

**Report on Examination**  
**of**  
**Great Atlantic**  
**Life Insurance Company**  
**West Palm Beach, Florida**  
**As Of**  
**December 31, 2002**

**By The**  
**Office of Insurance Regulation**  
**Florida Department of Financial Services**

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Tallahassee, Florida

March 19, 2004

Kevin M. McCarty, Director  
Office of Insurance Regulation  
Florida Department of Financial Services  
Tallahassee, Florida 32399

Alfred W. Gross, Commissioner  
Virginia Bureau of Insurance  
Chairman, NAIC Financial Condition (E) Committee  
P.O. Box 1157  
Richmond, Virginia 23218

Dear Sirs:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners, an examination has been made as of December 31, 2002 of the financial condition and corporate affairs of:

**GREAT ATLANTIC LIFE INSURANCE COMPANY  
2090 PALM BEACH LAKES BLVD., SUITE 200  
WEST PALM BEACH, FLORIDA 33409**

hereinafter generally referred to as the "Company." Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2000 through December 31, 2002. The Company was last examined by representatives of the Florida Office of Insurance Regulation (formerly, the Florida Department of Insurance) (the "Office") as of December 31, 1997. In lieu of conducting statutory financial examinations of the Company for the years 1998 and 1999, the Office accepted the independent certified public accountant's ("CPA") audit report on the Company's statutory-basis financial statements for those years pursuant to Section 624.316(2)(a), Florida Statutes ("F.S."). Planning for the current examination began on July 9, 2003. The fieldwork commenced on August 25, 2003 and concluded on December 19, 2003. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was a statutory financial examination conducted in accordance with the Financial Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the National Association of Insurance Commissioners ("NAIC") as adopted by Rules 4-137.001(4) and 4-138.001, Florida Administrative Code ("F.A.C."), with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC Insurance Regulatory Information System ("IRIS") ratio results, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent CPA were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its 2002 annual statement. Transactions subsequent to December 31, 2002 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the Federal and foreign income tax recoverable account.

#### **STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 1997, along with resulting action taken by the Company.

#### **AFFILIATED COMPANIES**

The Company incorrectly omitted Roger H. Dean and Universal Warranty Corp. from Schedule Y of its 1997 annual statement, and incorrectly omitted Universal Warranty Corp. from its May 13, 1998 Holding Company Registration Statement. Resolution: The Company correctly completed its 2002 Schedule Y; however, as discussed on page 9 of this report, the Company failed to include Automotive Management and Consulting, LLC, an affiliate, in its September 18, 2003 Holding Company Registration Statement.

### COMMISSION AGREEMENT

The Company paid commissions to an affiliate pursuant to a contract that had not been filed with and approved by the Office as required by Section 628.255(1), F.S. Resolution: The agreement was subsequently filed with and approved by the Office.

### CUSTODIAL AGREEMENT

The securities custody agreement between the Company and a financial institution did not contain all terms required by Rule 4-143.042, F.A.C. Resolution: This has not been resolved and the Company remains out of compliance with the rule, as more fully discussed on page 13.

### INVESTMENTS IN BONDS

Certain bonds owned by the Company and issued by an affiliate were non-admitted upon examination, because the Company could not demonstrate that the bonds had been valued in accordance with Section 625.141, F.S. Resolution: No similar exceptions were noted during the current examination.

### INVESTMENTS IN PREFERRED STOCKS

The Company overstated the value of its preferred stock portfolio. Resolution: No similar exceptions were noted during the current examination.

### CASH AND SHORT-TERM INVESTMENTS

The Company incorrectly reported a receivable from a securities brokerage firm as cash. Resolution: No similar exceptions were noted during the current examination.

### ELECTRONIC DATA PROCESSING EQUIPMENT

The Company incorrectly reported as an admitted asset electronic data processing equipment that did not qualify as an admitted asset pursuant to Section 625.012(11), F.S., because its cost was less than \$25,000. Resolution: No similar exceptions were noted during the current examination.

## HISTORY

### GENERAL

The Company was incorporated in Florida in May of 1955.

While the Company currently writes only credit life and credit disability insurance, on December 31, 2002, it was authorized to transact the following insurance coverage in Florida, in accordance with Section 624.401, F.S.:

Life	Group Life & Annuities
Credit Life & Health	Credit Disability

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination.

### CAPITAL STOCK

As of December 31, 2002, the Company's capitalization was as follows:

Number of authorized common capital shares	1,200,000
Number of shares issued and outstanding	1,200,000
Total common capital stock	\$1,200,000
Par value per share	\$1.00

The Company is wholly-owned by Roger Dean Enterprises, Inc., which in turn is wholly-owned by the Roger H. Dean Revocable Trust (Patricia B. Dean, Trustee). The Roger H. Dean Revocable Trust is controlled by and for the benefit of Patricia B. Dean, President of the Company. A simplified organizational chart appears on page 10 of this report.

**PROFITABILITY OF COMPANY**

The Company reported net income of \$1,058,977, \$512,067, and \$406,551 in years 2000, 2001, and 2002, respectively, and premiums of \$1,474,852, \$1,190,205, and \$1,042,989 in those same years. Management indicated that the Company lost a large automobile dealership customer in May of 2003, which had accounted for approximately 20% of the Company’s premiums revenues.

**DIVIDENDS TO STOCKHOLDER**

No stockholder dividends were paid by the Company during the period of this examination.

**MANAGEMENT**

At December 31, 2002, the Company’s board of directors consisted of the following:

**Directors**

<b>Name &amp; Location</b>	<b>Principal Occupation</b>
Michele A. Barkman W. Palm Beach, Florida	Treasurer of the Company
Patricia B. Dean W. Palm Beach, Florida	President of the Company & Vice President of Roger Dean Chevrolet, Inc.
Glen Frye W. Palm Beach, Florida	Chief Financial Officer of the Company
Robert Gerstner W. Palm Beach, Florida	Vice President of the Company
Judith M. Parker-Glover W. Palm Beach, Florida	Secretary of the Company

The following senior officers were appointed by the Board of Directors in accordance with the Company's bylaws:

### **Senior Officers**

<b>Name</b>	<b>Title</b>
Patricia B. Dean	President
Robert Gerstner	Vice President
Michele A. Barkman	Treasurer
Judith M. Parker-Glover	Secretary
Glen Frye	Chief Financial Officer

The Company's board appointed internal committees in accordance with Section 607.0825, F.S. Following are the principal internal board committees and their members as of December 31, 2002:

### **Investment & Audit Committees**

Michele A. Barkman  
Glen Frye  
Robert Gerstner  
Judith M. Parker-Glover

In 2003, Glen Frye and Robert Gerstner resigned, Harry Collins succeeded Robert Gerstner as Vice President, and Julie M. Sothen succeeded Michele A. Barkman as Treasurer.

### **CONFLICT OF INTEREST PROCEDURE**

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

## **CORPORATE RECORDS**

The minutes of the shareholder, Board of Directors, and Investment and Audit Committee meetings were reviewed for the period under examination. The minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., except that there was no evidence that the investments were approved by the Company's board of directors or by one of its authorized committees in accordance with Section 625.304, F.S.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 4-143.045(3), F.A.C. The latest holding company registration statement was filed with the State of Florida on September 18, 2003, as required by Section 628.801, F.S., and Rule 4-143.046, F.A.C. The registration statement did not comply with Rule 4-143.046, F.A.C., in that it did not disclose the ownership of Automotive Management and Consulting, LLC, by the Company's president Patricia B. Dean.

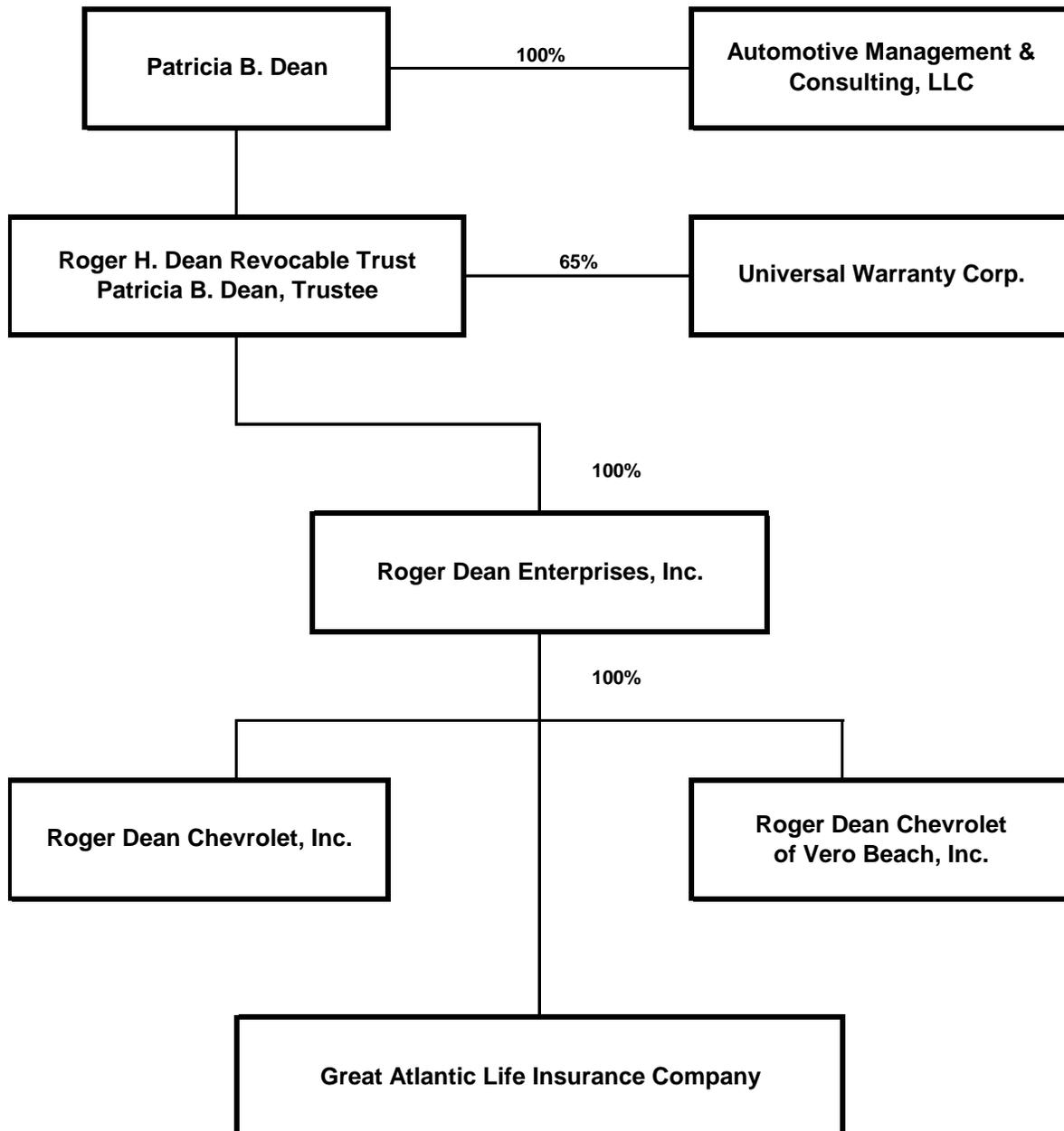
The following agreement was in force between the Company and an affiliate:

### **CONSULTING AGREEMENT**

The Company pays \$120,000 per year in consulting fees to Automotive Management and Consulting, LLC, pursuant to an April 30, 1999 agreement.

A simplified organizational chart as of December 31, 2002 reflecting the holding company system is shown below.

**GREAT ATLANTIC LIFE INSURANCE COMPANY  
ORGANIZATIONAL CHART  
DECEMBER 31, 2002**



## FIDELITY BOND AND OTHER INSURANCE

At December 31, 2002, the Company had no fidelity bond coverage. However, on October 8, 2003, the Company obtained fidelity bond coverage of up to \$150,000, which adequately covered the suggested minimum amount recommended by the NAIC.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company provides health and dental insurance to eligible employees. Other than a 401(k) plan, it does not offer any retirement plans to its employees.

## STATUTORY DEPOSITS

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

<b>State</b>	<b>Description</b>	<b>Par Value</b>	<b>Market Value</b>
FL	Treasurer Concentration Account	\$300,000	\$300,000
FL	CD, Wachovia, 4.8%, 3/3/2003	<u>22,017</u>	<u>22,017</u>
Total special deposits		<u>\$322,017</u>	<u>\$322,017</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **TERRITORY AND PLAN OF OPERATION**

Florida is the only state in which the Company is authorized to transact insurance.

### **REINSURANCE**

The Company has in prior years assumed credit life and credit disability risks from Protective Life Insurance Company; however, no business has been assumed from Protective Life Insurance Company since 1999. The Company's reinsurance agreement was found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, reporting, and settlement information deadlines. The Company did not cede any insurance risk.

### **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory basis financial statements for years 2000, 2001 and 2002, in accordance with Section 624.424(8), F.S. Supporting work papers were prepared by the CPA as required by Rule 4-137.002, F.A.C.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company maintained its principal operational offices in West Palm Beach, Florida, where this examination was conducted.

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

#### **INDEPENDENT AUDIT AGREEMENT**

The company contracts annually with Dale W. Grimm & Co., P.A., for the audit of its statutory basis financial statements.

#### **CUSTODIAL AGREEMENT**

As of December 31, 2002, the Company was party to a securities custody agreement with First National Bank and Trust Company. In 2003, the Company entered into custodial agreements with Mellon Bank and SEI Private Trust. While these agreements provided for the indemnification of the Company in the event of "gross negligence," they did not specifically provide for the indemnification of the Company for any loss of custodied securities occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft or mysterious disappearance, including loss by damage or destruction, as required by Rule 4-143.042, F.A.C.

#### **RISK-BASED CAPITAL**

The Company reported its risk-based capital at an adequate level.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements of the Company's financial position at December 31, 2002, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

**GREAT ATLANTIC LIFE INSURANCE COMPANY**  
**ASSETS**  
**DECEMBER 31, 2002**

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$3,703,420	\$0	\$3,703,420
Preferred stocks	717,500	0	717,500
Common stocks	990,394	0	990,394
First liens - mortgage loans on real estate	2,320,574	0	2,320,574
Cash & short-term investments	<u>6,627,128</u>	<u>0</u>	<u>6,627,128</u>
	14,359,016	0	14,359,016
Federal income tax recoverable & interest thereon	73,435	0	73,435
Life insurance premiums & annuity considerations deferred & uncollected on in force business	27,074	0	27,074
Accident & health premiums due & unpaid	43,837	0	43,837
Investment income due & accrued	<u>85,863</u>	<u>0</u>	<u>85,863</u>
Totals	<u><u>\$14,589,225</u></u>	<u><u>\$0</u></u>	<u><u>\$14,589,225</u></u>

**GREAT ATLANTIC LIFE INSURANCE COMPANY**  
**LIABILITIES, SURPLUS & OTHER FUNDS**  
**DECEMBER 31, 2002**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Aggregate reserve for life contracts	\$2,823,947	\$0	\$2,823,947
Aggregate reserve for A&H contracts	1,138,480	0	1,138,480
Contract claims: Life	63,166	0	63,166
Contract claims: A&H	152,283	0	152,283
Interest maintenance reserve	264,696	0	264,696
Commissions to agents	24,188	0	24,188
Commissions & allowances payable on reinsurance	(67)	0	(67)
General expenses due or accrued	1,553	0	1,553
Federal & foreign income taxes	7,215	0	7,215
Amounts held for agents' account	7,767	0	7,767
Asset valuation reserve	(193,603)	0	(193,603)
Aggregate write-ins for liabilities	<u>667</u>	<u>0</u>	<u>667</u>
Total liabilities	4,290,292	0	4,290,292
<b>Capital &amp; Surplus</b>			
Gross paid in and contributed surplus	129,890	0	129,890
Unassigned funds (surplus)	<u>8,969,043</u>	<u>0</u>	<u>8,969,043</u>
Surplus	9,098,933	0	9,098,933
Common capital stock	<u>1,200,000</u>	<u>0</u>	<u>1,200,000</u>
Total capital & surplus	<u>10,298,933</u>	<u>0</u>	<u>10,298,933</u>
Total liabilities, capital and surplus	<u>\$14,589,225</u>	<u>\$0</u>	<u>\$14,589,225</u>

**GREAT ATLANTIC LIFE INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

**Income**

Premiums & annuity considerations for life & A&H contracts	\$1,042,989
Net investment income	910,113
Amortization of interest maintenance reserve	23,834
Aggregate write-ins for miscellaneous income	12,948
	<u>1,989,884</u>
Death benefits	\$218,444
Disability benefits & benefits under A&H contracts	281,408
Increase in aggregate reserves for life & A&H contracts	(235,984)
	<u>263,868</u>
Commissions on premiums, annuities, & deposit-type contract funds	564,261
Commissions & expense allowances on reinsurance assumed	(5,791)
General insurance expenses	609,864
Insurance taxes, licenses, & fees	120,057
Increase in loading on deferred & uncollected premiums	5,173
	<u>1,557,432</u>
Gain before income taxes & net realized capital losses	432,452
Federal income taxes	25,899
Gain before net realized capital losses	406,553
Net realized capital gains (losses)	(2)
Net income	<u><u>\$406,551</u></u>

**Capital & Surplus**

Capital & surplus - December 31, 2001	\$6,877,414
Net income	406,551
Change in net unrealized capital gains	2,684,760
Change in net deferred income tax	(1,357)
Change in nonadmitted assets & related items	30,178
Change in asset valuation reserve	301,387
	<u>10,298,933</u>
Examination adjustments	0
Capital & surplus - December 31, 2002	<u><u>\$10,298,933</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

**Losses and Loss Adjustment Expenses** **\$3,962,427**

An outside actuarial firm appointed by the Board of Directors rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2002 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office's actuary reviewed work papers provided by the Company and concurred with this opinion.

**Asset Valuation Reserve** **(\$193,603)**

It was noted during the examination that the Asset Valuation Reserve (AVR) was reported at (\$193,603). The NAIC instructions require that an AVR may not be less than zero. The Company subsequently corrected the calculation resulting in an AVR of \$91,003. No financial adjustment was made since this correction was below the materiality level for the examination.

**GREAT ATLANTIC LIFE INSURANCE COMPANY  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS  
DECEMBER 31, 2002**

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

Capital & surplus, December 31, 2002, per annual statement				\$10,298,933
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Surplus</u>	
Assets	\$14,589,225	\$14,589,225	\$0	
Liabilities	\$4,290,292	\$4,290,292	<u>\$0</u>	
Net change in capital and surplus				<u>0</u>
Capital & surplus, December 31, 2002, per examination				<u><u>\$10,298,933</u></u>

## SUMMARY OF FINDINGS

### COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken necessary action to comply with the comments contained in the Office's 1997 examination report, except as indicated below.

### AFFILIATED COMPANIES

As reported on page 2, the Company incorrectly omitted Roger H. Dean and Universal Warranty Corp. from Schedule Y of its 1997 annual statement, and incorrectly omitted Universal Warranty Corp. from its May 13, 1998 Holding Company Registration Statement. As discussed on page 9, the Company failed to include Automotive Management and Consulting, LLC, an affiliate, in its September 18, 2003 Holding Company Registration Statement. **The Company is directed to comply with Rule 4-143.046, F.A.C.**

### CUSTODIAL AGREEMENT

As reported on page 3, the Company's securities custody agreement with a financial institution did not contain all terms required by Rule 4-143.042, F.A.C. This has not been resolved and the Company remains out of compliance with the rule, as more fully discussed on page 13. The current exam revealed that the Company's custodial agreements do not specifically provide for the indemnification of the Company for any loss of custodied securities occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft or mysterious disappearance, including loss by damage or destruction, as required by Rule 4-143.042, F.A.C. **The Company is directed to comply with Rule 4-143.042, F.A.C.**

## **CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION**

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2002.

### AUTHORIZATION OF INVESTMENTS

As discussed on page 8, there was no evidence that the Company's investments were approved by its board of directors or by an authorized committee of its board of directors as required by Section 625.304, F.S. **The Company is directed to comply with Section 625.304, F.S., regarding the authorization of its investments.**

### FIDELITY BOND COVERAGE

As reported on page 11, the Company had no fidelity bond coverage on December 31, 2002. However, on October 8, 2003, the Company obtained fidelity bond coverage of up to \$150,000, which adequately covered the suggested minimum amount recommended by the NAIC. **The Company is directed to maintain fidelity bond coverage at the suggested minimum amount recommended by the NAIC.**

### ASSET VALUATION RESERVE

As reported on page 18, the Company failed to calculate the Asset Valuation Reserve in accordance with the NAIC Statement Instructions. The NAIC instructions require that an AVR may not be less than zero. **In the future, the Company is directed to calculate the Asset Valuation Reserve in accordance with NAIC instructions.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Great Atlantic Life Insurance Company** as of December 31, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's capital and surplus was \$10,298,933, which was in compliance with Section 624.408, F.S.

In addition to the undersigned, Frank W. Brooks, CFE, Financial Examiner/Analyst Supervisor; Ruth Lieberman, CPA, AFE, Financial Specialist; Kerry A. Krantz, F.S.A., M.A.A.A., Actuary; and American Express Tax and Business Services, Inc. participated in this examination.

Respectfully submitted,

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Steven A. Steele, Financial Specialist  
Office of Insurance Regulation