

**Report on Examination**  
**of**  
**J.M.I.C. Life Insurance Company**  
**Deerfield Beach, Florida**  
**as of**  
**December 31, 2009**

**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 Southeastern 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 McCarty and Clark and Superintendent Torti:

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 J.M.I.C. Life Insurance Company as of December 31, 2009. Our report on the examination follows.

Florida Office of Insurance Regulation  
November 4, 2010

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2009 of J.M.I.C. 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, 2004.

This examination covered the period of January 1, 2007 through December 31, 2009. 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 located in Deerfield Beach, Florida, where this examination was conducted.

## **COMPANY HISTORY**

The Company was incorporated in Arizona on April 16, 1979, commenced business on June 1, 1979 as a stock life and health insurer, and ceased writing insurance effective December 31, 2006. It was authorized to transact credit life and credit disability insurance business in Florida, in accordance with Section 624.401(1), Florida Statutes (F.S.).

### **Dividends and Capital Contributions**

The Company distributed shareholder dividends in the amounts of \$55 million and \$28 million during 2008 and 2009, respectively. During the period of this examination, it did not receive capital contributions.

### **Sale of Subsidiary**

The Company sold its voting common stock in Southeast Family Life Insurance Company (Southeast), an Arizona domiciled life and disability reinsurer, pursuant to a stock purchase agreement effective February 19, 2007. The sale price was \$480,122 to be further adjusted over a seven year period for certain variable amounts related to the run-off of the Company's credit insurance business reinsured by Southeast.

## CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors and Audit 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. However, the Company was unable to provide written records of shareholder meetings in 2008 and 2009 for the election of directors as required by Section 607.0701(1), F.S. The Company's shareholder elected the Company's directors as of April 16, 2010, effective May 20, 2008 and May 19, 2009, by unanimous written consents in lieu of annual meetings.

## MANAGEMENT AND CONTROL

The Company was wholly-owned by JM Family Enterprises, Inc. (JMFE), a Delaware company. It was affiliated through common ownership with Courtesy Insurance Company, a Florida property and casualty insurer, and Fidelity Warranty Services, Inc. (Fidelity), a motor vehicle service agreement company and service warranty association.

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

### Senior Officers

<u>Name</u>	<u>Title</u>
Forrest W. Heathcott, III	President
Ronald M. Coombs	Senior Vice President and Chief Operating Officer
William F. Curran	Senior Vice President, Chief Financial Officer and Assistant Treasurer
Maria K. Guttuso	Vice President, General Counsel and Secretary
Jorge E. Gonzalez	Vice President - Corporate Taxes
Donna C. McWilliams	Vice President and Assistant Treasurer
Eric M. Gebhard	Treasurer
Chris W. Costello	Assistant Secretary

**Board of Directors**

<b>Name</b>	<b>Location</b>
Colin W. Brown	Boca Raton, Florida
Brent D. Burns	Sea Ranch Lakes, Florida
Ronald M. Coombs	Boca Raton, Florida
William F. Curran	Plantation, Florida
Forrest W. Heathcott, III	Boca Raton, Florida
Donna C. McWilliams	Boca Raton, Florida

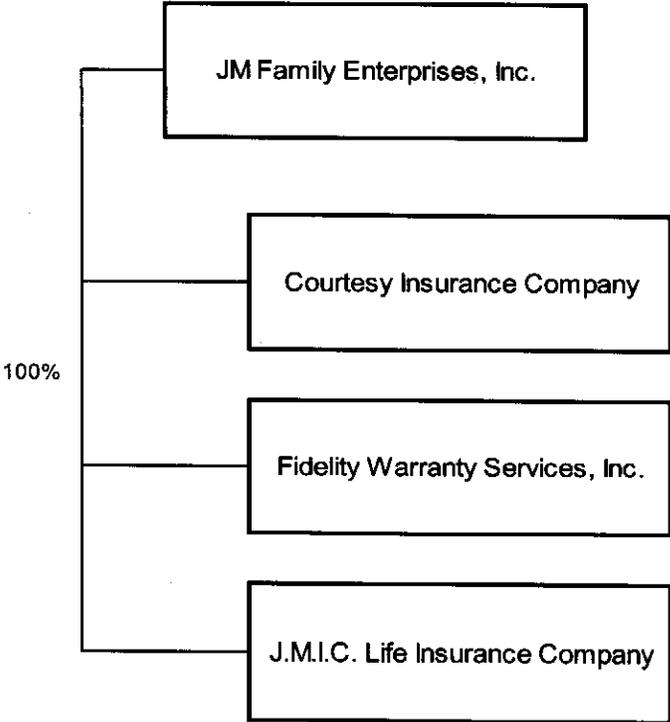
**Audit Committee**

Colin W. Brown  
Brent D. Burns  
Ronald M. Coombs  
Forrest W. Heathcott, III

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 February 23, 2010.

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

**J.M.I.C. Life Insurance Company  
Abbreviated Organizational Chart  
December 31, 2009**



On September 27, 2006, the Office ordered Fidelity to pay an administrative penalty of \$50,000 and costs of \$5,000 for failing to maintain a warranty register which complied with Section 634.136(4), F.S., using rates that had not been filed with the Office as required by Section 634.1216, F.S., and committing certain other violations of Chapter 634, F.S. On March 20, 2009, the Office ordered Fidelity to pay an additional administrative penalty of \$100,000 and costs of \$10,000 for continued use of unfiled rates and a warranty register which did not comply with Section 634.136(4), F.S.

JMFE provided administrative services to the Company pursuant to an administrative services agreement dated December 18, 2000 and amended on April 13, 2010 in return for reimbursement of allocated costs.

The results of the Company's operations were included in the consolidated federal income tax return of JMFE pursuant to a January 1, 2005 tax allocation agreement. Consolidated income tax liability was allocated to members of the consolidated group on a pro rata basis according to the separate return tax liabilities of included members.

## FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on a fidelity bond maintained by JMFE. The amount of coverage was \$25,000,000 with a deductible of \$100,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$4,500,000.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered to eligible employees benefits including health and dental insurance, educational assistance, and participation in a Section 401(k) retirement plan sponsored by JMFE.

## TERRITORY AND PLAN OF OPERATION

The primary business of the Company was in the direct writing and reinsurance of credit life and credit accident and health insurance to individuals who purchased vehicles from dealers. The Company ceased writing insurance effective December 31, 2006. During the period of this examination, the Company continued to administer its in-force business. It was authorized to transact insurance in the District of Columbia and all U.S. states except California, Michigan and New York.

## COMPANY GROWTH

The Company reported the following for years 2007, 2008 and 2009:

(In millions)	2007	2008	2009
Net premiums	\$ (9.0)	\$ (6.6)	\$ (23.5)
Total revenues	\$ 2.5	\$ 1.1	\$ (23.7)
Net income	\$ 5.6	\$ 13.9	\$ 12.3
Capital and surplus	\$ 87.2	\$ 47.2	\$ 32.3

## **REINSURANCE**

The Company assumed and ceded insurance on a coinsurance basis. All of the Company's ceded reinsurance activities were related to agreements to reinsure premiums generated by certain automotive dealers with the dealers' captive insurance companies, or with reinsurers in which the dealers had an ownership interest. The reinsurance agreements were reviewed and found to comply with Florida Statutes and NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines.

## **ACCOUNTS AND RECORDS**

The Company contracted with The Bank of New York to loan certain of the Company's securities to others from time to time in accordance with a securities lending agreement and guaranty. The Company reported that none of its securities were loaned out as of December 31, 2009.

The Company entered into a securities custody agreement with BNY Trust Company of Florida, N.A., on December 18, 1997. The agreement did not contain provisions required by subsections (j) and (o) of Rule 69O-143.042(2), F.A.C., relating to adequate insurance protection and the provision of notification to the Office. Subsequently, the Company entered into a custody agreement with The Bank of New York Mellon, as custodian, as of December 15, 2010, in which the custodian agreed to comply with the requirements of subsections (j) and (o) of the rule.

The examination included a review of the Company's controls over its information systems. While the controls were found to be generally adequate, certain deficiencies in the areas of logical security, management and organizational control, and contingency planning were identified and separately communicated to the Company.

## 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	\$ 600,000	\$ 619,992
Florida	U.S. Treasury Notes	1,000,000	1,085,080
Florida	U.S. Treasury Bond	3,800,000	4,445,406
Total Florida deposits		5,400,000	6,150,478
Georgia	U.S. Treasury Bond	25,000	30,539
Massachusetts	U.S. Treasury Note	100,000	108,508
New Hampshire	U.S. Treasury Note	500,000	532,500
New Mexico	U.S. Treasury Note	100,000	103,332
North Carolina	U.S. Treasury Bond	400,000	488,625
North Carolina	U.S. Treasury Note	110,000	113,665
Virginia	U.S. Treasury Note	250,000	271,270
Total deposits		\$ 6,885,000	\$ 7,798,917

**J.M.I.C. Life Insurance Company**  
**Assets**  
**December 31, 2009**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 42,031,814	\$ -	\$ 42,031,814
Preferred stocks	3,252	-	3,252
Cash, cash equivalents and short-term investments	11,640,634	-	11,640,634
Other invested assets	145,839	-	145,839
	53,821,539	-	53,821,539
Investment income due and accrued	481,196	-	481,196
Amounts recoverable from reinsurers	293,530	-	293,530
Other amounts receivable under reinsurance contracts	36,794	-	36,794
Net deferred tax asset	300,469	-	300,469
Receivables from parent, subsidiaries and affiliates	-	1,142,165	1,142,165
Aggregate write-ins for other than invested assets	5,390	-	5,390
<b>Total assets</b>	<b>\$ 54,938,918</b>	<b>\$ 1,142,165</b>	<b>\$ 56,081,083</b>

**J.M.I.C. Life Insurance Company**  
**Liabilities, Capital and Surplus**  
**December 31, 2009**

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$ 4,641,442	\$ -	\$ 4,641,442
Aggregate reserve for accident and health contracts	12,854,745	-	12,854,745
Contract claims - life	129,234	-	129,234
Contract claims - accident and health	335,596	-	335,596
Other amounts payable on reinsurance	112,841	-	112,841
Interest maintenance reserve	1,823,787	-	1,823,787
Commissions to agents due or accrued	95,403	-	95,403
General expenses due or accrued	266,390	-	266,390
Taxes, licenses and fees due or accrued	46,100	59,858	105,958
Current federal and foreign income taxes	-	1,962,733	1,962,733
Amounts held for agents account	11,206	-	11,206
Asset valuation reserve	16,960	-	16,960
Reinsurance in unauthorized companies	479,470	-	479,470
Funds held under reinsurance treaties with unauthorized reinsurers	177,466	-	177,466
Payable to parent, subsidiaries and affiliates	820,126	(820,126)	-
Aggregate write-ins for liabilities	789,701	-	789,701
<b>Total liabilities</b>	<b>22,600,467</b>	<b>1,202,465</b>	<b>23,802,932</b>
<b>Capital and Surplus</b>			
Common capital stock	2,500,000	-	2,500,000
Gross paid in and contributed surplus	11,600,000	-	11,600,000
Unassigned funds	18,238,451	(60,300)	18,178,151
<b>Total capital and surplus</b>	<b>32,338,451</b>	<b>(60,300)</b>	<b>32,278,151</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 54,938,918</b>	<b>\$ 1,142,165</b>	<b>\$ 56,081,083</b>

**J.M.I.C. Life Insurance Company**  
**Summary of Operations**  
**(As reported by the Company)**  
**For The Year Ended December 31, 2009**

Premiums and annuity considerations	\$ (23,466,312)
Net investment income	2,700,253
Amortization of interest maintenance reserve	171,731
Commissions and expense allowances on reinsurance ceded	(3,099,248)
<b>Total revenues</b>	<b>(23,693,576)</b>
Death benefits	2,234,006
Disability benefits and benefits under accident and health contracts	5,864,201
Increase in aggregate reserves for life and accident and health contracts	(22,546,904)
	(14,448,697)
Commissions on premiums	(12,311,693)
Commissions and expense allowances on reinsurance assumed	(24,836)
General insurance expenses	(17,953,416)
Insurance taxes, licenses and fees, excluding federal income taxes	500,526
Aggregate write-ins for deductions	300
	(44,237,816)
Net gain from operations before income taxes and capital gains or losses	20,544,240
Federal income taxes	7,013,020
Net gain from operations before capital gains or losses	13,531,220
Net realized capital gains (losses)	(1,252,216)
<b>Net income</b>	<b>\$ 12,279,004</b>

**J.M.I.C. Life Insurance Company**  
**Statement of Changes in Capital and Surplus**  
**For The Three Years Ended December 31, 2009**

Capital and surplus - December 31, 2006	\$ 80,504,545
Net income	5,621,498
Change in net unrealized capital gains and losses	(3,071,914)
Change in net deferred income tax	(3,900,298)
Change in nonadmitted assets and related items	1,792,870
Change in liability for reinsurance in unauthorized companies	1,716,515
Change in asset valuation reserve	4,548,522
<hr/>	
Capital and surplus - December 31, 2007	87,211,738
Net income	13,851,390
Change in net unrealized capital gains and losses	(13,326)
Change in net deferred income tax	(1,428,928)
Change in nonadmitted assets and related items	1,448,392
Change in liability for reinsurance in unauthorized companies	681,121
Change in asset valuation reserve	465,324
Dividends to stockholder	(55,000,000)
<hr/>	
Capital and surplus - December 31, 2008	47,215,711
Net income	12,279,004
Change in net unrealized capital gains and losses	(121,664)
Change in net deferred income tax	(1,453,301)
Change in nonadmitted assets and related items	2,085,077
Change in liability for reinsurance in unauthorized companies	334,124
Change in asset valuation reserve	(500)
Dividends to stockholder	(28,000,000)
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	32,338,451
Examination adjustments	(60,300)
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Capital and surplus - December 31, 2009	\$ 32,278,151
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**J.M.I.C. Life Insurance Company**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2009**

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	
<b>Capital and surplus, December 31, 2009 - per annual statement</b>				<b>\$ 32,338,451</b>
<b>Assets:</b>				
Receivables from parent, subsidiaries and affiliates	\$ -	\$ 1,142,165	\$ 1,142,165	
<b>Liabilities:</b>				
Taxes, licenses and fees due or accrued	\$ 46,100	\$ 105,958	\$ (59,858)	
Current federal and foreign income taxes	\$ -	\$ 1,962,733	\$ (1,962,733)	
Payable to parent, subsidiaries and affiliates	\$ 820,126	\$ -	\$ 820,126	
<b>Net change in capital and surplus</b>				<b>(60,300)</b>
<b>Capital and surplus, December 31, 2009 - per examination</b>				<b>\$ 32,278,151</b>

## COMMENTS ON FINANCIAL STATEMENTS

<b>Receivables From Parent, Subsidiaries and Affiliates</b>	<b>\$1,142,165</b>
<b>Taxes, Licenses and Fees Due or Accrued</b>	<b>\$105,958</b>
<b>Current Federal and Foreign Income Taxes</b>	<b>\$1,962,733</b>
<b>Payable to Parent, Subsidiaries and Affiliates</b>	<b>\$0</b>

The Company's 'receivables from parent, subsidiaries and affiliates', 'taxes, licenses and fees due or accrued', and 'current federal and foreign income taxes' accounts, as reported in its 2009 annual statement, have been increased by \$1,142,165, \$59,858, and \$1,962,733, respectively. Additionally, its 'payable to parent, subsidiaries and affiliates' account has been reduced by \$820,126. In its 2009 annual statement, the Company incorrectly reported its federal and state income taxes payable as 'payable to parent, subsidiaries and affiliates' in the amounts of \$1,962,733 and \$59,858, respectively, and overstated the amount otherwise due from its parent by \$60,300. Consequently, the account balances were adjusted upon examination and the Company's surplus has been reduced by \$60,300.

## SUMMARY OF RECOMMENDATIONS

### Annual Shareholder Meetings

As reported on page 3, the Company was unable to provide written records of shareholder meetings in 2008 and 2009 for the election of directors. The Company's shareholder elected the Company's directors as of April 16, 2010, effective May 20, 2008 and May 19, 2009, by unanimous written consents in lieu of annual meetings. **We recommend that the Company hold annual meetings of its shareholder for the election of directors as required by Section 607.0701(1), F.S., and maintain written records of those meetings.**

### Securities Custody Agreement

As reported on page 8, the Company's securities custody agreement did not contain provisions required by subsections (j) and (o) of Rule 690-143.042(2), F.A.C., relating to adequate insurance protection and the provision of notification to the Office. Subsequently, the Company entered into a custody agreement with The Bank of New York Mellon, as custodian, as of December 15, 2010, in which the custodian agreed to comply with the requirements of subsections (j) and (o) of the rule. **We recommend that the Company comply with Rule 690-143.042(2), F.A.C., with respect to its securities custody agreements.**

### Controls Over Information Technology

As reported on page 8, certain deficiencies in the Company's controls over its information systems were identified and separately communicated to the Company. **We recommend that the Company implement controls sufficient to remedy the identified weaknesses.**

### Accounting and Reporting Errors

In its 2009 annual statement, the Company inaccurately reported the amounts of certain liabilities and an asset, and overstated its surplus by \$60,300, as reported on page 15. **We recommend that, in future statements filed with the Office, the Company accurately report its assets and liabilities in accordance with the NAIC annual statement instructions and Section 625.041, F.S.**

### **SUBSEQUENT EVENTS**

In its quarterly statement as of June 30, 2010, the Company reported the distribution of a \$15 million shareholder dividend. Payment of the dividend was approved by the Office on May 13, 2010.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of J.M.I.C. Life Insurance Company as of December 31, 2009, consistent with the insurance laws of the State of Florida.

The Company's total capital and surplus at December 31, 2009 was determined to be \$32,278,151, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus was \$1,645,870.

In addition to the undersigned, the following individuals participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Kerry A. Krantz, Actuary; M. Alison Miele, CFE, Financial Examiner/Analyst; and Scott R. Slaughter, CPA, Financial Examiner/Analyst.

Respectfully submitted,

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