

Report on Examination
of
Florida Combined
Life Insurance Company, Inc.

Jacksonville, Florida

as of

December 31, 2008

By The
Florida Office of Insurance Regulation

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Gentlemen:

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 Florida Combined Life Insurance Company, Inc. as of December 31, 2008. Our report on the examination follows.

Florida Office of Insurance Regulation
April 26, 2010

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SCOPE OF EXAMINATION

We have completed an association financial condition examination as of December 31, 2008 of Florida Combined Life Insurance Company, Inc. (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, 2004.

This examination covered the period of January 1, 2006 through 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.

The Company's main administrative office was in Jacksonville, Florida, and a significant portion of its books and records were located in Little Rock, Arkansas. The examination was conducted partly in Jacksonville and partly in Little Rock.

COMPANY HISTORY

The Company was incorporated in Florida on October 29, 1987. It was licensed by the Office as an insurer and commenced business on May 11, 1988.

The Company offered life, disability and dental products. It 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
- Accident and health
- Group life and annuities

Dividends and Capital Contributions

The Company distributed a \$14 million shareholder dividend in 2008 without receiving approval from the Office as required by Section 628.371, F.S. No dividends were distributed in 2006 or 2007. The Company did not receive any contributions of capital during 2006, 2007 or 2008.

Mergers and Acquisitions

As of the date of the last financial condition examination of the Company by the Office (December 31, 2004), the Company's common stock was owned by Diversified Health Services, Inc., a subsidiary of Blue Cross and Blue Shield of Florida, Inc. (BCBSF). Its preferred shares were owned by Companion Life Insurance Company of South Carolina, a subsidiary of Blue Cross and Blue Shield of South Carolina. In January of 2005, the Company redeemed the outstanding preferred stock for \$10 million. Effective June 29, 2005, all of the Company's common shares were acquired by LSV Partners, LLC (LSVP), an Arkansas holding company. On that date, BCBSF exchanged its ownership of the Company and its affiliate Florida Combined Insurance Agency for a 50% ownership interest in LSVP. Effective January 1, 2008, the Company entered

into an indemnity reinsurance arrangement with respect to its direct dental insurance business in Florida with USABLE Life (USAL) in exchange for shares of USAL stock. The USAL stock was exchanged for a 9.9% interest in Life & Specialty Ventures, LLC. The Company then distributed a \$14 million dividend to LSVP, which was contributed to USAL.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors and Audit and Finance Committee meetings were reviewed for the period examined. The recorded 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.

MANAGEMENT AND CONTROL

As of December 31, 2008, the Company was wholly owned by LSVP which was owned equally by Arkansas Blue Cross and Blue Shield (ABCBS) and Diversified Health Services, Inc., a subsidiary of BCBSF.

The Company's senior officers, directors and Audit and Finance Committee members were as shown below.

Senior Officers

<u>Name</u>	<u>Title</u>
Jason D. Mann	President & Chief Executive Officer
Mark A. Langston	Executive Vice President & Treasurer
James L. Touse	Secretary & Compliance Officer

Board of Directors

<u>Name</u>	<u>Location</u>
Michael W. Brown	Little Rock, Arkansas
Robert C. Doerr	Jacksonville, Florida
Lester J. Grantham	Jacksonville, Florida
Jason D. Mann	Little Rock, Arkansas
Paul M. White	Little Rock, Arkansas

Audit Committee

Michael W. Brown
Robert C. Doerr
Paul M. White

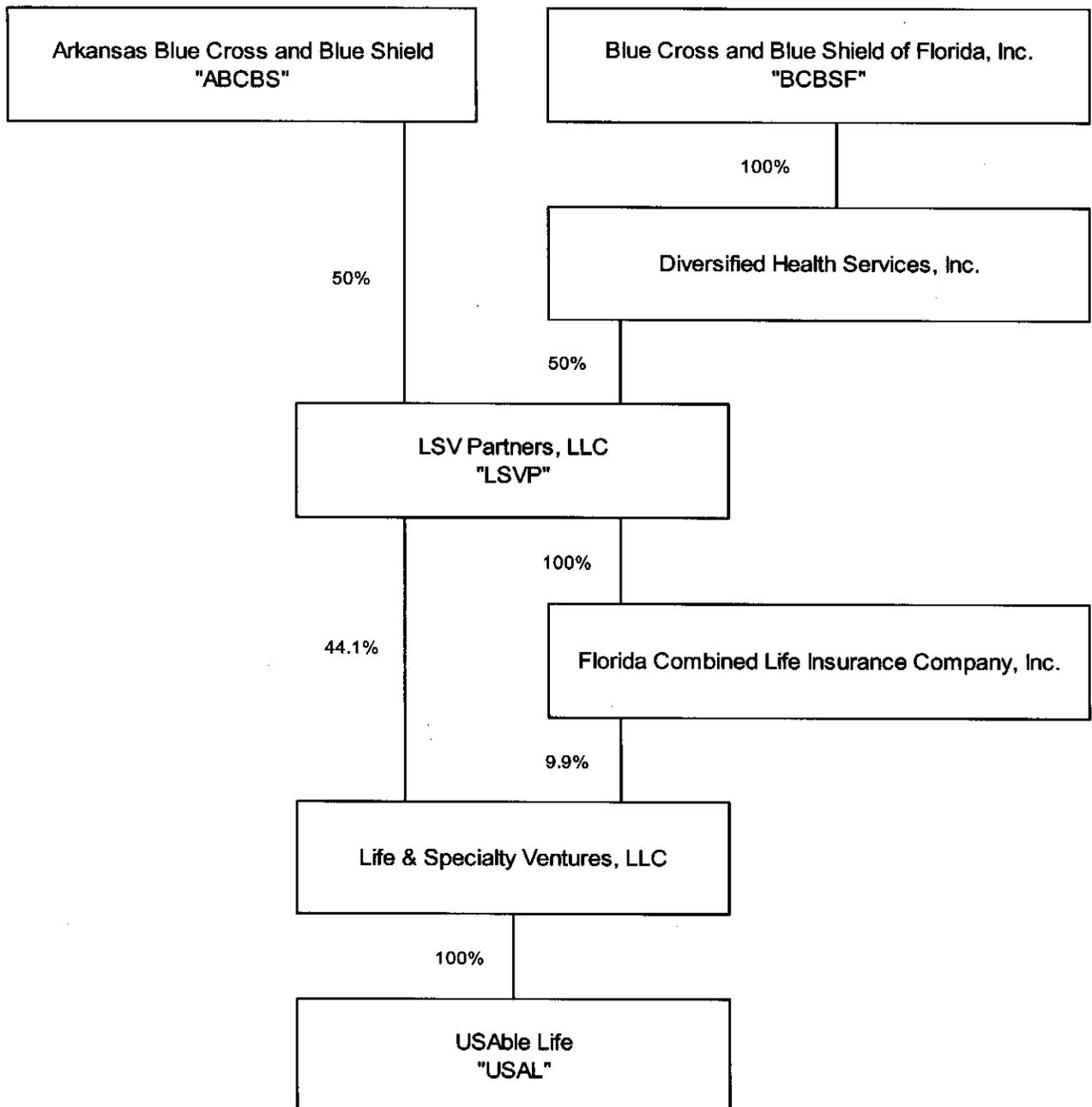
Finance Committee

Robert C. Doerr
Paul M. White

The Company was a member of an insurance holding company system as defined by Rule 69O-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 69O-143.046, F.A.C., on May 29, 2009.

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

**Florida Combined Life Insurance Company, Inc.
Abbreviated Organizational Chart
December 31, 2008**



USAL provided administrative services to the Company pursuant to an administrative services agreement effective January 1, 2008. The agreement was in connection with USAL's agreement to employ all of the Company's employees on and after January 1, 2008 in connection with transactions whereby the Company fully reinsured its business with USAL.

The Company provided third party administrative services to LSVP pursuant to a January 1, 2007 agreement. The administrative services included claims processing, customer service and other services related to LSVP's group dental benefit plan.

The Company entered into an administrative services agreement with USAL and LSVP effective January 1, 2006. The agreement provided for the Company and USAL to provide certain administrative and executive services to each other and LSVP. Under the agreement, the companies receiving services were to reimburse those companies providing the services for their cost.

The Company and BCBSF provided administrative services to each other pursuant to a June 15, 2005 agreement.

On December 30, 2008, the Company loaned \$15 million to USAL in return for a 30-year, 5% surplus note.

FIDELITY BONDS AND OTHER INSURANCE

LSVP maintained a fidelity bond policy covering its subsidiaries, including the Company, which provided bond coverage of up to \$5,000,000 with a deductible of \$50,000. This exceeded the suggested minimum amount of coverage as recommended by the NAIC of \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no direct employees as of December 31, 2008 and, therefore, did not provide employee benefits or sponsor retirement plans.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact insurance in Alabama, Florida, Georgia, North Carolina and South Carolina. It was licensed in Arkansas as a reinsurer only.

COMPANY GROWTH

The Company reported the following for years 2006, 2007 and 2008:

(In millions)	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net premiums	\$70.2	\$57.6	\$8.3
Total revenues	\$77.6	\$66.9	\$24.4
Net income (loss)	\$0.3	(\$5.6)	\$1.9
Capital and surplus	\$36.0	\$30.0	\$18.7

REINSURANCE

During the period of the examination, the Company assumed long-term care and dental reinsurance from BCBSF and ABCBS. Effective October 1, 2008, the Company transferred and assigned to LifeSecure Insurance Company, a subsidiary of Blue Cross Blue Shield of Michigan, the long-term care policies assumed from BCBSF and ABCBS.

Effective July 1, 2005, the Company entered into a reinsurance agreement with USAL in which the Company ceded to USAL 100% of the Company's life and disability business, net of reinsurance agreements entered into prior to the agreement.

Effective January 1, 2008, the Company ceded 100% of its dental business to USAL.

ACCOUNTS AND RECORDS

The Company was unable to provide examiners and the Office actuary with a calculation of the amount of its claim reserves before reinsurance ceded as of December 31, 2008, as requested. The information was requested in order to assist the Office in determining whether the Company's claim reserves before reinsurance ceded were not less than an amount calculated in accordance with Rule 69O-154.203, F.A.C.

STATUTORY DEPOSITS

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

Holder	Description	Par Value	Market Value
Florida	U.S. Treasury notes	\$250,000	\$285,313
Georgia	U.S. Treasury notes	50,000	56,848
North Carolina	U.S. Treasury notes	400,000	439,500
North Carolina	U.S. Treasury notes	150,000	167,004
South Carolina	U.S. Treasury notes	200,000	227,390
Total deposits		\$1,050,000	\$1,176,055

Florida Combined Life Insurance Company, Inc.
Assets
December 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$5,434,585	\$0	\$5,434,585
Cash, cash equivalents and short-term investments	6,345,752	(589,431)	5,756,321
Other invested assets	14,216,700	0	14,216,700
	25,997,037	(589,431)	25,407,606
Investment income due and accrued	104,650	0	104,650
Amounts recoverable from reinsurers	154,168	442,638	596,806
Other amounts receivable under reinsurance contracts	2,959,523	0	2,959,523
Amounts receivable relating to uninsured plans	1,677,469	146,793	1,824,262
Current federal and foreign income tax recoverable	791,737	0	791,737
Net deferred tax asset	585,589	0	585,589
Total assets	\$32,270,173	\$0	\$32,270,173

Florida Combined Life Insurance Company, Inc.
Liabilities, Surplus and Other Funds
December 31, 2008

Liabilities	Per Company	Examination Adjustments	Per Examination
Other amounts payable on reinsurance	\$6,244,971	\$0	\$6,244,971
Interest maintenance reserve	471,688	0	471,688
Commissions to agents	847,949	0	847,949
General expenses due or accrued	1,079,170	0	1,079,170
Taxes, licenses and fees	1,180,744	0	1,180,744
Amounts withheld or retained	832,318	0	832,318
Remittances and items not allocated	273,130	0	273,130
Asset valuation reserve	408,467	0	408,467
Payable to parent, subsidiaries and affiliates	1,993,093	0	1,993,093
Liability for amounts held under uninsured plans	114,244	0	114,244
Aggregate write-ins for liabilities	123,644	0	123,644
Total liabilities	13,569,418	0	13,569,418
Capital and Surplus			
Gross paid in and contributed surplus	14,500,000	0	14,500,000
Unassigned funds	2,700,755	0	2,700,755
Surplus	17,200,755	0	17,200,755
Common capital stock	1,500,000	0	1,500,000
Total capital and surplus	18,700,755	0	18,700,755
Total liabilities, capital and surplus	\$32,270,173	\$0	\$32,270,173

Florida Combined Life Insurance Company, Inc.
Summary of Operations
(As reported by the Company)
For The Year Ended December 31, 2008

Premiums and annuity considerations	\$8,292,668
Net investment income	1,739,488
Amortization of interest maintenance reserve	143,686
Commissions and allowances on reinsurance ceded	13,521,627
Aggregate write-ins for miscellaneous income	724,098
Total revenues	24,421,567
Disability benefits and benefits under A&H contracts	1,369,207
Increase in aggregate reserves	3,971,357
	5,340,564
Commissions on premiums	7,257,680
Commissions and allowances on reinsurance assumed	2,408,101
General insurance expenses	5,570,884
Insurance taxes, licenses and fees	1,610,369
	22,187,598
Net gain from operations before income taxes and capital gains	2,233,969
Federal and foreign income taxes (benefit)	(25,496)
Net gain from operations before capital gains or losses	2,259,465
Net realized capital gains (losses)	(408,686)
Net income	\$1,850,779

Florida Combined Life Insurance Company, Inc.
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2008

Capital and surplus - December 31, 2005	\$37,518,160
Net income (loss)	292,154
Change in net unrealized capital gains (losses)	(5,478)
Change in net deferred income tax	(183,753)
Change in nonadmitted assets and related items	(1,582,205)
Change in asset valuation reserve	(80,640)
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Capital and surplus - December 31, 2006	35,958,238
Net income (loss)	(5,561,342)
Change in net unrealized capital gains	383,683
Change in net deferred income tax	1,370,650
Change in nonadmitted assets and related items	(1,705,987)
Change in asset valuation reserve	(411,703)
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Capital and surplus - December 31, 2007	30,033,539
Net income (loss)	1,850,779
Change in net unrealized capital gains (losses)	(887,351)
Change in net deferred income tax	(425,524)
Change in nonadmitted assets	1,937,790
Change in asset valuation reserve	191,522
Dividends to stockholders	(14,000,000)
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	18,700,755
Examination adjustments	0
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Capital and surplus - December 31, 2008	\$18,700,755
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Florida Combined Life Insurance Company, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2008

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

	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus
Capital and surplus, December 31, 2008 - per annual statement			\$18,700,755
Total assets	\$32,270,173	\$32,270,173	\$0
Total liabilities	\$13,569,418	\$13,569,418	\$0
Net change in capital and surplus			0
Capital and surplus, December 31, 2008 - per examination			\$18,700,755

COMMENTS ON FINANCIAL STATEMENTS

Cash, Cash Equivalents and Short-Term Investments	\$5,756,321
Amounts Recoverable From Reinsurers	\$596,806
Amounts Receivable Relating To Uninsured Plans	\$1,824,262

The amount reported by the Company in its 2008 annual statement as 'cash, cash equivalents and short-term investments' has been reduced by \$589,431. We found that the Company had not recorded certain claims payments in the total amount of \$589,431. As a result, the amounts reported as 'amounts recoverable from reinsurers' and 'amounts receivable relating to uninsured plans' have been increased by \$442,638 and \$146,793, respectively.

SUMMARY OF RECOMMENDATIONS

Dividends

As reported on page 2, the Company distributed a \$14 million shareholder dividend in 2008 without receiving approval from the Office as required by Section 628.371, F.S. **We recommend that the Company comply with Section 628.371, F.S., with respect to the payment of shareholder dividends.**

Reserves

As reported on page 10, the Company was unable to provide examiners and the Office actuary with a calculation of the amount of its claim reserves before reinsurance ceded as of December 31, 2008, as requested. **We recommend that the Company regularly determine the amount of its gross claim reserves.**

Financial Statement Errors

As reported on page 16, the Company incorrectly reported 'amounts recoverable from reinsurers' and 'amounts receivable relating to uninsured plans' as cash in its 2008 annual statement. **We recommend that the Company correctly classify and report its assets in accordance with the annual statement instructions.**

SUBSEQUENT EVENTS

In its 2009 annual statement, the Company reported net income of \$662,515 for the year, and total capital and surplus of \$20,338,916 as of December 31, 2009.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Florida Combined Life Insurance Company, Inc. as of December 31, 2008, consistent with the insurance laws of the State of Florida.

The Company's total capital and surplus at December 31, 2008 was determined to be \$18,700,755, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus was \$1,500,000.

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

Respectfully submitted,

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