

Report on Examination
of
American Pioneer
Life Insurance Company

Lake Mary, Florida

as of

December 31, 2005

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

May 31, 2007

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Commissioners McCarty and Gross and Director Kitzman:

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, 2005, of the financial condition and corporate affairs of:

**American Pioneer Life Insurance Company
1001 Heathrow Park Lane, 5th Floor
Lake Mary, Florida 32746**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2003 through December 31, 2005. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2002.

Planning for the current examination began on September 13, 2006. The fieldwork commenced on September 18, 2006, was suspended on January 19, 2007, resumed on March 13, 2007, and concluded on March 15, 2007. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this 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 certified public accountant (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 2005 annual statement. Transactions subsequent to December 31, 2005 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.

After considering the Company's control environment and the materiality level set for this examination, we relied on work performed by the Company's CPA for the following accounts:

- Uncollected premiums and agents' balances in the course of collection
- Deferred premiums
- Aggregate write-ins for other than invested assets
- Commitments and contingent liabilities

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, 2002, along with resulting action taken by the Company in connection therewith.

Authorization of Investments

There was no documentation 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.

Resolution: The Company's investments were properly approved during the period of the current examination.

Review of Prior Examination Report

There was no documentation in the minutes of meetings of the Company's board of directors that directors reviewed the previous examination report. Resolution: During the period of the current examination, the Board's review of the previous examination report was documented.

Writing Ratio Violations

The ratio of the Company's annual gross written accident and health premiums to surplus exceeded 10:1 on March 31, 2002, June 30, 2002, September 30, 2002, and September 30, 2003; and the ratio of its annual net written accident and health premiums to surplus exceeded 4:1 on September 30, 2003, in violation of Section 624.4095, F.S. Resolution: During the current examination, Company's writing ratios were found to be in compliance with Section 624.4095, F.S.

Information Systems Controls

During the prior examination, a review of the Company's general and application controls resulted in a finding that they were not entirely adequate in the areas of authorization, problem management, and segregation of duties. During the current examination, a computer audit specialist engaged by the Office conducted an in-depth review of the adequacy of the Company's information systems controls and concluded that, while its information systems general and application controls were generally adequate, certain weaknesses in the Company's logical and physical security remained. The Company agreed to correct the weaknesses.

Reinsurance Agreements

During the prior examination of the Company, we noted that it ceded insurance on a "coinsurance with funds withheld" basis to European Reinsurance Company of Zurich ("ERZ") pursuant to a portfolio indemnity reinsurance treaty. Ceding companies are prohibited by Rule 69O-144.010(2)(a)5, F.A.C., from paying reinsurance premiums or other fees or charges to reinsurers which are greater than the direct premiums collected by the ceding companies. The Office interpreted the ERZ treaty as possibly permitting such payment, in violation of the rule; the Company disagreed with this interpretation. However, subsequent to the date of the prior examination, the Company and ERZ entered into a treaty amendment in order to more clearly preclude any possible violation of the rule. As discussed on page 14, the current examination resulted in a similar finding with respect to a different reinsurance treaty.

HISTORY

GENERAL

The Company was incorporated in Florida on July 5, 1961 and commenced business on March 1, 1962.

As of the date of this examination, the Company was authorized to transact the following insurance coverage in Florida, in accordance with Section 624.401, F.S.:

- Life
- Credit life and health
- Group life and annuities
- Accident and health
- Credit disability

During the period of this examination, the Company did not write insurance in the following lines: credit life and health, credit disability, and group annuities.

The Company's articles of incorporation were amended on July 26, 2004.

CAPITAL STOCK

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	1,999,800
Number of shares issued and outstanding	1,006,822
Total common capital stock	\$2,517,055
Par value per share	\$2.50

At December 31, 2005, the Company was wholly-owned and controlled by American Exchange Life Insurance Company (American Exchange), which in turn was wholly-owned by Universal American Financial Corp. (Universal). An abbreviated organizational chart appears on page 10.

PROFITABILITY

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

(In millions)	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net premiums	\$138.3	\$131.7	\$117.3
Total revenues	\$173.5	\$176.0	\$193.8
Net income (loss)	(\$7.9)	(\$6.3)	(\$3.7)
Capital contributions received	\$16.5	\$8.2	\$2.5
Total capital and surplus	\$36.5	\$27.4	\$24.2

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 Section 607.0701, F.S. Directors serving as of December 31, 2005 were:

Directors

Name and Location	Principal Occupation
Richard A. Barasch New York, New York	Chairman of the Board, Universal American Financial Corp.
Gary W. Bryant Longwood, Florida	Chief Operating Officer, Universal American Financial Corp.
William H. Cushman New Hartford, Connecticut	Vice President of Financial Reporting, Universal American Financial Corp.
Donald M. Gray Lake Mary, Florida	Vice President of Finance, Universal American Financial Corp.
Robert A. Waegelein Pawling, New York	Chief Financial Officer, Universal American Financial Corp.

The following were the Company's senior officers as of December 31, 2005, as appointed by its board of directors in accordance with the Company's bylaws:

Senior Officers

Name	Title
Gary W. Bryant	Chief Executive Officer & President
Donald M. Gray	Treasurer & SVP - Finance
Robert A. Waegelein	Chief Financial Officer & EVP
William H. Cushman	Investment Manager & SVP - Finance
Harold N. Lund	Chief Actuary & SVP
Theodore M. Carpenter, Jr.	Executive Vice President
Frederick W. Rook, III	Chief Information Officer & SVP
Dennis McComb	Chief Marketing Officer & SVP
James Kalmer	Chief Underwriting Officer & VP
Bernard Buonanno	SVP - General Agency Marketing
Gary M. Jacobs	SVP - Managed Care
Roslind Nelles	SVP - Operations
Chung-Sing Sya	Actuary & Vice President
William H. Strong	Illustration Actuary
Janice B. Baker	Assistant Secretary
Carl L. Cochrane	Vice President - Tax
Richard M. Cannone	Vice President - Finance
William H. Strong	Illustration Actuary

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 and Board of Directors 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. A review of the prior report of examination by the Office was documented in the minutes of the Board.

The Company was unable to provide documentation of its compliance with Section 624.424(8)(c), F.S., which requires that insurers establish an audit committee of three or more directors of the insurer or an affiliated company.

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 28, 2006.

The following agreements were in force between the Company and its affiliates on December 31, 2005:

TAX ALLOCATION AGREEMENT

The results of the Company's operations were included in the consolidated federal income tax return of American Exchange pursuant to a March 2002 tax sharing agreement. Allocations were based upon separate return calculations with current credit for net losses. Inter-company tax balances were settled quarterly.

EXPENSE ALLOCATION AGREEMENT

The Company participated in an expense allocation arrangement with Universal and other affiliates. The Company reimbursed Universal for direct costs and for the allocation of expenses incurred that were not specifically identified as direct expenses and which benefited more than one participating company. The expenses were allocated monthly and represented the actual costs incurred.

SERVICE AGREEMENT

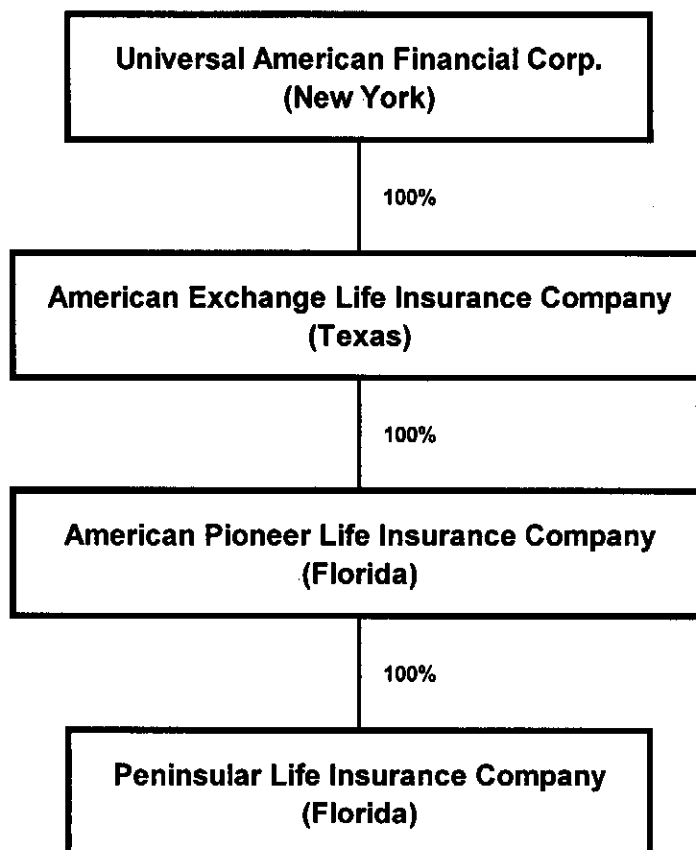
The Company was a party to an agreement dated April 13, 1998 between American Progressive Life and Health Insurance Company of New York, WorldNet Services Corp., American Exchange, Pennsylvania Life Insurance Company, Peninsular Life Insurance Company, PennCorp Life Insurance Company, Constitution Life Insurance Company (Constitution), Marquette National Life Insurance Company, Union Bankers Insurance Company (Union Bankers), Universal, and CHCS Services, Inc. Pursuant to the agreement, the Company provided policy administration services and electronic data processing services to Constitution and Union Bankers; and CHCS Services, Inc. provided policy administration and electronic data processing services to the Company.

SERVICE EXPENSE REIMBURSEMENT AND COST SHARING AGREEMENT

The Company was a party to an agreement with Universal American Financial Services, Inc., formerly PFI, Inc. (PFI), effective January 1, 2000, pursuant to which PFI provided actuarial, tax, investment compliance, government relations, strategic planning, general management, and office and systems support services to the Company.

An abbreviated organizational chart as of December 31, 2005 reflecting the holding company system is shown below. Schedule Y of the Company's 2005 annual statement provided the names of all related companies in the holding company group.

**American Pioneer Life Insurance Company
Organizational Chart
December 31, 2005**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$5 million with a deductible of \$100,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$1.75 million.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no direct employees. Universal provided medical, dental, group life insurance, and flexible spending account benefits to eligible full time employees. The Company also participated in a voluntary 401(k) savings plan sponsored by Universal. Allocated costs related to its participation in the plan were based on a percentage of payroll.

STATUTORY DEPOSITS

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

Holder	Description	Rate	Due	Par Value	Market Value
Florida	U.S. Treasury Note	5.63%	5/15/2008	\$275,000	\$278,025
Florida	U.S. Treasury Note	6.13%	8/15/2007	500,000	504,200
Florida	U.S. Treasury Note	5.63%	5/15/2008	525,000	530,775
Florida	Tribune Co.	6.88%	11/1/2006	550,000	551,100
Florida	U.S. Treasury Note	4.63%	5/15/2006	500,000	500,000
Florida	Pitney Bowes Credit Corp.	8.55%	9/15/2009	50,000	54,145
Total Florida Deposits				2,400,000	2,418,245
Georgia	Evergreen Inst Treasury M/M Fund	Var.	-	50,000	50,000
Indiana	U.S. Treasury Note	5.63%	5/15/2008	250,000	256,818
New Mexico	U.S. Treasury Note	4.63%	5/15/2006	100,000	100,094
North Carolina	U.S. Treasury Note	6.13%	8/15/2007	200,000	205,296
North Carolina	U.S. Treasury Note	6.87%	5/15/2006	200,000	201,804
North Carolina	U.S. Treasury Note	6.13%	8/15/2007	650,000	667,212
Virginia	U.S. Treasury Note	6.13%	8/15/2007	100,000	102,648
Total Special Deposits				\$3,950,000	\$4,002,117

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company marketed ordinary life, group life, and accident and health products through 10,044 licensed agents and brokers.

TERRITORY AND PLAN OF OPERATION

At December 31, 2005, the Company was authorized to transact insurance in the District of Columbia and in the following states:

Alabama	Louisiana	Oklahoma
Arizona	Maryland	Oregon
Arkansas	Mississippi	South Carolina
Colorado	Missouri	South Dakota
Florida	Montana	Tennessee
Georgia	Nebraska	Texas
Idaho	Nevada	Utah
Indiana	New Mexico	Virginia
Iowa	North Carolina	Washington
Kansas	North Dakota	West Virginia
Kentucky	Ohio	Wyoming

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's reinsurance agreements were found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, reporting, and settlement information deadlines.

ASSUMED

The majority of reinsurance assumed was individual life co-insurance.

CEDED

The Company ceded risk on a "quota share and excess of loss" basis to both authorized and unauthorized reinsurers. The majority of the reinsurance ceded was on an individual coinsurance basis.

The Company ceded individual accident and health policies on a "quota share automatic co-insurance" basis to General Re Life Corporation (GenRe). The reinsurance agreement was written in such a way as not to prohibit the payment to GenRe of premiums or other fees or charges greater than the direct premiums collected by the Company, in violation of Rule 69O-144.010(2)(a)5, F.A.C. As discussed on page 3, the prior examination of the Company resulted in a similar finding with respect to a different reinsurance agreement.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2003, 2004, and 2005, 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 of its annual statement submitted to the Office.

The Company's main administrative office was located in Lake Mary, Florida, where this examination was conducted.

RISK-BASED CAPITAL

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

INFORMATION SYSTEMS CONTROLS

As part of this financial condition examination, Highland Clark, LLC, a computer audit specialist engaged by the Office, conducted an in-depth review of the adequacy of the Company's information systems controls. The review was of controls as documented by the Company in its NAIC Exhibit C (Evaluation of Controls in Information Systems Questionnaire), and was conducted in the Company's Lake Mary, Florida offices. While Highland Clark, LLC concluded that the Company's information systems general and application controls were generally adequate, it did note certain weaknesses in the Company's logical and physical security, which the Company agreed to address.

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

CUSTODIAL AGREEMENT

On April 25, 2001, the Company entered into a custodial agreement with the Bank of New York Trust Company of Florida, N.A., for the holding and safekeeping of the Company's securities.

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with an independent CPA, Ernst & Young, LLP, to conduct annual audits of the Company's statutory-basis financial statements.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2005, as determined by this examination, and the results of its operations for the year then ended as reported by the Company. Adjustments resulting from this examination are summarized on page 23.

American Pioneer Life Insurance Company
Assets
December 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$130,736,533	\$0	\$130,736,533
Common stocks	5,859,299	0	5,859,299
Mortgage loans on real estate - first liens	46,604	0	46,604
Cash, cash equivalents, and short-term investments	11,454,055	(1,500,177)	9,953,878
Contract loans	6,200,781	0	6,200,781
	<u>154,297,272</u>	<u>(1,500,177)</u>	<u>152,797,095</u>
Investment income due and accrued	1,557,677	0	1,557,677
Uncollected premiums and agents' balances	897,692	0	897,692
Deferred premiums, agents' balances and installments	3,435,357	0	3,435,357
Amounts recoverable from reinsurers	152,596	0	152,596
Funds held by or deposited with reinsured companies	14,976,675	0	14,976,675
Other amounts receivable under reinsurance contracts	1,697,858	0	1,697,858
Current federal and foreign income tax recoverable	357,628	0	357,628
Net deferred tax asset	3,094,527	0	3,094,527
Guaranty funds receivable or on deposit	92,254	0	92,254
Receivables from parent, subsidiaries and affiliates	546,635	0	546,635
Aggregate write-ins for other than invested assets	3,746	0	3,746
Totals	<u>\$181,109,917</u>	<u>(\$1,500,177)</u>	<u>\$179,609,740</u>

American Pioneer Life Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2005

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$69,178,633	\$0	\$69,178,633
Aggregate reserve for accident and health contracts	40,135,881	1,438,876	41,574,757
Liability for deposit-type contracts	694,971	0	694,971
Contract claims - life	1,251,594	0	1,251,594
Contract claims - accident and health	11,561,310	352,839	11,914,149
Premiums received in advance	2,997,540	0	2,997,540
Other amounts payable on reinsurance	938,494	0	938,494
Interest maintenance reserve	1,288,472	0	1,288,472
Commissions to agents	156,967	0	156,967
General expenses due or accrued	697,983	0	697,983
Taxes, licenses and fees	760,753	0	760,753
Amounts withheld or retained by company	1,484,432	0	1,484,432
Amounts held for agents' account	280,434	0	280,434
Remittances and items not allocated	634,244	0	634,244
Asset valuation reserve	388,638	0	388,638
Funds held with unauthorized reinsurers	12,037,319	0	12,037,319
Payable to parent, subsidiaries and affiliates	143,182	0	143,182
Total liabilities	<u>144,630,847</u>	<u>1,791,715</u>	<u>146,422,562</u>
Capital and Surplus			
Gross paid in and contributed surplus	57,647,694	0	57,647,694
Unassigned funds (surplus)	<u>(23,685,679)</u>	<u>(3,291,892)</u>	<u>(26,977,571)</u>
Surplus	33,962,015	(3,291,892)	30,670,123
Common capital stock	<u>2,517,055</u>	0	<u>2,517,055</u>
Totals of capital and surplus	<u>36,479,070</u>	<u>(3,291,892)</u>	<u>33,187,178</u>
Totals	<u><u>\$181,109,917</u></u>	<u><u>(\$1,500,177)</u></u>	<u><u>\$179,609,740</u></u>

American Pioneer Life Insurance Company
Summary of Operations
For The Year Ended December 31, 2005

Premiums and annuity considerations		\$138,268,784
Net investment income		7,349,369
Amortization of interest maintenance reserve		101,780
Commissions and expense allowances on reinsurance ceded		27,718,540
Aggregate write-ins for miscellaneous income		<u>95,552</u>
		<u>173,534,025</u>
Death benefits	\$4,027,811	
Matured endowments	2,681	
Annuity benefits	1,365,700	
Disability benefits and benefits under A&H contracts	100,594,222	
Surrender benefits and withdrawals for life contracts	3,077,700	
Interest and adjustments on funds	21,566	
Payments on supplementary contracts with life contingencies	(52,481)	
Increase in aggregate reserves for life and A&H contracts	<u>9,534,550</u>	
	<u>118,571,749</u>	
Commissions on premiums	34,503,911	
Commissions and expense allowances on reinsurance assumed	33,592	
General insurance expenses	22,128,186	
Insurance taxes, licenses and fees	3,690,247	
Increase in loading on deferred and uncollected premiums	(328,778)	
Aggregate write-ins for deductions	<u>16,886</u>	<u>178,615,793</u>
Net gain (loss) from operations before federal income taxes		<u>(5,081,768)</u>
Federal and foreign income taxes incurred		<u>2,756,923</u>
Net gain (loss) from operations before capital gains or (losses)		<u>(7,838,691)</u>
Net realized capital gains or (losses)		<u>(16,250)</u>
Net income (loss)		<u><u>(\$7,854,941)</u></u>

**American Pioneer Life Insurance Company
Capital and Surplus Account
For The Year Ended December 31, 2005**

Capital and surplus - December 31, 2004		\$27,361,994
Net income (loss)	(\$7,854,941)	
Change in net unrealized capital gains or (losses)	886	
Change in net deferred income tax	4,524,920	
Change in nonadmitted assets and related items	(3,963,731)	
Change in asset valuation reserve	(90,058)	
Paid in surplus adjustments	16,500,000	
Examination adjustments	<u>(3,291,892)</u>	<u>5,825,184</u>
Capital and surplus - December 31, 2005		<u><u>\$33,187,178</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash, cash equivalents, and short-term investments **\$9,953,878**

The amount reported by the Company of \$11,454,055 has been decreased by \$1,500,177. Funds in the amount of \$1,500,177 were on deposit with a bank located outside of the State of Florida which did not meet the requirements of Rule 69O-138.020, F.A.C. Accordingly, the amount has been nonadmitted.

Liabilities

Aggregate reserve for accident and health contracts **\$41,574,757**
Contract claims - accident and health **\$11,914,149**

The amount reported by the Company as "aggregate reserve for accident and health contracts" in the amount of \$40,135,881 has been increased by \$1,438,876, and the amount reported by the Company as "contract claims - accident and health" in the amount of \$11,561,310 has been increased by \$352,839. An outside actuarial firm appointed by the Board of Directors rendered an opinion that the amounts carried on the Company's balance sheet as of December 31, 2005 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. However, the Office actuary reviewed work papers provided by the Company and determined that the liability was understated by the amounts of the above adjustments.

**American Pioneer Life Insurance Company
Comparative Analysis of Changes in Capital and Surplus
December 31, 2005**

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

Capital and surplus, December 31, 2005 - per annual statement				\$36,479,070
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Surplus</u>	
Cash, cash equivalents, and short-term investments	\$11,454,055	\$9,953,878	(\$1,500,177)	
Aggregate reserve for accident and health contracts	\$40,135,881	\$41,574,757	(\$1,438,876)	
Contract claims - accident and health	\$11,561,310	\$11,914,149	<u>(\$352,839)</u>	
Net change in capital & surplus				<u>(3,291,892)</u>
Capital and surplus, December 31, 2005 - per examination				<u>\$33,187,178</u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the 2002 examination report issued by the Office, except as follows.

Information Systems Controls

During the prior examination, a review of the Company's general and application controls resulted in a finding that they were not entirely adequate in the areas of authorization, problem management, and segregation of duties, as discussed on page 3. During the current examination, we concluded that, while the Company's information systems general and application controls were generally adequate, certain weaknesses in its logical and physical security remained, as reported on page 15. **We recommend that the Company implement controls sufficient to remedy the control weaknesses in its information systems, as separately communicated to the Company.**

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, 2005.

Audit Committee

As reported on page 7, the Company was unable to provide documentation of its compliance with Section 624.424(8)(c), F.S., which requires that insurers establish an audit committee of three or more directors of the insurer or an affiliated company. **We recommend that the Company maintain documentation of its compliance with Section 624.424(8)(c), F.S.**

Reinsurance Agreements

As reported on page 14, the Company ceded the risk associated with certain insurance policies to GenRe pursuant to a reinsurance agreement that was written in such a way as not to prohibit the payment to GenRe of premiums or other fees or charges greater than the direct premiums collected by the Company, in violation of Rule 69O-144.010(2)(a)5, F.A.C. As discussed on page 3, the prior examination of the Company resulted in a similar finding with respect to a different reinsurance agreement. **We recommend that the Company review all of its reinsurance agreements and, where necessary, amend them to clearly preclude any possible violation of Rule 69O-144.010(2)(a)5, F.A.C.**

Cash on Deposit

As reported on page 22, the Company deposited funds in the amount of \$1,500,177 with a bank located outside of the State of Florida which did not meet the requirements of Rule 69O-138.020, F.A.C. **We recommend that the Company not admit any cash accounts that do not comply with Rule 69O-138.020, F.A.C.**

Losses and Loss Adjustment Expenses

As reported on page 22, the Company understated its reserve liabilities in the total amount of \$1,791,715. **We recommend that the Company provide for the entire amount of its unpaid loss and loss expense obligations under the terms of its policies and agreements, as required by Section 625.041, F.S.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Pioneer Life Insurance Company** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$33,187,178 which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2005 was \$8,714,349.

In addition to the undersigned, the following participated in this examination: Christine N. Afolabi, Financial Examiner/Analyst; Wenzhang "Mike" Du, Actuarial Analyst; Highland Clark, LLC; Cathy S. Jones, CPA, Financial Examiner/Analyst; Kerry A. Krantz, Actuary; Darlene L. Lenhart-Schaeffer, Financial Examiner/Analyst; and David C. Schleit, AFE, CPA, Financial Examiner/Analyst Supervisor.

Respectfully submitted,

Robert Y. Meszaros, Financial Specialist
Florida Office of Insurance Regulation