



**GEORGE DALE**  
Commissioner of Insurance  
State Fire Marshal

**LEE HARRELL**  
Deputy Commissioner

**STATE OF MISSISSIPPI**  
Mississippi Insurance Department

501 N. West Street  
1001 Woolfolk Building (39201)  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
(601) 359-3569  
<http://www.doi.state.ms.us>

August 1, 2006

**CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

Thomas Eugene Wilcox, President  
Magnolia Guaranty Life Insurance Company  
305 Key Way Drive, Building B, Suite B  
Flowood, MS 39232

**RE: Report of Examination as of December 31, 2005**

Dear Mr. Wilcox:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

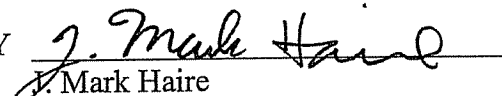
Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

GEORGE DALE  
COMMISSIONER OF INSURANCE

BY

  
J. Mark Haire  
Special Assistant Attorney General

GD/JH/bs  
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF MISSISSIPPI**

**IN RE:   REPORT OF EXAMINATION OF MAGNOLIA  
          GUARANTY LIFE INSURANCE COMPANY**

**CAUSE NO. 06-5316**

**ORDER**

**THIS CAUSE** came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

**JURISDICTION**

**I.**

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999).

**II.**

That Magnolia Guaranty Life Insurance Company is a Mississippi-domiciled Company licensed to write Industrial Life and Industrial Accident and Health coverage.

## FINDINGS OF FACT

### III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), called for an examination of Magnolia Guaranty Life Insurance Company and appointed Dale Miller, Examiner-In-Charge, to conduct said examination.

### IV.

That on or about June 9, 2006, the draft Report of Examination concerning Magnolia Guaranty Life Insurance Company for the period of January 1, 2003 through December 31, 2005, was submitted to the Department by the Examiner-In-Charge, Dale Miller.

### V.

That on or about July 17, 2006, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period to submit any rebuttal to the draft report. On or about July 18, 2006, the Company submitted its rebuttal to the Department wherein the Company accepted the report as is.

## CONCLUSIONS OF LAW

### VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

**IT IS, THEREFORE, ORDERED**, after reviewing the Report of Examination, all relevant examiner work papers and the Company's rebuttal, that the Report of Examination of Magnolia Guaranty Life Insurance Company attached hereto as Exhibit "A", should be and same is hereby adopted as final.

**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

**IT IS FURTHER ORDERED** that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, Magnolia Guaranty Life Insurance Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

**IT IS FURTHER ORDERED** that Magnolia Guaranty Life Insurance Company take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

**SO ORDERED**, this the 1<sup>st</sup> day of August 2006.

  
\_\_\_\_\_  
GEORGE DALE  
COMMISSIONER OF INSURANCE

**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 1<sup>st</sup> day of August 2006, to:

**Thomas Eugene Wilcox, President  
Magnolia Guaranty Life Insurance Company  
305 Key Way Drive, Building B, Suite B  
Flowood, MS 39232**

  
\_\_\_\_\_  
J. Mark Haire  
Special Assistant Attorney General

J. Mark Haire  
Special Assistant Attorney General  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 2065



# **Mississippi Insurance Department**

## **Report of Examination**

**of**

## **Magnolia Guaranty Life Insurance Company**

**305 Keyway Drive, Building B, Suite B  
Flowood, Mississippi 39232**

**As of December 31, 2005**

**NAIC Company Code 75208  
NAIC ETS No. MS029-C21**

**MAGNOLIA GUARANTY LIFE INSURANCE COMPANY  
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DECEMBER 31, 2005**

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EXAMINER'S AFFIDAVIT AS TO STANDARDS AND  
PROCEDURES USED IN AN EXAMINATION


State of Mississippi,

County of Hinds,

R. Dale Miller, CFE, CPA, being duly sworn, states as follows:

1. I have authority to represent the State of Mississippi in the examination of Magnolia Guaranty Life Insurance Company as of December 31, 2005.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have prepared the examination report, and the examination of Magnolia Guaranty Life Insurance Company, as of December 31, 2005, was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.



R. Dale Miller, CFE, CPA  
Examiner-In-Charge

Subscribed and sworn before me by Dale Miller on July 18, 2006.



Notary Public

My commission expires 2/7/09







**GEORGE DALE**  
Commissioner of Insurance  
State Fire Marshal

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Deputy Commissioner

**STATE OF MISSISSIPPI**  
Mississippi Insurance Department

501 N. West Street  
1001 Woolfolk Building (39201)  
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May 26, 2006

Honorable George Dale  
Commissioner of Insurance  
State of Mississippi  
Mississippi Insurance Department  
501 N. West Street  
1001 Woolfolk Building (39201)  
Post Office Box 79  
Jackson, Mississippi 39205-0079

Honorable Eleanor Kitzman  
Secretary, Southeastern Zone  
South Carolina Department of Insurance  
Director of Insurance  
300 Arbor Lake Drive, Suite 1200  
Columbia, South Carolina 29223

Honorable Alfred W. Gross  
Chair, Financial Condition (E) Committee  
Commissioner of Insurance  
State of Virginia  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Post Office Box 1157  
Richmond, Virginia 23218

Dear Sirs and Madam:

Pursuant to the instructions and authorization from the Commissioner of Insurance for the State of Mississippi, and in compliance with statutory provisions, an examination as of December 31, 2005 has been conducted of the affairs and financial condition of:

**MAGNOLIA GUARANTY LIFE INSURANCE COMPANY**  
**(NAIC COMPANY CODE 75208; NAIC-ETS No. MS029-C21)**

**Statutory Home Office**  
305 Keyway Drive, Building B, Suite B  
Flowood, Mississippi 39232

This examination was performed at Magnolia Guaranty Life Insurance Company's statutory home office in Flowood, Mississippi, and was conducted in accordance with Miss. Code Ann. §83-5-201 et seq., and the report of examination is herewith submitted for your review.

## **INTRODUCTION**

The examination period, for purposes of this report, is January 1, 2003 through December 31, 2005, and the examination date is December 31, 2005. The examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered Magnolia Guaranty Life Insurance Company's (MGLIC or Company) operations and financial condition through the examination period, including material transactions and/or events that occurred subsequent to the examination date and were noted during the course of the examination. The Company's previous examination was as of December 31, 2002, and the previous report of examination was dated May 16, 2003.

## **SCOPE OF EXAMINATION**

The examination of the Company was a full scope financial examination conducted in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, as amended, as well as the MID, and included an assessment of the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations and compliance with applicable laws. A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company's market conduct.

The examiners tested the underlying data that supported the Company's aggregate reserves and related premium accounting. The amounts included within the financial statements contained in this report for the aggregate reserves and related premium accounting were based on the review and opinion of the Examination Actuary who was assigned to the examination by the MID.

## **HISTORY OF THE COMPANY**

The Company was incorporated on November 18, 1991, under the laws of the State of Mississippi for the purpose of engaging in the industrial life insurance business.

The original Articles of Association authorized capital of \$500,000 (500,000 shares of common capital stock with a par value of \$1) and the Company commenced operations on January 1, 1992, with its principal office located in Jackson, Mississippi.

During year 2002, after receiving approval from the MID, the Company declared a 2-for-1 stock dividend to all shareholders. This transaction facilitated a transfer of \$122,805 from the Company's surplus account to its capital stock account.

During year 2005, after receiving approval from the MID, the Company declared a 1-for-2 stock dividend to all shareholders. This transaction facilitated a transfer of \$122,630 from the Company's surplus account to its capital stock account.

During the examination period the Company paid the following amounts as dividends to stockholders:

2003	\$24,506
2004	\$73,578
2005	\$24,526

The dividends paid in 2004 included an extraordinary amount that was approved by the MID prior to payment. As of December 31, 2005, the Company had 500,000 shares of \$1 par value common stock authorized with 367,890 shares issued and outstanding.

### MANAGEMENT AND CONTROL

The Articles of Association and Bylaws vest the management and control of the Company's business affairs with the Board of Directors (Board). As of December 31, 2005, the members of the duly elected Board, along with their place of residence and principal occupation, were as follows:

<u>Name and Place of Residence</u>	<u>Principal Occupation</u>
Mr. Robert A. Beck, Sr. Carthage, Mississippi	Owner Beck Funeral Home
Mr. Keith T. Dean Brandon, Mississippi	Owner Dean Memorial Funeral Home
Mr. Henry H. Jordan, Jr. Jackson, Mississippi	Owner Jordan Funeral Home
Mr. Charles A. McClain, Jr. Philadelphia, Mississippi	Owner McClain-Hays Funeral Home
Mr. Terrell L. Smith, Sr. McComb, Mississippi	Retired
Mr. Robert H. Spell Flora, Mississippi	Chief Executive Officer Magnolia Guaranty Life Insurance Company
Mr. Thomas E. Wilcox Carthage, Mississippi	Owner Wilcox Funeral Home
Mr. Arthur N. Willis, Jr. Jackson, Mississippi	Owner Lakeover Memorial Funeral Home
Mr. James D. Winters, Jr. Kosciusko, Mississippi	Owner Winters Funeral Home

The following officers were duly elected by the Board and held the following offices as of December 31, 2005:

<u>Name</u>	<u>Title</u>
Mr. Thomas E. Wilcox	President
Mr. Robert H. Spell	Chief Executive Officer/Chief Operating Officer
Mr. Charles A. McClain, Jr.	Vice-President
Mr. Arthur N. Willis, Jr.	Vice-President
Mr. Henry H. Jordan, Jr.	Secretary
Mr. Terrell L. Smith, Sr.	Treasurer

The following officers and/or directors served on the Executive Committee as of December 31, 2005:

Mr. Henry H. Jordan, Jr.	Mr. Charles A. McClain, Jr.
Mr. Terrell L. Smith, Sr.	Mr. Robert H. Spell
Mr. Thomas E. Wilcox	Mr. Arthur N. Willis, Jr.

The following officers and/or directors served on the Claims Committee as of December 31, 2005:

Mr. Henry H. Jordan, Jr.	Mr. Terrell L. Smith
Mr. Robert H. Spell	Mr. Arthur N. Willis, Jr.

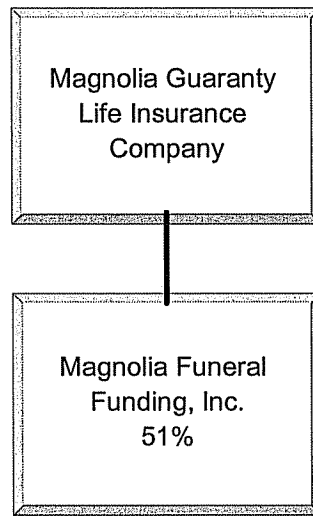
### **CORPORATE RECORDS**

The minutes of the meetings of the Board of Directors, taken during the period covered by the examination, were reviewed and appeared to be complete and in order with regard to recording the actions/deliberations of the Board.

### **HOLDING COMPANY STRUCTURE**

In September 2005, the Company purchased 50,000 shares of Magnolia Funeral Funding, Inc. (MFF) which represented approximately 51% of MFF's outstanding capital stock. This transaction resulted in the creation of a holding company system as defined within Miss. Code Ann. §83-6-1. Pursuant to Miss. Code Ann. §83-6-15, the Company requested and was granted an exemption by the MID from filing holding company registration statements for year 2005.

The flow chart below displays the Company's holding company structure and is followed by a brief description of the Company's subsidiary:



**Magnolia Funeral Funding, Incorporated:** This company, a majority owned subsidiary of MGLIC, was incorporated on November 1, 2004 under the laws of the State of Mississippi. MFF's principal business activity is the factoring of life insurance policies to funeral homes where MFF provides, for a fee, the payment of insurance proceeds for funeral costs and later collects the proceeds due from the applicable insurance policy assigned to that funeral home.

As of the examination date, a management agreement, which was submitted to the MID for approval, was in place between the Company and MFF. However, the Company had waived the payment of any management fees by MFF. The amount waived was not material to the Company's operations.

#### **CONFLICT OF INTEREST**

The directors and officers of the Company prepared conflict of interest statements for the period under examination. These statements were reviewed, and no conflicts of interest were disclosed.

#### **DIRECTORS', OFFICERS', EMPLOYEES', AND AGENTS' WELFARE**

The Company provides a group health insurance and life insurance package for its employees. No provision within the Company's financial statements was considered necessary for Company obligations resulting from these benefits.

## FIDELITY BONDS AND OTHER INSURANCE

The Company, as of the examination date, had fidelity coverage with an aggregate limit of \$50,000, which did not meet the NAIC's suggested minimum amount of coverage for an insurance company the size of MGLIC. It is recommended that the Company increase its fidelity coverage to meet the NAIC's suggested minimum amount of \$75,000 to \$100,000. The Company's other active insurance coverage appeared adequate to protect the Company's interests.

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2005, the Company was licensed to transact business in the State of Mississippi. During the examination period, the Company issued industrial life insurance coverage through funeral homes and independent agents.

## STATUTORY DEPOSITS

As of the examination date, the Company had the following statutory deposits with the State of Mississippi:

<b>Description of Security</b>	<b>Par Value</b>
MS State Bond	\$150,000
Household Finance Bond	<u>\$100,000</u>
Total	\$250,000

According to Miss. Code Ann. §83-19-31(2), the Company's required statutory deposit amount at the examination date was \$283,945, leaving a difference of \$33,945. Upon notification of this deficiency, the Company pledged additional assets and was in compliance as of the report date.

## MARKET CONDUCT REVIEW

A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company's market conduct. The areas in which limited procedures were performed included policy forms, agents' licensing, advertising, premium charges, and handling of claims and complaints. No significant exceptions were noted in regard to the limited procedures performed.

## ACCOUNTS AND RECORDS

The Company's records and accounting processes were maintained through the use of desktop computers. Policy administration was maintained in Microsoft Access while the Company's accounting records were maintained in QuickBooks Pro. The Company's income tax returns and annual statements were prepared by an outside accounting firm. The Company's reserves were calculated and opined by a consulting actuary.

## **FINANCIAL STATEMENTS**

The following financial statements, as determined by the financial examination, consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2005, a Summary of Operations for the year ended December 31, 2005, a Reconciliation of Surplus and Other Funds for the examination period ended December 31, 2005, and a Reconciliation of Adjustments to Surplus as of December 31, 2005.

**MAGNOLIA GUARANTY LIFE INSURANCE COMPANY**  
**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS**  
**DECEMBER 31, 2005**

**Assets**

Bonds	\$ 1,220,521
Preferred stocks	1,668,376
Common stocks	89,450
Cash and short-term investments	311,331
Investment income due and accrued	10,752
Life premiums deferred and uncollected	86,769
Guaranty funds receivable or on deposit	484
Other assets	<u>550</u>
Total Assets	<u>\$ 3,388,233</u>

**Liabilities**

Aggregate reserve for life policies and contracts	\$ 2,471,775
Life policy and contract claims	20,750
Premium and annuity considerations received in advance	12,843
Taxes, licenses and fees due or accrued	7,511
Federal income taxes payable	14,689
Amounts withheld by company as agent or trustee	4,296
Asset valuation reserve	<u>29,716</u>
Total Liabilities	<u>2,561,580</u>
Common capital stock	367,890
Gross paid in and contributed surplus	259,620
Unassigned funds	<u>199,143</u>
Total Surplus and Other Funds	<u>826,653</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 3,388,233</u>



**MAGNOLIA GUARANTY LIFE INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
**FOR YEAR ENDED DECEMBER 31, 2005**

**INCOME:**

Premium and annuity considerations	\$ 1,779,842
Net investment income	<u>189,726</u>
Total income	<u>1,969,568</u>

**BENEFITS AND OPERATING EXPENSES:**

Death benefits	355,802
Surrender benefits and other withdrawals	4,007
Increase in aggregate reserves for life policies	316,610
Commissions on premiums	568,243
General insurance expenses	388,519
Insurance taxes, licenses and fees, excluding federal income taxes	<u>41,554</u>
Total benefits and operating expenses	<u>1,674,735</u>
Net gain from operations before income taxes and realized capital losses	<u>294,833</u>
Federal income tax expense	<u>33,329</u>
Net gain from operations before realized Capital losses	261,504
Realized capital losses	<u>7,708</u>
Net income	<u>\$ 253,796</u>

**MAGNOLIA GUARANTY LIFE INSURANCE COMPANY  
RECONCILIATION OF SURPLUS AND OTHER FUNDS  
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2005**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Capital and Surplus, beginning of year	\$ 487,890	\$ 629,256	\$ 694,487
Net income	165,852	6,568	253,796
Change in unrealized capital gains	53,037	104,591	13,630
Change in nonadmitted assets	163	238	(113,100)
Change in asset valuation reserve	(53,180)	27,412	2,366
Dividends to stockholders	<u>(24,506)</u>	<u>(73,578)</u>	<u>(24,526)</u>
Capital and Surplus, end of year	<u>\$ 629,256</u>	<u>\$ 694,487</u>	<u>\$ 826,653</u>

**MAGNOLIA GUARANTY LIFE INSURANCE COMPANY  
RECONCILIATION OF ADJUSTMENTS TO SURPLUS  
DECEMBER 31, 2005**

There were no changes made within this examination report to the Assets, Liabilities, or Surplus and Other Funds balances reported by the Company within the 2005 Annual Statement. The Surplus reported by the Company of \$458,763 is accepted for examination purposes.

## COMMENTS AND RECOMMENDATIONS

1. The Company, at the examination date, had fidelity coverage with an aggregate limit of \$50,000 which did not meet the NAIC's suggested minimum amount of coverage for an insurance company the size of MGLIC. It is recommended that the Company increase its fidelity coverage to meet the NAIC's suggested minimum amount of \$75,000 to \$100,000. (Page 6)

**ACKNOWLEDGEMENT**

The examiners representing the Mississippi Insurance Department who participated in the examination are listed below:

Manager:	Mr. Joseph R. May, CFE, CPA, CMA, CIE
Examiner-In-Charge:	Mr. R. Dale Miller, CFE, CPA
Examination Actuary:	Mr. Thomas L. Burger, FSA, MAAA

The courteous cooperation extended by the officers and employees of the Company is hereby acknowledged and appreciated.

Respectfully,



R. Dale Miller, CFE, CPA  
Examiner-in-Charge