

Report on Examination
of
Bankers Life Insurance Company
St. Petersburg, Florida
as of
December 31, 2012



**FLORIDA OFFICE OF
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

Dear Sir:

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 Bankers Life Insurance Company as of December 31, 2012. Our report on the examination follows.

Florida Office of Insurance Regulation
March 7, 2014

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2012 of Bankers Life Insurance Company (the "Company"), a multi-state insurer domiciled in Florida. The examination covered the period of January 1, 2009 through December 31, 2012 and took place primarily in the Company's St. Petersburg, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2008.

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.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in findings that the Company failed to have its directors elected by the Company's stockholder at an annual stockholder meeting, notify the Office of changes in personnel among the Company's principal officers, and report to the Florida Department of Financial Services Division of Insurance Fraud (DIF) an instance of suspected fraud. In addition, the examination resulted in findings that the Company was unable to demonstrate that it maintained fidelity bond coverage as recommended by the NAIC and that it entered into an agreement with an affiliate which was not in writing.

COMPANY HISTORY

The Company was incorporated in Florida on April 24, 1973 and licensed by the Office as an insurer on May 9, 1973. It was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, Florida Statutes (F.S.).

Dividends and Capital Contributions

In 2009, the Company received \$3.5 million in contributions to its capital. No dividends were distributed by the Company during the period examined.

CORPORATE RECORDS

We reviewed the minutes of meetings held by the Company's board of directors and by its audit, executive, and investments committees. The Board's approval of Company transactions, including the authorization of its investments as required by Section 625.304, F.S., was recorded in the minutes of its meetings. We found that the Company's directors were not elected by the Company's stockholder at an annual stockholder meeting as required by Section 628.231(2), F.S., and that there was no evidence that an annual stockholder meeting was held. We also found that the Company failed to notify the Office of changes in personnel among the Company's principal officers, as required by Section 628.261, F.S.

MANAGEMENT AND CONTROL

The Company was wholly owned by Bankers Insurance Company, a Florida property and casualty insurer. Bankers Insurance Company was an indirect wholly owned subsidiary of Bankers International Financial Corporation (BIFC). The Company was affiliated with numerous other entities through common ownership including the Florida property and casualty insurer First Community Insurance Company.

The Company's senior officers, directors, and members of principal board committees were:

Senior Officers	
Name	Title
J. Stuart Platter	President and Chief Investment Officer
Svetlana V. Townsend	Chief Financial Officer
James D. Albert	Chief Information Officer
William A. Lafontaine	Chief Marketing Officer
Ian B. Barber	Vice President
Donald B. Roberts	Vice President
Richard G. Torra	Secretary and General Counsel
Preston B. Kavanagh, III	Treasurer

Board of Directors

Name	Location
Ted T. Devine	Glencoe, Illinois
William D. Gunter, Jr.	Tallahassee, Florida
Brian J. Kesneck	St. Petersburg, Florida
Wilbur L. Martin, IV	St. Petersburg, Florida
Brett M. Menke	Dunedin, Florida
William V. Nutt, Jr.	Greensboro, North Carolina
Connie S. Parker	Annapolis, Maryland
J. Stuart Platter	St. Petersburg, Florida
David H. Reed	Tampa, Florida
Donald B. Roberts	Bradenton, Florida
John A. Strong, M.D.	Greensboro, North Carolina

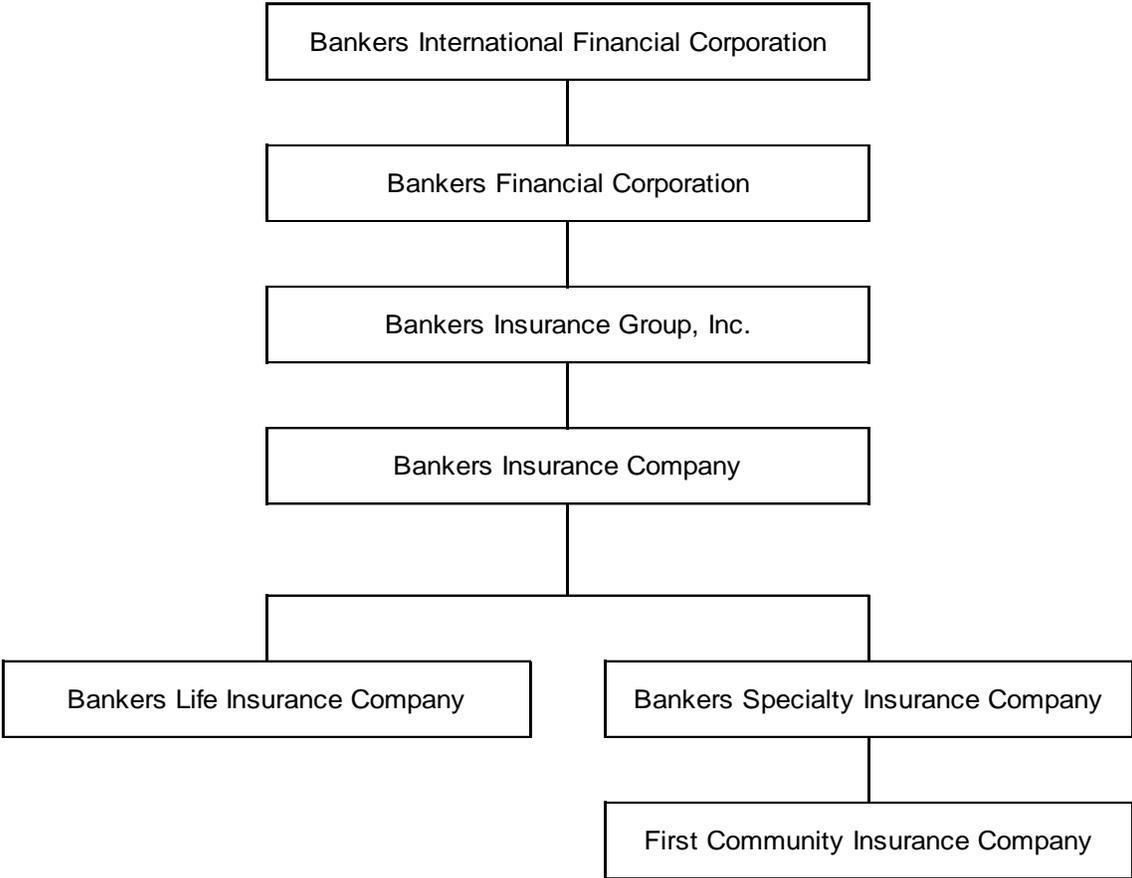
Committees of the Board

Audit	Executive	Investment
Ted T. Devine	Brian J. Kesneck	Wilbur L. Martin, IV
William D. Gunter, Jr.	Wilbur L. Martin, IV	J. Stuart Platter
Connie S. Parker	William V. Nutt, Jr.	David H. Reed
David H. Reed	John A. Strong, M.D.	Donald B. Roberts
John A. Strong, M.D.		John A. Strong, M.D.

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code (F.A.C.), on March 20, 2013.

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

**Bankers Life Insurance Company
Abbreviated Organizational Chart
December 31, 2012**



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

Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of BIFC pursuant to a 2007 tax allocation agreement. Under the agreement, consolidated tax liability was allocated to members of the consolidated group based on the separate return tax liabilities of included members with credit given for current benefits of tax attributes utilized in the consolidated return.

Cost Allocation Agreement

The Company participated in an April 1, 2011 cost allocation agreement with certain of its affiliates to receive and provide administrative and support services. Under the agreement, compensation for the provided services was based on direct and directly allocable expenses attributable to recipients. Fees paid by the Company pursuant to the agreement were \$685,377, \$720,273, \$798,920, and \$824,589 in years 2009 through 2012, respectively.

Marketing Agreement

Bankers Insurance Services, Inc., an affiliate, marketed the Company's annuity products. Their agreement was not in writing as required by Statement of Statutory Accounting Principles (SSAP) No. 25.

FIDELITY BONDS AND OTHER INSURANCE

The Company was unable to demonstrate that it maintained fidelity bond coverage as recommended by the NAIC. BIFC maintained fidelity bond coverage of up to \$5,000,000 with a deductible of \$100,000; however, the Company was not included in the coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided benefits to eligible employees including health, life, vision, dental, and disability insurance. In addition, eligible employees participated in a defined contribution retirement plan sponsored by Bankers Financial Corporation.

TERRITORY AND PLAN OF OPERATION

During the period examined, substantially all of the Company's activities related to writing annuities for individuals. The Company marketed the annuities through 735 agents. In addition, Bankers Insurance Services, Inc. sold the Company's annuities directly to consumers. The Company was authorized to transact insurance in the District of Columbia and the following U.S. states:

Alabama	Kansas	Ohio
Alaska	Kentucky	Oklahoma
Arizona	Louisiana	Pennsylvania
Arkansas	Maryland	South Carolina
Delaware	Mississippi	South Dakota
Florida	Missouri	Tennessee
Georgia	Montana	Texas
Hawaii	Nebraska	Utah
Idaho	Nevada	Washington
Illinois	New Mexico	West Virginia
Indiana	North Dakota	Wyoming

COMPANY GROWTH

The Company reported the following for years 2009 through 2012:

(In millions)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Premiums	\$ 21.9	\$ 7.0	\$ 61.3	\$ 69.8
Total revenues	\$ 38.1	\$ 15.6	\$ 64.6	\$ 81.8
Net income (loss)	\$ (1.7)	\$ 4.7	\$ 0.4	\$ 5.4
Stockholder dividends	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ 3.5	\$ -	\$ -	\$ -
Admitted assets	\$ 210.0	\$ 37.5	\$ 94.4	\$ 177.3
Liabilities	\$ 198.5	\$ 21.4	\$ 77.9	\$ 156.3
Capital and surplus	\$ 11.5	\$ 16.2	\$ 16.5	\$ 21.0

REINSURANCE

On July 1, 2010, the Company ceded to Guggenheim Life and Annuity Company (Guggenheim) an in-force block of selected annuity policies with a statutory basis reserve value of approximately \$168 million and transferred to Guggenheim assets with a fair value of a like amount. Funds transferred by the Company to Guggenheim were subject to a security agreement, with The Bank of New York Mellon acting as collateral agent, providing that the statutory basis book value of assets held by Guggenheim be equal or exceed the respective statutory basis annuity reserves.

ACCOUNTS AND RECORDS

On March 21, 2012, the Office issued Consent Order 123888-12-CO and approved the Company's request to modify its methodology for calculating its reserves. The order required the Company to provide to the Office on a quarterly basis a comparison of the Company's statutory reserves as calculated before and after the change, and prohibited the Company from issuing shareholder dividends without the prior written approval of the Office.

In accordance with Section 626.9891(1), F.S., and Rule 69D-2.003, F.A.C., the Company filed a description of its anti-fraud investigative unit with DIF and represented in the description that it would report all suspected fraudulent insurance acts to DIF. However, we found that the Company failed to report an instance of suspected fraud.

SURPLUS NOTES

At December 31, 2012, the Company was obligated to Bankers Insurance Company for an 8.0%, \$1 million surplus note issued on September 28, 2007. The debt was included in the Company's surplus in accordance with Section 628.401, F.S., and SSAP No. 41, and the note was approved by the Office as required by Section 628.401(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	Cincinnati Financial Corporation	\$ 400,000	\$ 459,640
Florida	TransCanada Corporation	1,215,000	1,561,081
Florida	PSEG Power LLC	1,000,000	1,109,100
Florida	Bethlehem, PA, Taxable Series B	413,000	424,068
Total Florida deposits		3,028,000	3,553,889
Georgia	U.S. Treasury note	35,000	35,205
Indiana	Ohio National Life Insurance Company	225,000	280,123
New Mexico	U.S. Treasury note	110,000	110,644
South Carolina	Cincinnati Financial Corporation	340,000	381,190
South Carolina	TransCanada Corporation	185,000	250,422
Total deposits		\$3,923,000	\$4,611,473

Bankers Life Insurance Company
Admitted Assets
December 31, 2012

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$139,897,264	\$ -	\$139,897,264
Preferred stocks	21,680,819	-	21,680,819
Common stocks	141,600	-	141,600
Properties held for the production of income	857,607	-	857,607
Cash, cash equivalents and short-term investments	6,830,612	-	6,830,612
Contract loans	180,496	-	180,496
Other invested assets	3,493,435	-	3,493,435
Receivables for securities	10,053	-	10,053
	173,091,886	-	173,091,886
Investment income due and accrued	1,615,128	-	1,615,128
Uncollected premiums and agents' balances	5,492	-	5,492
Amounts recoverable from reinsurers	2,098,381	-	2,098,381
Funds held by or deposited with reinsured companies	604	-	604
Other amounts receivable under reinsurance contracts	8	-	8
Net deferred tax asset	406,774	-	406,774
Receivables from parent, subsidiaries and affiliates	12,601	-	12,601
Aggregate write-ins for other than invested assets	79,326	-	79,326
Total admitted assets	\$177,310,200	\$ -	\$177,310,200

Bankers Life Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2012

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$ 133,955,594	\$ -	\$ 133,955,594
Liability for deposit-type contracts	16,158,242	-	16,158,242
Interest maintenance reserve	1,743,237	-	1,743,237
Commissions to agents due or accrued	28,644	-	28,644
General expenses due or accrued	201,693	-	201,693
Taxes, licenses and fees due or accrued	280,118	-	280,118
Current federal and foreign income taxes	715,364	-	715,364
Unearned investment income	5,128	-	5,128
Amounts withheld or retained	16,741	-	16,741
Remittances and items not allocated	2,882,772	-	2,882,772
Asset valuation reserve	298,382	-	298,382
Payable for securities	10,838	-	10,838
Total liabilities	156,296,753	-	156,296,753
Surplus and Other Funds			
Common capital stock	3,000,000	-	3,000,000
Aggregate write-ins for other than special surplus funds	1,195,022	-	1,195,022
Surplus notes	1,000,000	-	1,000,000
Gross paid in and contributed surplus	14,623,795	-	14,623,795
Unassigned funds	1,194,630	-	1,194,630
Total surplus and other funds	21,013,447	-	21,013,447
Total liabilities, surplus and other funds	\$ 177,310,200	\$ -	\$ 177,310,200

Bankers Life Insurance Company
Summary of Operations
(As reported by the Company)
Year Ended December 31, 2012

Premiums and annuity considerations	\$69,776,795
Considerations for supplementary contracts with life contingencies	1,314,450
Net investment income	8,546,727
Amortization of interest maintenance reserve	154,367
Commissions and expense allowances on reinsurance ceded	795,611
Charges and fees for deposit-type contracts	1,191,308
Aggregate write-ins for miscellaneous income	68,833
	81,848,091
Annuity benefits	165,712
Disability benefits and benefits under accident and health contracts	(56,696)
Surrender benefits and withdrawals for life contracts	3,070,387
Interest and adjustments on contract or deposit-type contract funds	718,687
Payments on supplementary contracts with life contingencies	144,336
Increase in aggregate reserves for life and accident and health contracts	68,341,702
	72,384,128
Commissions on premiums and annuity considerations	2,595,488
Commissions and expense allowances on reinsurance assumed	(4)
General insurance expenses	2,005,023
Insurance taxes, licenses and fees	530,848
	77,515,483
Income before income taxes and net realized capital gains	4,332,608
Federal and foreign income taxes	493,457
Net realized capital gains	1,591,318
Net income	\$ 5,430,469

Bankers Life Insurance Company
Statement of Changes in Capital and Surplus
Four Years Ended December 31, 2012

Capital and surplus - December 31, 2008	\$ 8,992,916
Net income (loss)	(1,695,078)
Change in net unrealized capital gains (losses)	(20,476)
Change in net deferred income tax	1,220,328
Change in nonadmitted assets	(510,950)
Change in asset valuation reserve	(7,816)
Paid in surplus	3,500,000
<hr/>	
Capital and surplus - December 31, 2009	11,478,924
Net income (loss)	4,686,995
Change in net unrealized capital gains (losses)	66,273
Change in net deferred income tax	(359,090)
Change in nonadmitted assets	307,453
Change in asset valuation reserve	(23,946)
<hr/>	
Capital and surplus - December 31, 2010	16,156,609
Net income (loss)	406,690
Change in net unrealized capital gains (losses)	(232,874)
Change in net deferred income tax	(229,273)
Change in nonadmitted assets	417,090
Change in reserve on account of change in valuation basis	61,574
Change in asset valuation reserve	29,911
Aggregate write-ins for gains and losses in surplus	(124,828)
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Capital and surplus - December 31, 2011	16,484,899
Net income (loss)	5,430,469
Change in net unrealized capital gains (losses)	(121,455)
Change in net deferred income tax	(603,146)
Change in nonadmitted assets	693,440
Change in asset valuation reserve	(265,342)
Aggregate write-ins for gains and losses in surplus	(605,418)
<hr/>	
	21,013,447
Examination adjustments	-
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Capital and surplus - December 31, 2012	<u>\$ 21,013,447</u>

Bankers Life Insurance Company
Comparative Analysis of Changes in Capital and Surplus
December 31, 2012

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

	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Capital and surplus, December 31, 2012 - per annual statement				\$21,013,447
Total admitted assets	\$ 177,310,200	\$ 177,310,200	\$ -	
Total liabilities	\$ 156,296,753	\$ 156,296,753	\$ -	
Net change in capital and surplus				-
Capital and surplus, December 31, 2012 - per examination				<u>\$21,013,447</u>

SUMMARY OF RECOMMENDATIONS

As reported on page 3, the examination resulted in findings that the Company failed to have its directors elected by the Company's stockholder at an annual stockholder meeting as required by Section 628.231(2), F.S., and notify the Office of changes in personnel among the Company's principal officers as required by Section 628.261, F.S. **We recommend that the Company have its directors elected by the Company's stockholder at an annual stockholder meeting as required by Section 628.231(2), F.S., and notify the Office of changes in personnel among the Company's principal officers as required by Section 628.261, F.S.**

As reported on page 7, we found that the Company's marketing services agreement with Bankers Insurance Services, Inc. was not in writing as required by SSAP No. 25. **We recommend that the Company enter into a written agreement with Bankers Insurance Services, Inc. for the services in accordance with SSAP No. 25.**

The examination resulted in a finding that the Company was unable to demonstrate that it maintained fidelity bond coverage as recommended by the NAIC, as reported on page 8. **We recommend that the Company maintain fidelity bond coverage in accordance with NAIC guidelines.**

As reported on page 10, the Company failed to report to DIF an instance of suspected fraud. **We recommend that the Company report to DIF all suspected fraudulent insurance acts as required.**

SUBSEQUENT EVENTS

On December 13, 2013, the Company entered into a funds-withheld coinsurance agreement with an unaffiliated reinsurance company domiciled outside the United States. The agreement provided for the Company to cede to the reinsurer an in-force block of selected annuity policies with a statutory basis reserve value of \$153,272,270.

CONCLUSION

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

At December 31, 2012, the Company's capital and surplus was \$21,013,447 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, the following individuals participated in the examination: Christine N. Afolabi, CPA, Financial Specialist; Faisal Harianawalla, Financial Examiner/Analyst; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; and Kerry Krantz, Actuary.

Respectfully submitted,

Walter F. Banas, CIE
Financial Specialist
Florida Office of Insurance Regulation