

Report on Examination
of
J.M.I.C. Life Insurance Company
Deerfield Beach, Florida
as of
December 31, 2004

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

May 1, 2006

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0326

Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chair, 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 (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2004, of the financial condition and corporate affairs of:

J.M.I.C. Life Insurance Company
500 Jim Moran Blvd.
Deerfield Beach, Florida 33442

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, 2002 through December 31, 2004. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 1999. In lieu of conducting statutory financial examinations of the Company for the years 2000 and 2001, the Office accepted the independent certified public accountant's (CPA) audit reports on the Company's statutory-basis financial statements for those years pursuant to Section 624.316(2)(a), F.S.

Planning for the current examination began on April 4, 2005. The fieldwork commenced on May 9, 2005, was temporarily suspended on September 23, 2005, and concluded on March 22, 2006. 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 an association zone statutory financial condition examination conducted in accordance with the NAIC *Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual*, and *Annual Statement Instructions* as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (F.A.C.), with due regard to the 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 they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC Insurance Regulatory Information System (IRIS) ratio results, *Best's Insurance Reports*, 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 Company's assets and liabilities as reported by the Company in its 2004 annual statement. Transactions subsequent to December 31, 2004 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 require special explanation or description.

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, 1999, along with resulting action taken by the Company in connection therewith.

Corporate Records

The Company's audit committee did not prepare a record of actions taken by it, as required by Section 607.1601, F.S. Resolution: The Company's audit committee now prepares records of action taken.

Reinsurance Agreements

Certain reinsurance agreements between the Company and unauthorized reinsurers did not contain a provision designating the commissioner or a designated attorney as the assuming insurer's true and lawful attorney upon whom may be served any lawful process, as required by Section 624.610, F.S. Resolution: During the current examination, the agreements were found to contain the required provision.

HISTORY

GENERAL

The Company was incorporated in Arizona on April 16, 1979, and commenced business on June 1, 1979 as a stock life and health insurer. On December 31, 1986, it re-domesticated to Florida.

The Company is authorized to transact credit life and credit disability insurance business in Florida, in accordance with Section 624.401(1), F.S.

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, 2004, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
Par value per share	\$1.00

At December 31, 2004, the Company was wholly-owned and controlled by JM Family Enterprises, Inc. An abbreviated organizational chart appears on page 8.

PROFITABILITY

For the period of this examination, the Company reported the following:

(In \$ Millions)	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net premiums	\$37.8	\$40.8	\$51.7
Total revenues	\$58.0	\$66.1	\$78.5
Net income	\$7.2	\$5.9	\$3.2
Total capital & surplus	\$76.1	\$69.6	\$62.5

DIVIDENDS

The Company did not pay any shareholder dividends during the period of this examination.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 628.231, F.S. Directors serving as of December 31, 2004 were:

Directors	
Name and Location	Principal Occupation
Colin W. Brown Boca Raton, Fla.	President & Chief Executive Officer of JM Family Enterprises, Inc.
Ronald M. Coombs Boca Raton, Fla.	Chief Financial Officer of the Company
William F. Curran Plantation, Fla.	Chief Operating Officer of the Company
Louis R. Feagles Boca Raton, Fla.	President of the Company
Donna C. McWilliams Boca Raton, Fla.	Vice President of Finance of the Company
Patricia G. Moran Boca Raton, Fla.	Chairman of JM Family Enterprises, Inc.
Mark S. Walter Boca Raton, Fla.	Corporate Controller and Vice President of JM Family Enterprises, Inc.

At December 31, 2004, members of the principal committees of the Board were:

Audit Committee

Colin W. Brown
Louis R. Feagles
Mark S. Walter
William F. Curran

Investment Committee

William F. Curran
Ronald M. Coombs
Donna C. McWilliams

The following were the Company's senior officers as of December 31, 2004, as appointed by its board of directors in accordance with the Company's bylaws:

Senior Officers	
Name	Title
Louis R. Feagles	President
Maria K. Guttuso	Vice President & General Counsel
Donna C. McWilliams	Vice President of Finance
James D. Williams	Vice President
John J. Whelan	Secretary
Patrick C. Ossenbeck	Treasurer
William F. Curran	Chief Operating Officer
Ronald M. Coombs	Chief Financial Officer

CONFLICT OF INTEREST PROCEDURE

The Company 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 recorded minutes of the shareholder, Board of Directors, Investment Committee, 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.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), 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 April 27, 2005.

The Company owns 100% of the outstanding voting common stock of Southeast Family Life Insurance Company (Southeast). Participating preferred stock of Southeast is owned by certain automobile dealers. Southeast's primary business is the reinsurance of policies issued by the Company.

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

MANAGEMENT AGREEMENT – SUBSIDIARY

The Company provided management and reporting services to Southeast pursuant to a January 1, 1986 agreement, in return for an annual fee of \$5,000 plus expenses for personnel, printing, and supplies.

MANAGEMENT AGREEMENT – PARENT

JM Family Enterprises, Inc. provides management and information technology services to the Company pursuant to a January 1, 2000 agreement, in return for fees which amounted to \$1.2 million, \$2.0 million, and \$1.9 million in years 2004, 2003, and 2002, respectively.

MARKETING AGREEMENT – AFFILIATE

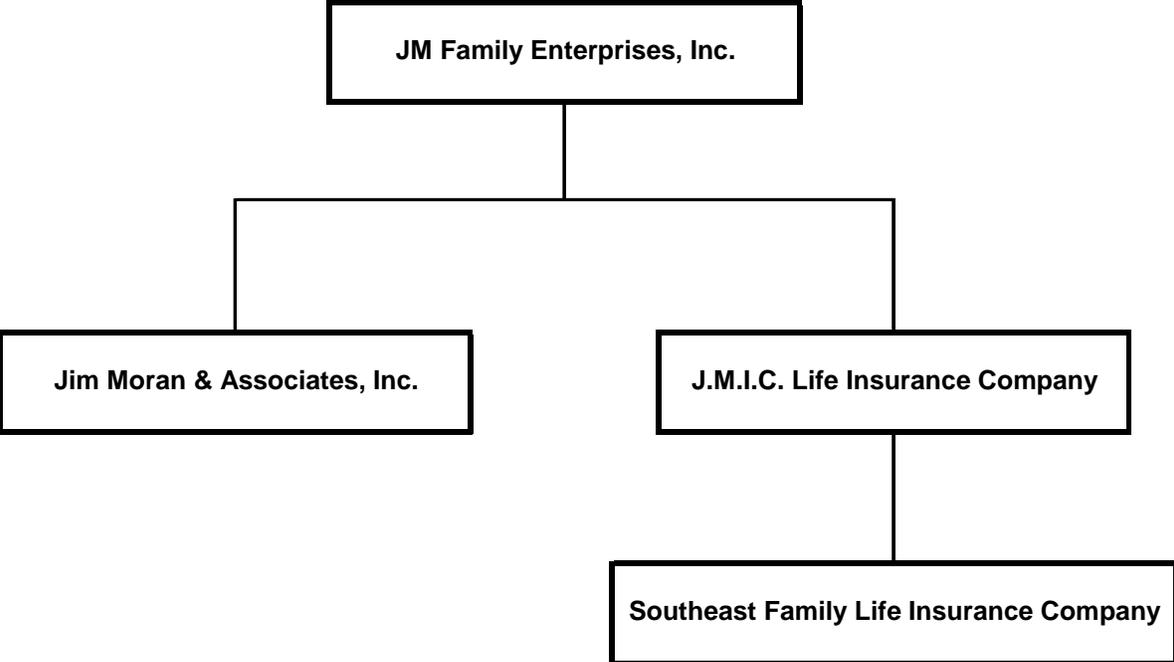
Jim Moran & Associates, Inc. provides marketing services to the Company pursuant to a January 1, 1987 agreement, in return for fees which amounted to \$1.0 million, \$1.2 million, and \$1.4 million in years 2004, 2003, and 2002, respectively.

TAX ALLOCATION AGREEMENT

The results of the Company's operations are included in the consolidated income tax return of JM Family Enterprises, Inc. pursuant to a January 1, 1991 tax allocation agreement. The agreement provides that for each taxable period, each member of the affiliated group shall compute its separate tax liability as if it had filed a separate tax return and shall pay that amount to the parent company JM Family Enterprises, Inc.

An abbreviated organizational chart as of December 31, 2004 reflecting the holding company system is shown below. Schedule Y of the Company's 2004 annual statement provided the names of all related companies in the holding company group.

**J.M.I.C. Life Insurance Company
Organizational Chart
December 31, 2004**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$1 million with a deductible of \$250,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Because the Company has no direct employees, it has no employee benefit plans.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with various other governments as required or permitted by law:

Holder	Description	Rate	Due	Par	Market
Florida	U.S. Treasury Note	5.63%	5/15/2008	\$200,000	\$214,516
Florida	U.S. Treasury Bond	6.00%	2/15/2026	<u>5,100,000</u>	<u>5,704,322</u>
Total Florida Deposits				<u>5,300,000</u>	<u>5,918,838</u>
Georgia	U.S. Treasury Bond	6.25%	5/15/2030	25,000	29,890
Massachusetts	U.S. Treasury Note	5.63%	5/15/2008	500,000	536,290
New Hampshire	U.S. Treasury Note	5.75%	8/15/2010	600,000	660,558
New Mexico	U.S. Treasury Note	5.75%	8/15/2010	100,000	110,098
North Carolina	U.S. Treasury Bond	6.25%	5/15/2030	400,000	478,236
North Carolina	U.S. Treasury Note	5.75%	8/15/2010	110,000	121,108
Virginia	U.S. Treasury Note	5.63%	5/15/2008	<u>250,000</u>	<u>268,145</u>
Total Special Deposits				<u><u>\$7,285,000</u></u>	<u><u>\$8,123,163</u></u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Through licensed agents and brokers, the Company markets credit life and credit accident and health products to individuals who have purchased new or used automobiles from dealers.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company was authorized to transact insurance business in the District of Columbia and all U.S. states other than California, Michigan, New York, and Vermont.

TREATMENT OF POLICYHOLDERS

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The Company assumed insurance primarily on a coinsurance basis from two unaffiliated companies. It ceded insurance primarily on a coinsurance and non-proportional basis. All of the Company's ceded reinsurance activities are related to agreements to reinsure premiums generated by certain automotive dealers to the dealers' captive insurance companies, or to reinsurers in which the dealers have 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

An independent CPA audited the Company's statutory-basis financial statements annually for years 2002, 2003, and 2004, pursuant to Section 624.424(8), F.S. Supporting work papers were prepared by the CPA as required by Rule 69O-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 in its annual statement submitted to the Office.

The Company's main administrative office is located in Deerfield Beach, Florida, where this examination was conducted.

RISK-BASED CAPITAL

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

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

CUSTODIAL AGREEMENT

Pursuant to a custodial agreement with the Company, the Bank of New York provides securities custodial services to the Company. The agreements call for the bank to hold and safely keep Company securities. Fees related to this agreement were \$51,443, \$63,341, and \$54,677 in the years 2004, 2003, and 2002, respectively.

INVESTMENT ADVISORY AGREEMENTS

The Company utilized the services of six investment advisors to manage portions of its investment portfolio. The advisory agreements require the investment advisors to comply with the conditions contained in the Company's master investment policy. Fees related to this agreement were \$535,914, \$616,640, and \$565,877 in the years 2004, 2003, and 2002, respectively.

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with PricewaterhouseCoopers LLP to conduct its annual audit during the period under review. Fees related to this agreement were \$80,092, \$38,000, and \$97,032 in years 2004, 2003, and 2002, respectively.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2004, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

J.M.I.C. Life Insurance Company
Assets
December 31, 2004

	Per Company	Examination Adjustments	Per Examination
Bonds	\$186,730,937	\$0	\$186,730,937
Common stocks	29,292,247	0	29,292,247
Cash, cash equivalents, and short-term investments	12,263,872	0	12,263,872
Receivable for securities	14,988	0	14,988
	<u>228,302,044</u>	<u>0</u>	<u>228,302,044</u>
Investment income due and accrued	2,201,197	0	2,201,197
Amounts recoverable from reinsurers	1,722,541	0	1,722,541
Other amounts receivable under reinsurance contracts	1,852,605	0	1,852,605
Net deferred tax asset	1,772,144	0	1,772,144
Aggregate write-ins for other than invested assets	100	0	100
Total assets	<u><u>\$235,850,631</u></u>	<u><u>\$0</u></u>	<u><u>\$235,850,631</u></u>

J.M.I.C. Life Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$46,595,488	\$0	\$46,595,488
Aggregate reserve for A&H contracts	87,400,177	0	87,400,177
Contract claims - life	2,055,398	0	2,055,398
Contract claims - accident and health	1,380,012	0	1,380,012
Other amounts payable on reinsurance	3,384,272	0	3,384,272
Interest maintenance reserve	4,993,973	0	4,993,973
Commissions to agents due or accrued	985,890	0	985,890
Commissions and expense allowances payable on reinsurance assumed	39,939	0	39,939
General expenses due or accrued	1,996,262	0	1,996,262
Taxes, licenses and fees due or accrued	214,790	0	214,790
Current federal & foreign income taxes	579,127	0	579,127
Amounts held for agents' account	940,815	0	940,815
Asset valuation reserve	3,663,481	0	3,663,481
Reinsurance in unauthorized companies	3,941,179	0	3,941,179
Funds held under reinsurance treaties with unauthorized reinsurers	382,003	0	382,003
Payable to parent, subsidiaries and affiliates	639,533	0	639,533
Payable for securities	24,853	0	24,853
Aggregate write-ins for liabilities	576,188	0	576,188
Total liabilities	<u>159,793,380</u>	<u>0</u>	<u>159,793,380</u>
Capital and Surplus			
Gross paid in and contributed surplus	11,600,000	0	11,600,000
Unassigned funds (surplus)	61,957,251	0	61,957,251
Surplus	73,557,251	0	73,557,251
Common capital stock	2,500,000	0	2,500,000
Total capital and surplus	<u>76,057,251</u>	<u>0</u>	<u>76,057,251</u>
Total liabilities, capital and surplus	<u>\$235,850,631</u>	<u>\$0</u>	<u>\$235,850,631</u>

J.M.I.C. Life Insurance Company
Summary of Operations
For the Year Ended December 31, 2004

Premiums and annuity considerations		\$37,794,709
Net investment income		7,934,588
Amortization of interest maintenance reserve		1,058,848
Commissions & expense allowances on reinsurance		11,163,895
Aggregate write-ins for miscellaneous income		5,000
		<u>57,957,040</u>
Death benefits	\$7,862,032	
Disability benefits and benefits under A&H contracts	13,213,229	
Increase in aggregate reserves for life and A&H contracts	(7,716,608)	
	<u>13,358,653</u>	
Commissions on premiums	26,173,672	
Commissions and expense allowances on reinsurance	1,093,883	
General insurance expenses	7,271,166	
Insurance taxes, licenses and fees	1,792,374	
Aggregate write-ins for deductions	3,147	
	<u>49,692,895</u>	
		8,264,145
Federal and foreign income taxes incurred		<u>2,461,382</u>
Net gain from operations before realized capital gains		5,802,763
Net realized capital gains		<u>1,371,061</u>
Net income		<u><u>\$7,173,824</u></u>

**J.M.I.C. Life Insurance Company
Capital and Surplus Account
For the Year Ended December 31, 2004**

Capital and surplus - December 31, 2003		\$69,639,247
Net income	\$7,173,824	
Change in net unrealized capital gains	907,937	
Change in net deferred income tax	2,562,853	
Change in nonadmitted assets and related items	(3,203,729)	
Change in liability for reinsurance in unauthorized companies	542,210	
Change in asset valuation reserve	(1,565,091)	
Examination adjustments	<u>0</u>	<u>6,418,004</u>
Capital and surplus - December 31, 2004		<u><u>\$76,057,251</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Aggregate Reserves and Contract Claims

\$137,431,075

The Company's actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2004 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion.

J.M.I.C. Life Insurance Company
Comparative Analysis of Changes in Capital and Surplus
December 31, 2004

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

Capital and Surplus - December 31, 2004, per annual statement			\$76,057,251
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) in Surplus</u>
Assets	\$235,850,631	\$235,850,631	\$0
Liabilities	\$159,793,380	\$159,793,380	<u>\$0</u>
Net change in capital & surplus			<u>0</u>
Capital and Surplus - December 31, 2004, per examination			<u><u>\$76,057,251</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the December 13, 1999 examination report issued by the Office.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The current financial condition examination did not result in any material findings of non-compliance with statutes, rules, or other requirements on the part of the Company.

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, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$76,057,251, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2004 was \$11,536,269.

In addition to the undersigned, Stephen Feliu, Financial Examiner/Analyst, and David C. Schleit, CPA, Financial Examiner/Analyst Supervisor, participated in this examination.

Respectfully submitted,

Robert Y. Meszaros
Financial Specialist
Florida Office of Insurance Regulation