



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF
U.S. LEGAL SERVICES, INC.
(NAIC # 14689)
JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2018

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Jacksonville, Florida
May 22, 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 limited market conduct review, as of December 31, 2018, has been made of the condition and affairs of:

U.S. Legal Services, Inc.
NAIC # 14689
8133 Baymeadows Way
Jacksonville, Florida 32256

hereinafter referred to as the “Company” and a report thereon is submitted as follows:

INTRODUCTION

The 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

SCOPE OF EXAMINATION

The Department performed a multi-state examination of the Company. The last examination of the Company was made as of December 31, 2013. This examination covers the period January 1, 2014, 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 the examination.

The examination was conducted in accordance with the rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (“Handbook”), as deemed

appropriate. The examination sought to identify prospective risks by obtaining information about the Company including its corporate governance. Significant inherent risks within the Company were reviewed and assessed. Controls and mitigation for those significant risks were also reviewed. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions.

All significant risks were considered to determine which key activities and accounts would be examined. Key activities included: Capital and Surplus, Investments, Premiums and Underwriting, Reinsurance, Related Parties, Reserve Adequacy, Reserve Data and Claims Handling.

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).

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

The independent auditor's workpapers for the 2018 audit were reviewed and copies were incorporated into the examination, as deemed appropriate.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

In the 2013 examination, the Company's fidelity insurance coverage was suggested to be at the minimum requirements suggested by the NAIC, which is in the range of \$50,000 to \$75,000 for a company of this size. We determined that the Company had satisfactorily addressed this item.

COMPANY HISTORY

The Company, under the name U.S. Legal Services of Tennessee, Inc. was incorporated on November 5, 2002, under the Tennessee Business Corporation Act as a for-profit legal insurance company. On March 12, 2003, the Company was issued a Certificate of Authority to transact the business of legal insurance pursuant to Tenn. Code Ann. § 56-43-101, *et seq.* The Company commenced business on April 1, 2003. The business purpose was to provide pre-paid legal insurance pursuant to Tenn. Code Ann., Title 56.

The Company changed its legal name to its present name by charter amendment on August 13, 2013. A certificate of authority reflecting the new name was issued November 26, 2013.

DIVIDENDS

The Board of Directors has the ability to make distributions to the shareholder by dividends from surplus. The Company paid a dividend to the shareholder in 2014 in the amount of \$55,795.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in a Board of Directors ("Board") elected annually. In accordance with the bylaws, the Board shall consist of at least three (3) members, and not more than seven (7) members. The following persons were duly elected and serving as directors, as of December 31, 2018:

<u>Name</u>	<u>Principal Business Affiliation</u>
Marie Mustakas Forbes	U.S. Legal Services, Inc.
Julia Anne-Marie Hulseley	U.S. Legal Services, Inc.
Jack Theis	Delta Airlines
	U.S. Legal Services, Inc.

Officers

The following were serving as officers, as of December 31, 2018:

<u>Name</u>	<u>Title</u>
Marie Mustakas Forbes	President and Treasurer
Julia Anne-Marie Hulseley	Secretary

Committees

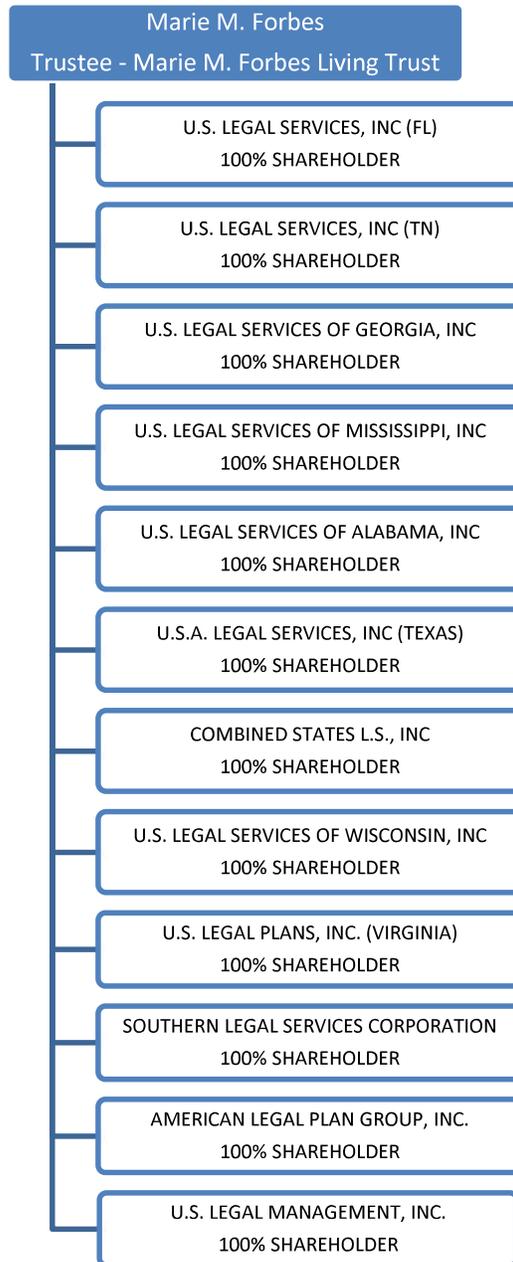
The Company's Board delegated certain duties and responsibilities to the audit committee. The audit committee consisted of all the directors.

CONTROL

Ultimate control of the Company is vested with Marie M. Forbes, as trustee of the Marie M. Forbes Living Trust

ORGANIZATIONAL CHART

The following organization chart shows the Company's parent and subsidiaries as of December 31, 2018:



CORPORATE RECORDS

Minutes of the shareholder's and Board meetings reflected adequate approval and support of the Company's transactions. The Board approved all investment transactions as required by Tenn. Code Ann. § 56-3-408 (b)(1).

SIGNIFICANT AGREEMENTS

The Company had the following significant agreement in effect as of December 31, 2018:

Service Agreement

The Company has a service agreement with U.S. Legal Management, Inc. (USLM). Under this agreement, USLM provides operations and administration, claims administration, premium collections, attorney management, quality control, internal control, accounting, cash and investment management, regulatory, marketing, and IT support services. USLM is paid a service fee based on monthly premium revenue.

TERRITORY AND PLAN OF OPERATION

TERRITORY

As of December 31, 2018, the Company was licensed to transact business in the states of Arizona, Tennessee, and Utah. As of the examination date, the Company was writing business in the three (3) states in which it was licensed.

PLAN OF OPERATION

The Company provides prepaid legal service products to its policyholders. The Company offers four (4) prepaid legal products in Tennessee: CDL Defender, Family Defender, Identity Defender, and Senior Defender. Plans are offered individually or through a sponsor. The sponsor is a person, business, or motor carrier that offers the plan to their employees or owner operators.

The CDL Defender Plan is designed to provide legal expense insurance and is available primarily for commercial drivers. The Family Defender Plan is designed to provide legal expense insurance and is available for policyholders and their families. The services are provided by Company designated attorneys. The Identity Defender is a plan enhancement that provides identify theft assistance from fraud resolution specialists. The Senior Defender Plan provides assistance with elder law matters.

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, as recorded in its annual statements as filed with the Department:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Total Surplus</u>	<u>Net Earned Premiums</u>	<u>Income</u>
2018	\$4,187,091	\$486,973	\$3,700,118 ¹	\$3,019,298	\$569,321
2017	\$3,589,501	\$458,704	\$3,130,797	\$3,495,180	\$397,347
2016	\$3,458,991	\$725,541	\$2,733,450	\$3,481,497	\$596,266
2015	\$2,739,378	\$602,195	\$2,137,183	\$2,496,855	\$344,713
2014	\$2,039,307	\$247,837	\$1,791,470	\$1,408,542	\$22,876

LOSS EXPERIENCE

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Net Loss Ratio</u>
2018	\$3,019,298	\$347,497	\$1,834,031	72.25%
2017	\$3,495,180	\$506,797	\$2,747,138	93.10%
2016	\$3,481,497	\$467,223	\$2,079,302	73.14%
2015	\$2,496,855	\$365,662	\$1,616,471	79.39%
2014	\$1,408,542	\$256,526	\$1,094,477	95.91%

REINSURANCE

Assumed

The Company did not assume risks through reinsurance during the examination period.

Ceded

The Company did not cede risks through reinsurance during the examination period.

¹ Surplus as reported on the 2018 Statement of Income. Immaterial rounding difference noted between this amount and that reported on the Liabilities page.

ACCOUNTS AND RECORDS

Independent audits were performed each year during the examination period with each resulting in an unqualified opinion.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts and cash disbursements). Our review did not disclose any deficiencies in these records.

Accounting records conformed to statutory accounting practices and procedures as reflected within the Company's operations during the period under examination. The Company's risk-based capital filings were reviewed.

The Company's primary books and records were located at 8133 Baymeadows Way, Jacksonville, Florida.

MARKET CONDUCT ACTIVITIES

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

Producer Licensing

A review was performed of the Company's agents. One agent was not properly licensed which is a violation of Tenn. Code Ann. § 56-6-103 which states "A person shall not sell, solicit or negotiate insurance in this state for any class or classes of insurance unless the person is licensed for that line of authority in accordance with this part." See the "Comments and Recommendations" section of this report.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income, 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 statement².

ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$508,655		\$508,655
Cash, cash equivalents and short-term investments	3,415,106		3,415,106
Premiums and considerations Uncollected premiums and agents' balances in the course of collection	244,738		244,738
Current federal and foreign income tax recoverable	15,060		15,060
Receivables from parent, subsidiaries and affiliates	3,283		3,283
Write-ins			
Rounding	(1)		(1)
Other Receivables	250		250
Total Assets	\$4,187,091	\$0	\$4,187,091

² Immaterial rounding difference noted in assets, liabilities, and surplus.

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses		\$195,648
Commissions payable, contingent commissions and other similar charges		100,778
Other expenses		29,819
Taxes, licenses and fees		55,371
Unearned premiums		5,007
Payable to parent, subsidiaries and affiliates		<u>100,350</u>
Total Liabilities		<u>486,973</u>
Common capital stock	\$600,000	
Gross paid in and contributed surplus	671,965	
Unassigned funds (surplus)	<u>2,428,155</u>	
Surplus as regards policyholders ¹		<u>3,700,120</u>
Total Liabilities, Surplus and Other Funds		<u>\$4,187,092</u>

STATEMENT OF INCOME

Underwriting Income

Premiums earned	<u>\$3,019,298</u>
Deductions:	
Losses incurred	347,497
Loss adjustment expenses incurred	153,029
Other underwriting expenses incurred	<u>1,834,031</u>
Total underwriting deductions	<u>2,334,557</u>
Net underwriting gain or (loss)	<u>684,741</u>

Investment Income

Net investment income earned	<u>36,307</u>
Net investment gain or (loss)	<u>36,307</u>

Other Income

Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	721,048
Federal and foreign income taxes incurred	<u>151,727</u>

Net Income

	<u>569,321</u>
Surplus as regards policyholders, December 31, 2018	<u>\$3,130,797</u>

Gains and (Losses) in Surplus

Net income	<u>\$569,321</u>
Change in surplus as regards policyholders for the year	<u>\$569,321</u>
Surplus as Regards Policyholders December 31, 2018¹	<u>\$3,700,118</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Surplus as regards policyholders, December 31, prior year	<u>\$3,130,797</u>	<u>\$2,733,450</u>	<u>\$2,137,183</u>	<u>\$1,791,470</u>	<u>\$1,727,653</u>
Net Income	569,321	397,347	596,266	344,713	22,876
Change in net unrealized capital gains or (losses)					398
Change in non-admitted assets				1,000	6,537
Dividends to stockholders					(55,795)
Write-ins for gains and losses in surplus Prior period adjustments					<u>89,801</u>
Surplus as regards policyholders, December 31, current year ¹	<u>\$3,700,118</u>	<u>\$3,130,797</u>	<u>\$ 2,733,449</u>	<u>\$2,137,183</u>	<u>\$1,791,470</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus¹ \$3,700,118

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.

SUBSEQUENT EVENTS

The Company paid \$150,000 in dividends to its sole shareholder, Marie Forbes, on August 30, 2019. The Department approved this dividend on August 14, 2019.

COMMENTS AND RECOMMENDATIONS

Comments

There were no comments noted during completion of this examination.

Recommendations

1. As noted in "Producer Licensing", one agent was not properly licensed which is a violation of Tenn. Code Ann. § 56-6-103. It is recommended that the Company ensure all agents are properly licensed in accordance with Tenn. Code Ann. § 56-6-103.

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 determination of liabilities of U.S. Legal Services, Inc.

In such manner, it was found that as of December 31, 2018, the Company had admitted assets of \$4,187,091 and liabilities, exclusive of surplus, of \$486,973. Thus, there existed for the additional protection of the policyholders, the amount of \$3,700,118¹ in the form of common capital stock, gross paid in and contributed surplus, and unassigned funds (surplus). 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 maintained 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, Nneka LaBon, Insurance Examiner for the State of Tennessee, and Jim Hattaway, CFE, CIA, CIE, AMCM, ARC, of Noble Consulting Services, Inc. participated on the examination. Contracted specialist Stefan Obereichholz-Bangert, AES, CISA, CISM, participated in the Information Systems review of this examination.

Respectfully submitted,



Lori Brock, CFE, ALMI
Examiner-in-Charge
Noble Consulting Services, Inc.



Donald Karnes, CFE
Department Designee
State of Tennessee

AFFIDAVIT

The undersigned deposes and says she has duly executed the attached examination report of U.S. Legal Services, Inc., located in Jacksonville, Florida, dated May 22, 2019, and made as of December 31, 2018, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of her knowledge, information, and belief.

Lori Brock

Lori Brock, CFE, ALMI
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the State of Tennessee

State Alabama

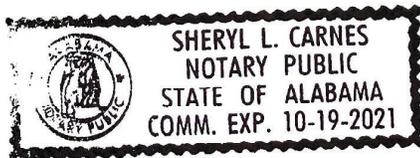
County Cullman

Subscribed to and sworn before me

this 22nd day of June, 2020

Sheryl L. Carnes
(NOTARY)

My Commission Expires: 10/19/2021



AFFIDAVIT

The undersigned deposes and says he has duly executed the attached examination report of U.S. Legal Services, Inc., located in Jacksonville, Florida, dated May 22, 2019, 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.



Donald Karnes, CFE
Department Designee
Tennessee Department of Commerce and Insurance

State Tennessee

County Davidson

Subscribed to and sworn before me

this 23rd day of June, 2020

Mindy C. Walker
(NOTARY)



My Commission Expires: 7.6.2020

EXHIBIT B



June 24, 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 – U.S. Legal Services, Inc.

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for U.S. Legal Services, Inc., made as of December 31, 2018.

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

Sincerely,

Marie M. Forbes, President