



## MISSISSIPPI INSURANCE DEPARTMENT

**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

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WOOLFOLK BUILDING  
JACKSON, MISSISSIPPI 39201  
www.mid.state.ms.us

MAILING ADDRESS  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
TELEPHONE: (601) 359-3569  
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**MARK HAIRE**  
Deputy Commissioner of Insurance

March 14, 2012

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

Mr. James Leland Martin, Jr., President  
American Federated Insurance Company  
406 Liberty Park Court  
Flowood, MS 39232-1422

**RE: Report of Examination as of December 31, 2010**

Dear Mr. Martin:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), 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.

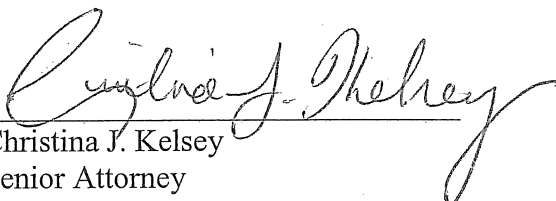
Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

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

Sincerely,

MIKE CHANEY  
COMMISSIONER OF INSURANCE

BY

  
Christina J. Kelsey  
Senior Attorney

MC/CJK/bs  
Encls. Order w/exhibit

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

**IN RE: REPORT OF EXAMINATION OF  
AMERICAN FEDERATED INSURANCE COMPANY      CAUSE NO. 12-6480**

**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. 2011). 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. 2011).

**II.**

That American Federated Insurance Company is a Mississippi-domiciled company licensed to write Accident & Health; Casualty/Liability; Fidelity; Fire/Allied Lines; Inland Marine; Surety; and Workers' Compensation coverages.

## FINDINGS OF FACT

### III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for an examination of American Federated Insurance Company and appointed Lisa Warrum, Examiner-In-Charge, to conduct said examination.

### IV.

That on or about February 2, 2012, the draft Report of Examination concerning American Federated Insurance Company for the period of January 1, 2008, through December 31, 2010, was submitted to the Department by the Examiner-In-Charge, Lisa Warrum.

### V.

That on or about February 16, 2012, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), 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 February 21, 2012, the Company responded via email and in response thereto, minor revisions were made to draft report.

## CONCLUSIONS OF LAW

### VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), 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, and all relevant examiner work papers and the Company's rebuttal, that the Report of Examination of American Federated 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 information for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, American Federated 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 American Federated Insurance Company shall take the necessary actions and implement the necessary procedures to properly and promptly comply with all recommendations contained in the Report of Examination.

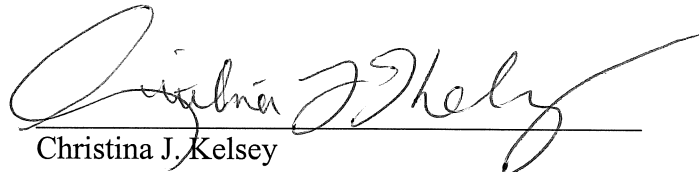
**SO ORDERED**, this the 14<sup>th</sup> day of March 2012.

  
\_\_\_\_\_  
J. MARK HAIRE  
DEPUTY COMMISSIONER OF INSURANCE  
STATE OF MISSISSIPPI

**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 14<sup>th</sup> day of March 2012, to:

**Mr. James Leland Martin, Jr., President  
American Federated Insurance Company  
406 Liberty Park Court  
Flowood, MS 39232-1422**

  
Christina J. Kelsey  
Senior Attorney

Christina J. Kelsey  
Senior Attorney  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 9853



# **Mississippi Insurance Department**

**Report of Examination**

**of**

**AMERICAN FEDERATED INSURANCE  
COMPANY**

**as of**

**December 31, 2010**

## TABLE OF CONTENTS


EXAMINER AFFIDAVIT .....	1
SALUTATION .....	2
INTRODUCTION .....	3
SCOPE OF EXAMINATION.....	3
COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION.....	3
HISTORY OF THE COMPANY .....	4
CORPORATE RECORDS .....	4
MANAGEMENT AND CONTROL .....	4
Board of Directors .....	4
Officers .....	5
Conflict of Interest.....	5
Corporate Governance.....	5
HOLDING COMPANY STRUCTURE .....	6
Organizational Chart .....	6
Affiliated and Related Party Transactions.....	8
FIDELITY BOND AND OTHER INSURANCE .....	9
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS .....	9
TERRITORY AND PLAN OF OPERATION .....	9
GROWTH OF COMPANY .....	10
ACCOUNTS AND RECORDS .....	10
STATUTORY DEPOSITS .....	10
FINANCIAL STATEMENTS .....	11
Statement of Admitted Assets, Liabilities, Surplus and Other Funds .....	12
Statement of Income.....	13
Reconciliation of Capital and Surplus.....	14
Reconciliation of Examination Adjustments to Surplus.....	15
MARKET CONDUCT ACTIVITIES .....	16
Policy Forms and Underwriting .....	16
Advertising and Sales Material .....	16
Treatment of Policyholders.....	16
Privacy .....	16
COMMITMENTS AND CONTINGENT LIABILITIES .....	16
SUBSEQUENT EVENTS .....	17
COMMENTS AND RECOMMENDATIONS.....	18
ACKNOWLEDGMENT.....	19

State of Indiana,  
County of Marion,

Lisa Warrum, CFE, CPA, being duly sworn, states as follows:

1. I have authority to represent the Commissioner of Insurance of the State of Mississippi in the examination of American Federated Insurance Company.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation Standards.
3. I have reviewed the examination workpapers and examination report, and the examination of American Federated Insurance Company as of December 31, 2010, was performed in a manner consistent with the standards and procedures required by the Commissioner of Insurance of the State of Mississippi.

The affiant says nothing further.



Lisa Warrum, CFE, CPA  
Examiner-in-Charge

Subscribed and sworn before me on this 3 day of February, 2012.

(SEAL)



  
Notary Public

My commission expires July 4, 2019 [date].





**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**MARK HAIRE**  
Deputy Commissioner of  
Insurance

**MISSISSIPPI INSURANCE DEPARTMENT**

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January 25, 2012

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building  
501 North West Street  
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2010, of the affairs and financial condition of:

**AMERICAN FEDERATED INSURANCE COMPANY**

406 Liberty Park Court  
Flowood, Mississippi 39232

License #	NAIC Group #	NAIC #	ETS#
8200015	0641	10170	MS029-F11 & MS120-M8

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and was performed in Flowood, Mississippi, at the statutory home office of the Company. The report of examination is herewith submitted.

## **INTRODUCTION**

This examination was performed by Noble Consulting Services, Inc., representing the Mississippi Insurance Department (MID) and covered American Federated Insurance Company (AFIC or Company) operations and financial condition from January 1, 2008 through December 31, 2010, including material transactions and/or events occurring subsequent to the examination date through January 25, 2012.

## **SCOPE OF EXAMINATION**

We have performed a full scope financial examination of AFIC. For purposes of this examination report, the examination period is defined as January 1, 2008 through December 31, 2010, and the examination date is defined as December 31, 2010. The Company was previously examined by the MID as of December 31, 2007.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company 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.

An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, 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.

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by examiners without material change receive little or no comment.

## **COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION**

There were no comments and/or recommendations deemed necessary for purposes of the previous examination report.

## **HISTORY OF THE COMPANY**

In February, 1983, with authorized capital of \$1,000,000, the Company was incorporated as a property and casualty insurer under the laws of the State of Mississippi. The Company's initial capitalization consisted of \$500,000, which included the issuance of 200,000 shares of \$1 par common stock and \$300,000 of paid-in capital. In December, 1987, the Company increased its outstanding capital stock to 600,000 shares of \$1 par common stock. In April, 2006, the Company increased its outstanding capital stock to its current position of 1,200,000 shares of \$1 par common stock.

## **CORPORATE RECORDS**

The minutes of the meetings of the stockholder and Board of Directors (Board), recorded during the period covered by the examination, were reviewed and appeared to be complete and in order with regard to recording action on matters brought up at these meetings for deliberation, which included the approval and support of the Company's transactions and events.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The Articles of Association and Bylaws vest the management and control of the Company's business affairs with the Board. The members of the duly elected Board, along with their place of residence, number of years as Director, and principal occupation, at December 31, 2010, are as follows:

Name and Residence	Year Elected/Appointed	Principal Occupation
James Leland Martin Jackson, Mississippi	2000	President American Federated Insurance Company
Cheryl Posey Taggart Birmingham, Alabama	2009	Vice President American Federated Insurance Company
Francis Clark Lee Brandon, Mississippi	1995	Secretary/Treasurer American Federated Insurance Company

## **Officers**

The officers duly elected by the Board and holding office at December 31, 2010, are as follows:

<b>Name</b>	<b>Year Elected/Appointed</b>	<b>Title</b>
James Leland Martin	2000	President
Cheryl Posey Taggart	2009	Vice President
Francis Clark Lee	1995	Secretary/Treasurer

## **Conflict of Interest**

The Company had a formal policy whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with the official duties of such persons. These procedures were reviewed and no exception to the Company's policy was noted.

## **Corporate Governance**

Upon review of the corporate governance structure, the overall corporate structure was determined to be reasonable based upon the Company's size and structure. The Company has a Board consisting of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of First Tower Corp (Parent) and the Company's Vice President. The CFO of the Parent, who also serves as the President of the Company, along with the Company's consultant who oversees accounting operations, are responsible for the oversight of the control environment and compliance with regulations applicable to each state in which the Company conducts business. In addition, the Vice President plays a significant role in managing the Company's control environment through claims reviews, managing licensing, investment accounting, systems design and project management.

The Board's involvement and oversight along with its independence from management, was considered during the course of the examination without material concern. Due to the size of the Company, the Board does not have formal committees. The Company's management is active in fostering an effective control environment from an operational and technological perspective. The Company shares staffing resources with its affiliate, American Federated Life Insurance Company (AFLIC).

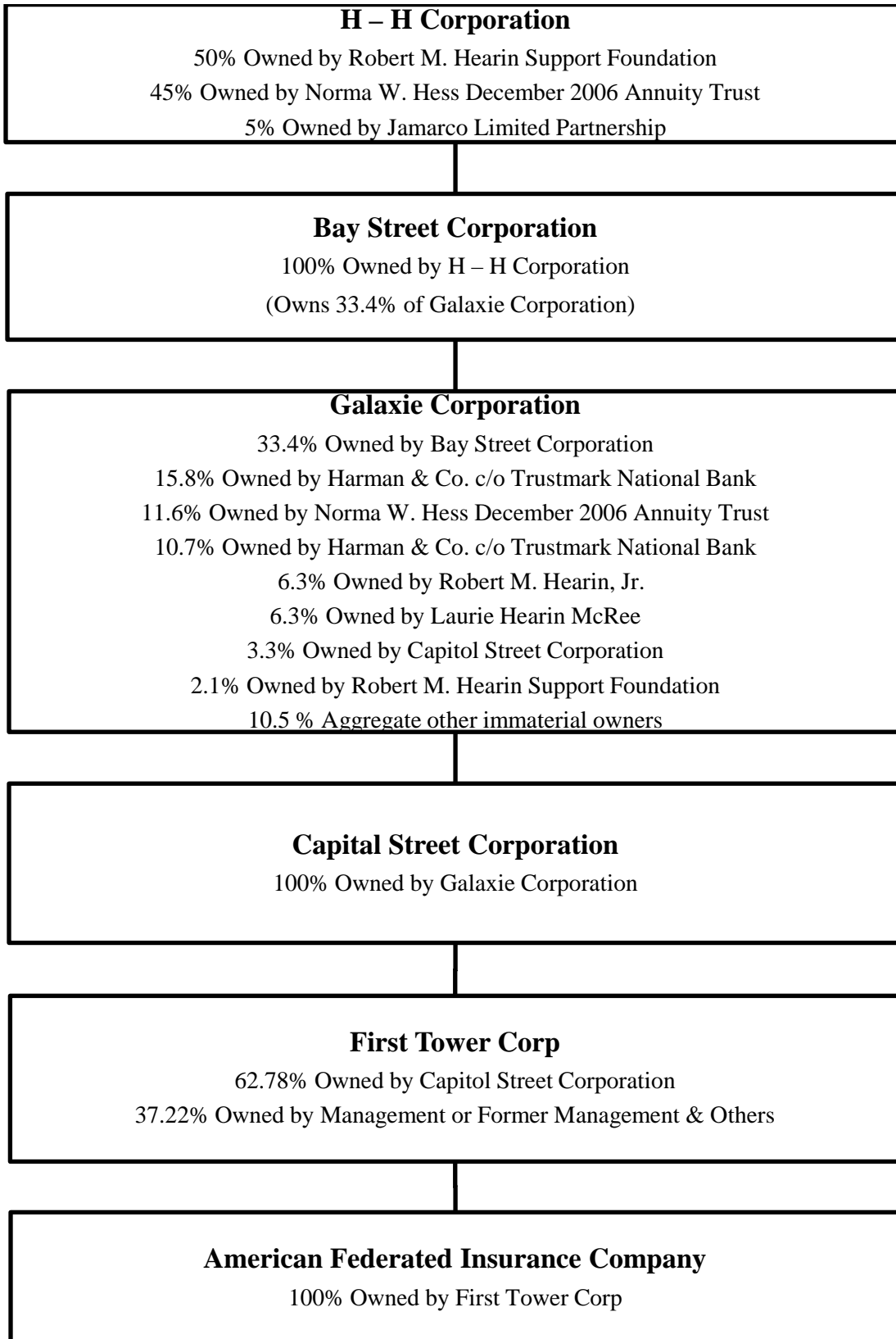
The Company's external auditor, Carr, Riggs & Ingram, LLC, issues a letter annually on the effectiveness of internal controls for the Parent, including all subsidiaries and has consistently noted no material weakness in internal controls. Audit engagement decisions concerning independent auditors are made by the Parent's Board.

## **HOLDING COMPANY STRUCTURE**

The Company is a member of an insurance holding company system as defined within Miss. Code Ann. § 83-6-1. Holding Company Registration Statements were filed during the examination period with the MID, in accordance with Miss. Code Ann. § 83-6-5 and § 83-6-9. The statements and applicable amendments were reviewed, and it appeared that any changes and material transactions by and between the Company and its affiliates were disclosed appropriately.

### **Organizational Chart**

The following organization chart displays the direct line of ownership, along with a brief description of each member:



**H – H Corporation:** This company is a holding corporation which owns Bay Street Corporation, a Mississippi Corporation.

**Bay Street Corporation:** This company is engaged in the business of investments and owns Auto Electric & Carburetor, Inc. a distributor of automobile parts and accessories. Auto Electric & Carburetor, Inc. is not in the direct line of ownership for the Company.

**Galaxie Corporation:** This company is a holding company with significant investments in debt and equity securities.

**Capital Street Corporation:** This company is a holding company with significant investments in debt and equity securities.

**First Tower Corp:** This company is engaged in consumer lending and related insurance activities through its wholly owned finance subsidiaries, Tower Loan of Mississippi, First Tower Loan, Inc., Gulfco of Mississippi, Inc., Gulfco of Louisiana, Inc., Gulfco Alabama, Inc., Tower Loan of Missouri, Inc., Tower Auto Loan, Inc. and its wholly owned insurance subsidiaries, the Company and AFLIC.

#### **Affiliated and Related Party Transactions**

The Parent provided certain corporate level administrative services at no cost to the Company. Certain officers of the Company are paid directly by a subsidiary of the Parent. The subsidiaries of the Parent owed the Company approximately \$1,860,809 for insurance premiums collected during the month of December, 2010. This receivable was reported as uncollected premiums and agents' balances in the course of collection in the Annual Statement and was reclassified as a receivable from parent, subsidiaries and affiliates in this Report of Examination. See the Comments and Recommendations section of this Report of Examination.

Dividends are paid to the Parent based on premium income in lieu of commissions. The Company paid dividends to its stockholder in the amounts of \$5,671,670 during 2008, \$6,224,792 during 2009, and \$6,982,806 in 2010.

#### **Administrative Expense Allocation Agreement**

An agreement between the Company and AFLIC was established on January 1, 2002. The agreement defines the procedures for allocating administrative expenses common to the affiliated companies. The expenses are to be initially paid by the Company and reimbursed by AFLIC. The expense allocations defined vary depending on the services provided and volume of use by the companies. AFIC was owed \$35,194 as of December 31, 2010.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Fidelity and Deposit Company of Maryland. The bond has blanket coverage of \$250,000, with a deductible of \$10,000. As a result of growth of the Company, the amount of the fidelity bond is below the prescribed minimum coverage specified by the NAIC. See the Comments and Recommendations section of this Report of Examination for further commentary.

The Company had additional types of coverage in-force at December 31, 2010, including, but not limited to, directors and officers, excess liability, and excess financial products insurance.

## **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company's employees have the opportunity to participate in a qualified defined contribution plan that is sponsored by an affiliate. In addition to pension benefits, an affiliate provides certain health and dental benefits.

## **TERRITORY AND PLAN OF OPERATION**

The Company provides collateral protection insurance on personal loans issued by consumer finance subsidiaries of the Parent. First Tower Corp owns several consumer finance companies with approximately one hundred fifty (150) branches throughout Louisiana, Mississippi, and Missouri.

The Company markets its products exclusively through the Parent's consumer finance subsidiaries branch network. The geographical distribution of product exposes the Company to a significant risk of natural catastrophic losses given the concentration of its business in the hurricane prone coastal areas of Mississippi and Louisiana although this has been mitigated to a degree with the maturation of its Missouri market which commenced in 2006.



## GROWTH OF COMPANY

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Total admitted assets, less separate accounts	\$ 26,694,546	\$ 24,173,772	\$ 21,947,440
Total liabilities, less separate accounts	19,351,916	17,108,574	15,206,281
Total capital and surplus	7,342,630	7,065,198	6,741,159
Net cash from operations	9,584,746	8,254,675	6,205,264
Total adjusted capital	7,343,000	7,065,000	6,741,000
Authorized control level risk-based capital	180,000	167,000	153,000
Premiums earned and annuity considerations	12,552,324	11,355,582	10,476,910
Net investment income	645,009	664,733	668,875
Net realized capital gains & losses	1,178	0	(6,144)
Net income	7,209,160	6,493,342	5,698,332
Net Income/capital and surplus (ROE)	98%	92%	85%
Net premiums earned/capital and surplus	170.9%	160.7%	155.4%
Total benefits, expenses, premiums, & deposits	8.7%	10.1%	16.2%
Investment Yield	2.8%	3.2%	3.4%
Non-inv grade bonds/total bonds	0.2%	0.2%	0.2%

## ACCOUNTS AND RECORDS

The 2010 trial balance of the Company's accounts was traced to the balance sheet on the Company's statutory annual statement filed with MID, with no exceptions noted. The Company was audited annually by an independent CPA firm.

## STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-19-31 (2). The following chart displays the Company's deposits as of December 31, 2010:

<u>Type of Security</u>	<u>State Deposited</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Fair Value</u>
US Treasury Note	Mississippi	\$ 100,000	\$ 100,596	\$ 103,461
FHLMC Bond	Mississippi	290,000	305,559	311,941
Fannie Mae Bond	Mississippi	310,000	311,004	323,355
US Treasury Note	Mississippi	325,000	321,940	332,998
Freddie Mac Bond	Mississippi	100,000	102,339	110,845
Totals		<u>\$ 1,125,000</u>	<u>\$ 1,141,438</u>	<u>\$ 1,182,600</u>

## **INTRODUCTION TO THE FINANCIAL STATEMENTS**

The following financial statements consist of a Statement of Admitted Assets, Liabilities, Surplus and Other Funds at December 31, 2010, a Statement of Income for the year ended December 31, 2010, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2010, and a Reconciliation of Examination Adjustments to Surplus.

**AMERICAN FEDERATED INSURANCE COMPANY  
STATEMENT OF ADMITTED ASSETS, LIABILITIES, SURPLUS AND  
OTHER FUNDS  
DECEMBER 31, 2010**

**ADMITTED ASSETS**

Bonds	\$ 18,584,437
Common stock	950,175
Cash and short-term investments	4,359,062
Investment income due and accrued	233,485
Net deferred tax asset	671,383
Receivables from parent, subsidiaries and affiliates	<u>1,896,003</u>
<b>Total admitted assets</b>	<b><u>\$ 26,694,546</u></b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses	\$ 380,965
Loss adjustment expense	11,195
Commissions payable, contingent commissions and other similar charges	13,084
Other expenses	10,079
Taxes, licenses and fees	201,266
Current federal and foreign income taxes	130,519
Unearned premiums	18,589,808
Aggregate write-ins for liabilities	<u>15,000</u>
<b>Total liabilities</b>	<b><u>\$ 19,351,916</u></b>
Common capital stock	1,200,000
Gross paid in and contributed surplus	300,000
Unassigned funds (surplus)	<u>5,842,630</u>
Total capital and surplus	<u>7,342,630</u>
<b>Total liabilities, surplus and other funds</b>	<b><u><u>\$ 26,694,546</u></u></b>

**AMERICAN FEDERATED INSURANCE COMPANY**  
**STATEMENT OF INCOME**  
**FOR YEAR ENDED DECEMBER 31, 2010**

<b>Underwriting income</b>	
Premiums earned	\$ 12,552,324
<u>Deductions</u>	
Losses incurred	1,089,371
Loss adjustment expenses	(1,225)
Other underwriting expenses incurred	1,120,618
Net underwriting gain (loss)	<u>10,343,560</u>
<b>Investment income</b>	
Net investment income earned	645,009
Net realized capital gains	1,178
Net investment gain (loss)	<u>646,186</u>
<b>Other income</b>	
Aggregate write-ins for miscellaneous income	<u>25,933</u>
Net income before dividends to policyholders and before federal income taxes	11,015,679
Federal income taxes incurred	<u>3,806,519</u>
<b>Net income</b>	<b><u>\$ 7,209,160</u></b>

**AMERICAN FEDERATED INSURANCE COMPANY  
RECONCILIATION OF CAPITAL AND SURPLUS  
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2010**

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Capital and surplus, beginning of the year	\$ 7,377,799	\$ 6,741,159	\$ 7,065,198
Net income (loss)	5,698,332	6,493,342	7,209,160
Change in net unrealized capital gains	(405,705)	80,207	92,757
Change in net deferred income tax	(257,597)	(24,718)	(41,679)
Dividends to stockholders	(5,671,670)	(6,224,792)	(6,982,806)
Capital and surplus, end of the year	<u>\$ 6,741,159</u>	<u>\$ 7,065,198</u>	<u>\$ 7,342,630</u>

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS  
DECEMBER 31, 2010**

As a result of this examination, there have been no adjustments affecting surplus reported by the Company in the December 31, 2010 annual statement. The surplus reported by the Company of \$7,342,630 is accepted as reasonably stated for the purposes of the Balance Sheet per the examination.

## **MARKET CONDUCT ACTIVITIES**

A full 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 and underwriting, advertising and sales materials, treatment of policyholders, and privacy compliance. No significant exceptions with regard to the limited procedures performed were noted.

### **Policy Forms and Underwriting**

The Company had appropriate licensure to issue its products, and the applicable policy forms were approved by the MID. In addition, a review of premium charges and refunds indicated that the Company was in compliance with approved policies and applicable laws.

### **Advertising and Sales Material**

During the examination period, the Company did not do any direct advertising or provide any sales material to policyholders.

### **Treatment of Policyholders**

The Company maintained a complaint log during the examination period, and all complaints appeared to have been resolved amicably and no policyholder abuse or undesirable patterns were noted.

### **Privacy**

The Company had a privacy policy in place for the protection of its policyholders, and this policy appeared to be in compliance with applicable law and standards.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

The Company was a named defendant in a class action suit brought by Tower Loan borrowers, Claudia Smith and Wilbert Walker, in the United States District Court for the Southern District of Mississippi, South Division. The Company, AFLIC, Tower Loan, and other affiliates of the Parent are named defendants in similar actions brought by hundreds of borrowers in other courts. The class action and the actions in other courts, which assert many of the same claims brought in the class action, challenge virtually every material aspect of the loan/insurance practices of the Tower Loan companies and allege violations of state and federal laws. The insurance companies and the loan companies have denied the allegations in all of these cases.

In 2001, the parties to the class action entered into a proposed class wide settlement. Objectors to the Class Settlement exhausted their rights to appeal when, on January 18, 2005, the United States Supreme Court denied the objectors' petition for writ of certiorari. Under the supervision of the District Court, implementation of the Class Action Settlement Agreement commenced in March 2005. Distributions to Class Members appearing to have been accomplished, the District Court entered an order on September 22, 2006, directing the disbursement to a number of charitable organizations of approximately sixty-seven percent (67%) of the funds remaining in the Settlement Fund.

On December 16, 2009, the District Court entered an order directing disbursement of the funds remaining in the Settlement Fund. The Settlement Administrator disbursed such funds by letters dated December 21, 2009. The injunctive relief ordered pursuant to the Settlement Agreement expired February 15, 2010. As of December 31, 2010, the balance of the Settlement Fund was \$0.

In 2008, The Company was named as a defendant in the “State of Louisiana, Et al. v. AAA Insurance Company, Et. Al.” The basis of the suit results from Hurricane Katrina and Rita whereby residents of Louisiana who suffered damages and who were recipients of funds through the states’ Road Home Program” subrogated their rights under their respective property insurance policies, to the state. The Attorney General of Louisiana brought a class action suit to recoup funds expended in the program, on the basis of breach of contract, lack of good faith and fair dealing, and fiduciary duty by the named defendants. Currently, litigants are completing jurisdictional hearings and are entering into a motion to dismiss phase.

The state has provided the Company with names of alleged insured’s that the state alleges it is the subrogee for Road Home Funds on their behalf. The Company records indicate that only one of the alleged insured’s named by the state were ever insured’s of the Company. This insured does not appear to have been covered by the type of coverage targeted in the Road Home litigation.

Unless and until the state is able to identify the Company’s insured’s that received Road Home benefits, the Company is not exposed to liability. The records of the state make it somewhat difficult to determine whether the state may later find the Company’s insured’s that might be covered by Road Home payments. If any of these individuals are ultimately identified as Road Home Payees, some or all of those funds may be the basis for the Road Home claims. Based on the information available from the Company, one of the Company claimants who received funds from Hurricane Katrina and/or Rita damages are possible sources of Road Home Claims. The Company’s contingent liability for a single existing claim and its’ exposure including defense costs are considered minor.

### **SUBSEQUENT EVENTS**

The Company paid cash dividends in the amount of \$7,554,063 for 2011. These payments were made to the Parent in lieu of commissions and were approved by the MID.



## **COMMENTS AND RECOMMENDATIONS**

As of December 31, 2010, the Company had fidelity bond coverage in the amount of \$250,000 through Fidelity and Deposit Company of Maryland. As a result of growth of the Company, the amount of the fidelity bond is below the prescribed minimum coverage specified by NAIC. The Company plans to increase its fidelity bond coverage to \$500,000 in 2012 at the bond's policy renewal date to meet the prescribed minimum coverage amount specified by the NAIC.

The Company has reported in the Annual Statement amounts due from its Parent as uncollected premiums and agents' balances in the course of collection. This amount has been reclassified as receivables from parent, subsidiaries and affiliates in this Report of Examination. The Company should report such amounts accordingly in the Annual Statement going forward to be in compliance with SSAP 25, Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties.

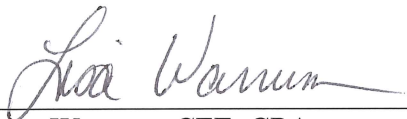
## ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner:	David McCauley
Supervising Examiner:	Lisa Warrum, CFE, CPA
Actuary:	Brett E. Miller, FCAS, MAAA, ARM

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



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Lisa Warrum, CFE, CPA  
Examiner-in-Charge