

Report on Examination
of
Florida Combined
Life Insurance Company, Inc.
Jacksonville, Florida
as of
December 31, 2013



**FLORIDA OFFICE OF
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

Dear Sir:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Florida Combined Life Insurance Company, Inc. as of December 31, 2013. Our report on the examination follows.

Florida Office of Insurance Regulation
April 10, 2015

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SCOPE OF EXAMINATION

We have completed a financial condition examination of Florida Combined Life Insurance Company, Inc. (the "Company"), a multi-state insurer domiciled in Florida. Our examination covered the period of January 1, 2009 through December 31, 2013 and took place primarily in the Company's Jacksonville, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2008.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in findings that the minutes of the Company's board of directors meetings did not record their authorization of investments prior to the fourth quarter of 2013 and the Company reported on its December 31, 2012 Annual Statement a director that had been replaced and was no longer elected. These findings are discussed in more details in the pages that follow. Recommendations begin on page 15.

COMPANY HISTORY

The Company was incorporated in Florida on October 29, 1987 and licensed by the Office as an insurer on May 11, 1988. It was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, Florida Statutes (F.S.).

Dividends and Capital Contributions

The Company neither distributed dividends nor received capital contributions during the period under examination.

Mergers and Acquisitions

On January 1, 2008, the Company received an ownership interest in Life and Specialty Ventures, LLC (LSV) as a result of the restructuring of the Company's parent, LSV Partners, LLC (LSVP). The Company made an additional \$15 million equity contribution to LSV on December 31, 2010. As of December 31, 2013 the Company owned 13.25% of LSV which was valued on the equity basis at \$19,644,099.

CORPORATE RECORDS

We reviewed the minutes of meetings held by the Company's shareholder, board of directors, and audit committee for the period under examination. The recorded minutes of the shareholder adequately documented the appointment of the board of directors. The recorded minutes of the board of directors adequately documented its meetings and approval of Company transactions with the exception of the board of directors' documentation of their authorization of investments, required under Section 625.304, F.S. The board of directors did not document its authorization of investments made prior to the fourth quarter of 2013.

MANAGEMENT AND CONTROL

The Company was wholly owned by LSV Partners, L.L.C. (LSVP) which is owned equally by USABLE Mutual Insurance Company dba Arkansas Blue Cross and Blue Shield (ABCBS), and Diversified Health Services, Inc., a wholly owned subsidiary of Blue Cross and Blue Shield of Florida, Inc. (BCBSF).

Its senior officers, directors, and members of principal board committee were:

Senior Officers

<u>Name</u>	<u>Title</u>
Jason D. Mann	President and Chief Executive Officer
Mark A. Langston	Executive Vice President, Chief Financial Officer, and Treasurer
William P. Creasman	Executive Vice President, General Counsel, and Secretary

Board of Directors

<u>Name</u>	<u>Location</u>
James F. Casey	Little Rock, Arkansas
L. Joseph Grantham	Fleming Island, Florida
Mark A. Langston	Little Rock, Arkansas
Jason D. Mann	Little Rock, Arkansas
Jon R. Urbanek	Jacksonville, Florida

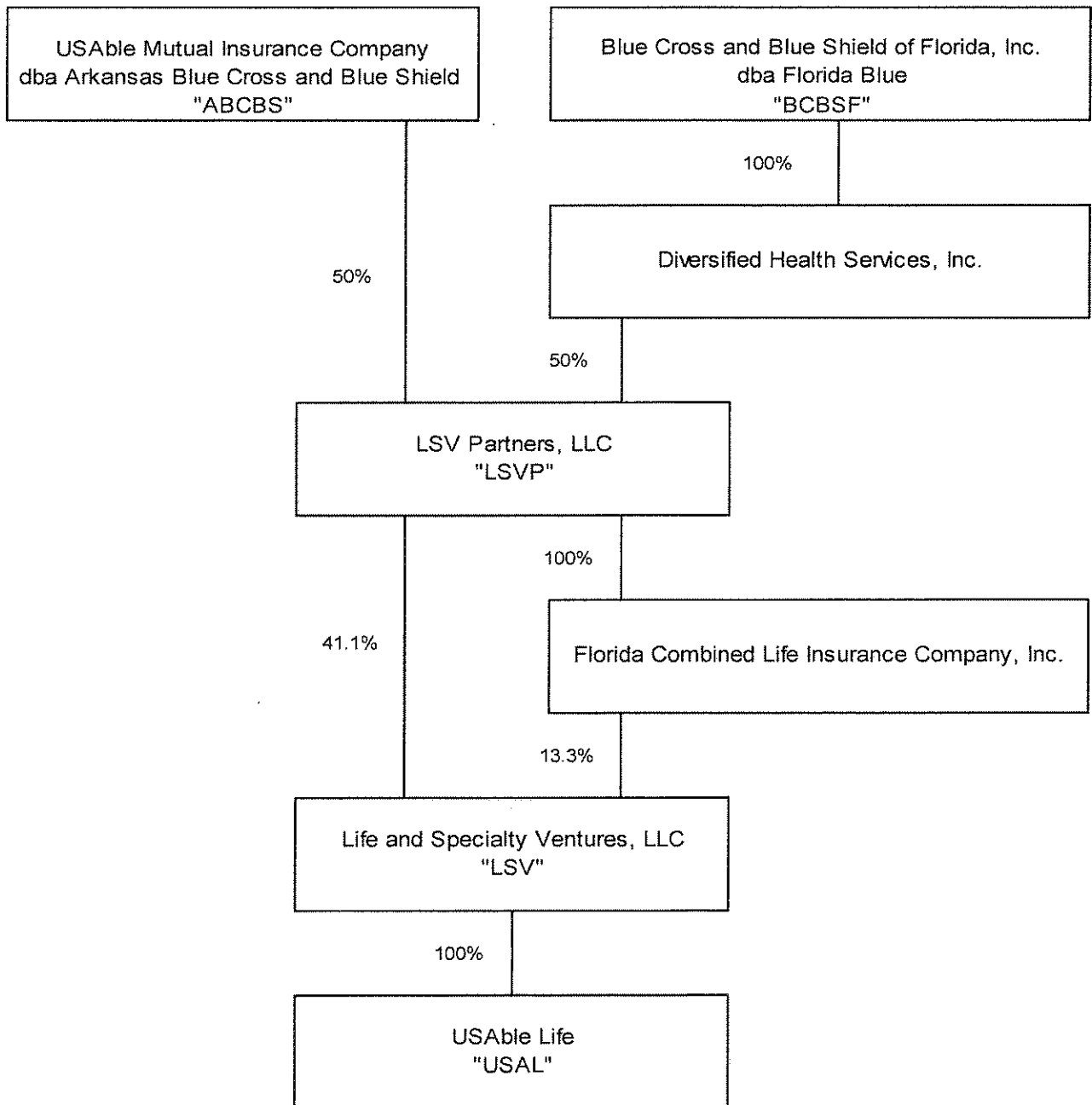
Audit Committee

L. Joseph Grantham
Jason D. Mann
Jon R. Urbanek

The Company was a member of an insurance holding company system. 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, Florida Administrative Code (F.A.C.), on April 1, 2015.

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

**Florida Combined Life Insurance Company, Inc.
Abbreviated Organizational Chart
December 31, 2013**



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

The Company, BCBSF, USAL, and LSV provided administrative and other services to each other pursuant to an agreement effective December 16, 2010.

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

On December 30, 2008, the Company loaned \$15 million to USAL in return for a 30-year, 5% surplus note. On December 30, 2010, USAL repaid the note.

FIDELITY BONDS AND OTHER INSURANCE

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

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no direct employees and did not directly provide employee benefits nor sponsor retirement plans.

TERRITORY AND PLAN OF OPERATION

The Company marketed life, accidental death and dismemberment, short and long term disability, and dental on an individual and group basis both directly and through licensed agents and general agents. It was authorized to transact insurance business in Alabama, Florida, Georgia, North Carolina and South Carolina.

COMPANY GROWTH

The Company reported the following for years 2009 through 2013:

(In millions)

	2009	2010	2011	2012	2013
Premiums	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenues	\$ 12.1	\$ 13.2	\$ 13.9	\$ 13.9	\$ 14.4
Net income (loss)	\$ 0.7	\$ 1.0	\$ 0.2	\$ 0.1	\$ 0.2
Stockholder dividends	\$ -	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 32.0	\$ 32.9	\$ 34.5	\$ 35.3	\$ 42.8
Liabilities	\$ 11.6	\$ 11.4	\$ 12.5	\$ 12.9	\$ 19.5
Capital and surplus	\$ 20.3	\$ 21.5	\$ 22.0	\$ 22.4	\$ 23.4

REINSURANCE

The Company assumed individual dental policies from Blue Cross and Blue Shield of Florida, Inc., pursuant to a coinsurance reinsurance agreement effective July 1, 2008. Premiums assumed under this agreement were \$2,267,679, \$3,959,249, \$3,456,599, \$2,608,443, and \$2,093,436, for the years 2009, 2010, 2011, 2012 and 2013, respectively.

The Company ceded its life, short term and long term disability policies to USABLE Life pursuant to an agreement effective July 1, 2005. Premiums ceded to USABLE Life under this agreement were \$30,544,104, \$30,754,993, \$30,677,797, \$30,776,078, and \$29,566,681, for the years 2009, 2010, 2011, 2012, and 2013, respectively. Reinsurance credit taken under this reinsurance agreement was \$18,428,354, \$17,814,362, \$14,606,443, \$14,178,583, and \$13,861,215, for the years 2009, 2010, 2011, 2012, and 2013, respectively.

The Company ceded its dental policies to USABLE life pursuant to an agreement effective January 1, 2008. Premiums ceded to USABLE Life under this agreement were \$69,417,401, \$71,335,002, \$81,911,396, \$95,737,438, and \$104,254,920, for the years 2009, 2010, 2011, 2012, and 2013, respectively. Reinsurance credit taken under this reinsurance agreement was \$7,041,454, \$9,830,895, \$6,833,029, \$5,701,321, and \$7,490,236, for the years 2009, 2010, 2011, 2012, and 2013, respectively.

The Company partially ceded a closed block of its life policies to Swiss Re American Life Assurance Company pursuant to an agreement effective July 1, 1988. Reinsurance credit taken under this reinsurance agreement was \$1,933,936, \$1,934,564, \$1,870,696 for the years 2011, 2012 and 2013. Reinsurance credit for the years 2009 and 2010 were erroneously reported under the USABLE Life.

The Company ceded its group long term disability policies to UNUM Life Insurance Company of America pursuant to an agreement effective August 1, 1988. Reinsurance credit taken under this reinsurance agreement was \$16,653,659, \$12,990,694, \$10,390,811, \$8,727,838, and \$6,890,080 for the years 2009, 2010, 2011, 2012 and 2013.

.ACCOUNTS AND RECORDS

The examination noted that the December 31, 2012 Annual Statement reported on its Jurat page a director that had been replaced and was no longer elected. The NAIC Annual Statement instructions as per Section 624.424, F.S. require the board of directors to be accurately reported on the Jurat page.

.STATUTORY DEPOSITS

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

Holder	Description	Par Value	Market Value
Florida	U.S. Treasury Note	\$ 250,000	\$ 249,525
Georgia	U.S. Treasury Note	50,000	53,193
North Carolina	U.S. Treasury Note	400,000	391,252
North Carolina	U.S. Treasury Note	150,000	159,581
South Carolina	U.S. Treasury Note	205,000	203,159
Total deposits		\$1,055,000	\$1,056,710

Florida Combined Life Insurance Company, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2013

Admitted Assets	As Reported	Examination Adjustments	Per Examination
Bonds	\$ 9,079,064	\$ -	\$ 9,079,064
Cash, cash equivalents and short-term investments	5,689,946	-	5,689,946
Other invested assets	19,644,099	-	19,644,099
	<u>34,413,109</u>	<u>-</u>	<u>34,413,109</u>
Investment income due and accrued	65,169	-	65,169
Other amounts receivable under reinsurance contracts	5,831,938	-	5,831,938
Amounts receivable relating to uninsured plans	2,388,497	-	2,388,497
Current income tax recoverable	29,627	-	29,627
Guaranty funds receivable or on deposit	117,026	-	117,026
Total admitted assets	\$ 42,845,366	\$ -	\$ 42,845,366
Liabilities			
Provision for experience rating refunds	\$ 748,841	\$ -	\$ 748,841
Other amounts payable on reinsurance	11,107,350	-	11,107,350
Interest Maintenance Reserve	82,614	-	82,614
Commissions to agents due or accrued	1,019,930	-	1,019,930
General expenses due or accrued	15,386	-	15,386
Taxes, licenses and fees due or accrued	733,377	-	733,377
Net deferred tax liability	640,523	-	640,523
Amounts withheld or retained by company	397,308	-	397,308
Remittances and items not allocated	372,225	-	372,225
Asset valuation reserve	2,575,813	-	2,575,813
Payable to parent, subsidiaries and affiliates	1,671,608	-	1,671,608
Liability for amounts held under uninsured plans	117,024	-	117,024
Total liabilities	19,481,999	-	19,481,999
Capital and Surplus			
Common capital stock	1,500,000	-	1,500,000
Gross paid in and contributed surplus	14,500,000	-	14,500,000
Unassigned funds	7,363,367	-	7,363,367
Total capital and surplus	23,363,367	-	23,363,367
Total liabilities, capital and surplus	\$ 42,845,366	\$ -	\$ 42,845,366

Florida Combined Life Insurance Company, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2013

Capital and surplus - December 31, 2008	\$ 18,700,755
Net income (loss)	662,515
Change in net unrealized capital gains (losses)	656,122
Change in net deferred income tax	(823,251)
Change in nonadmitted assets	1,575,926
Change in asset valuation reserve	(433,152)
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Capital and surplus - December 31, 2009	20,338,916
Net income (loss)	1,018,197
Change in net unrealized capital gains (losses)	660,229
Change in net deferred income tax	(303,827)
Change in nonadmitted assets	556,410
Change in asset valuation reserve	(760,986)
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Capital and surplus - December 31, 2010	21,508,939
Net income (loss)	234,614
Change in net unrealized capital gains (losses)	612,006
Change in net deferred income tax	(67,121)
Change in nonadmitted assets	309,506
Change in asset valuation reserve	(616,530)
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Capital and surplus - December 31, 2011	21,981,413
Net income (loss)	147,891
Change in net unrealized capital gains (losses)	461,731
Change in net deferred income tax	(35,376)
Change in nonadmitted assets	1,094
Change in asset valuation reserve	(121,240)
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Capital and surplus - December 31, 2012	22,435,514
Net income (loss)	155,787
Change in net unrealized capital gains (losses)	1,137,720
Change in net deferred income tax	1,099
Change in nonadmitted assets	(131,316)
Change in asset valuation reserve	(235,437)
<hr/>	
	23,363,367
Examination adjustments	-
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Capital and surplus - December 31, 2013	\$ 23,363,367
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**Florida Combined Life Insurance Company, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2013**

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

	<u>As Reported</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Capital and surplus, December 31, 2013 - as reported				\$ 23,363,367
Total admitted assets	\$ 42,845,366	\$ 42,845,366	\$ -	
Total liabilities	\$ 19,481,999	\$ 19,481,999	\$ -	
Net change in capital and surplus			<u>-</u>	
Capital and surplus, December 31, 2013 - per examination				<u>\$ 23,363,367</u>

RECOMMENDATIONS

Corporate Records

As reported on page 3, the Company's board of directors did not document their authorization of investments prior to the fourth quarter of 2013, as required under Section 625.304, F.S. **We recommend that the board of director document their authorization of investments in accordance with Section 625.304, F.S.**

Accounts and Records

As reported on page 10, the Company reported on its December 31, 2012 Annual Statement a director that had been replaced and was no longer elected. As authorized by Section 624.424, F.S., the NAIC Annual Statement instructions require the board of directors to be accurately reported on the Jurat page. **We recommend the Company comply with Section 624,424, F.S. and with the NAIC Annual Statements Instruction, at all times.**

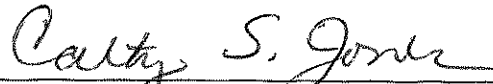
CONCLUSION

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

At December 31, 2013, the Company's capital and surplus was \$23,363,367 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, the following individuals participated in the examination: Walter F. Banas, CIE, Financial Specialist; Kerry Krantz, Actuary; Robert Y. Meszaros, CFE, Financial Specialist; and Luke Stavenau, Financial Specialist.

Respectfully submitted,



Cathy S. Jones, CPA, CFE
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation