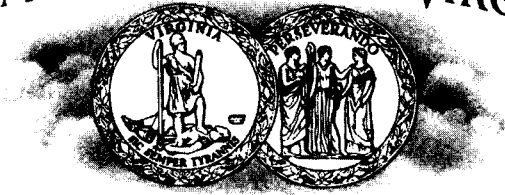


**EXAMINATION REPORT**  
**of the**  
**VIRGINIA LIFE, ACCIDENT AND SICKNESS**  
**INSURANCE GUARANTY ASSOCIATION**  
**Richmond, Virginia**  
**as of**  
**December 31, 2007**

# COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Virginia Life, Accident and Sickness Insurance Guaranty Association as of December 31, 2007, is a true copy of the original report on file with this Bureau.

**IN WITNESS WHEREOF**, I have hereunto set my hand  
and affixed to the original the seal of the Bureau at the City  
of Richmond, Virginia this 10<sup>th</sup> day of April, 2009

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Alfred W. Gross  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
October 17, 2008

Honorable Alfred W. Gross  
Commissioner of Insurance  
Commonwealth of Virginia  
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of § 38.2-1711 of the Code of Virginia, an examination of the affairs and financial condition of the

**VIRGINIA LIFE, ACCIDENT AND SICKNESS  
INSURANCE GUARANTY ASSOCIATION**  
Richmond, Virginia

hereinafter referred to as the Association, has been completed. The report thereon is submitted for your consideration.

**DESCRIPTION**

The Association is an unincorporated non-profit legal entity comprised of insurers who are required to be members as a condition of their authority to transact the business of insurance in the Commonwealth of Virginia. The Association was last examined by representatives of the Virginia State Corporation Commission's (Commission) Bureau of Insurance (Bureau) as of December 31, 2004. This examination covers the three-year period from January 1, 2005, through December 31, 2007.

**HISTORY**

The Association was created in 1976 by the Life, Accident and Sickness Insurance Guaranty Association Act (Article 5.2, Chapter 9 of Title 38.1 of the [former] Code of Virginia). Its purpose is to protect policyholders, insureds, beneficiaries, annuitants, payees and assignees of life insurance policies, accident and sickness insurance policies, annuity contracts and supplemental contracts thereto, as well as dental benefit contracts entered into with a dental plan organization as provided in Chapter 61 of Title 38.2 of the Code of Virginia. Subject to certain limitations, protection is afforded against failure in the performance of contractual obligations due to the impairment or insolvency of insurers issuing such policies or contracts.

## MANAGEMENT AND CONTROL

Management of the Association, according to the Plan of Operation, is vested in a board of directors (board) consisting of not less than five nor more than nine member insurers elected by the members for three-year terms. Code of Virginia § 38.2-1703 requires that all domestic and foreign insurers be fairly represented. A majority of the board constitutes a quorum for the transaction of business. The acts of a majority of members present at any meeting for which there is a quorum are the acts of the board. However, an affirmative vote by a majority of the full board is required to (1) approve a contract with a servicing facility, (2) levy an assessment or provide for a refund, (3) borrow money, or (4) approve reinsurance contracts, assumption agreements or guaranty plans.

The Association's Plan of Operation was last amended in 1997. The board meets at least annually, and at December 31, 2007, was comprised as follows:

Genworth Life & Annuity Insurance Company  
 Shenandoah Life Insurance Company  
 Settlers Life Insurance Company  
 Anthem Health Plans of Virginia, Inc.  
 Lincoln National Life Insurance Company  
 ING USA Annuity & Life Insurance Company  
 Teachers Insurance and Annuity Association of America  
 Symetra Life Insurance Company  
 North Carolina Mutual Life Insurance Company

As provided in the Plan of Operation, elected officers at December 31, 2007, were as follows:

<u>Officers</u>	<u>Company</u>	<u>Represented by</u>
Chairman	Genworth Life & Annuity Insurance Company	David H. McMahon
Treasurer	Anthem Health Plans of Virginia, Inc.	S. Owen Hunt
Secretary	Shenandoah Life Insurance Company	Kathleen M. Kronau

On January 1, 1999, the Association entered into a service agreement with APM Management Services, Inc. ("APM"), an organization owned and operated by former employees of the Association. The agreement requires APM to provide certain management and accounting services to the Association for an initial monthly fee of \$13,750 or \$165,000 annually. These fees are subject to an annual review with increases or decreases subject to mutual assent by the Association and APM, and were increased in 2006 to \$202,416. APM agreed to maintain fidelity bonds and insurance policies of the same type that were in effect at the date of the agreement. These policies named the Association as an additional insured.

### **METHOD OF OPERATION**

The Association's members include insurers licensed in the Commonwealth of Virginia to write life insurance policies, accident and sickness policies, annuity contracts, contracts supplemental thereto, and dental benefit contracts entered into with a dental plan organization as provided in Chapter 61. Excluded by law, however, are cooperative nonprofit life benefit companies, mutual assessment life, accident and sickness insurance companies, burial societies, fraternal benefit societies, optometric services and health services plans not subject to Code of Virginia § 38.2-4213. Contracts or certificates that are not issued to and owned by an individual are also excluded, with limited exceptions.

Upon determination that a member insurer has become insolvent, the Association is obligated to the extent of covered claims, but not exceeding \$300,000 in life insurance death benefits, including not more than \$100,000 in net cash surrender and net cash withdrawal values for life insurance; \$300,000 in health insurance benefits, including any net cash surrender and net cash withdrawal values; \$100,000 in the present value of annuity benefits, including any net cash surrender and net cash withdrawal values; and \$250,000 in the present value of annuity benefits where the annuities are established and maintained as eligible individual retirement accounts and deferred compensation plan accounts. However, the Association shall not be liable to expend more than \$350,000, in the aggregate, with respect to any one individual.

For purposes of administration and assessment, the Association is required to maintain three separate accounts: a life insurance account, an accident and sickness insurance account and an annuity account. Claims and expenses paid are to be allocated among the three accounts separately. Assessments are to be made for each account against members in amounts necessary to pay obligations.

Code of Virginia § 38.2-1705 B provides for two classes of assessments:

1. Class A assessments for administrative costs and other general expenses not necessarily related to a particular impaired or insolvent insurer.

2. Class B assessments for impaired or insolvent insurers.

The amount of Class A assessments is determined by the board and may be on a pro-rata or non pro-rata basis. If pro-rata, the board may provide that such assessment shall be credited against future insolvency assessments. A non pro-rata assessment shall not exceed \$200 per company in any one calendar year. Class B assessments are made as provided by the Code of Virginia. The total of all assessments upon a member insurer for each account shall not, in one calendar year, exceed two percent of the member insurer's premium income in the Commonwealth of Virginia for the preceding calendar year on policies covered by the account. The Code of Virginia further provides that certificates of contribution shall be issued by the Association for assessments other than Class A and may be shown by the member insurer as an asset in its annual statement. Amounts that are amortized during each calendar year shall be deducted from the premium tax liability incurred on business transacted in the Commonwealth of Virginia for that calendar year, provided the Association diligently pursues all rights available to it to recoup money spent fulfilling its responsibilities.

The Association is a member of the National Organization of Life & Health Insurance Guaranty Associations (NOLHGA), which provides information on pending insolvencies and claims administration. Through its affiliation with NOLHGA, the Association participates in a number of service agreements and reinsurance transactions involving impaired or insolvent companies.

During the period January 1, 2005 to December 31, 2007, the Association's board of directors authorized two Class A assessments. These assessments were approved on October 14, 2004 and December 14, 2006. These assessments were billed in mid-March 2005 and on March 17, 2007.

During the period under review the following company that was licensed in Virginia was determined to be impaired or insolvent:

<u>Name</u>	<u>State of Domicile</u>
The Shelby Casualty Insurance Company	Texas

**FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2007, the Association was listed as an additional insured on APM's fidelity bond coverage, with a \$1,000,000 limit of liability, subject to a \$50,000 deductible. In addition, the Association was listed as a named insured on comprehensive business liability and fire legal liability policies.

**SCOPE**

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia for the three year period ending December 31, 2007. The Association maintains its records and prepares its financial statements on the modified cash basis of accounting as approved by the Commission. Assessments and other revenue are recognized when received and disbursements are recognized when paid. Assets were verified at December 31, 2007. The Association reported no liabilities in accordance with the modified cash basis of accounting. A review of income and disbursements for the period was made to the extent deemed necessary.

In addition, the following items were reviewed; several of which are discussed separately under their respective captions in this report.

History  
Management and Control  
Method of Operation  
Fidelity Bond and Other Insurance  
Subsequent Events  
Financial Statements



**FINANCIAL STATEMENTS**

There follows, on a modified cash basis, a statement reflecting the financial condition of the Association at December 31, 2007, a statement of cash receipts and disbursements for the year ended December 31, 2007 and a statement of changes in account balances for the period under review. The statements made in this part of the report and the amounts included therein are generally in the form of the financial report filed with the Commission.

**STATEMENT OF ASSETS AND NET ASSETS**

**Assets**

Cash and cash equivalents	\$3,915,625
Investment securities, at amortized cost	<u>3,573,977</u>
Total Assets	<u><u>\$7,489,602</u></u>

**Net Assets**

Administrative - Unrestricted	\$112,213
Life - Temporarily restricted	1,558,164
Accident and sickness - Temporarily restricted	1,590,586
Annuity - Temporarily restricted	<u>4,228,639</u>
Net Assets	<u><u>\$7,489,602</u></u>

**STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID**

	2007				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>			<u>Total</u>
	<u>Administrative</u>	<u>Life</u>	<u>Accident &amp; Sickness</u>	<u>Annuity</u>	
<b>Revenues Collected</b>					
Premiums collected		\$2,157	\$28		\$2,185
Class A assessments	156,600				156,600
Interest	3,328	77,994	78,985	212,006	372,313
Estate distributions		49,542	26,991	328,605	405,138
	<u>\$159,928</u>	<u>\$129,693</u>	<u>\$106,004</u>	<u>\$540,611</u>	<u>\$936,236</u>
<b>Expenses Paid</b>					
Insolvency and allocated administrative expenses		\$277,833	\$163,532	\$1,070,930	\$1,512,295
Premium refund		5,689			5,689
Unallocated administrative expenditures	68,670				68,670
	<u>\$68,670</u>	<u>\$283,522</u>	<u>\$163,532</u>	<u>\$1,070,930</u>	<u>\$1,586,654</u>
<b>Change in Net Assets</b>	\$91,258	(\$153,829)	(\$57,528)	(\$530,319)	(\$650,418)
Net assets, beginning of	20,955	1,711,993	1,648,114	4,758,958	8,140,020
Net assets, end of year	<u>\$112,213</u>	<u>\$1,558,164</u>	<u>\$1,590,586</u>	<u>\$4,228,639</u>	<u>\$7,489,602</u>

**STATEMENT OF CHANGES IN ACCOUNT BALANCES**

	<u>Life</u>	<u>Accident &amp; Sickness</u>	<u>Annuity</u>	<u>Administrative</u>	<u>Total</u>
Net Assets, December 31, 2004	\$528,734	\$992,286	\$5,417,258	(\$4,949)	\$6,933,329
Excess (deficiency) of receipts over disbursements - 2005	<u>(251,256)</u>	<u>602,458</u>	<u>(986,822)</u>	<u>89,414</u>	<u>(546,206)</u>
Net Assets, December 31, 2005	\$277,478	\$1,594,744	\$4,430,436	\$84,465	\$6,387,123
Excess (deficiency) of receipts over disbursements - 2006	<u>1,434,515</u>	<u>53,370</u>	<u>328,522</u>	<u>(63,510)</u>	<u>1,752,897</u>
Net Assets, December 31, 2006	\$1,711,993	\$1,648,114	\$4,758,958	\$20,955	\$8,140,020
Excess (deficiency) of receipts over disbursements - 2007	<u>(153,829)</u>	<u>(57,528)</u>	<u>(530,319)</u>	<u>91,258</u>	<u>(650,418)</u>
Net Assets, December 31, 2007	<u><u>\$1,558,164</u></u>	<u><u>\$1,590,586</u></u>	<u><u>\$4,228,639</u></u>	<u><u>\$112,213</u></u>	<u><u>\$7,489,602</u></u>

**SUBSEQUENT EVENTS**

1. Code of Virginia § 38.2-1705 F states,

The board may refund to member insurers, in proportion to the contribution of each insurer to that account, the amount the assets of the account exceed the amount the board finds necessary to fulfill the Association's obligations during the coming year. In determining the refunds, assets accruing from net realized gains and income from investments shall be included. A reasonable amount may be retained in any account to provide funds for the continuing expenses of the Association and for future losses if refunds are impractical.

In addition, Code of Virginia § 38.2-1709 C states,

Any sums that have been (i) amortized by contributing insurers and offset against premium taxes as provided in subsection B and (ii) subsequently refunded pursuant to subsection F of § 38.2-1705 shall be paid to the Commission and deposited with the State Treasurer for credit to the general fund of this Commonwealth.

During 2008, as in previous years, the Association commenced a review to determine if the amount of its Net Assets was a reasonable amount to provide funds for future losses and the continuing expenses of the Association.

2. The Association received distributions during 2008 from the estates in liquidation for American Chambers Life Insurance Company (\$68,103), Diamond Benefits Life Insurance Company (\$2,904), First National Life Insurance Company (\$1,768,436), Kentucky Central Life Insurance Company (\$14,392) and Legion Insurance Company (\$31,152).
3. On May 14, 2008, Lincoln Memorial Life Insurance Company (Texas) was placed in rehabilitation and ordered liquidated in September 2008. Virginia's estimated exposure for this insolvency is \$180,406.

**CONCLUSION**

The courteous cooperation extended by the representatives of the Association during the course of the examination was sincerely appreciated.

In addition to the undersigned, Chris Collins, AFE participated in the work of the examination.

Respectfully submitted,



William K. Knight, AFE  
Senior Insurance Examiner  
Commonwealth of Virginia

**Virginia Life, Accident  
& Sickness Insurance  
Guaranty Association**

STATE CORP COMMISSION  
BUREAU OF INSURANCE

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March 31, 2009

Mr. David H. Smith, CFE, CPA, CPCU  
Chief Examiner  
State Corporation Commission  
Bureau of Insurance  
P. O. Box 1157  
Richmond, VA 23218

RE: Examination Report as of December 31, 2007

Dear Mr. Smith:

We acknowledge receipt of the Association's Examination Report as of December 31, 2007. We are very pleased that the report does not contain any recommendations for corrective action. Please provide me with 11 copies of the of the final report.

Sincerely,



Margaret M. Parker  
Executive Director

Cc: David H. McMahon, Chairman