

**Report on Examination**  
**of**  
**American Heritage**  
**Life Insurance Company**  
**Jacksonville, Florida**  
**as of**  
**December 31, 2010**

**By The**  
**Florida Office of Insurance Regulation**

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
200 E. Gaines Street  
Tallahassee, Florida 32399-0305

Sharon P. Clark, Commissioner  
Kentucky Department of Insurance  
Secretary, NAIC Southeast Zone  
P.O. Box 517  
Frankfort, Kentucky 40602-0517

Joseph Torti, III, Superintendent  
Rhode Island Division of Insurance  
Chair, NAIC Financial Condition (E) Committee  
1511 Pontiac Avenue, Building 69-2  
Cranston, Rhode Island 02920

Dear Commissioners and Superintendent:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of American Heritage Life Insurance Company as of December 31, 2010. Our report on the examination follows.

Florida Office of Insurance Regulation  
January 12, 2012

## Contents

Scope of Examination .....	1
Summary of Significant Findings.....	2
Company History.....	3
Corporate Records .....	3
Management and Control.....	4
Fidelity Bonds and Other Insurance .....	8
Pension, Stock Ownership and Insurance Plans .....	8
Territory and Plan of Operation.....	8
Company Growth.....	8
Reinsurance .....	9
Accounts and Records .....	9
Statutory Deposits .....	10
Financial Statements.....	11
Comments on Financial Statements .....	16
Summary of Recommendations .....	17
Subsequent Events .....	19
Conclusion.....	20

## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2010 of American Heritage Life Insurance Company (the "Company"), a multi-state insurer domiciled in Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2005.

This examination covered the period of January 1, 2008 through December 31, 2010. We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination was conducted primarily in the Company's Jacksonville, Florida office.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The examination resulted in a finding that the Company's investment in its subsidiary was overstated by \$27 million in the Company's 2010 annual statement, as discussed on page 16.

This and other findings of the examination are summarized beginning on page 17.

## **COMPANY HISTORY**

The Company was incorporated in Florida on September 11, 1956 and commenced business on December 27, 1956. It was licensed by the Office as an insurer on September 14, 1956. The Company was authorized by the State of Florida to operate as an insurer in accordance with Section 624.401, Florida Statutes (F.S.), in the following lines:

- Life
- Group life and annuities
- Credit life
- Credit disability
- Accident and health

### **Dividends and Capital Contributions**

The Company distributed \$10 million and \$24 million in shareholder dividends during 2008 and 2010, respectively; none were distributed during 2009. The Company did not receive capital contributions during the period covered by this examination.

## **CORPORATE RECORDS**

The minutes of the shareholder and Board of Directors meetings were reviewed for the period examined. The minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 625.304, F.S.

On December 2, 2010, the Company's board established an audit committee. Prior to then, the Company utilized the audit committee of its ultimate parent The Allstate Corporation (Allstate).

## MANAGEMENT AND CONTROL

The Company was wholly owned by American Heritage Life Investment Corporation, a subsidiary of Allstate. It owned 100% of First Colonial Insurance Company (First Colonial), a property and casualty insurer domiciled in Florida, and was affiliated with numerous other entities through common ownership. The Company's senior officers, directors and Audit Committee members were as shown below.

### Senior Officers

<u>Name</u>	<u>Title</u>
David A. Bird	President
Charles C. Baggs	Executive Vice President and Chief Administrative Officer
Laura J. Clark	Executive Vice President, Finance and Allstate Channel Sales
W. Wayne Watkins	Executive Vice President, Distribution
Bruce E. Armel	Senior Vice President, Information Technology
Walter M. Jones	Senior Vice President, National Accounts
Elizabeth A. Mahin	Senior Vice President and Controller
Matthew W. Osborn	Senior Vice President, Sales Operations
Ronald C. Pizur	Senior Vice President, Information Technology
Scott K. Randles	Senior Vice President, Financial Actuary
Richard D. Schaefer	Senior Vice President and Chief Actuary
Gary S. Stere	Senior Vice President, General Counsel and Secretary
Anton Wanderon	Senior Vice President, Credit Division
Samuel H. Pilch	Group Vice President
Mario Rizzo	Vice President and Treasurer
John C. Pintozzi	Chief Financial Officer
Judith P. Greffin	Chief Investment Officer

### **Board of Directors**

<b>Name</b>	<b>Location</b>
David A. Bird	Ponte Vedra Beach, Florida
Matthew S. Easley	Arlington Heights, Illinois
Mark A. Green	Glenview, Illinois
Gregory J. Guidos	Ponte Vedra Beach, Florida
Susan L. Lees	Deerfield, Illinois
Elizabeth A. Mahin	St. Augustine, Florida
Samuel H. Pilch	Long Grove, Illinois
John C. Pintozzi	Chicago, Illinois
Matthew E. Winter	Glenview, Illinois

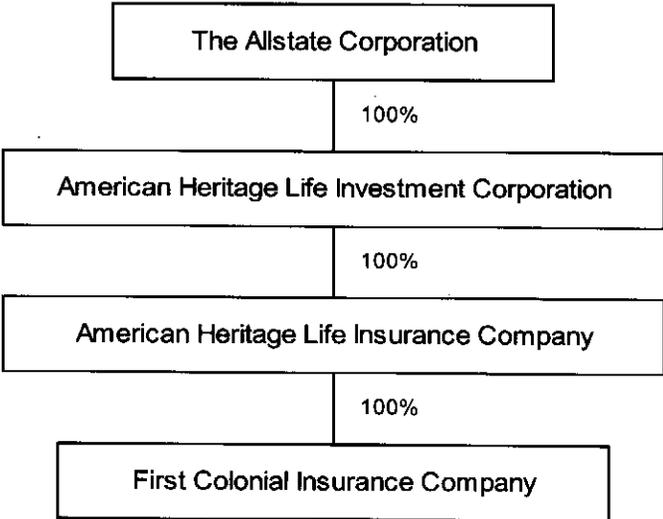
### **Audit Committee**

Gregory J. Guidos  
Samuel H. Pilch  
Matthew E. Winter

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code (F.A.C.). Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 690-143.046, F.A.C., on April 15, 2011.

An abbreviated organizational chart reflecting the holding company system is shown below.

**American Heritage Life Insurance Company  
Abbreviated Organizational Chart  
December 31, 2010**



The following agreements were in effect between the Company and its affiliates:

The results of the Company's operations were included in the consolidated federal income tax returns of Allstate pursuant to a tax sharing agreement to which the Company became a party on January 7, 2005. In accordance with the agreement, consolidated income tax liability was allocated to the Company and other members of the consolidated group based largely on the amount of each entity's federal income tax liability computed on a separate return basis. The Company entered into an agreement with affiliates, effective for tax returns filed on or after January 1, 2007, providing for payments by affiliated companies that utilize state and local tax credits to the affiliates generating the credits.

Allstate Insurance Company (AIC) provided accounting, auditing, cash management, tax, procurement, and other administrative services to the Company pursuant to a January 1, 2004 agreement.

Allstate Investments, LLC provided investment management services to the Company pursuant to a January 1, 2007 agreement.

The Company entered into an information sharing agreement, effective May 1, 2009, with AIC and certain other affiliates setting forth the terms and conditions under which affiliated and unaffiliated service providers may access customer information for marketing purposes.

The Company provided certain management services to AIC related to its Allstate Parts and Labor Plus mechanical breakdown insurance policy pursuant to an agreement effective January 1, 2003 and amended effective January 1, 2009.

On December 20, 2010, the Company agreed to make revolving loans to Road Bay Investments, LLC up to \$15 million in the aggregate.

Allstate Bank provided cash management services to the Company and certain of its affiliates pursuant to a January 5, 2001 agreement.

## FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage of \$4,000,000 with a deductible of \$500,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$1,750,000.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company utilized the services of AIC employees. The companies provided various benefits to eligible employees including defined benefit pension plans, health care, life insurance, and participation in a Section 401(k) savings plan. In addition, the Company maintained a defined benefit deferred compensation plan for a former chief executive officer of a former subsidiary, and a non-qualified pension plan for officers and senior officers.

## TERRITORY AND PLAN OF OPERATION

The Company marketed ordinary life, individual accident and health, group life, group accident and health, credit life, and credit accident and health insurance products and annuities through licensed agents and brokers. It was authorized to transact insurance in the District of Columbia, Guam, Puerto Rico, the U.S. Virgin Islands, and all U.S. states except New York.

## COMPANY GROWTH

The Company reported the following for years 2008, 2009 and 2010:

(In millions)	2008	2009	2010
Premiums	\$ 414.6	\$ 458.3	\$ 617.6
Revenues	\$ 510.4	\$ 546.7	\$ 710.3
Net income	\$ 0.3	\$ 18.2	\$ 26.3
Capital and surplus	\$ 192.1	\$ 240.9	\$ 255.0

## **REINSURANCE**

The Company assumed and ceded reinsurance pursuant to agreements with various affiliated and unaffiliated companies, primarily on coinsurance and quota share bases. It reported details of assumed and ceded reinsurance on Schedule S of its 2010 annual statement. However, we found that Parts 3 and 4 of the schedule contained multiple inaccuracies.

In its 2010 annual statement, the Company claimed a reserves credit of \$145,507 for reinsurance ceded to an unauthorized reinsurer, in accordance with Section 624.610(4), F.S., on the basis that the reinsured obligations were adequately secured by funds held in trust. However, the examination revealed that the funds were not held for the benefit of the Company, as required. This was corrected during the examination and the trust account name was changed to provide that the funds were held for the benefit of the Company.

## **ACCOUNTS AND RECORDS**

Citibank, N.A. provided securities custodial services to the Company pursuant to an April 14, 2000 agreement. We found that the agreement did not contain provisions required by subsections (j) and (o) of Rule 69O-143.042(2), F.A.C., relating to maintenance of adequate insurance protection and notification to the Office of any termination or complete withdrawal of the account. The required provisions were incorporated into a revised agreement on February 15, 2011; however, the Company was unable to demonstrate that the revised agreement had been authorized by its board of directors or a committee of its board, as required by the rule.

We found that the Company did not conduct semiannual reviews of the operations of one of its third party administrators, as required by Section 626.8817(3), F.S.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with other jurisdictions as required:

Holder	Description	Par Value	Market Value
Florida	U.S. Treasury bond	\$ 200,000	\$ 267,060
Florida	U.S. Treasury bond	415,000	554,149
Florida	U.S. Treasury bond	3,935,000	5,463,354
Florida	U.S. Treasury bond	650,000	874,055
Total Florida deposits		5,200,000	7,158,618
Georgia	U.S. Treasury bond	35,000	47,009
Guam	U.S. Treasury bond	75,618	80,139
Nevada	U.S. Treasury bond	250,000	337,970
New Mexico	U.S. Treasury bond	100,000	142,406
North Carolina	U.S. Treasury note	400,000	454,867
Ohio	U.S. Treasury bond	100,000	135,188
Total deposits		\$ 6,160,618	\$ 8,356,197

**American Heritage Life Insurance Company**  
**Assets**  
**December 31, 2010**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 743,507,323	\$ -	\$ 743,507,323
Common stocks	163,424,005	(27,000,000)	136,424,005
Mortgage loans on real estate - first liens	105,483,487	-	105,483,487
Properties occupied by the company	24,846,676	-	24,846,676
Cash, cash equivalents and short-term investments	11,588,429	-	11,588,429
Contract loans	300,577,921	-	300,577,921
Other invested assets	2,692,837	-	2,692,837
Aggregate write-ins for invested assets	11,991	-	11,991
	1,352,132,669	(27,000,000)	1,325,132,669
Investment income due and accrued	16,278,794	-	16,278,794
Uncollected premiums and agents' balances	34,320,888	-	34,320,888
Deferred premiums, agents' balances and installments	6,816,547	-	6,816,547
Amounts recoverable from reinsurers	1,563,221	-	1,563,221
Funds held by or deposited with reinsured companies	151,803	-	151,803
Other amounts receivable under reinsurance contracts	2,039,607	-	2,039,607
Net deferred tax asset	33,081,813	-	33,081,813
Receivables from parent, subsidiaries and affiliates	389,618	-	389,618
Aggregate write-ins for other than invested assets	71,605,666	-	71,605,666
<b>Total assets</b>	<b>\$ 1,518,380,626</b>	<b>\$ (27,000,000)</b>	<b>\$ 1,491,380,626</b>

**American Heritage Life Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2010**

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$ 809,966,496	\$ -	\$ 809,966,496
Aggregate reserve for accident and health contracts	194,149,679	-	194,149,679
Liability for deposit-type contracts	3,007,997	-	3,007,997
Contract claims - life	2,622,950	-	2,622,950
Contract claims - accident and health	93,202,382	-	93,202,382
Dividends not yet apportioned	25,185	-	25,185
Coupons and similar benefits	32,529	-	32,529
Premiums and annuity considerations	5,156,733	-	5,156,733
Other amounts payable on reinsurance	543,007	-	543,007
Commissions to agents	15,819,251	-	15,819,251
General expenses	32,605,043	-	32,605,043
Taxes, licenses and fees	3,431,848	-	3,431,848
Current federal and foreign income taxes	22,380,449	-	22,380,449
Unearned investment income	428,550	-	428,550
Amounts retained by company as agent or trustee	169,207	-	169,207
Amounts held for agents' account	875,879	-	875,879
Remittances and items not allocated	10,569,748	-	10,569,748
Liability for benefits for employees and agents	1,421,249	-	1,421,249
Asset valuation reserve	28,061,352	-	28,061,352
Reinsurance in unauthorized companies	1,807,612	-	1,807,612
Payable to parent, subsidiaries and affiliates	15,009,758	-	15,009,758
Funds held under coinsurance	11,382,329	-	11,382,329
Aggregate write-ins for liabilities	10,689,298	-	10,689,298
<b>Total liabilities</b>	<b>1,263,358,531</b>	<b>-</b>	<b>1,263,358,531</b>
<b>Capital and Surplus</b>			
Common capital stock	3,311,316	-	3,311,316
Gross paid in and contributed surplus	190,658,514	-	190,658,514
Aggregate write-ins for special surplus funds	17,409,670	-	17,409,670
Unassigned funds	43,642,595	(27,000,000)	16,642,595
<b>Total capital and surplus</b>	<b>255,022,095</b>	<b>(27,000,000)</b>	<b>228,022,095</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 1,518,380,626</b>	<b>\$ (27,000,000)</b>	<b>\$ 1,491,380,626</b>

**American Heritage Life Insurance Company**  
**Summary of Operations**  
**(As reported by the Company)**  
**For The Year Ended December 31, 2010**

Premiums and annuity considerations	\$ 617,580,590
Net investment income	63,015,594
Amortization of interest maintenance reserve	1,503,728
Commissions and expense allowances on reinsurance ceded	26,131,494
Aggregate write-ins for miscellaneous income	2,073,824
	<u>710,305,230</u>
Death benefits	26,432,469
Matured endowments	2,279
Annuity benefits	1,151,849
Disability benefits and benefits under accident and health contracts	261,770,104
Coupons, guaranteed annual pure endowments and similar benefits	14,542
Surrender benefits and withdrawals for life contracts	32,544,871
Interest and adjustments on contract or deposit-type contract funds	2,095,224
Increase in aggregate reserves for contracts	50,546,950
	<u>374,558,288</u>
Commissions on premiums, annuities and deposit-type funds	141,762,380
Commissions and expense allowances on reinsurance assumed	13,438,658
General insurance expenses	113,705,141
Insurance taxes, licenses and fees	18,227,820
Increase in loading on deferred and uncollected premiums	(24,918)
Aggregate write-ins for deductions	888,186
	<u>662,555,555</u>
	<u>47,749,675</u>
Dividends to policyholders	3,196
	<u>47,746,479</u>
Federal and foreign income taxes	20,615,195
	<u>27,131,284</u>
Net realized capital gains (losses)	(790,675)
Net income	<u>\$ 26,340,609</u>

**American Heritage Life Insurance Company**  
**Statement of Changes in Capital and Surplus**  
**For The Three Years Ended December 31, 2010**

Capital and surplus - December 31, 2007	\$ 203,962,766
Net income	278,933
Change in net unrealized capital gains (losses)	(15,842,057)
Change in net deferred income tax	7,269,599
Change in nonadmitted assets	(12,057,240)
Change in liability for reinsurance in unauthorized companies	1,401,438
Change in asset valuation reserve	17,132,039
Dividends to stockholder	(10,000,000)
Aggregate write-ins for gains and losses in surplus	(3,550)
<hr/>	
Capital and surplus - December 31, 2008	192,141,928
Net income	18,197,018
Change in net unrealized capital gains (losses)	11,913,858
Change in net deferred income tax	(14,091,987)
Change in nonadmitted assets	24,543,883
Change in liability for reinsurance in unauthorized companies	1,971,540
Change in asset valuation reserve	(8,721,813)
Paid in surplus	11,847
Aggregate write-ins for gains and losses in surplus	14,944,293
<hr/>	
Capital and surplus - December 31, 2009	240,910,567
Net income	26,340,609
Change in net unrealized capital gains (losses)	21,679,080
Change in net deferred income tax	6,208,793
Change in nonadmitted assets	(7,872,160)
Change in liability for reinsurance in unauthorized companies	1,113,242
Change in asset valuation reserve	(9,764,864)
Dividends to stockholder	(24,000,000)
Aggregate write-ins for gains and losses in surplus	406,828
	255,022,095
Examination adjustment	(27,000,000)
<hr/>	
Capital and surplus - December 31, 2010	\$ 228,022,095
<hr/>	

**American Heritage Life Insurance Company**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2010**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

<b>Capital and surplus, December 31, 2010 - per annual statement</b>		<b>\$ 255,022,095</b>			
	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%; text-align: center;"><u>Per Company</u></th> <th style="width: 33%; text-align: center;"><u>Per Examination</u></th> <th style="width: 33%; text-align: center;"><u>Increase (Decrease) In Capital &amp; Surplus</u></th> </tr> </thead> </table>	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital &amp; Surplus</u>	
<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital &amp; Surplus</u>			
Common stocks	\$ 163,424,005	\$ 136,424,005	\$ (27,000,000)		
Net change in capital and surplus			(27,000,000)		
<b>Capital and surplus, December 31, 2010 - per examination</b>			<b>\$ 228,022,095</b>		

## COMMENTS ON FINANCIAL STATEMENTS

### Common Stocks

**\$136,424,005**

The \$163,424,005 reported by the Company in its 2010 annual statement as common stocks has been reduced by \$27,000,000 to \$136,424,005. The Company's investment in its insurance subsidiary First Colonial was reported in the annual statement as an admitted asset and included in common stocks. It was the Company's policy to account for the investment under the equity method in accordance with paragraph 8.b. of Statement of Statutory Accounting Principles (SSAP) No. 97 under which an investment in a U.S. insurance subsidiary such as First Colonial is to be recorded based on the subsidiary's audited statutory equity. In its audited financial statements as of December 31, 2010, First Colonial reported equity of \$113.1 million. However, in its 2010 annual statement, the Company reported its investment in First Colonial in the amount of \$140.1 million. Consequently, the Company's investment was overstated by \$27.0 million.

In their 2010 annual statements, First Colonial reported statutory surplus of \$140.1 million and the Company reported its investment in First Colonial at \$140.1 million. After the Company filed its 2010 annual statement, First Colonial recognized a \$27.0 million loss as of December 31, 2010. As a result, the Company's investment in First Colonial was overstated by \$27 million as of December 31, 2010. The loss resulted from a putative nationwide class action regarding guaranteed automobile protection and contractual liability insurance policies. First Colonial recognized the loss as of December 31, 2010 because it determined that the loss was probable and that it related to a legal proceeding that existed as of December 31, 2010. This was consistent with the requirement of SSAP No. 9 to recognize in the financial statements the effects of all material events or transactions that occur subsequent to the balance sheet date and before the issuance of audited financial statements and that provide additional evidence with respect to

conditions that existed at the balance sheet date (Type I subsequent events). In its audited financial statements as of December 31, 2010, First Colonial reported surplus of \$113.1 million.

## **SUMMARY OF RECOMMENDATIONS**

### Reinsurance Schedules

Parts 3 and 4 of Schedule S of the Company's 2010 annual statement contained multiple inaccuracies, as reported on page 9. **We recommend that, in future annual statements, the Company accurately and fully complete Schedule S in accordance with the annual statement instructions.**

### Credit for Reinsurance Ceded

In its 2010 annual statement, the Company incorrectly claimed a reserves credit for reinsurance ceded to an unauthorized reinsurer, as discussed on page 9. **We recommend that the Company comply with the requirements of Section 624.610(4), F.S.**

### Securities Custody Agreements

As reported on page 9, one the Company's securities custody agreements did not contain provisions required by subsections (j) and (o) of Rule 69O-143.042(2), F.A.C., relating to maintenance of adequate insurance protection and notification to the Office of any termination or complete withdrawal of the account. The Company was unable to demonstrate that a revised version of the agreement had been authorized by its board of directors or a committee of its board, as required by the rule. **We recommend that the Company ensure that all of its securities custody agreements are authorized by its board of directors or a committee of its board and include all provisions required by Rule 69O-143.042(2), F.A.C.**

### Operational Review of Administrators

As reported on page 9, the Company did not conduct semiannual reviews of the operations of one of its third party administrators, as required by Section 626.8817(3), F.S. **We recommend that, at least semiannually, the Company conduct reviews of the operations of all administrators which administer benefits for more than 100 certificate holders on behalf of the Company, in accordance with Section 626.8817(3), F.S.**

### Common Stocks

The Company overstated its investment in its subsidiary First Colonial by \$27 million, as discussed on page 16. **We recommend that, in future annual statements and audited financial statements, the Company accurately report investments in subsidiaries in accordance with the requirements of SSAP No. 97.**

## **SUBSEQUENT EVENTS**

In April of 2011, the Company distributed a \$27 million dividend to its parent following approval by the Office.

On April 26, 2011, the Company entered into a consent order with the Office as a result of a determination by the Office that the Company failed to follow certain policy terms, in violation of Section 627.419(1), F.S. The Company was required by the order to pay a penalty of \$25,000 and administrative costs of \$3,000, and to complete a procedural review to ensure that its insurance contracts are properly amended prior to implementing policy changes. The Company complied with the order.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of American Heritage Life Insurance Company as of December 31, 2010, consistent with the insurance laws of the State of Florida.

The Company's capital and surplus at December 31, 2010 was determined to be \$228,022,095, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus was \$63,538,028.

In addition to the undersigned, the following individuals participated in this examination: Walter F. Banas, CIE, Financial Specialist; Cathy S. Jones, CPA, AFE, Financial Examiner/Analyst Supervisor; Kerry A. Krantz, Actuary; and Scott R. Slaughter, CPA, Financial Examiner/Analyst.

Respectfully submitted,

---

Christine N. Afolabi, CPA  
Financial Specialist  
Florida Office of Insurance Regulation

---

Darlene L. Lenhart-Schaeffer, CFE  
Financial Examiner/Analyst  
Florida Office of Insurance Regulation