

REPORT ON EXAMINATION  
OF THE  
PLATEAU INSURANCE COMPANY

2701 NORTH MAIN STREET  
CROSSVILLE, TENNESSEE 38555

AS OF  
DECEMBER 31, 2009

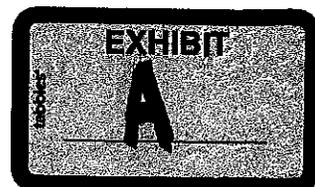
THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE  
NASHVILLE, TENNESSEE

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Dept. of Commerce & Insurance  
Company Examinations



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Crossville, Tennessee  
May 6, 2011

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Rhode Island Department of Business Regulation  
Division of Insurance  
1511 Pontiac Ave., Bldg. 69-2  
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Honorable Sharon P. Clark  
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P.O. Box 517  
Frankfort, Kentucky 40602

Honorable Julie Mix McPeak  
Commissioner of Commerce and Insurance  
State of Tennessee  
500 James Robertson Parkway  
Nashville, Tennessee 37243

Dear Commissioners:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review has been made concerning the condition and affairs of the

PLATEAU INSURANCE COMPANY  
CROSSVILLE, TENNESSEE

hereinafter generally referred to as "PIC" or the "Company", and a report thereon is submitted as follows:

## INTRODUCTION

This examination was called on January 14, 2011 through the Examination Tracking System of the NAIC by the Department of Commerce and Insurance of the State of Tennessee (TDCI). The examination was performed under the association plan of the NAIC by examiners from the TDCI representing the Southeastern Zone of the NAIC. There was no participation from any other zones. The examination commenced on January 24, 2011 and was conducted at the Company's home office at 2701 North Main Street, Crossville, Tennessee, where all books and records are located. The examination was performed simultaneously with the examination of the Company's parent, Plateau Casualty Insurance Company (PCIC).

## SCOPE OF EXAMINATION

The period covered by this examination is from January 1, 2005, to the close of business on December 31, 2009, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. We planned and performed 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. The examination also included assessing the principles used and significant estimates made by management, as well as

evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Independent actuaries were used in the review of the Company's reserves.

The previous examination was made as of December 31, 2004, and resulted in a \$1,988,861 decrease in surplus. The decrease is a result of the following adjustments: a decrease of \$762,841 was made to investment securities (including accrued interest) that were not maintained under a proper custodial agreement; a decrease of \$1,204,069 in the statutory value of the Company's wholly owned subsidiary PCIC resulting from a concurrent examination; and a decrease of \$21,951 to notes receivable with insufficient collateral. Further, the Company was issued the following directives:

1. comply with Tenn. Code Ann. § 56-3-103 by taking any and all steps necessary to ensure that no director or officer of the Company accept or be the beneficiary of, directly or remotely, any fee, brokerage, commission, gift, or other consideration for or on account of any loan, deposit, purchase, sale, payment or exchange made by or in behalf of such company, or be pecuniarily interested in any such purchase, sale or loan, either as borrower, principal, coprincipal, agent or beneficiary;
2. comply with Tenn. Code Ann. § 56-11-206(a)(2) by notifying the Commissioner in writing of its intention to enter into any transactions listed under § 56-11-206(a)(2)(C) at least thirty (30) days prior to doing so, so as to allow the Commissioner to review such transactions and determine whether or not to disapprove them;

3. comply with Tenn. Code Ann. § 56-1-501(b) by completing its annual statement in accordance with the annual statement instructions established by the Commissioner. This compliance includes, but is not limited to, properly stating the effective dates of contracts and agreements;

4. comply with Tenn. Code Ann. § 56-3-112 and Tenn. Comp. R. & Regs., ch. 0780-1-46-.04 (1999) by maintaining a custodial agreement that complies with said rule, should the Company choose an authorized method of holding its securities that requires such an agreement.

As of the date of this examination, the Company has complied with these directives.

Note: Part 2, §§ 56-11-201 through 56-11-215, was redesignated as Part 1, §§ 56-11-101 through 56-11-115, by the code commission in 2008.

### COMPANY HISTORY

The Company was incorporated on July 29, 1980, to engage in the business of credit life insurance and credit accident and health insurance, as a Tennessee domiciled for profit life insurance company with 10,000 shares of \$1 par value capital stock.

Its Charter of Incorporation was amended and restated effective March 3, 1981, to change the par value of its authorized capital stock from \$1 per share to \$100 per share. Effective March 23, 1981, the Company was issued a Certificate of Authority by the Tennessee Department of Commerce and Insurance (TDCI) to transact the business of credit life insurance and credit accident and health insurance.

On July 15, 1983, Plateau Merger Corporation (PMC) was incorporated to engage in the business of credit life insurance and credit accident and health insurance as a Tennessee domiciled for profit life insurance company with 10,000 shares of \$1 par value capital stock. Its Charter of Incorporation was amended effective October 4, 1983, to change the par value of its authorized capital stock from \$1 per share to \$750 per share. On November 3, 1983, PMC was issued a Certificate of Authority by the TDCI to transact the business of credit life insurance and credit accident and health insurance.

Effective December 28, 1983, Articles of Merger, Plan and Agreement of Merger, and Amendment to Plan and Agreement of Merger were filed and recorded with the Secretary of State, State of Tennessee, by the Company as originally incorporated and PMC. Such merger occurred in two (2) steps: first, a merger among MRS Life Insurance Company (Arizona), Allen-Russell Life insurance Company (Arizona), and PMC with PMC being the surviving corporation; second, a merger by and between the Company as originally incorporated and PMC with PMC being the surviving corporation and amending its charter to change its name to Plateau Insurance Company. The merger plan was adopted by both the shareholder of the Company as originally incorporated and the shareholder of PMC at meetings on December 22, 1983, and was made effective January 1, 1983, for accounting purposes. Said merger plan was approved by the Arizona Department of Insurance effective May 13, 1983, and was approved by the TDCI effective December 28, 1983. As a result of the merger and company name change, a new Certificate of Authority was issued to the Company by the TDCI and made effective December 29, 1983, to transact the business of credit life insurance and credit accident and health insurance.

On October 29, 1984, Customers Merger Corporation (CMC) was incorporated to engage in the business of credit life insurance and credit accident and health insurance as a Tennessee domiciled for profit life insurance company with 100,000 shares of \$1 par value capital stock. Its Charter was amended effective November 15, 1984 to change the number of authorized shares of capital stock to 750,000 shares of \$1 par value capital stock. On November 26, 1984, CMC was issued a Certificate of Authority by the TDCI to transact the business of individual credit life insurance, individual credit accident and health insurance, group credit life insurance and group credit accident and health insurance.

Effective December 31, 1984, a Plan and Agreement of Mergers was filed and recorded with the Secretary of State, State of Tennessee. Such mergers occurred in the following steps: first, Plateau Insurance Company and Customers Life Insurance Corporation (Arizona) merged, with Customers Life Insurance Corporation being the surviving corporation; second, a merger between Customers Life and CMC occurred with CMC being the surviving corporation and amending its charter to change its name to Plateau Insurance Company. The Charter and Bylaws of the Company became the Charter and Bylaws of the surviving corporation after the mergers. The merger plan was made effective as of January 1, 1984, for accounting purposes. The Arizona Department of Insurance approved the merger plan effective December 27, 1984. On December 31, 1984, the merger plan was approved by the TDCI. As a result of the merger and Company name change, a new certificate of authority was issued to the Company by the TDCI, and made effective December 31, 1984, to transact the business of individual credit life insurance, individual credit accident and health insurance, group credit life insurance and group credit accident and health insurance.

On September 27, 1985, the Company's charter was amended to authorize 10,000 shares of capital stock with a par value of \$1,200 per share. All of the outstanding shares of the Company were owned by its parent, The Plateau Group, Inc. (PGI), a Tennessee insurance and financial services holding company.

On November 26, 1986, the Company acquired control of Two Rivers Life Insurance Company (Two Rivers). On November 28, 1986, the Company merged with Two Rivers, with the Company being the survivor.

On December 28, 1995, Plateau Casualty Insurance Company (PCIC) was organized as a property and casualty insurer under the laws of the State of Tennessee. As of May 1, 1997, PCIC was 100% owned by PGI.

On March 1, 2001, PGI contributed the common voting stock of PCIC to the Company. The stock, 1,000 shares of \$1,000 par value per share, was contributed at its statutory value at that time of \$3,671,593.

On May 16, 2005, PIC contributed \$500,000 to the common capital stock of PCIC. In November 2005, PIC paid as a dividend the stock of PCIC to PGI. The amount of the dividend was \$5,509,220. In September, 2006, ownership of PIC was transferred from PGI to PCIC through a non-cash dividend amount of \$5,629,032, equal to the capital of PIC on the date of the transfer.

At December 31, 2009, the Company had authorized capital stock of 10,000 shares of common stock with a par value of \$1,200 per share, of which 1,250 shares were issued and outstanding for a capital paid up of \$1,500,000. All outstanding shares of the Company are owned by its parent, PCIC.

The Company's development, since the previous examination, is depicted in the following table:

<u>Date</u>	<u>Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Life/A&amp;H Premiums</u>	<u>Life/A&amp;H Benefits</u>	<u>Net Income</u>
12/31/05	14,823,606	9,810,939	5,012,667	9,210,061	3,025,871	515,642
12/31/06	16,506,065	10,526,585	6,979,480	9,635,233	2,873,348	805,842
12/31/07	18,419,713	12,244,777	6,174,936	12,358,170	2,997,427	538,920
12/31/08	19,410,570	12,736,760	6,673,810	11,500,351	3,155,920	591,352
12/31/09	19,433,509	10,259,890	9,173,619	9,596,933	3,159,749	2,467,153

### CHARTER AND BYLAWS

#### Charter:

The Company's Charter, originally filed and approved on March 3, 1981, and last amended in September, 1990, establishes the Company as a perpetual for-profit corporation. The purposes for which the corporation is organized are:

- (a) To engage as a principal in any kind of lawful insurance.
- (b) To carry on the business of an insurance agency and insurance broker.
- (c) To do all things which the Board of Directors determines to be necessary or appropriate in connection or associated therewith.
- (d) To engage in any lawful business.

In addition to the preceding, the Charter recites other general and specific powers in detail. These are usual in nature and consistent with statute. The Charter was inspected and found to have been duly issued and properly recorded. There were no amendments to the Charter during the period under examination.

Bylaws:

The Bylaws establish the rules which regulate the business and affairs of the Company and govern the conduct and duties of its stockholders, directors and officers. The Bylaws of the Company are such as are generally found in corporations of this type and contain no unusual provisions. They may be amended by the Board of Directors or by an affirmative vote of the holders of a majority of the issued and outstanding common stock of the Company. There were no amendments to the Bylaws during the period under examination.

MANAGEMENT AND CONTROL

The Company's Bylaws state that the property, affairs and business of the corporation shall be managed by a Board of Directors who are elected at the annual meeting of the stockholders. The Bylaws state that the number of directors shall consist of not less than five nor more than fifteen.

PIC's Board of Directors, as of December 31, 2009, are as follows:

<u>Name</u>	<u>Address</u>	<u>Occupation</u>
William Dickson Williams	Knoxville, TN	President & CEO, The Plateau Group, Inc.
Thomas L. Williams	Crossville, TN	Executive Vice President, The Plateau Group, Inc.
Euretha J. Roberts	Baxter, TN	Senior Vice President & Secretary, The Plateau Group, Inc.
D. Michael Graham	Crossville, TN	Senior Vice President, The Plateau Group, Inc.
Michael Ramsey	Crossville, TN	Vice President & Treasurer, The Plateau Group, Inc.

The Company's Bylaws provide that the officers of the corporation shall be elected annually by the Board of Directors and shall consist of a Chairman of the Board, a President, an Executive Vice President, a Secretary, a Treasurer and such other officers as may be from time to time elected by the Board of Directors.

The Officers of PIC, as of December 31, 2009, are as follows:

<u>Name</u>	<u>Office Held</u>
William Dickson Williams	President
Thomas L. Williams	Executive Vice President
Euretha J. Roberts	Secretary
D. Michael Graham	Sr. Vice President
Michael Ramsey	Treasurer

No Chairman of the Board has been elected since 2005. See the Comments and Recommendations section of this report for additional information.

Conflicts of Interests:

PGI has an Ethics Policy in place that applies to all employees of the Group. The Ethics Policy does require disclosure of conflicts of interest; however, not on an annual basis. Early in the examination, it was suggested that the Company should have its own policy that applies to its officers and directors. Further, the policy should address conflicts of interest and contain procedures for annual disclosure of conflicts. During the examination, the Company established a written Code of Conduct that includes requirements and procedures for annual disclosure of conflicts of interest by its officers and directors. The Code was adopted on March 21, 2011. Current disclosure statements for Company officers and directors were obtained and reviewed without exception.

Pecuniary Interest:

A check for compliance with Tenn. Code Ann. § 56-3-103 found that no director or officer of the Company had pecuniary interest in the investment or disposition of Company funds.

Holding Company:

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101, and as such, is subject to the "Insurance Holding Company System Act of 1986," set forth in Tenn. Code Ann. §§ 56-11-101, et seq. All required holding company filings during the examination period have been made by the Company's ultimate parent, PGI. PGI was incorporated in Tennessee on July 29, 1980, as an insurance holding company. A complete organizational chart is included on page 30 of this report.

The following agreements with affiliated companies were in effect at December 31, 2009:

Marketing and Management Service Agreement:

Effective December 16, 2004, the Company entered into an amended Marketing and Management Service Agreement with its ultimate parent, PGI. According to the terms and provisions of the Agreement, PGI agrees to provide the Company with all management, professional, technical, clerical and other services necessary to operate. In consideration for these services, the Company pays to PGI an amount equal to five percent of net written premiums.

Tax Allocation Agreement:

Effective September 1, 2006, the Company entered into a Tax Allocation Agreement with PGI. The Agreement states the Company has elected, through the provisions of

the Internal Revenue Code, to be included in a consolidated tax return. The Company agrees to pay each year federal income taxes equivalent to the amount it would have paid if it were on a separate return basis without the benefit of exemptions under Internal Revenue Code (IRC) 11(b) and IRC 55(d). Additionally, the Company agrees to allow the Plateau Group to use and allocate any applicable sur-tax exemptions under IRC 11(b) and alternative minimum tax exemptions under IRC 55(d) without further consent.

Management Services Agreement:

Effective December 1, 1986, the Company entered into a Management Services Agreement with its wholly-owned subsidiary, Tennessee Life Insurance Company (TLIC), an Arizona domiciled insurance company. Pursuant to the terms of the agreement, the Company will provide accounting services, tax services, management support, and marketing support.

All of the above mentioned agreements have been submitted to and approved by the TDCI.

CORPORATE RECORDS

The minutes of the meetings of the Board of Directors and stockholders were reviewed for the period under examination. They were found to be complete as to necessary detail and appear to adequately reflect the acts of the respective parties. The review of the minutes indicates that all investment transactions were approved by the Board of Directors.

## FIDELITY BOND AND OTHER INSURANCE

The Company is listed as a named insured on a Commercial Crime policy carried by PGI. Additionally, the Company is a named insured on the following insurance coverages maintained by PGI at December 31, 2009:

Commercial General Liability	Commercial Umbrella Liability
Commercial Inland Marine	Commercial Property
Commercial Automobile	Workers' Compensation and Employers' Liability

The crime coverage is in excess of the suggested minimum amount per the NAIC Financial Condition Examiners Handbook. The policies noted above were reviewed without exception. All of the above policies were issued by companies licensed to transact business in the State of Tennessee.

## RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company has no employees and does not participate in any pension plans.

## TERRITORY

The Company is licensed in Alabama, Arizona, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee. The Certificates of Authority issued by the states listed above were inspected without exception. Below is a tabulation of the Company's 2009 direct premium written:

<u>State/Territory</u>	Life Insurance <u>Premiums</u>	Accident & Health Insurance <u>Premiums</u>	<u>Total</u>
Alabama	\$ 882,719	\$ 806,549	\$ 1,689,268
Arizona	0	0	0
Georgia	1,498,977	1,081,321	2,580,298
Kentucky	0	0	0
Louisiana	1,239,713	484,685	1,724,398
Mississippi	1,575,485	1,680,018	3,255,503
North Carolina	844	53	897
South Carolina	894,924	297,928	1,192,852
Tennessee	5,046,270	2,203,584	7,249,854
Totals	<u>\$ 11,138,932</u>	<u>\$ 6,554,138</u>	<u>\$ 17,693,070</u>

#### PLAN OF OPERATION

The Company offers both credit life and credit accident and health insurance through group policies with consumer finance companies, community banks, automobile dealers and other sales finance entities, collectively (the "Producers"). The producers then issue coverage, conveyed by insurance certificates issued under the group policy, to its customers. Many of the producers have organized reinsurance companies to which PIC cedes risks thus allowing the producers to participate in the profit/loss of the business. These reinsurance companies are known as producer owned reinsurance companies (PORCs). PGI and the Company specialize in setting up and managing PORCs as a primary way to add new credit insurance relationships. The services offered include licensing, financial and tax return preparation/filings and regulatory support. PGI and the Company acts as Treasurer for and controls all of the assets of these PORCs. These assets are held in domestic banks.

## REINSURANCE

The Company cedes life and accident and health business to the various PORCs which are owned by financial institutions and automotive dealers (in many cases shareholders of PGI) that market the Company's products. The reinsurance agreements between the Company and the unauthorized PORCs are on a 100% coinsurance basis and the majority of the agreements have a ceding maximum of \$15,000 on life risks and a \$250 monthly benefit maximum on A&H risks. Ceding commissions range from 6.25% to 10%. At December 31, 2009, the Company had agreements with 70 PORCs. During the period under examination, the Company added 17 new reinsurers and terminated 7. A sample of agreements with the new reinsurers were reviewed for required provisions and for adequate transfer of risk. No exceptions were noted.

The reinsurers have in place custodial deposit agreements or letters of credit for the safeguarding of ceded reserves. The custodial accounts specify how reserve funds may be held, and the custodian also monitors required amounts. The reserves of the assuming companies are set by a consulting actuary. The Company retains all underwriting and claim payment authority on risks ceded to PORCs. A sample of deposits were verified without exception.

After ceding a risk to one of the PORCs, the Company will normally retain life risk on an individual up to \$40,000 and \$500 monthly benefit amount on A&H risks. The excess risk is then ceded to Munich American Reassurance Company. Ceding commission on this agreement is 45%.

The Company also cedes A&H risks to an affiliate, Plateau Reinsurance Company (PRC), which is wholly-owned by PGI. Subsequent to the end of the year, the Company reassumed the business that was ceded to PRC under a risk portfolio transfer agreement dated January 1, 2010. See the Subsequent Events section of this report for additional information.

Unearned Ceding Commission:

Primarily all of the Company's reinsurance agreements cede premiums on a written basis, and therefore, in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. However, all of the agreements provide that in the event of termination, the reinsurance continues to apply to all policies in force until their expiry or cancellation in the normal course of business. No return of premium or ceding commission would be required at the termination of an agreement because the policies continue in full force. The majority of the Company's reinsurance agreements provide that ceding commissions be paid based on net premiums; that is, on written premiums less the return premiums on policies that are cancelled by policyholders prior to the end of the policy period. The agreements provide for monthly settlements, including any return premiums and any associated ceding commissions, by offset. Therefore, the Company is deemed to have no ultimate liability for unearned ceding commissions.

MORTALITY AND LOSS EXPERIENCE

The mortality experience on life insurance business and the loss experience on accident and health business, since the previous examination, as reported in the Company's annual statements, are as follows:

<u>Life:</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net Death Benefits					
Incurred	1,549,446	1,750,926	1,783,166	1,990,554	1,869,954
Less-Reserves					
Released by Death	<u>41,682</u>	<u>50,320</u>	<u>45,218</u>	<u>54,047</u>	<u>56,688</u>
Actual Death					
Benefits Incurred	1,507,764	1,770,606	1,737,948	1,936,507	1,813,266
Expected Mortality	<u>2,721,173</u>	<u>2,917,418</u>	<u>4,256,792</u>	<u>5,225,021</u>	<u>6,039,625</u>
Mortality Experience					
Ratio	<u>55.4%</u>	<u>58.3%</u>	<u>40.8%</u>	<u>37.1%</u>	<u>30.0%</u>
 <u>Accident and Health:</u>	 <u>2005</u>	 <u>2006</u>	 <u>2007</u>	 <u>2008</u>	 <u>2009</u>
Net Incurred Claims	1,476,425	1,122,422	1,214,261	1,165,366	1,289,795
Net Premiums					
Earned	<u>3,306,031</u>	<u>3,597,795</u>	<u>4,402,630</u>	<u>4,210,494</u>	<u>3,575,806</u>
Loss Ratio	<u>44.7%</u>	<u>31.2%</u>	<u>27.6%</u>	<u>27.7%</u>	<u>36.1%</u>

### STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2009:

<u>Where Deposited and Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Georgia			
Cash	\$ 35,000	\$ 35,000	\$ 35,000
Louisiana			
Certificate of Deposit, .90%	100,000	100,000	100,000
North Carolina			
Forsyth Co., 5.0%, Due 5/1/14	400,000	429,717	460,640
South Carolina			
FHLB, 4.875%, Due 1/7/15	150,000	150,000	150,087
Tennessee			
FHLB, 4.35%, Due 2/26/15	300,000	300,000	301,634
FHLMC, 2.375%, Due 2/24/12	300,000	300,000	300,773
FHLMC, 2.25%, Due 2/4/13	250,000	249,187	250,305
FFCB, 2.37%, Due 3/2/12	<u>400,000</u>	<u>400,000</u>	<u>401,145</u>
Sub-total Tennessee	<u>1,250,000</u>	<u>1,249,187</u>	<u>1,253,857</u>
Totals	<u>\$1,935,000</u>	<u>\$1,963,904</u>	<u>\$1,999,584</u>

With the exception of the Georgia deposit, the deposits listed above are for the benefit of all policyholders, claimants and creditors of the Company. All deposits were verified by direct correspondence with the regulating jurisdiction or custodian.

### COMMITMENTS AND CONTINGENCIES

In January 2005, the Company received notice of a lawsuit filed in the Circuit Court of Cumberland County, Tennessee, on December 21, 2004. The lawsuit alleged that the Company had not paid refunds to policyholders on certain loans made through auto dealerships that have been prepaid. The plaintiff who did not receive a refund after his loan was prepaid, filed this suit as a class action complaint on behalf of himself and all others similarly situated.

The plaintiff in the case alleged that it is the Company's responsibility to know when loans are prepaid and to send refunds accordingly. The Company stated that it is the policyholders' responsibility to notify the Company of a loan being prepaid and to request a refund. The certificates are silent on whose duty it is to initiate the refund. In June 2005, the Tennessee statute was amended to place the burden on the insured to initiate the refund; thereby, eliminating this issue on a going forward basis.

The judge ordered the Company and the plaintiff to enter settlement discussions in front of another circuit court judge in an attempt to settle the matter without going to trial. This mediation was held on September 6, 2005 and resulted in a settlement. One of the points agreed on was that Equifax would review records between December 20, 1998 and May 1, 2005 that were paid off prior to September 1, 2005 to determine if refunds were due.

During the first half of 2006, the information was turned over to Equifax and a review was completed in July 2006. There was approximately \$1,800,000 identified to be refunded to approximately 5,300 insureds. On October 27, 2006, the Judge approved this settlement during a Fairness Hearing. Refund checks were mailed during the first part of December 2006.

After recovering commissions from producers; refunds from the applicable PORCs; and PGI covering the entire cost to defend the litigation, the Company incurred a reduction in net income related to this matter, net of income taxes, of \$71,137 for 2006 and \$132,677 for 2005.

From the examination data made available, it appears that the only other matters of law in which the Company was involved, during the period under review, were those arising out of the normal course of business and the outcome of such actions should not have a material effect on the financial position of the Company.

#### ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including verification of postings, extensions and footings. Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company is audited annually by Crowe Horwath, LLP, Brentwood, Tennessee. There is no violation of Tenn. Comp. R. & Reg., ch. 0780-1-65.07(3).

## ACTUARIAL REVIEW

TDCI contracted with the independent actuarial firm of Lewis & Ellis, Inc., Richardson, Texas, to assist with this examination. Lewis & Ellis was retained to review the actuarial assumptions, methodologies, and adequacy of the actuarial liabilities established by the Company. They concluded that the methods used are appropriate and that the established actuarial liabilities, as of December 31, 2009, are adequate.

## MARKET CONDUCT ACTIVITIES

### Policy Forms and Rates:

All policy forms have been filed in accordance with Tenn. Code Ann. § 56-7-905. All rates comply with Tenn. Code Ann. § 56-7-908.

### Advertising:

The Company does not actively advertise.

### Policyholder Complaints:

Complaints filed during the period under examination were reviewed and it was determined that the Company keeps sufficient records of each complaint received. Inquiries made to the TDCI Consumer Insurance Services section indicated no specific regulatory concerns with the Company during the period under examination.

Privacy:

The Company's privacy policy and practices were reviewed. No instances of non-compliance with Tenn. Comp. R. & Reg., ch. 0780-1-72 were noted.

Claims Review:

A review of claims was made and indicates that claims are being handled properly, timely and in accordance with policy provisions. A sample of paid claim files reviewed indicated that claims were being paid upon receipt of proper evidence of the Company's liability.

SUBSEQUENT EVENTS

Subsequent to December 31, 2009, the Company reassumed the business that was ceded to Plateau Reinsurance Company under a risk portfolio transfer agreement dated January 1, 2010. The impact, on the Company's 2010 annual statement, was an increase in reserve for accident and health policies of approximately \$1,403,000, an increase in accident and health policy claims of approximately \$567,000, and a net transfer of cash and cash equivalents of \$1,420,000. As a result of this transaction, the Company recognized a reduction in earnings of approximately \$550,000.

## FINANCIAL STATEMENT

There follows a statement of assets, liabilities, surplus and other funds, and a summary of operations at December 31, 2009, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

### ASSETS

	<u>Assets</u>	Non Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$ 11,961,277	\$ 428,820	\$ 11,532,457
Preferred stocks	253,340		253,340
Common stocks	256,280		256,280
Real estate:			
Properties occupied by the company	198,122		198,122
Cash, cash equivalents and short term investments	6,168,041		6,168,041
Other invested assets	97,371		97,371
Subtotals, cash and invested assets	<u>18,934,431</u>	<u>428,820</u>	<u>18,505,611</u>
Investment income due and accrued	134,178		134,178
Amounts recoverable from reinsurers	407,773		407,773
Net deferred tax asset	498,114	323,794	174,320
Guaranty funds receivable or on deposit	113,647		113,647
Electronic data processing equipment	90,636		90,636
Write-ins for other than invested assets:			
Accounts receivable	8,461	1,117	7,344
Prepaid items	<u>10,816</u>	<u>10,816</u>	<u>0</u>
Total assets	<u>\$ 20,198,056</u>	<u>\$ 764,547</u>	<u>\$ 19,433,509</u>

## LIABILITIES, SURPLUS AND OTHER FUNDS

### Liabilities

Aggregate reserve for life contracts	\$ 4,933,798
Aggregate reserve for accident and health contracts	3,182,049
Contract claims:	
Life	338,061
Accident and health	210,604
Interest maintenance reserve	24,040
Commissions to agents due or accrued	67,231
General expenses due or accrued	160,240
Taxes, licenses and fees due or accrued	162,455
Current federal income taxes	312,020
Asset valuation reserve	29,538
Payable to parent, subsidiaries and affiliates	50,923
Aggregate write-ins for liabilities:	
Payables to reinsurers	466,204
Unclaimed property	14,664
Experience refund commission liability	<u>308,063</u>
 Total liabilities	 <u>10,259,890</u>
 Surplus and Other Funds	
Common capital stock	1,500,000
Unassigned funds	<u>7,673,619</u>
 Total surplus and other funds	 <u>9,173,619</u>
 Total liabilities, surplus and other funds	 <u>\$ 19,433,509</u>

## SUMMARY OF OPERATIONS

### Income

Premiums and annuity considerations for life and accident and health contracts	\$ 9,596,933	
Net investment income	556,436	
Amortization of interest maintenance reserve	16,690	
Commissions on reinsurance ceded	4,899,453	
Miscellaneous income	<u>246</u>	
 Total income		 \$ 15,069,758

### Expenses

Death benefits	1,869,954	
Disability benefits and benefits under accident and health contracts	1,289,795	
Increase in aggregate reserve for life and accident and health contracts	(2,795,839)	
Commissions on premiums	8,982,468	
Commissions on reinsurance assumed	1,009,503	
General insurance expenses	1,291,272	
Insurance taxes, licenses and fees	<u>456,466</u>	

Total expenses		<u>12,103,619</u>
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Net gain from operations before federal income taxes		2,966,139
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Federal income taxes incurred		<u>499,015</u>
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Net gain from operations after federal income taxes and before realized capital gains or (losses)		2,467,124
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Net realized capital gains (losses)		<u>29</u>
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Net income (loss)		<u>\$ 2,467,153</u>
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RECONCILIATION OF CAPITAL AND SURPLUS  
FOR THE PERIOD UNDER EXAMINATION

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Capital and surplus, December 31, previous year	<u>\$ 9,953,684</u>	<u>\$ 5,012,667</u>	<u>\$ 5,979,480</u>	<u>\$ 6,174,936</u>	<u>\$ 6,673,810</u>
Net income (loss)	515,642	805,842	538,920	591,352	2,467,153
Change in net unrealized capital gains (losses)	(11,048)	10,033	175	(78,075)	73,020
Change in net deferred income tax	203,088	249	202,530	45,187	(98,983)
Change in nonadmitted assets	(183,666)	146,601	(551,499)	(73,348)	72,095
Change in asset valuation reserve	526,236	4,088	5,330	13,758	(13,476)
Transferred to surplus	(3,529,327)	0	0	0	0
Transferred from capital	3,529,327	0	0	0	0
Dividends to stockholders	(6,009,220)	0	0	0	0
Aggregate write-ins for gains (losses) in surplus	<u>17,951</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>(4,941,017)</u>	<u>966,813</u>	<u>195,456</u>	<u>498,874</u>	<u>2,499,809</u>
Capital and surplus, December 31, current year	<u>\$ 5,012,667</u>	<u>\$ 5,979,480</u>	<u>\$ 6,174,936</u>	<u>\$ 6,673,810</u>	<u>\$ 9,173,619</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS**  
**RESULTING FROM EXAMINATION**

Although minor differences were found in various items, none were considered to produce a material effect on surplus funds either singly or in the aggregate.

## COMMENTS AND RECOMMENDATIONS

### Comments:

1. During the examination, it was found that the Company had no Anti-Fraud Plan as required by Tenn. Code Ann. § 56-53-111. Prior to completion of the examination, the Company prepared and adopted a plan. It was reviewed and found to be in compliance.

2. Section 13 of the Company's Bylaws states that "The Officers of the Corporation shall be a Chairman of the Board, a President, an Executive Vice President, a Secretary, a Treasurer and such other officers as may be from time to time elected by the Board of Directors." After review of the examination documents, including corporate minutes, there is no indication that a Chairman of the Board has been elected since 2005. It is suggested that the Company comply with their Bylaws by electing a Chairman of the Board or amend their Bylaws to remove this required position.

### Recommendations:

None

## CONCLUSION

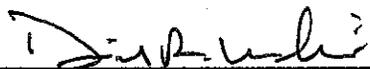
The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that, as of December 31, 2009, the Company had net admitted assets of \$19,433,509 and liabilities of \$10,259,890. Thus, there existed for the additional protection of the policyholders, the amount of \$9,173,619 in the form of common capital stock and unassigned funds.

The courteous cooperation of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Keith M. Patterson, Insurance Examiner, State of Tennessee, and Michael A. Mayberry, FSA, MAAA of Lewis & Ellis, Inc., Actuaries & Consultants, participated in the work of this examination.

Respectfully submitted,

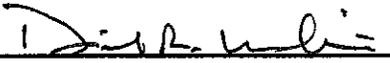


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David R. White, CFE  
Examiner-in-Charge  
State of Tennessee  
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of the Plateau Insurance Company May 6, 2011, and made as of December 31, 2009, on behalf of the TDCI. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

  
David R. White, CFE  
Examiner-in Charge  
State of Tennessee  
Southeastern Zone, NAIC

Subscribed and sworn to before me this

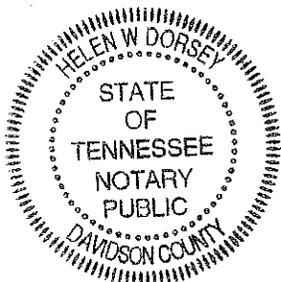
6<sup>th</sup> day of May, 2011

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/03/2014



## ORGANIZATIONAL CHART

