

**MISSISSIPPI INSURANCE DEPARTMENT**

501 N. WEST STREET, SUITE 1001  
WOOLFOLK BUILDING  
JACKSON, MISSISSIPPI 39201  
www.mid.state.ms.us

February 12, 2013

MAILING ADDRESS  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
TELEPHONE: (601) 359-3569  
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**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**MARK HAIRE**  
Deputy Commissioner of Insurance

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

Mr. Kent Thomas Higdon, President  
USA Insurance Company  
2104 Highway 90  
Gautier, MS 39553

**RE: Report of Examination as of December 31, 2011**

Dear Mr. Higdon:

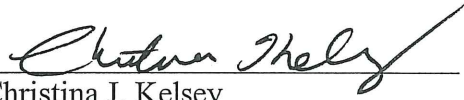
In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

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 MISSISSIPPI INSURANCE DEPARTMENT**

**IN RE: REPORT OF EXAMINATION OF  
USA INSURANCE COMPANY**

**CAUSE NO. 13-6608**

**ADMINISTRATIVE ORDER**

**THIS MATTER** came on for consideration before the Commissioner of Insurance (hereinafter “Commissioner”), chief officer of the Mississippi Insurance Department (hereinafter “Department”) in the Department’s offices at 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi. 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.**

The Department has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011).

**II.**

USA Insurance Company (hereinafter the “Company”) is a Mississippi-domiciled company licensed to write Automobile Physical Damage/Liability; Boiler and Machinery; Casualty/Liability; Fidelity; Fire/Allied Lines; Guaranty; Inland Marine; Ocean Marine; Plate Glass; Workers’ Compensation; Accident & Health; Credit Life, Credit Accident and Health; and Life coverages.

## FINDINGS OF FACT

### III.

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

### IV.

On or about November 20, 2012, the draft Report of Examination concerning the Company for the period of January 1, 2009, through December 31, 2011, was submitted to the Department by Kimberly Strong, Examiner-In-Charge.

### V.

That on or about January 15, 2013, 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 1, 2013, the Company responded in a letter with no objections and, in response thereto, there were no changes made to the 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, the Company's responses, and all relevant examiner work papers, that the Report of Examination of USA 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 Department 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, the 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 the Company 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 12<sup>th</sup> day of February 2013.



*J. Mark Haire*  
\_\_\_\_\_  
J. MARK HAIRE  
DEPUTY COMMISSIONER OF INSURANCE

**CERTIFICATE OF SERVICE**

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 Insurance Department, was sent by certified mail, postage pre-paid, return receipt requested, on this the 12<sup>th</sup> day of February 2013, to:

**Mr. Kent Thomas Higdon, President  
USA Insurance Company  
2104 Highway 90  
Gautier, MS 39553**

  
\_\_\_\_\_  
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**

**USA INSURANCE COMPANY**

**as of**

**December 31, 2011**

## TABLE OF CONTENTS

Examiner Affidavit .....	1
Salutation .....	2
Scope of Examination .....	3
Comments and Recommendations of Previous Examination .....	3
History of the Company .....	5
Corporate Records .....	5
Management and Control.....	6
Stockholders .....	6
Board of Directors .....	6
Committees.....	6
Officers .....	6
Conflict of Interest.....	7
Corporate Governance.....	7
Holding Company Structure .....	7
Organizational Chart .....	8
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
Reinsurance.....	10
Accounts and Records.....	10
Statutory Deposits.....	11
Financial Statements (Life, Accident and Health) .....	12
Introduction .....	12
Statement of Assets, Liabilities, Surplus and Other Funds .....	13
Summary of Operations.....	14
Reconciliation of Capital and Surplus .....	15
Reconciliation of Examination Adjustments to Surplus.....	16

Financial Statements (Property and Casualty) .....	17
Introduction .....	17
Statement of Assets, Liabilities, Surplus and Other Funds .....	18
Summary of Operations.....	19
Reconciliation of Capital and Surplus .....	20
Reconciliation of Examination Adjustments to Surplus.....	21
Financial Statements (Combined Life, Accident and Health and Property and Casualty) .....	22
Introduction .....	22
Statement of Assets, Liabilities, Surplus and Other Funds .....	23
Summary of Operations.....	24
Reconciliation of Capital and Surplus .....	25
Reconciliation of Examination Adjustments to Surplus.....	26
Market Conduct Activities .....	27
Policyholder Service .....	27
Underwriting and Rating.....	27
Claims Handling .....	27
Producer Licensing .....	27
Privacy.....	27
Commitments and Contingent Liabilities .....	28
Comments and Recommendations.....	29
Acknowledgment .....	30



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

State of Mississippi,

County of Hinds,

Kimberly Strong, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of USA Insurance Company as of December 31, 2011.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of USA Insurance Company 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.

Kimberly Strong  
Kimberly Strong, CPA, CFE  
Examiner-in-Charge

Subscribed and sworn before me by Kimberly Strong on this 6<sup>th</sup> day of February 2013.



Elaine H. Manuel  
Notary Public

My commission expires 10/1/13 [date].

USA Insurance Company  
MID Examination as of December 31, 2011



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

**MARK HAIRE**  
Deputy Commissioner of  
Insurance

## MISSISSIPPI INSURANCE DEPARTMENT

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MAILING ADDRESS  
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October 4, 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, 2011, of the affairs and financial condition of:

### USA INSURANCE COMPANY

2104 Highway 90  
Gautier, MS 39553

License #	NAIC Group #	NAIC #	FEETS#	ETS #
0300015	N/A	10313	10313-MS-2011-12	MS120-M17
8600053	N/A	83666	83666-MS-2011-11	MS120-M18

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

## **SCOPE OF EXAMINATION**

We have performed our single-state examination of USA Insurance Company (“Company” or “USA”). The last exam was completed as of December 31, 2008. This examination covers the period January 1, 2009 through December 31, 2011.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners 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.

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

Following are comments made in the previous examination report, as of December 31, 2008 that were not adequately addressed subsequent to the previous examination. As such, the recommendations or related recommendations are being repeated in the Comments and Recommendations section of this report. It is recommended that management aggressively pursue addressing these issues to fully comply with the directives of the Mississippi Insurance Department (“MID”).

Previous Exam Report Recommendation No. 1: Upon review of the general agent agreement between USA and Inshares Capital Corporation (“Inshares”), it was noted that the agreement does not appear to be in compliance with SSAP numbers 25 and 96, specifically regarding payment structure and terms. Further, it was noted that the name of the Company as defined in the general agent insurance agreement is Union Savings American Insurance Company, which is no longer the legal name of the Company. Based upon a review of the Company’s operating structure coupled with our understanding of Inshares, the Company’s parent, it does not appear that the general agent insurance agreement between the two entities is in compliance with Miss. Code Ann. § 83-6-21, nor does it appear that the services as defined in the written general agent agreement are being provided by the Company’s parent. The Company should correct the noted deficiencies and file the amended agreement for approval with the MID pursuant to Miss. Code Ann. § 83-6-21.

Current status:

Review of the Company's amended general agent agreement between USA and Inshares noted that the agreement did not appear to be in compliance with SSAP No. 25 as relates to inclusion of language providing for the timely settlement of amounts owed, with a specified due date. Based upon a review of the Company's operating structure, it does not appear that the General Agent Insurance Agreement between the two entities is in compliance with Miss. Code Ann. § 83-6-21, nor does it appear that the services as defined in the written General Agent Insurance Agreement are being provided by the Company's parent. This comment will be edited and repeated in the Comments and Recommendations section of this report.

Previous Exam Report Recommendation No. 3: It was noted that as of the date of this examination report, the Company has not filed an audited financial statement of its ultimate controlling person pursuant to the requirements within Miss. Code Ann. § 83-6-43 and as further detailed in MID Regulation 92-103. The Company should file audited financial statements of the Company's ultimate controlling person.

Current status:

Review of the Company's Holding Company Registration Statements ("HCRS") filed with the MID during the examination period revealed that the Company had not filed the audited financial statements of its ultimate controlling person with the MID in a timely manner. This comment will be repeated in the Comments and Recommendations section of this report.

Previous Exam Report Recommendation No. 17:

Restated Articles of Association:

Currently state that the number of directors be not less than 5 nor more than 15. This is inconsistent with the Bylaws and the current organizational structure.

Bylaws:

The Bylaws should reflect the correct name of the Company.

Currently state that one person shall not at the same time hold the offices of Chairman of the Board and President. This is inconsistent with the Company's current organizational structure.

Current status:

The Company submitted and the MID approved amended Articles of Association and Bylaws subsequent to the examination date but prior to the issuance of this report. This comment will be repeated in the Comments and Recommendation section of this report.

## **HISTORY OF THE COMPANY**

United General Life Insurance Company was organized and incorporated as a domestic limited insurer under the laws of the State of Arizona on June 7, 1973.

On March 7, 1974, the Company's name was changed to United General Reinsurance Company of Arizona.

On June 26, 1986, the Company's name was changed from United General Reinsurance Company of Arizona to Union Savings American Life Insurance Company.

Effective April 1, 1987, Union Savings American Life Insurance Company executed an assumption reinsurance agreement with Mississippi Life & Accident Insurance Company of Pascagoula, Mississippi. Pursuant to the assumption reinsurance agreement, Union Savings American Life Insurance Company assumed all of the assets and liabilities arising under all policies and certificates in force as of April 1, 1987.

On February 20, 1992, the Company redomesticated from Arizona to Mississippi and simultaneously changed its name from Union Savings American Life Insurance Company to Union Savings American Insurance Company. The Company was licensed to write life, accident & health and credit life, credit health & accident lines of business.

On December 1, 1992, the Company received an amended Certificate of Authority to write property and casualty lines of business.

On July 10, 2000, the Company changed its principal location from Jackson, Hinds County, Mississippi to Gautier, Jackson County, Mississippi.

On August 6, 2001, the Company amended the Articles of Association to change the name of the Company to USA Insurance Company.

## **CORPORATE RECORDS**

The minutes of the meetings of the Stockholders and Board of Directors prepared during the period under examination were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation, which included approval of the investment transactions and financial reports of the Company. The Articles of Association and Bylaws, along with any amendments thereto, were reviewed.

It was noted that the Articles of Association in effect during the examination period state that the number of directors be not less than 5 nor more than 15. This is inconsistent with the Bylaws and the current organizational structure. It is recommended that the Company correct and/or amend the Articles of Association to be consistent with the Bylaws of the Company and reflect the current organizational structure.

## MANAGEMENT AND CONTROL

### Stockholders

The Company had 600,000 of its 5,000,000 authorized shares of \$1 par value common stock issued and outstanding at the examination date. The common stock of the Company was 100% owned by Inshares. The Company paid no dividends during the examination period.

### Board of Directors

The Articles of Association and Bylaws vest the management and control of the Company's business affairs with the Board of Directors ("Board"). The members of the duly elected Board, along with their place of residence and principal occupation, at December 31 2011, were as follows:

Name and Residence	Principal Occupation
Kent Thomas Higdon Ocean Springs, Mississippi	President USA Insurance Company
Cecile Hinson Stephens Moss Point, Mississippi	Retired Secretary/Treasurer USA Insurance Company
William Travis Higdon Moss Point, Mississippi	Real Estate Agent Caldwell Banker

### Committees

There were no active committees of the Board as of the examination date.

### Officers

Name and Residence	Title
Kent Thomas Higdon	President
Cecile Hinson Stephens	Member
William Travis Higdon	Chairman/Secretary/Treasurer

The NAIC *Annual Statement Instructions* require that the full names of officers, directors and trustees be included on the Jurat Page of the Annual Statement. In addition, when identifying officers, if the Treasurer does not have charge of the accounts of the reporting entity, the name and title of the individual with responsibility for the accounts should be reported on the Jurat Page. It is recommended that the Company comply with the NAIC *Annual Statement Instructions* when completing the Jurat Page of the Annual Statements filed with the MID.

## **Conflict of Interest**

The Company had formal procedures 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. Written statements were signed annually by all officers and members of the Board of Directors.

## **Corporate Governance**

The risk- focused surveillance approach requires examiners to consider the insurer's corporate governance and established risk management processes. This evaluation includes assessing the "tone-at-the-top", board of directors and management oversight and understanding and conveyance of the necessity of internal controls to employees.

It was noted that the Company's management consists of President, Mr. Kent Higdon, and Controller, Randy Aubrey. The Company's Board of Directors consists of persons related to the President of the Company and does not appear to be actively involved in the operations of the Company. Information regarding the Board members, committees and other related information can be found in the "Management and Control" section of this report.

The appropriateness of the entity's organizational structure and its ability to provide the necessary information flow to manage its activities were considerations in obtaining our understanding of the organizational structure. Our consideration also encompassed understanding the assignment of authority and responsibility. It was noted that the Company maintained both formal and informal internal control policies. Procedures related to claims processing were appropriately documented where, processes over administration and review were verbally communicated to the employees by the President and Controller. The President, Controller and other management level employees appear to provide appropriate segregation of duties, review and oversight for the size and nature of the Company.

Management competence is a consideration in the overall assessment of corporate governance. In our review of this area, we considered factors such as management's experience level and management turnover. Management has significant experience with the Company and the insurance industry.

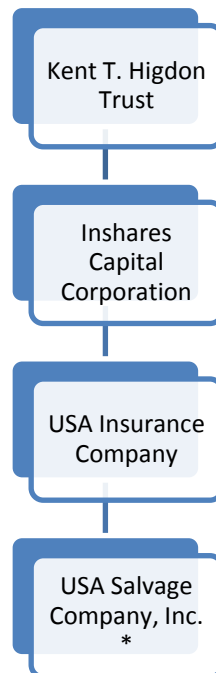
## **HOLDING COMPANY STRUCTURE**

The Company is a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company was required to file with the MID, Holding Company Registration Statements in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9. These filings set forth material changes in structure, identity or relationships of affiliates and any material transactions by and between the Company and its affiliates.

The Company appears to have filed with the MID documentation relating to Miss. Code Ann. §§

83-6-5 and 83-6-9 for the years under examination, with the exception of audited financial statements of the ultimate controlling person pursuant to the requirements of Miss. Code Ann. § 83-6-1 through § 83-6-43 and as further detailed in MID Regulation 92-103. It is recommended that the Company file the audited financial statements of the ultimate controlling person as required by Miss. Code Ann. § 83-6-1 through § 83-6-43 and as further detailed in MID Regulation 92-103.

### **Organizational Chart**



\* USA Salvage Company (“USA Salvage”) is an unaudited subsidiary and was held as a non-admitted asset on the Annual Statements filed with the MID during the examination period pursuant to SSAP No. 97.

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

Schedule Y – Part 2 reflects transactions with affiliates Inshares and USA Salvage. The Company had a General Agent Insurance Agreement with its parent company, Inshares and a General Business Contract with its subsidiary, USA Salvage.

Pursuant to the General Agent Insurance Agreement with Inshares, Inshares agrees to provide USA with marketing services, hiring, licensing and training of agents, solicitation and collection of premiums and delivery of insurance policies. USA paid a commission of \$42,000 a month towards a commission of 6% of all premiums collected by USA. It was noted that the agreement did not appear to comply with SSAP No. 25 as it does not provide for timely settlement of amounts owed by specifying a date for payment. It is recommended that the Company amend the General Agent Insurance Agreement with Inshares to comply with the provisions of SSAP



No. 25 related to the inclusion of language providing for the timely settlement of amounts owed, with a specified due date.

Based upon review of the Company's operating structure, it does not appear that the General Agent Insurance Agreement with the Company's parent is in compliance with Miss. Code Ann. § 83-6-21, nor does it appear that the services as defined in the written General Agent Insurance Agreement are being provided by the Company's parent. It is recommended that the Company comply with the provisions of the General Agent Insurance Agreement and Miss. Code Ann. § 83-6-21.

The Company reported mortgage loans in the amount of \$1,661,739 to family members of the President. These loans appeared to be arm's-length in nature, supported by appropriate documentation and performing in accordance with contract terms.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained a commercial insurance policy for employee theft with a limit of \$225,000. This amount meets the NAIC suggested minimum fidelity coverage for a company of its size. The Company also maintained an insurance program that appeared to provide adequate coverage to protect it from hazards that it may encounter.

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

Upon completion of one year of service, employees were eligible for one week of paid vacation and to participate in the 401(k) plan. No pension obligation existed as of December 31, 2011.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2011, the Company was authorized to write the following lines of business in the State of Mississippi:

Accident & Health	Credit Life, Credit Accident & Health
Life	Automobile Physical Damage/Liability
Plate Glass	Casualty/Liability
Fidelity	Fire/Allied Lines
Guaranty	Ocean Marine
Workers' Compensation	Boiler and Machinery
Inland Marine	

## **GROWTH OF COMPANY**

The Company is a multi-line company. The review of the growth of the company was performed on the combined Life, Accident and Health and Property and Casualty reported Annual Statement balances.

The combined net change in capital and surplus increased 15 percent from 2008 to 2009, 40.9 percent from 2009 to 2010 and 32.1 percent 2010 to 2011. However, the ratio of premium – to – surplus decreased from 4.4 as of December 31, 2008 to 3.3 as of December 31, 2009, 2.17 as of December 31, 2010 and 1.51 as of December 31, 2011. While surplus steadily increased during the period under examination, premiums declined as a result of the Company's intentional effort to decrease their block of business in an effort not to overexpose the Company to risks related to catastrophic events. The Company's ratio of assets to liabilities was 1.55 for 2008, 1.5 for 2009, 1.65 for 2010, and 1.9 for 2011.

## **REINSURANCE**

As of December 31, 2011, the Company maintained a Property First Catastrophe Excess of Loss Reinsurance Contract issued through a reinsurance intermediary, Guy Carpenter. The reinsurance intermediary was appropriately licensed with the Mississippi Insurance Department as of the examination date.

The First Property Catastrophe Excess of Loss Reinsurance Contract covered losses under policies classified by the Company as Automobile Physical Damage in respect to each loss occurrence, for the ultimate net loss over and above the initial ultimate net loss of \$1,000,000 each loss occurrence, subject to a limit of liability to the reinsurer of \$3,400,000 each loss. The subscribing reinsurers to the excess of loss reinsurance agreement were Lloyd's Syndicate No. 2001 (33 percent), R + V Versicherung AG (42 percent) and Farm Mutual Reinsurance Plan, Inc. (25 percent) as of December 31, 2011.

## **ACCOUNTS AND RECORDS**

The Company's 2011 trial balances were tied to the financial statements within the statutory Annual Statements filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm and the Company's aggregate reserve liability was calculated by a consulting actuarial firm.

It was noted that no appraisal was able to be located for 41 acres of real estate reported by the Company on Schedule A. It is recommended that the Company obtain an appraisal on the 41 acres located in Grand Bay, Alabama.

It was noted that outstanding checks in excess of two years old were reported on the December 31, 2011 Annual Statement on page 3, line 5, Other Expenses. It is recommended that all outstanding checks be reported on page 2, line 5 as a reduction to cash as required by SSAP No. 2.

The opining actuary analyzed and estimated the direct loss and ALAE on a combined basis; however no ULAE reserves were indicated. It is recommend that a separate analysis be performed to estimate the unpaid ULAE.

The Company is licensed as a multi-line insurance company pursuant to Miss. Code Ann. § 83-19-31(b), which requires the Company to maintain a minimum capital and surplus of \$600,000 and \$900,000, respectively. Pursuant to Miss. Code Ann. § 83-5-55, the Company is required to file an NAIC Life, Accident and Health Annual Statement and an NAIC Property and Casualty Annual Statement for each of the respective lines of business. The Company is also required to file risk-based capital (RBC) reports for each of its NAIC annual statement filings pursuant to Miss. Code Ann. § 83-5-401 through § 83-5-427.

### **STATUTORY DEPOSITS**

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-19-31(2) and § 83-7-21. The following chart displays the Company's deposits at December 31, 2011.

<b>Description of Security</b>	<b>State Deposited</b>	<b>Fair Value</b>
Certificate of deposit	Mississippi	\$ 400,000
Certificate of deposit	Georgia	<u>25,009</u>
Total		<u><u>\$ 425,009</u></u>

## **FINANCIAL STATEMENTS**

### **Introduction**

The following financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2011, a Summary of Operations for year ended December 31, 2011, a Reconciliation of Surplus and Other Funds for the examination period ended December 31, 2011 and a Reconciliation of Examination Changes to Surplus at December 31, 2011.

**Statement of Assets, Liabilities, Surplus and Other Funds  
(Life, Accident and Health)  
December 31, 2011**

**Assets**

Mortgage loans	\$	1,661,739
Real estate		993,804
Cash and short-term investments		699,413
Contract loans		33,302
Investment income due and accrued		7,804
Net deferred tax asset		2,605
Electronic data processing equipment and software		2,165
Aggregate write-ins for other than invested assets		389
<b>Total assets</b>		<b>3,401,221</b>

**Liabilities, Surplus and Other Funds**

Aggregate reserve for life contracts	\$	466,631
Aggregate reserve for accident and health contracts		186,027
Contract claims: life		6,000
Contract claims: accident and health		3,750
General expenses due or accrued		6,109
Taxes, licenses and fees due or accrued		11,664
Current federal and foreign income taxes		26,502
Amounts withheld or retained by the company as agent or trustee		325
Asset valuation reserve		94,475
Aggregate write-ins for liabilities		946,208
<b>Total liabilities</b>		<b>1,747,691</b>
Common capital stock, \$1 par value; 5,000,000 shares authorized; 600,000 shares issued and outstanding		600,000
Gross paid in and contributed surplus		1,036,893
Unassigned funds (surplus)		16,637
<b>Total capital, surplus and other funds</b>		<b>1,653,530</b>
<b>Total liabilities, surplus and other funds</b>		<b>\$ 3,401,221</b>

**Summary of Operations**  
**(Life, Accident and Health)**  
**For the examination period ended December 31, 2011**

<b>Revenue</b>		
Premiums earned	\$	519,524
Net investment income		134,491
Aggregate write-ins for miscellaneous income		52,729
<hr/>		
Total income		706,744
<hr/>		
<b>Expenses</b>		
Death benefits	\$	30,000
Disability benefits and benefits under accident and health contracts		46,758
Surrender benefits and other withdrawals for life contracts		4,768
Increase in aggregate reserves for life policies		7,406
Commissions of premiums and annuity considerations		58,248
General insurance expenses		150,060
Insurance taxes, licenses and fees		26,951
<hr/>		
Total expenses		324,191
<hr/>		
Net gain from operations before dividends to policyholders and federal income tax		382,553
Federal and foreign income taxes incurred		48,000
<hr/>		
Net income	\$	334,553
<hr/>		

**Reconciliation of Capital and Surplus  
(Life, Accident and Health)  
For the examination period ended December 31, 2011**

	2011	2010	2009
Capital and surplus, beginning of the year	\$ 1,232,141	\$ 895,118	\$ 1,675,176
Net income (loss)	334,553	322,215	(5,654)
Change in net deferred income tax	(5,184)	(35,371)	-
Change in non-admitted assets	36,865	48,945	272,855
Change in reserve on account of change in valuation basis	-	-	(45,987)
Change in asset valuation reserve	3,226	7,984	5,111
Aggregate write-ins for gain and (losses) in surplus	51,929	(6,750)	(1,006,383)
<b>Capital and surplus, end of the year</b>	<b>\$ 1,653,530</b>	<b>\$ 1,232,141</b>	<b>\$ 895,118</b>

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS**  
**(Life, Accident and Health)**  
**DECEMBER 31, 2011**

There were no changes made to the admitted assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2011. The capital and surplus, which totaled \$1,653,530 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31.



## **FINANCIAL STATEMENTS**

### **Introduction**

The following financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2011, a Summary of Operations for year ended December 31, 2011, a Reconciliation of Surplus and Other Funds for the examination period ended December 31, 2011 and a Reconciliation of Examination Changes to Surplus at December 31, 2011.

**Statement of Assets, Liabilities, Surplus and Other Funds  
(Property and Casualty)  
December 31, 2011**

**Assets**

Real estate	\$	593,697
Cash and short-term investments		9,873,511
Investment income due and accrued		12,566
Uncollected premiums in course of collection		1,485,123
Net deferred tax asset		33,174
Electronic data processing equipment and software		41,130
Aggregate write-ins for other than invested assets		946,208
<b>Total assets</b>		<b>12,985,409</b>

**Liabilities, Surplus and Other Funds**

Losses	\$	4,541,151
Loss adjustment expenses		9,837
Commissions payable, contingent commissions and other similar charges		4,874
Other expenses		234,841
Taxes, licenses and fees		13,025
Current federal and foreign income taxes		337,355
Unearned premiums		2,160,580
<b>Total liabilities</b>		<b>7,301,663</b>
Unassigned funds (surplus)		5,683,746
<b>Total liabilities, surplus and other funds</b>		<b>\$ 12,985,409</b>

**Summary of Operations  
(Property and Casualty)  
For the examination period ended December 31, 2011**

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Premiums earned	\$ 10,903,560
Losses incurred	5,919,768
Loss adjustment expenses incurred	27,247
Other underwriting expenses incurred	4,344,533
<hr/>	
Total underwriting deductions	10,291,548
<hr/>	
Net underwriting gain	612,012
<hr/>	
Net investment income earned	294,516
<hr/>	
Aggregate write-ins for miscellaneous income	960,332
<hr/>	
Net income before federal and foreign income taxes	1,866,860
Federal and foreign income taxes incurred	611,000
<hr/>	
Net income	\$1,255,860

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**Reconciliation of Capital and Surplus  
(Property and Casualty)  
For the examination period ended December 31, 2011**

	2011	2010	2009
Capital and surplus, beginning of the year	\$ 4,320,909	\$ 3,045,841	\$ 1,750,367
Net income	1,255,860	1,046,790	122,855
Change in net deferred income tax	(496)	292,039	-
Change in non-admitted assets	(1,909)	(87,556)	247,123
Aggregate write-ins for gains in surplus	109,382	23,795	925,496
Capital and surplus, end of the year	\$ 5,683,746	\$ 4,320,909	\$ 3,045,841

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS**  
**(Property and Casualty)**  
**DECEMBER 31, 2011**

There were no changes made to the admitted assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2011. The capital and surplus, which totaled \$5,683,746 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31.

## **FINANCIAL STATEMENTS**

### **Introduction**

The following combined financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2011, a Summary of Operations for year ended December 31, 2011, a Reconciliation of Surplus and Other Funds for the examination period ended December 31, 2011 and a Reconciliation of Examination Changes to Surplus at December 31, 2011.

Intra-company balances are eliminated on the combined life, accident and health filing and property and casualty filing financial statements on the following pages.

**Statement of Assets, Liabilities, Surplus and Other Funds**  
**(Combined Life, Accident and Health Filing and Property and Casualty Filing)**  
**December 31, 2011**

<b>Assets</b>	
Mortgage loans	\$ 1,661,739
Real estate	1,587,501
Cash and short-term investments	10,572,924
Contract loans	33,302
Investment income due and accrued	20,370
Uncollected premiums in course of collection	1,485,123
Net deferred tax asset	35,779
Electronic data processing equipment and software	43,295
Aggregate write-ins for other than invested assets	389
<b>Total assets</b>	<b>15,440,422</b>
<b>Liabilities, Surplus and Other Funds</b>	
Losses	\$ 4,541,151
Aggregate reserves for life contracts	466,631
Aggregate reserves for accident and health contracts	186,027
Loss adjustment expenses	9,837
Contract claims: life	6,000
Contract claims: accident and health	3,750
Commissions payable, contingent commissions and other similar charges	4,874
Other expenses	234,841
Unearned premiums	2,160,580
General expenses due or accrued	6,109
Taxes, licenses and fees due or accrued	24,689
Current federal and foreign income taxes	363,857
Amounts withheld or retained by the company as agent or trustee	325
Asset valuation reserve	94,475
<b>Total liabilities</b>	<b>8,103,146</b>
Common capital stock, \$1 par value; 5,000,000 shares authorized; 600,000 shares issued and outstanding	600,000
Gross paid in and contributed surplus	1,036,893
Unassigned funds (surplus)	5,700,383
<b>Total surplus and other funds</b>	<b>7,337,276</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$ 15,440,422</b>

**Summary of Operations**  
**(Combined Life, Accident and Health Filing and Property and Casualty Filing)**  
**For the examination period ended December 31, 2011**

<b>Revenue</b>	
Premiums earned	\$ 11,423,084
Net investment income	429,007
Aggregate write-ins for miscellaneous income	1,013,061
<hr/>	
Total income	12,865,152
<hr/>	
<b>Expenses</b>	
Losses incurred	\$ 5,919,768
Loss adjustment expenses incurred	27,247
Death benefits	30,000
Disability benefits and benefits under accident and health contracts	46,758
Surrender benefits and other withdrawals for life contracts	4,768
Increase in aggregate reserves for life policies	7,406
Commissions of premiums and annuity considerations	58,248
Other underwriting expenses incurred	4,344,533
General insurance expenses	150,060
Insurance taxes, licenses and fees	26,951
<hr/>	
Total expenses	10,615,739
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Net gain from operations before dividends to policyholders and federal income tax	2,249,413
Federal tax and foreign income taxes incurred	659,000
<hr/>	
Net income	\$ 1,590,413
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**Reconciliation of Capital and Surplus**  
**(Combined Life, Accident and Health Filing and Property and Casualty Filing)**  
**For the examination period ended December 31, 2011**

	2011	2010	2009
Capital and surplus, beginning of the year	\$ 5,553,050	\$ 3,940,959	\$ 3,425,543
Net income	1,590,413	1,369,005	117,201
Change in net deferred income tax	(5,680)	256,668	-
Change in non-admitted assets	34,956	(38,612)	519,978
Change in reserve on account of change in valuation basis	-	-	(45,987)
Change in asset valuation reserve	3,226	7,985	5,111
Aggregate write-ins for gains and (losses) in surplus	161,311	17,045	(80,887)
<b>Capital and surplus, end of the year</b>	<b>\$ 7,337,276</b>	<b>\$ 5,553,050</b>	<b>\$ 3,940,959</b>

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS**  
**(Combined Life, Accident and Health Filing and Property and Casualty Filing)**  
**DECEMBER 31, 2011**

There were no changes made to the combined admitted assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2011. The combined capital and surplus, which totaled \$7,337,276 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31.

## **MARKET CONDUCT ACTIVITIES**

A full market conduct examination was not conducted; however, specific areas of the market conduct activities were reviewed. The specific areas reviewed included those items as indicated below.

### **Policyholder Service**

The Company maintained complaint documentation during the period under examination and all complaints appeared to have been appropriately resolved and no policyholder abuse was noted.

### **Underwriting and Rating**

Based upon procedures performed during the course of the examination, the Company appeared to be appropriately applying premium rates for insured policies based on application data. It appeared that all applicable policy forms had been appropriately approved by the MID.

### **Claims Handling**

Claim files were reviewed for general indicators of policyholder treatment concerns without material exception.

### **Producer Licensing**

The Company appeared to have the appropriate licensure to issue its products and agents appeared to be properly licensed and appointed.

### **Privacy**

Privacy notices were sent to the Company's policyholders annually, and based upon the procedures performed during the course of the examination, these annual notices appeared to be in compliance with applicable laws and standards.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

Procedures performed during the course of the examination revealed no pending litigation outside of the normal course of business, commitments or other contingent liabilities to which the Company was a party.

## COMMENTS AND RECOMMENDATIONS

The following comments and recommendations reflect findings as of the examination date. Updates or changes to the status of these items noted during the period subsequent to the examination date but prior to the issuance of the report are included in the “Subsequent Events” section of the report.

1. It is recommended that the Company correct and/or amend the Articles of Association to be consistent with the Bylaws of the Company and reflect the current organizational structure. (Page 5)
2. It is recommended that the Company comply with the NAIC *Annual Statement Instructions* when completing the Jurat Page of the Annual Statements filed with the MID. (Page 6)
3. It is recommended that the Company file the audited financial statements of the ultimate controlling person as required by Miss. Code Ann. § 83-6-1 through § 83-6-43 and as further detailed in MID Regulation 92-103. (Page 8)
4. It is recommended that the Company amend the related party service agreement with Inshares to comply with the provisions of SSAP No. 25 related to the inclusion of language providing for the timely settlement of amounts owed, with a specified due date. (Page 8)
5. It is recommended that the Company comply with the provisions of the general agent agreement and Miss. Code Ann. § 83-6-21. (Page 9)
6. It is recommended that the Company obtain an appraisal on the 41 acres located in Grand Bay, Alabama. (Page 10)
7. It is recommended that all outstanding checks be reported on page 2, line 5 as a reduction to cash as required by SSAP No. 2. (Page 11)
8. It is recommended that a separate analysis be performed to estimate the unpaid ULAE. (Page 11)

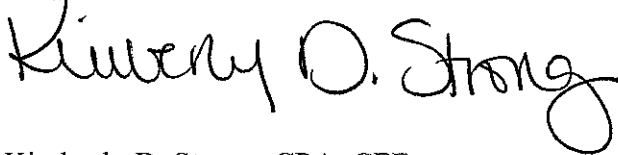
## ACKNOWLEDGMENT

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

Administrative Examiner	Jimmy D. Blissett, CFE
Examiner-in-charge	Kimberly D. Strong, CPA, CFE
IT Specialist	Steve Sartin, CISA, CRISC
Actuary	Mike Mayberry, FSA, MAAA
Actuary	Greg Wilson, FCAS, MAAA
Examiner	Steve Page, CPA

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

Respectfully submitted,



Kimberly D. Strong, CPA, CFE  
Examiner-in-charge