STATE OF TENNESSEE

DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION

OF

PROVIDENT LIFE AND ACCIDENT INSURANCE COMPANY

(NAIC # 68195)
CHATTANOOGA, TENNESSEE

AS OF

DECEMBER 31, 2018

TABLE OF CONTENTS

Introduction 1
Scope of Examination 1
Compliance with Previous Examination Findings 3
Company History 4
Management and Control 5
- Management 5
- Control 7
- Abbreviated Organizational Chart 7
- Dividends 7
- Corporate Records 8

Agreements with Parent and Affiliates 9
Territory and Plan of Operation 10
Growth of Company 11
Loss Experience 11
Long Term Care Reserves 12
Reinsurance Agreements 13
Accounts and Records 15
Market Conduct Activities 16
Subsequent Events 17
Financial Statements 19
- Assets 19
- Liabilities, Surplus, and Other Funds 20
- Summary of Operations 21
- Capital and Surplus Account 22

Analysis of Changes in Financial Statements 23
Comments and Recommendations 23
Conclusion 25
Affidavit 26

Chattanooga, Tennessee
June 17, 2020

Honorable Hodgen M. Mainda
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated ("Tenn. Code Ann.") § 56-1-408, a full-scope financial examination and market conduct review, as of December 31, 2018, has been made of the conditions and affairs of:

PROVIDENT LIFE AND ACCIDENT INSURANCE COMPANY
NAIC # 68195
1 Fountain Square
Chattanooga, TN 37402

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

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or "Department"). The examination was conducted by duly authorized representatives of the Department. This examination was coordinated with other states pursuant to National Association of Insurance Commissioners (NAIC) guidelines. Further description of the coordination effort between the states is discussed below under the heading "Scope of Examination". This examination was made simultaneously with the Company's affiliate, Provident Life and Casualty Insurance Company (PLC).

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2015. This examination covers the period January 1, 2016, through December 31, 2018, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

The Company is a member of the Unum Group. The following are all the insurance companies and their respective domiciliary states within the group, as of December 31, 2018:

Unum Life Insurance Company of America (Maine)
Unum Insurance Company (Maine)
Starmount Life Insurance Company (Maine)
The Paul Revere Life Insurance Company (Massachusetts)
First Unum Life Insurance Company (New York)
Provident Life and Accident Insurance Company (Tennessee)
Provident Life and Casualty Insurance Company (Tennessee)
Colonial Life & Accident Insurance Company (South Carolina)
Northwind Reinsurance Company (Vermont)
Fairwind Insurance Company (Vermont)

Maine is the Lead State of the Unum Group. Participating states in the coordinated group examination were Massachusetts, New York, and Tennessee. Non-participating states were South Carolina and Vermont.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with practices and procedures promulgated by the NAIC in the *Financial Condition Examiners Handbook* ("Handbook"), as deemed appropriate. The examination was planned and performed to evaluate the financial condition of the Company, as of December 31, 2018. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by 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 significant risks were considered when planning which key activities and accounts would be examined. The key activities included: Investments; Reinsurance; Premium/Underwriting; Reserves/Claims; Related Party; and Capital and Surplus.

The Company's 2018 annual statement was compared with or reconciled to the corresponding general ledger account balances.

A separate market conduct review was performed concurrently with the financial examination. See "Market Conduct Activities" section of this report.

The Company's parent, Unum, maintains an Internal Audit (IA) Department, which is charged with performing the IA function for all companies within the holding company system. IA activities focus on Sarbanes-Oxley (SOX) compliance testing. The scope of SOX testing included the Company's internal controls over financial reporting. The examiners reviewed the processes tested and requested the workpapers for specific processes which had been identified as significant to the key activities and sub-activities being examined. The workpapers were provided and were utilized, where appropriate.

Independent information technology specialist services, provided by Noble Consulting Services, Inc., were utilized in the examination review of the Company's information technology general controls (ITGC).

The actuarial firm of Lewis & Ellis, Inc. was utilized in the examination review of the Company's reinsurance, and statutory reserves, as well as the risk assessment and review of controls for Reserving and Pricing risks.

The Company's Certified Public Accountant (CPA) workpapers were reviewed for the 2018 audit and copies were incorporated into the examination, as deemed appropriate.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

There were four (4) recommendations pertaining to long term care (LTC) reserves noted in the prior examination report as of December 31, 2015. A description of the prior recommendations and the Company's subsequent compliance is described below.

- The Company's cognitive morbidity improvement assumption should be revised and submitted to the TDCI for approval for use in the Company's future GPV and CFT calculations.
- The Company should adjust assumptions around future lapses to account for the impact of past rate increases which would not be expected to repeat in the future.
- The Company should perform an independent experience study related to salvage, or if the Company continues to use the Society of Actuaries' study, they should incorporate an appropriate margin into the salvage factors utilized, until there is sufficient credible data to conduct the independent experience study.
- The Company should revise and submit its LTC Reserving Methodologies to the TDCI for review and approval.

Due to the concerns related to the Company's LTC Reserves noted in the prior examination, the TDCI immediately called a Limited Scope Examination after the prior examination concluded. The Limited Scope Examination targeted the Company's LTC reserving adequacy, practices, methodologies, and assumptions. Maine, the Lead State of the Unum Group, also convened a Limited Scope Examination on LTC reserves of their domestic, Unum Life Insurance Company of America, around the same time. Maine and Tennessee coordinated their Limited Scope Examinations. Once the coordinated 2018 group examination of Unum began, both Maine and Tennessee decided to consider the Limited Scope Examinations as interim review work and incorporate that work into the full coordinated group examination.

The Company implemented all the changes recommended by the TDCI from the prior examination.

COMPANY HISTORY

The Company was incorporated in 1887 under the statutes of the State of Tennessee and operated as an assessment company until 1910, when it was reincorporated as a stock company. Initial capital was $150,000 and consisted of one thousand (1,000) shares of common stock with a par value of $100 per share and five hundred (500) shares of eight percent (8%) cumulative preferred stock with a par value of $100 per share. The preferred stock was retired in 1935. Subsequently, the charter was amended at various times to increase the authorized capital and to increase or decrease the par value of individual shares. The Company is authorized to write life, disability, and credit insurance.

On June 2, 1987, Provident Life and Accident Insurance Company of America ("Provident America"), a publicly held insurance holding company domiciled in the State of Tennessee, and Provident Life Capital Corporation (PLCC), a Delaware business corporation, were formed. PLCC was formed for the purposes of holding all of the outstanding capital stock of the Company and providing funding for the operations of the Company and its subsidiaries.

Effective September 1, 1987, through a corporate restructure, Provident America became the ultimate parent of the Company.

Effective December 27, 1995, Provident America completed a step in a corporate reorganization which created a new parent holding company, Provident Companies, Inc., a non-insurance holding company domiciled in Delaware.

On June 30, 1999, Unum Corporation merged with and into the Company's parent, Provident Companies, Inc., in an exchange of stock. Following the merger of Unum Corporation and Provident Companies, Inc., resulting in the company becoming known as UnumProvident Corporation ("UnumProvident"), in June 1999, PLA became an operating subsidiary of UnumProvident. UnumProvident changed its name effective February 27, 2007, to Unum Group ("Unum"). The Company now operates as a subsidiary of Unum, a non-insurance holding company incorporated in Delaware.

The Company is a stock for-profit life insurance company licensed to transact business in forty-nine (49) states, the District of Columbia and Puerto Rico. The Company's key product is individual disability insurance marketed primarily to employers and multi-life employee groups by the Company's sales force, working in conjunction with independent brokers and consultants.

At December 31, 2018, the Company had authorized capital stock of fifty-five million (55,000,000) shares of common stock with a par value of $1.00 per share, of which forty-three million, five hundred one thousand, two hundred five (43,501,205) shares were issued and outstanding, for a capital paid up of $43,501,205. The Paul Revere Life Insurance Company ("Paul Revere") and Unum Life Insurance Company of America ("Unum America") have direct ownership in the Company of ten and one tenth percent (10.1%) and four percent (4.0%), respectively. The remaining eighty-five and nine tenths percent (85.9%) is held by Unum. Unum is the ultimate parent of the Company. Paul Revere and Unum America are included in the Unum insurance holding company system. Unum's stock is publicly traded on the New York Stock Exchange (UNM).

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

The Company is managed by a Board of Directors ("Board") who shall be elected at the annual meeting of the shareholders. Directors need not be shareholders of the corporation.

The Company had five (5) directors, as of December 31, 2018. A majority of directors constitutes a quorum. Directors serve until the next annual meeting of the shareholders, and thereafter, until replaced.

The following persons were duly elected by the shareholders and were serving as members of the Board, as of December 31, 2018:

Name	Principal Occupation
Michael Quinn Simonds	President and Chief Executive Officer
Puneet Bhasin	EVP, Chief Information and Digital Officer
Lisa Gonzalez Iglesias	EVP, General Counsel
John Francis McGarry	EVP, Finance
Stephen Joseph Mitchell	SVP, Chief Financial Officer

Officers

The Company has ten (10) officers. The officers are elected during the annual Board meeting, and serve thereafter, until replaced.

The following officers were duly elected by the Board and were serving as officers of the Company, as of December 31, 2018:

Name	Title
Michael Quinn Simonds	President and Chief Executive Officer
Puneet Bhasin	EVP, Chief Information and Digital Officer
Lisa Gonzalez Iglesias	EVP, General Counsel
John Francis McGarry	EVP, Finance
Stephen Joseph Mitchell	SVP, Chief Financial Officer
Marylou Ryan Murphy	SVP, Chief Actuary
Cherie Antoinette Pashley	SVP, Tax and Treasury
Daniel Jason Waxenberg	SVP, Chief Accounting Officer
Jean Paul Jullienne	VP, Managing Counsel and Corporate Secretary
Benjamin Seth Katz	VP, Treasurer

Committees

The Company has the following committees:

PLA Committees

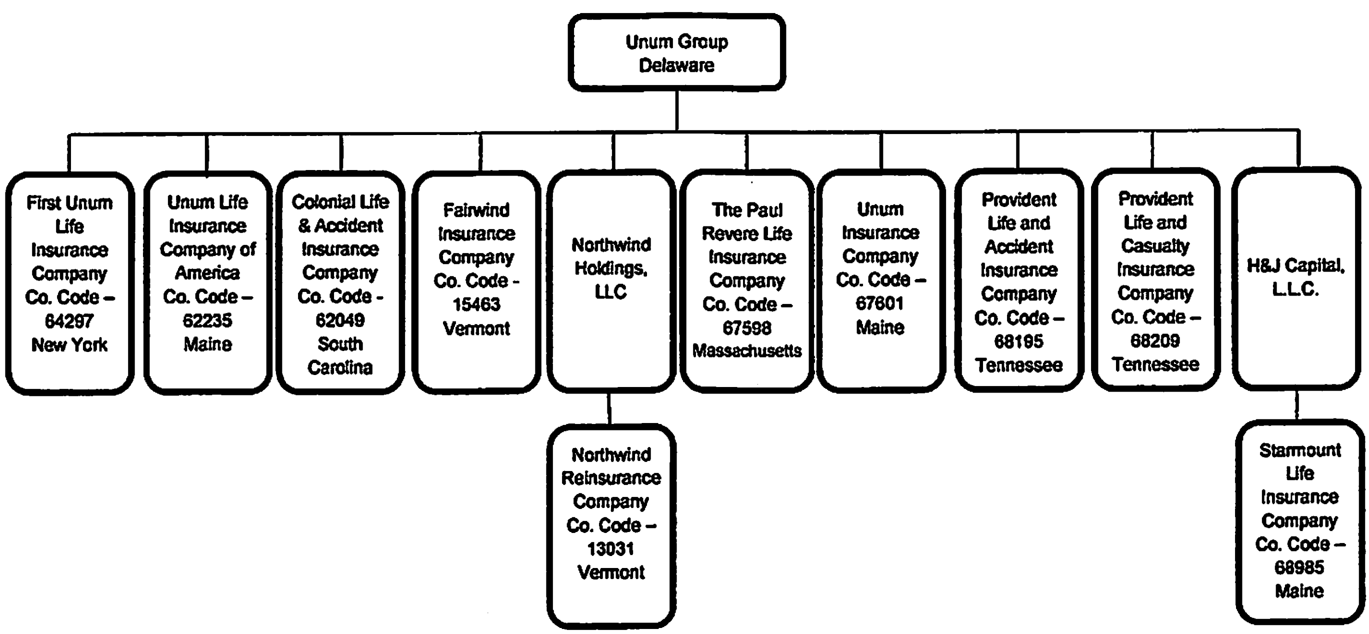
Audit
Executive
Investment

CONTROL

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(7), 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*. Two (2) of the Company's affiliates, Paul Revere and Unum America, have direct ownership in the Company of ten and one tenth percent (10.1%) and four percent (4.0%), respectively. The remaining eighty-five and nine tenths percent (85.9%) is held by Unum. Unum, the ultimate parent of the Company, files a holding company registration statement annually, as required by Tenn. Code Ann. § 56-11-105.

ABBREVIATED ORGANIZATIONAL CHART

The following abbreviated organizational chart shows all the insurance companies and their respective domiciliary states within the Unum insurance holding company system:



DIVIDENDS

During the period of examination, the Company declared and paid dividends to its shareholders. The Company gave proper notice of its ordinary and extraordinary dividends to the TDCI, as required by Tenn. Code Ann. §§ 56-11-105(e) and 56-11-106(b).

The following table lists each dividend amount and the date the Company notified the TDCI of the dividend.

Year	Ordinary (O) or Extraordinary (E)	Notification Date	Dividend Amount
2018	O	11/09/2018	$65,500,000
2018	O	08/16/2018	40,000,000
2018	E	05/25/2018	27,700,000
2018	E	02/22/2018	30,300,000
2017	O	11/10/2017	65,000,000
2017	E	08/18/2017	40,000,000
2017	O	05/25/2017	40,000,000
2017	O	02/23/2017	45,000,000
2016	O	11/14/2016	70,000,000
2016	O	08/22/2016	40,000,000
2016	O	05/26/2016	40,000,000
2016	O	02/26/2016	40,000,000
Total paid during period of Exam			$543,500,000

CORPORATE RECORDS

The minutes of meetings of the Company's shareholders, Board, and Committees were reviewed for the period under examination. They were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board, pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

The original Charter of the Company was filed with the Tennessee Secretary of State on January 10, 1910. The Charter in effect at December 31, 2018, is the Company's Amended and Restated Charter that was adopted by the Board on September 27, 2005, filed with the Tennessee Secretary of State on November 14, 2005, and filed with the TDCI on April 28, 2006. This restatement of the Charter changed the address of the principal office of the Company, added a registered agent, stated the Company is for-profit, and stated its purpose.

An amendment of the Charter adopted by the Board on September 27, 2010, and approved by the TDCI on November 28, 2011, was non-substantive and deleted references to the parent company's former name, UnumProvident Corporation. No amendments or restatements were made to the Company's Charter during the period of examination.

The Bylaws of the Company in effect at December 31, 2018, are the Company's Amended and Restated Bylaws that were adopted by the Board on November 14, 2016. The amendment to the Bylaws provided authority for certain officers to sign documents on behalf of the Company in certain circumstances. There were only minor changes made to the Company's Bylaws from the version previously in effect since September 27, 2005.

The Bylaws provide for an annual shareholders' meeting at which a Board is elected. Officers are elected by the Board. The Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board, and its shareholders.

AGREEMENTS WITH PARENT AND AFFILIATES

The Company had the following significant agreements with its parent and affiliated companies in effect, as of December 31, 2018:

General Services Agreement

Effective April 11, 1998, the Company entered into a General Services Agreement with its parent, Provident Companies, Inc., now known as Unum Group. According to the terms and provisions of the Agreement, Unum agrees to provide the Company with certain administrative services for its internal operations and processing of its insurance business. Such services include managerial and administrative support, equipment, office space, marketing, product support, and such other services as may be required.

The Company has no employees of its own. All services necessary to its business are provided by Unum, pursuant to the Agreement. The compensation paid by the Company to Unum is subject to a quarterly service fee and the actual costs of services provided, based on various allocation factors, as specified in the Agreement.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1). The Company filed this Agreement for approval by the Commissioner, as required by Tenn. Code Ann. § 56-11-106(a)(2) on December 22, 1997. The TDCI approved this Agreement on January 5, 1998.

Investment Services Agreement

Effective April 15, 2004, the Company entered into an Investment Management Agreement with an affiliate, Provident Investment Management, LLC.

According to the terms and provisions of the Agreement, the Company is provided investment advisory and management services subject to the guidelines as specified in the Agreement.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1). The Company filed this Agreement for approval by the Commissioner, as required by Tenn. Code Ann. § 56-11-106(a)(2) on May 11, 2004. The TDCI approved this Agreement on June 30, 2004.

Tax Sharing Agreement

Effective January 1, 2007, the Company entered into a Tax Allocation Agreement with its parent, Unum, and other affiliated companies. The Agreement states the Company has elected, through the provisions of the Internal Revenue Code, to be included in Unum's consolidated tax return.

The Agreement states the Consolidated Group elects to file its federal income tax return pursuant to elections under Sections 1502 and 1504(c)(2) of the Internal Revenue Code of 1986. The consolidated tax liability is allocated to each member of the consolidated group based upon the percentage of each member's tax computed on a separate return basis to the total tax so computed for all members. In lieu of actual payments, adjustments to intercompany payables and receivables are made, if such exist on the Company's books.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1). The Company filed this Agreement for approval by the Commissioner as required by Tenn. Code Ann. § 56-11-106(a)(2) on July 13, 2007. The TDCI approved this Agreement on August 13, 2007.

TERRITORY AND PLAN OF OPERATION

TERRITORY

The Company is a stock for-profit life insurance company domiciled in Tennessee and licensed to transact business in the District of Columbia, Puerto Rico, and all fifty (50) states except for New York. Certificates of Authority granted by the licensed states were reviewed and found to be in force at December 31, 2018.

The Company currently has no applications pending for admission to any other states or territories. Premium tax records were reviewed for all states in which the Company writes business and no exceptions were noted.

PLAN OF OPERATION

The Company offers and distributes products that enhance the financial security of its policyholders. The Company's current product offerings include:

- Individual Disability
- Individual Life
- Individual Accident and Health

The Company's key product is individual disability income insurance marketed by the Company's employed group of sales representatives working in conjunction with independent brokers and consultants. The producers are independent of the Company and are free to market and sell products from other insurance providers. The individual disability income insurance product is sold primarily to multi-life employer groups to supplement their group disability plans and may be funded by the employer, but the policy is owned by the employee. In addition, voluntary individual life and individual accident and health products are primarily sold to groups of employees through payroll deduction at the workplace. The voluntary benefits portfolio includes life, disability, accident, hospital indemnity, cancer and critical illness insurance.

The Company's operations are managed by line of business: Individual Disability and Voluntary Benefits.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, according to its annual statements filed with the TDCI:

Year	Admitted Assets	Liabilities	Capital and Surplus	Premiums Earned	Net Income
2018	$7,993,979,040	$7,386,717,679	$607,261,362	$771,018,073	$204,819,680
2017	$8,033,954,711	$7,428,921,139	$605,033,572	$769,337,901	$163,542,661
2016	$8,272,593,093	$7,544,425,745	$728,167,348	$840,772,374	$191,708,572

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements, the ratios of losses and loss adjustment expenses (LAE) incurred to earned premiums, for the period subject to this examination were as follows:

Group A&H	2018	2017	2016
Net incurred claims	$5,385,704	$7,991,034	$4,968,625
Net premiums earned	$4,737,651	$4,699,365	$4,251,018
Loss experience ratio	113.68%	170.04%	116.88%

Non-cancelable A&H	2018	2017	2016
Net incurred claims	$59,839,907	$(4,690,151)	$50,972,109
Net premiums earned	$281,471,531	$277,487,940	$330,233,247
Loss experience ratio	21.26%	-1.69%	15.44%

Renewable A&H	2018	2017	2016
Net incurred claims	$92,638,573	$96,328,955	$97,805,786
Net premiums earned	$209,194,896	$219,579,275	$238,549,855
Loss experience ratio	44.28%	43.87%	41.00%

LONG TERM CARE RESERVES

As of year-end 2018, the Company reported long term care (LTC) reserves in the amount of $616.7 million. The Company utilized cash flow testing (CFT) to determine asset adequacy. As allowed by the Actuarial Opinion and Memorandum Regulation, the Company aggregates the results of its asset adequacy analysis for all lines of business in determining reserve adequacy. The aggregated CFT results demonstrate the aggregate reserves held by the Company are adequate.

In addition to performing an asset adequacy analysis, the Company performs a gross premium valuation (GPV) for its LTC business on a stand-alone basis, in accordance with Statement of Statutory Accounting Principles (SSAP) No. 54, to determine if a premium deficiency exists. As of December 31, 2018, the GPV performed by the Company indicated the statutory reserves for the LTC business were inadequate by $32.9 million. This is the amount of deficiency reserve the Company reported as of December 31, 2018.

Concerns exist regarding the morbidity improvement, incidence rate selection factors, and discount rate assumptions used in the Company's LTC GPV. Without an independent GPV model, the impact of these assumptions on the GPV results cannot be determined.

The following summarizes the major concerns regarding the assumptions used by the Company in their LTC GPV test.

- Morbidity Improvement Assumption - The Company assumed a morbidity improvement of one percent (1%) per year for twenty (20) years. Morbidity Improvement is an area of significant actuarial and management judgment. Future morbidity improvement cannot be ascertained.

- Incidence Rate Selection Factors – In 2018, the Company revised their assumptions and as a result of this revision, increased their incidence rate selection factors from a period of fourteen (14) years to over thirty (30) years, depending upon the issue age of the policy. Generally, the selection factors increase until policy durations fifteen to twenty (15-20), depending upon the issue age, and then start decreasing. Company experience beyond duration twenty (20), particularly for the older issue age groups, is very limited and therefore has low credibility. Therefore, the Company was unable to provide support based on their own experience for decreasing these selection factors beyond policy duration twenty (20).

- Discount Rate – The Company's reinvestment assumption assumes treasury rates remain level through June 30, 2021, and then increase to long term averages over the following four (4) projection years. Given the uncertainty surrounding the level of future yield rates, concerns exist with the assumption of an increasing yield curve as it relates to reinvestments.

See the "Comments and Recommendations" section later in this report for the recommendations related to the Company's use of these assumptions in future GPV tests.

REINSURANCE AGREEMENTS

Assumed Reinsurance

Reinsurance assumed was determined to not represent a core business activity of the Company. The most significant assumed reinsurance balance involves a block of business acquired from John Hancock Life Insurance Company in 1992. The Company has performed all significant administrative functions associated with this block of business since the date of acquisition. At December 31, 2018, the block of business accounted for assumed reserves totaling approximately $93 million, which represents ninety-six and one tenths percent (96.1%) of total assumed reinsurance reserves.

Ceded Reinsurance

The Company has reinsurance agreements in effect with numerous external insurance companies for the purpose of diversifying risk and limiting exposure on larger mortality risks. The Company actively monitors the financial condition and industry ratings of its primary reinsurance partners and, where considered necessary, arranges and maintains collateral arrangements to secure ceded reserve credits. At December 31, 2018, substantially all of the Company's financially significant reinsurers were rated "A-" or better by A.M. Best, an industry recognized rating agency.

Individual and Group Catastrophe Reinsurance

The most significant current reinsurance coverage maintained by the Company involves a series of catastrophic excess of loss agreements covering group and individual life, group and individual accidental death and dismemberment, group and individual disability, and individual and group long-term care business products currently marketed by the Company.

Legacy Contracts

The Company also has in effect reinsurance ceded arrangements primarily covering strategic exits from various product lines of business written in prior periods. The most significant of these "legacy" arrangements are briefly discussed below.

Life Business

In July 2000, the Company sold one hundred percent (100%) of its individual and corporate life risks to Jackson National Life Insurance. The transaction was structured as a one hundred percent (100%) coinsurance transaction. At December 31, 2018, this contract accounts for ceded reserves totaling $4.2 billion. Since the date of sale, Jackson National has performed all administration of this business and provides the Company all information necessary to populate financial reporting as a reinsurance transaction.

Disability Business

The Company maintains a one hundred percent (100%) coinsurance arrangement with Unum America covering its net retention on all group long-term disability contracts issued prior to 2002. At December 31, 2018, this treaty accounts for ceded reserve credits totaling $107 million.

In addition, the Company maintains a structured reinsurance transaction with an affiliate, Northwind Reinsurance Company, a Vermont captive insurer, covering the run-off of a closed block of individual disability business written prior to January 1, 1994, and all Secure Pak policies issued prior to December 1, 2003. This arrangement has been in effect since 2007 and is structured through a modified coinsurance arrangement covering reserves totaling $2.6 billion, at December 31, 2018.

Through an arrangement with National Indemnity Company (NICO) in 2004, the Company has maintained a non-proportional reinsurance treaty to reinsure a closed block of individual disability income (IDI) policies issued or assumed by the Company prior to January 1, 1994. Under this arrangement NICO assumes sixty-six and sixty-seven one hundredths percent (66.67%) of all claim payments in excess of a defined retention balance. At inception of the treaty, the baseline retention balance was set at $3.9 billion, reduced by $330 million (the retention difference) and continues to increase with premium and interest credits, and diminish with paid claims. Once the retention balance reaches zero ($0), NICO will reimburse the Company for sixty-six and sixty-seven one hundredths percent (66.67%) of all future paid claims up to limits defined in the treaty. At December 31, 2018, the ceded reserves credit of $769 million represents the present value of claim reimbursements that the Company expects to receive in the future from NICO once the retention balance reduces to zero ($0).

The Company also has reinsurance arrangements with two (2) companies, Swiss Re Life & Health and Westport Insurance Corporation, covering various disability income products written by the Company. These contracts have each been closed to new business cessions for an extended period of time and are essentially in run-off. The agreements with Swiss Re Life & Health were effective in 1984 and 1994, respectively, and account for ceded reserve credits totaling $104 and $60 million, respectively, at December 31, 2018. The agreement with Westport Insurance Corporation was effective in 1992 and accounts for ceded reserve credits totaling $96 million, at December 31, 2018.

<u>**Other Considerations**</u>

All of the Company's significant reinsurance agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit pursuant to Tenn. Code Ann. § 56-2-207(a)(2). All agreements appear to effectuate proper transfer of risk in accordance with SSAP No. 61 and NAIC guidelines.

ACCOUNTS AND RECORDS

During the course of the examination, certain balances were tested, and amounts were traced from the Company's trial balance to the annual statement. All the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed. These test checks and reviews revealed no material discrepancies.

The Company's books and records are located in Chattanooga, Tennessee.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company, as of December 31, 2018, in conjunction with this examination. The following items were addressed:

Operations and Management Standards

Company antifraud initiatives were examined to determine if they are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts. Company procedures and policies relating to privacy were reviewed to determine compliance with Tenn. Code Ann. § 56-8-104(19). No issues were noted.

Complaint Handling Standards

The Company maintains a complaint register, as required by various state Unfair Trade Practices Acts, and the register and the accompanying files are maintained for a minimum of five (5) years in accordance with statutory requirements. The Company's complaint procedures and complaint register were examined in accordance with requirements of Tenn. Code Ann. § 56-8-104(11) and the NAIC *Market Regulation Handbook* ("Market Handbook") and were found to be in compliance.

Marketing and Sales Standards

A sample of the Company's advertising materials were selected for examination including print, internet materials, and PowerPoint presentations issued by the Company to target consumers, agents, brokers, and financial institutions. Advertising items were examined in accordance with Tenn. Code Ann. § 56-8-104(1) and the Market Handbook (Chapter 16 – Marketing and Sales) and were found to be in compliance.

Producer Licensing Standards

Tenn. Code Ann. §§ 56-6-101, *et seq.*, requires the Company to sell their products and services through producers who are properly licensed and appointed by the Company. In the examination of producer licensing, a random sample of producers were selected, and their state issued licensure and appointment by the Company were verified. In the sample of forty (40) producers, two (2) were licensed as producers in Tennessee, but were not properly appointed to the Company. Four (4) were listed by the Company as active, but did not hold an active producer's license. See "Comments and Recommendations" section later in this report.

Policyholder Services Standards

The Company's timeliness of policy issuance, premium billing, response to policyholder requests, provision of adequate disclosures, and compliance with applicable statutes and rules were examined. The Company was found to be in compliance with the relevant market conduct standards.

Underwriting and Rating Standards

In the examination of the Company's underwriting procedures and policy administration, policy files for open and closed policies for both life and annuity contracts were reviewed in accordance with Tenn. Code Ann. § 56-8-104, Tenn. Comp. R. & Regs. 0780-01-34, and established Company guidelines. In the examination of these contracts, there were no instances of unfair methods of competition or unfair or deceptive acts found. Underwriting procedures and policy administration conducted by the Company appear to be in compliance with established Company guidelines.

The examiners reviewed a sample of the policy forms that were used by the Company during the period of examination. All forms were noted, without exception, as having been filed with the TDCI prior to their use, in accordance with Tenn. Code Ann. § 56-7-2311(a). The filings are consistent in form and included appropriate documentation.

Claims Handling Standards

In the examination of claims handling practices, the Company's efficiency of claim handling, accuracy of payment, adherence to contract provisions, and compliance with applicable statutes and rules were examined. In conducting the examination, random samples were selected from claims approved and resisted by the Company.

In the review of denied claims, it was noted that when the claimant objected in writing to the denial of a claim, the Company did not always notify the claimant of the option to file a complaint with the TDCI or provide the contact information to do so, as required by Tenn. Comp. R. & Regs. § 0780-01-05-.11(11). The Company has updated its procedures to ensure that claims examiners provide the TDCI's contact information when a written objection to a claim denial is received from an insured or beneficiary who is a Tennessee resident. See the "Comments and Recommendations" section later in this report.

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in this examination report. Management stated in its Letter of Representation that they were not aware of any events subsequent to

December 31, 2018, that could have a material effect on the Company's financial condition. Our review confirmed the Company's disclosures in its 2018 Annual Statement and in its Letter of Representation.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, surplus and other funds, and a summary of operations, as of December 31, 2018, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2018 Annual Statement.

ASSETS

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$6,514,175,801		$6,514,175,801
Preferred stocks	89,850,008		89,850,008
Common stocks	12,760,800		12,760,800
Mortgage loans on real estate	421,735,332		421,735,332
Real estate:			
Properties occupied by company	64,444,071		64,444,071
Properties Held for income production	9,936,210		9,936,210
Cash, cash equivalents, and short-term investment	51,901,674		51,901,674
Contract loans	156,040,675		156,040,675
Derivatives	15,774,657		15,774,657
Other invested assets	114,910,856		114,910,856
Investment income due or accrued	102,672,335		102,672,335
Premiums and considerations:			
Uncollected premiums and agents balances in the course of collection	62,371,695	$17,156,791	45,214,904
Deferred premiums and agent's balances and installments booked but deferred and not yet due	29,967,679		29,967,679
Reinsurance:			
Amounts recoverable from reinsurers	44,666,580		44,666,580
Other amounts receivable under reinsurance contracts	5,774,662	4,953	5,769,709
Amounts receivable uninsured plans	9,623		9,623
Current federal income tax recoverable	32,129,341		32,129,341
Net deferred tax asset	179,667,880	107,540,961	72,126,920
Guaranty funds receivable	7,449,364		7,449,364
Furniture and equipment	4,978,870	4,978,870	0
Healthcare and other receivable	13,892,535	13,892,535	0
Aggregate write-ins for other than invested assets	202,711,727	269,226	202,442,501
Totals	$8,137,822,375	$143,843,335	$7,993,979,040

LIABILITIES, SURPLUS, AND OTHER FUNDS

Aggregate reserve for life contracts		$2,192,408,776
Aggregate reserve for accident and health contracts		4,662,550,165
Liability for deposit-type contracts		58,538,134
Contract claims:		
Life		26,212,643
Accident and Health		60,234,346
Premiums and annuity considerations for life and accident and health contracts received in advance		14,351,754
Contract liabilities not included elsewhere:		
Provision for experience rating refunds		1,548,490
Other amounts payable on reinsurance		14,278,672
Interest maintenance reserve (IMR)		34,293,097
Commissions to agents due or accrued		18,857,552
General expenses due and accrued		1,405,087
Taxes, licenses and fees due or accrued		6,463,301
Amounts withheld by company as agent or trustee		28,512
Remittances and items not allocated		44,222,357
Borrowed money and interest		20,001,556
Miscellaneous liabilities:		
Asset valuation reserve (AVR)		77,330,472
Reinsurance in unauthorized companies		26,782,901
Payable to parent, subsidiaries and affiliates		56,094,509
Derivatives		13,377,692
Aggregate write-ins for liabilities		57,737,662
Total Liabilities		$7,386,717,679
Common capital stock	$43,501,205	
Aggregate write-ins: deferred gain on reinsurance transactions	16,420,676	
Gross paid in and contributed surplus	271,208,526	
Unassigned funds (surplus)	276,130,955	
Total Capital and Surplus		607,261,362
Totals		$7,993,979,040

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and A&H	$771,018,073	
Net investment income	414,383,998	
Amortization of interest maintenance reserve (IMR)	5,496,375	
Commissions and allowances on reinsurance ceded	102,910,923	
Reserve adjustments on reinsurance ceded	(123,435,979)	
Aggregate write-ins for miscellaneous income	14,297,857	
Total Income		1,184,671,247
Death benefits	76,823,024	
Annuity benefits	73,028,534	
Disability benefits and benefits under A&H contracts	230,490,967	
Surrender benefits and withdrawals for life contracts	56,104,002	
Group conversions	(1,306,079)	
Interest and adjustments on contract funds	2,385,918	
Payment on supplemental contracts with life contingencies	523,155	
Increase in aggregate reserves for life and A&H	(26,062,241)	
Total Benefits		411,987,279
Commissions on premiums and annuity considerations	169,424,670	
Commissions and allowances on reinsurance assumed	511,603	
General insurance expenses	187,098,918	
Taxes, licenses and fees, excluding federal income taxes	28,566,005	
Increase in loading on deferred, uncollected premiums	1,864,628	
Aggregate write-ins for deductions	182,892,117	
Total Expenses		982,345,220
Net gain from operations before dividends to policyholders and federal income taxes		202,326,026
Dividends to policyholders		0
Net gain from operations after dividends to policyholders and before federal income taxes		202,326,026
Federal and foreign income taxes incurred		(3,587,988)
Net gain from operations after dividends and income taxes and before realized capital gains or (losses)		205,914,014
Net realized capital gains or (losses) less capital gain tax		(1,094,335)
Net Income		$204,819,680

CAPITAL AND SURPLUS ACCOUNT

	2018	2017	2016
Capital and Surplus December 31, previous year	$605,033,572	$728,167,348	$727,543,050
Net income or (loss)	204,819,680	163,542,661	191,708,572
Change in net unrealized capital gains or (losses)	1,197,130	(228,137)	(1,948,877)
Change in net unrealized foreign exchange capital gains or (losses)	(560,855)	(1,484,791)	99,554
Change in net deferred income tax	(3,598,581)	(118,417,408)	4,359,904
Change in non-admitted assets	4,643,689	34,793,141	7,152,916
Change in liability for reinsurance in unauthorized companies	(26,707,250)	(73,950)	454
Change in reserve on account of change in valuation basis	(12,000,000)	(6,658,901)	0
Change in asset valuation reserve	3,509,473	1,983,862	(2,444,510)
Change in surplus as result of reinsurance	(5,575,496)	(6,590,253)	(8,303,715)
Dividends to stockholders	(163,500,000)	(190,000,000)	(190,000,000)
Net change in capital and surplus for the year	2,227,789	(123,133,776)	624,298
Capital and Surplus December 31, current year	$607,261,362	$605,033,572	$728,167,348

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus $607,261,362

Total capital and surplus, as established by this examination, is the same as what was reported by the Company in its 2018 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2018.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments

1. As noted in the "Claims Handling Standards" section in this report, it was noted that when the claimant objected in writing to the denial of a claim, the Company did not always notify the claimant of the option to file a complaint with the TDCI or provide the contact information to do so, as required by Tenn. Comp. R. & Regs. § 0780-01-05-.11 (11). Prior to completion of the examination, the Company updated its procedures to ensure that claims examiners provide the TDCI's contact information when a written objection to a claim denial is received from an insured or beneficiary who is a Tennessee resident.

Recommendations

1. As noted in the "Producer Licensing Standards" section in this report, the Company had agents that were not properly appointed to represent the Company in Tennessee or did not hold an active producer's license, as required by Tenn. Code. Ann § 56-6-115. It is recommended that the Company develop procedures to ensure that all agents are properly appointed and that the appointments of agents whose license has expired be promptly terminated.

2. LTC Reserves – For a more complete discussion of this issue, refer to the section "Long Term Care Reserves" earlier in this report.

   The following recommendations were noted during the completion of this examination:

   - Use no more than a one percent (1%) morbidity improvement assumption for no longer than ten (10) years, starting in the first projection year. Update the mortality improvement assumption to be consistent at ten (10) years, starting in the first projection year.

- Due to low credibility of Company experience in setting the incidence rate selection factor assumption beyond policy duration twenty (20), the Company should utilize selection factors for a period of twenty (20) policy years, until such time there is credible experience to support extending this assumption past policy duration twenty (20).

- Incorporate into the Company's annual Actuarial Guideline 51 report a sensitivity test using the average long-term treasury rates generated by ten thousand (10,000) scenarios from the American Academy of Actuaries Interest Rate Generator.

- The Company should revise and submit its LTC CFT/GPV assumptions to the TDCI for review and approval.

CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee and guidance from the NAIC Handbook, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the detemination of liabilities of Provident Life and Accident Insurance Company.

In such manner, it was found that as of December 31, 2018, the Company had admitted assets of $7,993,979,040 and liabilities, exclusive of capital and surplus, of $7,386,717,679. Thus, there existed for the additional protection of the policyholders, the amount of $607,261,362 in the form of common capital stock, aggregate write-ins for other than special surplus funds, gross paid in and contributed surplus, and unassigned funds. Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum capital of $1,000,000 and minimum surplus of $1,000,000. For this examination, as of December 31, 2018, the Company maintains capital and surplus sufficient to satisfy those requirements.

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

In addition to the undersigned, Daniel Clements, CPA; Trang Truong, CPA, CIA; Dustin Rice, Linda Merriweather, CISA, CGFM; Rhonda Bowling-Black, CFE, ARe, MCM; Shelli Isiminger, FLMI, AIRC, ACS, MCM, CICSR, APIR, AIE; Insurance Examiners, and Bryant Cummings, CFE, MCM; Assistant Chief Examiner, from the State of Tennessee; Mike Mayberry, FSA, MAAA; Brian Rankin, FSA, MAAA; Linh Nguyen, FSA, MAAA; Jennifer Allen, ASA, MAAA; Kevin Ruggeberg, ASA, MAAA; and Ann Dang of the actuarial firm Lewis & Ellis, Inc., Richardson, Texas; participated in the work of this examination.

Respectfully submitted,

Jay Uselton

A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Provident Life and Accident Insurance Company located in Chattanooga, Tennessee, dated June 17, 2020, and made as of December 31, 2018, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information and belief.

Jay Uselton

A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 26th day of June, 2020

Mindy C. Walker
(NOTARY)

MINDY C WALKER
STATE OF TENNESSEE
NOTARY PUBLIC
DAVIDSON COUNTY
MY COMMISSION EXPIRES 7-6-2020

My Commission Expires: 7·6·2020

EXHIBIT B

unum

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Portland, ME 04122
207 575 2211
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June 29, 2020

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1135

RE: **Report of Examination – Provident Life and Accident Insurance Company**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination Provident Life and Accident Insurance Company, made as of December 31, 2018.

By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

Anita Y. Cooke

Anita Y. Cooke
Manager, Market Conduct and Regulatory Affairs
Provident Life and Accident Insurance Company