Alabama Department of Insurance, there were no complaints filed against the Company during the examination period.

Claims Payment Practices

The Company did not pay, deny, or litigate any claims during the examination period. US Able Life was responsible for the claims payment processes for the STD products previously sold by the Company. Similarly, the Company was not responsible for the claims payments practices for the stop-loss (re)insurance products it marketed and for the LTC business it assumed from BCBSAL or BCS.

Compliance with Producer Licensing Requirements

On December 31, 2012, the Company had 103 licensed and appointed producers. All of the producers were licensed to solicit business for accident and health lines of business. Additionally, producers receiving commission payments were properly appointed with the Company.

Terminated Producers

A sample of termination notices were reviewed to determine the date and reason for termination and whether termination notices were sent to the Department of Insurance and to the producers in accordance with state regulations. A sample of 115 termination notices was selected from a population of 120. The following was noted during the review:

- There was no documentation evidencing that termination notices were provided to the Commissioner of Insurance for four terminated producers.

- Termination notices were not provided to any terminated producers during the examination period.

ALA. CODE § 27-7-30 (e) (1975) states:

Subject to the producer's contract rights, if any, an insurer or authorized representative of the insurer may terminate a producer's appointment at any time. An insurer or authorized representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the effective date of the termination, using a format prescribed by the commissioner, give notice of the termination to the commissioner.

Further, ALA. CODE § 27-7-30.1 (a) (1975) 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.

Underwriting and Ratings

The Company did not have any rate filings during the examination period. The Company only wrote STD policies during the examination period. During the fourth quarter 2012, all of the STD policies were sold to US Able, and the Company no longer engaged in that line of business. The 2012 written premium was reviewed to determine if it was calculated in accordance with the Company's guidelines. There were no exceptions noted.

Privacy Standards

The Company's HIPAA Privacy Notice described how the medical information about the customer may be disclosed and how access to the information was gained. The Privacy Statement detailed the privacy objectives regarding: Security Practices, Use of Email, Cookies, Survey and Forms, and Updates to the Statement of Confidentiality. The Company did not disclose nonpublic personal financial information that it received from nonaffiliated financial institutions. The Company had appropriate administrative, technical and physical safeguards in place to secure privacy of Protected Health Information (PHI). The Company complied with the privacy requirements of ALA. ADMIN. CODE 482-1-122 (2001).

SPECIAL DEPOSITS

The Company maintained the following deposits with the respective statutory authorities at December 31, 2012, as required or permitted by law.

States and Territories	Book Value	Fair Value
Alabama	\$ 100,000	\$ 100,000
TOTAL	\$ 100,000	\$ 100,000

FINANCIAL CONDITION AND GROWTH OF THE COMPANY

	<u>Admitted</u> <u>Assets</u>	<u>Liabilities</u>	<u>Capital &</u> <u>Surplus</u>	<u>Premiums</u> <u>Earned</u>
2012*	\$ 48,981,162	\$ 41,751,875	\$ 7,229,287	\$ 4,622,439
2011	44,380,685	36,137,088	8,243,597	4,864,589
2010	8,588,830	987,478	7,601,352	160,048
2009	6,687,716	779,724	5,907,992	211,312
2008	5,252,260	1,238,776	4,013,484	235,822
2007*	7,145,578	741,384	6,404,194	275,067

*Per Examination

SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

States	Accident and Health Insurance Premiums, Including Policy, Membership and Other Fees
Alabama	\$ 121,757
Plus Reinsurance Assumed	8,246,444
Totals All Business	8,368,201
Less Reinsurance Ceded	3,744,103
TOTALS	\$ 4,624,098

LOSS EXPERIENCE

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
12/31/PY Active Life Reserves	29,876,816	294,355	208,267	138,386	99,772
Plus: CY Interest	1,269,765	12,510	8,851	5,881	4,240
Plus: CY Premiums	4,622,439	4,864,589	160,048	211,312	235,822
Plus: 1/2 Year Interest on Premiums	98,227	103,373	3,401	4,490	5,011
Minus: Expected Claims Paid	(135,576)	(307,873)	(123,634)	(152,968)	(107,273)
Minus: Interest on Claims Paid	(2,881)	(6,542)	(2,627)	(3,251)	(2,280)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Expected Reserve - 12/31/CY	35,728,790	4,960,411	254,306	203,851	235,293
Actual Reserve - 12/31/CY	<hr/> 38,616,132	<hr/> 29,876,816	<hr/> 294,355	<hr/> 208,267	<hr/> 138,386
Actuarial Gain/(Loss) CY	(2,887,342)	(24,916,405)*	(40,049)	(4,416)	96,907

* The loss illustrated in 2011 is primarily the result of a large reinsurance transaction between BCBSAL and UTIC that occurred in this year. Thus the vast majority of the illustrated loss is not a "true" actuarial loss but is related to the reinsurance transaction.

REINSURANCE

Assumed Reinsurance

100% Reinsurance Agreement – BCS Insurance Company

Effective March 1, 2004, the agreement was between the Company and 4 Ever Life Insurance Company (4 Ever Life) (*formerly known as BCS Life Insurance Company*). Effective June 1, 2011, a novation was executed replacing 4 Ever Life with BCS Insurance Company (BCS) as the ceding company.

BCS ceded 100% of the risk associated with certificates of long-term care (LTC) insurance written for employees and retirees of BCS and its affiliates. The Company reimbursed BCS for 100% of the paid losses and the loss adjustment expenses related to the specific policy being reinsured. BCS paid the Company 100% of the net premiums, plus additional premiums (if applicable), less return premiums. The

agreement contained insolvency, service of suit, dispute resolution, and errors and omission provisions.

On February 28, 2011, the agreement was terminated with respect to new business, but would cover the runoff business. On October 31, 2009, the Automatic Long-Term Care Retrocession Agreement between UTIC and Munich America Reinsurance Company (MARC), page 21, was terminated with respect to new business. Per Company's management, there were a small number of BCS certificates that were issued between termination dates, but no risks for the certificates were ceded to MARC. There were fewer than twenty certificates ever issued, and fewer than ten were active at December 31, 2012.

100% Reinsurance Agreement – Blue Cross and Blue Shield of Alabama

On February 9, 2011, Management informed the Department of Insurance that Blue Cross and Blue Shield of Alabama (BCBSAL) intended to transfer 100% of the risk associated with its long-term care (LTC) policies to the Company. BCBSAL had discontinued writing new LTC business in 2010. The risk transfer would be effective January 1, 2011, and all LTC policies would remain on BCBSAL paper. BCBSAL would financially guarantee the obligations assumed and fund the reserve liability at January 1, 2011.

A properly written reinsurance agreement was not executed during period covered by the examination. ALA. CODE § 27-29-5(b)(3) states:

The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period.

- (3) Reinsurance agreements or modifications thereto in which the reinsurance premium or a change in the insurer's liabilities equals or exceeds five percent of the insurer's surplus as regards policyholders, as of the 31st day of December next preceding,....

The agreement was filed with the Alabama Department of Insurance, and the Commissioner approved it retroactively on September 30, 2013.

Ceded Reinsurance

Automatic Long-Term Care Retrocession Agreement - Coinsurance Basis Treaty – #3297

Effective March 1, 2004, the agreement was between the Company and Munich American Reassurance Company (MARC). The Company ceded and MARC accepted the risk associated with long-term care (LTC) policies issued on BCS Life Insurance Company (BCS Life) paper. See the section entitled “100% Reinsurance Agreement – BCS Insurance Company” on page 19 for the discussion of the LTC policies being ceded.

For claims on policies that have paid less than or equal to the equivalent value of 1,825 days of claims payments (pre-five year claims), the Ceding Company will retain 50% of the risk up to its Maximum Daily Benefit amount of \$300. For claims on policies that have paid the equivalent value of more than 1,825 days of claims payments (post-five year claims), the Ceding Company will retain 20% of the risk up to its Maximum Daily Benefit amount.

The Company paid 50% of the gross monthly premiums less a ceding allowance to MARC on a monthly basis. For lifetime policies, the Company paid an additional 6% of the gross monthly premium.

Effective June 1, 2011, Article I of the agreement was amended as follows: The insurance certificates formerly issued on BCS Life paper were novated to BCS Insurance Company (BCS). BCS would be 100% reinsured by the Company who in turn would automatically cede to MARC a portion of all benefit amounts payable under the agreement.

The agreement contained insolvency, arbitration, and errors and omissions provisions. The agreement could be terminated by either party for new business on the third anniversary of the effective date; the date on which in-force premiums on reinsurance policies equaled or was greater than \$100 million; or via a ninety day advance notice issued by either party.

Effective October 31, 2009, the agreement was terminated with respect to new business.

Automatic Long-Term Care Agreement – Treaty #2707

Effective December 1, 2001, the agreement was between BCBSAL and MARC. Per the terms of the agreement, BCBSAL ceded and MARC accepted the risk associated with the LTC policies written by BCBSAL. See the section entitled “100% Reinsurance Agreement – Blue Cross and Blue Shield of Alabama on page 20 where the LTC policies were discussed.

For claims on policies that have paid less than or equal to the equivalent value of 1,825 days of claims payments (pre-five year claims), the Ceding Company will retain 50% of the risk up to its Maximum Daily Benefit amount of \$300. For claims on policies that have paid the equivalent value of more than 1,825 days of claims payments (post-five year claims), the Ceding Company will retain 20% of the risk up to its Maximum Daily Benefit amount. The agreement contained arbitration, insolvency, errors and omissions, and termination provisions.

Effective January 1, 2011, all rights, obligations, duties and responsibilities under the agreement were assigned to the Company.

ACCOUNTS AND RECORDS

The Company utilized the hardware and software of Blue Cross and Blue Shield of Alabama (BCBSAL) to perform daily business activities. As such, the Company was heavily dependent on the internal controls of BCBSAL to ensure operational accuracy and security. A concurrent examination of BCBSAL IT general controls indicated there were sufficient controls in place to safeguard the Company's assets and generate adequate records of its business.

The Company utilized BCBSAL Local and Wide Area Networks. These networks consisted of Microsoft, Unix, and IBM z/OS operating systems which facilitated a wide variety of business systems. The BCBSAL mainframes utilized an internal fiber optic circuit and dark fiber dense wave multiplexing, thereby ensuring near real-time system redundancy. Both the Pope Technology Center and Riverchase building were secured using biometric scanners and were continually monitored by security personnel.

BCBSAL provided management and operating services to the Company under an Administrative and Services Agreement. For further review of the agreement, see the caption "*Administrative and Services Agreement – BCBSAL*" under the "**Management and Services Agreement**" section on page 7.

Ernst & Young, LLP (E&Y), Birmingham, Alabama, audited the Company for the five year examination period. Audit workpapers, reports, and management letters for 2008 - 2012 were reviewed and utilized in the examination to the extent deemed appropriate.

The Company's opining actuary for the examination period was Noel Winfred Carden, FSA, MAAA, Vice President and Chief Actuary for Blue Cross and Blue Shield of Alabama.

FINANCIAL STATEMENTS

The financial statements included in this report were prepared on the basis of the Company's records and the valuations and determinations made during the course of the examination for the year 2012. Amounts shown in the comparative statements for the years 2008, 2009, 2010 and 2011 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

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

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

UNITED TRUST INSURANCE COMPANY
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2012

<u>ASSETS</u>	<u>Assets</u>	<u>Non Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 31,106,094	\$ -	\$ 31,106,094
Common stocks	1,004,317	-	1,004,317
Cash (\$4,456,889), Schedule E -Part 1), cash equivalents (\$0 , Schedule E-Part 2) and short-term investments (\$9,792,674), Schedule DA)	14,249,563	-	14,249,563
Subtotals, cash and invested assets	\$ 46,359,974	\$ -	\$ 46,359,974
Investment income due and accrued	464,443	-	464,443
Premiums and considerations: Uncollected premiums and agents' balances in the course of collection	320	-	320
Reinsurance: Amounts recoverable from reinsurers	24,496	-	24,496
Net deferred tax asset	2,995,447	1,975,499	1,019,948
Receivables from parent, subsidiaries and affiliates	609,072	-	609,072
Health care (\$0) and other amounts receivable	502,909	-	502,909
TOTAL ASSETS	<u>\$ 50,956,661</u>	<u>\$ 1,975,499</u>	<u>\$ 48,981,162</u>
<u>LIABILITIES</u>			
Aggregate reserves for accident and health contracts			\$ 40,082,156
Contract claims: Accident and Health			342,781
Interest Maintenance Reserve			(385)
General expenses due and accrued			456,594
Taxes, licenses and fees due or accrued, excluding federal income taxes			5,631
Current federal and foreign income taxes (Note 1)			376,794
Amounts withheld or retained by company as agent or trustee			67,693
Asset Valuation Reserve			123,648
Payable to parent, subsidiaries and affiliates (Note 1)			296,963
TOTAL LIABILITIES			<u>\$ 41,751,875</u>
<u>SURPLUS</u>			
Common capital stock			\$ 1,000,000
Gross paid in and contributed surplus			986,029
Unassigned funds (surplus) (Note 1) (Note 2)			5,243,258
Surplus			\$ 7,229,287
TOTAL LIABILITIES, CAPITAL AND OTHER FUNDS			<u>\$ 48,981,162</u>

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

UNITED TRUST INSURANCE COMPANY
Statement of Summary of Operations
For the Year Ended December 31, 2012, 2011, 2010, 2009 and 2008

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Premiums and annuity considerations for life and health contracts	\$ 4,622,439	\$ 4,864,589	\$ 160,048	\$ 211,312	\$ 235,822
Net investment income	1,605,223	628,556	96,997	124,426	196,896
Amortization of Interest Maintenance Reserve	(1,136)	(1,828)	(2,500)	(2,727)	(18,207)
Commissions and expense allowances on reinsurance ceded	418,987	435,146	10,363	11,369	0
Aggregate write-ins for miscellaneous income	<u>3,747,389</u>	<u>3,686,694</u>	<u>3,842,066</u>	<u>3,586,871</u>	<u>3,141,959</u>
Totals	\$10,392,902	\$9,613,157	\$4,106,974	\$3,931,251	\$3,556,470
Disability benefits and benefits under accident and health contracts	346,835	643,744	149,399	202,714	130,699
Increase in aggregate reserves for life and accident health contracts	<u>8,598,529</u>	<u>3,206,158</u>	<u>(2,867)</u>	<u>4,023</u>	<u>(3,951)</u>
Totals	\$8,945,364	\$3,849,902	\$146,532	\$206,737	\$126,748
Commissions on premiums, annuity considerations and deposit-type contract funds	4,915	7,001	7,469	8,579	9,242
General insurance expenses (Note 1)	2,763,500	2,400,600	1,751,213	1,285,316	901,734
Insurance taxes, licenses and fees, excluding federal income taxes	11,579	19,706	16,323	32,622	29,761
Totals	\$11,725,358	\$6,277,209	\$1,921,537	\$1,533,254	\$1,067,485
Net gain from operations before dividends to policyholders and federal income taxes	(1,332,456)	3,335,948	2,185,437	2,397,997	2,488,985
Net gain from operations after dividends to policyholders and federal income taxes	(1,332,456)	3,335,948	2,185,437	2,397,997	2,488,985
Federal and foreign income taxes incurred (Note 1)	337,057	2,945,700	444,819	503,363	873,801
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	(1,669,513)	390,248	1,740,618	1,894,634	1,615,184
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax of \$0 (excluding taxes of \$0 transferred to IMR)	-	-	-	-	(5,320)
Net income (Note 1)	<u>(\$1,669,513)</u>	<u>\$390,248</u>	<u>\$1,740,618</u>	<u>\$1,894,634</u>	<u>\$1,609,864</u>

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

UNITED TRUST INSURANCE COMPANY
Statement of Summary of Operations - Capital and Surplus Account
For the Year Ended December 31, 2012, 2011, 2010, 2009 and 2008

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and surplus, December 31, prior year	\$ 8,243,597	\$ 7,601,352	\$ 5,907,992	\$ 4,013,484	\$ 6,404,194
<u>Gains and (losses) in surplus</u>					
Net income	\$ (1,669,513)	\$ 390,248	\$ 1,740,618	\$ 1,894,634	\$ 1,609,864
Change in net unrealized capital gains (losses) less capital gain tax	2,132	-	-	-	-
Change in net deferred income tax	614,997	2,357,811	22,639	-	-
Change in nonadmitted assets	(577,682)	(2,067,384)	(17,373)	-	-
Change in asset valuation reserve	(71,184)	(38,430)	(2,524)	(126)	(574)
Cumulative effect of accounting changes	686,940	-	-	-	-
Dividends to Stockholders	-	-	(50,000)	-	(4,000,000)
Net change in capital and surplus for the year	\$ (1,014,310)	\$ 642,245	\$ 1,693,360	\$ 1,894,508	\$ (2,390,710)
Capital and surplus, December 31, current year	\$ 7,229,287	\$ 8,243,597	\$ 7,601,352	\$ 5,907,992	\$ 4,013,484

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

NOTES TO FINANCIAL STATEMENTS

Note 1 – Payable to parent, subsidiaries, and affiliates

	<u>\$ 296,963</u>
<u>General Insurance expenses</u>	<u>\$ 2,763,500</u>
<u>Current federal and foreign income taxes</u>	<u>\$ 376,794</u>
<u>Federal and foreign income taxes incurred</u>	<u>\$ 337,057</u>
<u>Net income (loss)</u>	<u>(\$1,669,513)</u>

The payable to parent and general insurance expenses are \$267,955 more than the \$29,008 and 2,495,545, respectively, reported by the Company in its 2012 Annual Statement.

The current federal income taxes and federal income taxes incurred are \$53,591 less than the \$430,385 and \$390,648, respectively, reported by the Company in its 2012 Annual Statement.

The net loss is (\$214,364) more than the (\$1,455,149) reported by the Company in its 2012 Annual Statement.

The Company has an Administrative Services Agreement with Blue Cross and Blue Shield of Alabama (BCBSAL), ultimate parent. Per the agreement, all amounts due for services rendered were billed and reimbursed monthly. The amount owed to BCBSAL at December 2012 was \$267,955 and was not reported in the Annual Statement. The tax effect of not recording this amount was \$53,591. This was not consistent with the provisions of **SSAP No. 67 – Other Liabilities, paragraph 7** which states:

A liability shall be recognized and identified as due to affiliates for expenditures incurred on behalf of a reporting entity by a parent, affiliates, or subsidiaries for amounts owed through other intercompany transaction.

The Company corrected this error the first quarter 2013, when detected during the 2012 annual audit and in accordance with SSAP No. 3 – *Accounting Changes and Corrections of Errors*, paragraph 10 which states:

Corrections of errors in previously issued financial statements shall be reported as adjustments to unassigned funds (surplus) in the period an error is detected. If a reporting entity becomes aware of a material error in a previously filed financial statement after it has been submitted to the

appropriate regulatory agency, the entity shall file or be directed to file an amended financial statement if approved by its domiciliary regulator.

Note 2 - Unassigned Funds (Surplus) **\$5,243,258**

The above captioned amount is \$214,364 less than the \$5,457,622 reported by the Company in its 2012 Annual Statement. The following is a reconciliation of unassigned funds per the examination.

Unassigned funds per Company		\$5,457,622
Examination increase/ (decrease) to assets:	\$	<u>0</u>
Total increase/ (decrease) to assets		<u>0</u>
Examination (increase)/decrease to liabilities:		
Note 1 – Payable to parent	(267,955)	
Note 1 – Current federal and foreign income taxes	<u>53,591</u>	
(Increase)/decrease to liabilities	<u>(\$214,364)</u>	
Total decrease in surplus		<u>(214,364)</u>
Unassigned fund balance per Examination		<u>\$5,243,258</u>

CONTINGENT LIABILITIES AND PENDING LITIGATION

Examination of these items included: reviewing the Company's Annual Statement disclosures, generally reviewing the Company's records and files for unrecorded items, and obtaining letters of representation from management. As of December 31, 2012, there was no pending litigation or material contingent liabilities identified.

SUBSEQUENT EVENTS

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

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A limited scope examination was conducted as of December 31, 2009 to determine if the Company complied with the recommendations contained in the full-scope

examination report at December 31, 2007. The review determined the Company satisfactorily complied with the prior recommendations.

COMMENTS AND RECOMMENDATIONS

Management and Service Agreements – Page 7

It is recommended the Company be a named party to any and all agreements or contracts for which it renders services.

Compliance with Producer Licensing – Page 16

It is recommended the Company maintain documentation evidencing submission of producer's termination notices to the Commissioner of Insurance in accordance with ALA. CODE § 27-7-30 1975(e) which states:

Subject to the producer's contract rights, if any, an insurer or authorized representative of the insurer may terminate a producer's appointment at any time. An insurer or authorized representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the effective date of the termination, using a format prescribed by the commissioner, give notice of the termination to the commissioner.

It is recommended the Company send termination notices to all 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. 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.

Assumed Reinsurance – Page 19

It is recommended that the Company comply with Ala. Code § 27-29-5(b)(3) Which states:

The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commission in writing of its intention to enter into such

transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period.

- (3) Reinsurance agreements or modifications thereto in which the reinsurance premium or a change in the insurer's liabilities equals or exceeds five percent of the insurer's surplus as regards policyholders, as of the 31st day of December next preceding,....

Payable to parent, subsidiaries, and affiliates – Page 27

It is recommended that a liability be recognized and identified for all expenditures due the parent or affiliates in accordance with **SSAP No. 67 – *Other Liabilities*, paragraph 7** which states:

A liability shall be recognized and identified as due to affiliates for expenditures incurred on behalf of a reporting entity by a parent, affiliates, or subsidiaries for amounts owed through other intercompany transactions.

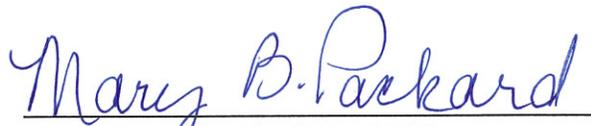
CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers of United Trust Insurance 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, Toni Bean, CFE; Theo Goodin, MCM; Mora Perkins-Taylor, MCM; and Charles Turner, CISA examiners for the Alabama Department of Insurance, and Michael Berman, FSA, MAAA and Kirk Braunius, ASA, MAAA, consulting actuaries with Merlinos & Associates, Inc. represented the Alabama Department of Insurance and participated in the examination of United Trust Insurance Company.

Respectfully submitted,



Mary B. Packard, CPA, CFE
Examiner-in-charge
State of Alabama
Department of Insurance