

**REPORT OF EXAMINATION**  
**OF**  
**AMERICAN CREDITORS LIFE INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2005**

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

**AMERICAN CREDITORS LIFE INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Antoinette Handy*

DATE: 21 JUNE 2007



*In Witness Whereof*, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 21ST DAY OF JUNE 2007.

*Matthew Denn*  
*Insurance Commissioner*

**REPORT ON EXAMINATION**  
OF THE  
**AMERICAN CREDITORS LIFE INSURANCE COMPANY**  
AS OF  
**December 31, 2005**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", written in a cursive style.

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MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 21ST Day of JUNE 2007.

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## **SALUTATION**

April 2, 2007

Honorable Alfred W. Gross  
Chairman, Financial Condition (E)  
Committee, NAIC  
Virginia State Corporation Commission  
Bureau of Insurance  
P.O. Box 1157  
Richmond, Virginia 23218

Honorable Thomas E. Hampton  
Secretary, Northeastern Zone (I), NAIC  
Department of Insurance, Securities  
and Banking  
Government of the District of Columbia  
810 First Street N. E., Suite 701  
Washington, DC 20002

Honorable Julie Mix McPeak  
Secretary, Southeastern Zone (II), NAIC  
Office of Insurance  
Commonwealth of Kentucky  
P. O. Box 517  
Frankfort, KY 40602-0517

Honorable Merle D. Scheiber  
Secretary, Midwestern Zone (III), NAIC  
South Dakota Division of Insurance  
Department of Revenue and Regulation  
445 East Capitol Avenue  
Pierre, SD 57501-3185

Honorable Kent Michie  
Secretary, Western Zone (IV), NAIC  
Utah Department of Insurance  
3110 State Office Building  
Salt Lake City, Utah 84114-1201

Honorable Matt Denn  
Insurance Commissioner  
Department of Insurance  
841 Silver Lake Blvd.  
Dover, Delaware 19904

Dear Commissioners:

In compliance with your instructions and pursuant to statutory provisions an examination has been made of the affairs and financial condition of

### **American Creditors Life Insurance Company**

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware, as a stock company with its home office located at 2711 Centerville Road Suite 400, Wilmington, Delaware. The examination was conducted at its main administrative office at 575 Anton Blvd, Suite 450, Costa Mesa, California. The following report is respectfully submitted.

## **SCOPE OF EXAMINATION**

The prior examination of the Company was conducted by the Delaware Department of Insurance as of December 31, 2000. The examination covered the period from December 31, 1998 through December 31, 2000.

This report is presented on an exception basis and is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards. The current examination covers the period from January 1, 2001 through December 31, 2005.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the workpapers of this examination:

- Officers, Employees and Agents Welfare
- Fidelity Bonds and Other Insurance
- Legal Actions
- Examination Findings of the prior Report of Examination

## **HISTORY**

American Creditors Life Insurance Company (the Company) was incorporated in 1978 under the laws of the State of Delaware. The Nelson and Gail Bobb Family Limited Partnership own 100 percent of the outstanding common stock. Joel Rosenblum owns 100 percent of the outstanding preferred stock. The Company's principal operation consists of underwriting and

servicing credit life and credit accident and health insurance policies and annuities. The Company is licensed to operate in 14 states.

American Creditors Life stopped writing new business in the first half of 2002. As the Company's business had been primarily credit insurance on automobile financing, the policies in force are now approaching maturity. At the end of the first quarter of 2006, the Company's credit insurance policy reserves were less than \$200,000 and the average remaining term was less than one year.

### **MANAGEMENT AND CONTROL**

#### Board of Directors

Members of the Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2005, were as follows:

<u>Name</u>	<u>Principle Business Affiliation</u>
Joel Rosenblum	President of American Creditors Life Insurance Company
Gail NMI Bobb	Part Owner of American Creditors Life Insurance Co

#### Officers

The elected officers of the Company, serving as of December 31, 2005, were as follows:

<u>Name</u>	<u>Title</u>
President	Joel Milton Rosenblum
Secretary	Gail NMI Bobb
Treasurer	Gail NMI Bobb
Actuary	Earl Perry Kupferman

### **CORPORATE RECORDS**

The minutes of the stockholder and Board of Directors meetings were not reviewed for the period under examination. The Company did not provide those minutes to the examiners .

The bylaws of the Company were not provided to the examiners. The Company provided the bylaws of Dealer Services Corporation, but not for American Creditors Life Insurance Company.

**It is recommended that the Company make all minutes available for examination.**

**It is recommended that the Company make the by-laws available for examination.**

### **TERRITORY AND PLAN OF OPERATIONS**

#### Coverage Available

American Creditors Life stopped writing new business in the first half of 2002. As the Company's business had been primarily credit insurance on automobile financing, the policies in force are now approaching maturity.

The tables below illustrate the decline in the Company's Operations. It is apparent the Company stopped writing new business in 2002, because premium written was negative in 2003. That is when the Company went into a run off position and new premium was not being generated by the Company.

The Company's operations were centered in four states: Connecticut, Louisiana, Michigan, and Pennsylvania.

The Company's lines of business were life insurance, accident and health insurance and annuities.

The first table shows the year 2005 for all states where the Company did business. The next table shows the activity by state from 2001 through 2005. The decline in business is apparent.

Year	State	Is Insurer Licensed	Life Insurance Premiums	Accident and Health Insurance Premiums	Total
2005	Connecticut	Yes	(\$2,043)	(\$4,950)	(\$6,993)
2005	Louisiana	Yes	(112)		(112)
2005	Michigan	Yes	(4622)	(3652)	(8274)
2005	Pennsylvania	Yes	<u>(595)</u>	<u>(17)</u>	<u>(612)</u>
	2005 Total		<u>(\$7,372)</u>	<u>(\$8,619)</u>	<u>(\$15,991)</u>

YEAR	2001	2002	2003	2004	2005
State	Connecticut	Connecticut	Connecticut	Connecticut	Connecticut
Life Insurance	\$327,419	\$12,450	(\$16,763)	(\$13,554)	(\$2,043)
A&H	\$430,201	\$5,882	(\$39,889)	(\$18,952)	(\$4,950)

YEAR	2001	2002	2003	2004	2005
State	Louisiana	Louisiana	Louisiana	Louisiana	Louisiana
Life Insurance	\$28,702	\$6,861	(\$5,078)	(\$2,383)	(\$112)
A&H	\$12,540	(\$41)	(\$1,121)	(\$30)	\$0

YEAR	2001	2002	2003	2004	2005
State	Michigan	Michigan	Michigan	Michigan	Michigan
Life Insurance	\$459,492	\$85,046	(\$52,062)	(\$15,469)	(\$4,622)
A&H	\$627,287	\$138,606	(\$68,843)	(\$15,128)	(\$3,652)

YEAR	2001	2002	2003	2004	2005
State	Pennsylvania	Pennsylvania	Pennsylvania	Pennsylvania	Pennsylvania
Life Insurance	\$36,357	(\$664)	(\$2,480)	(\$693)	(\$595)
A&H	\$1,226	(\$569)	(\$52)	(\$105)	(\$17)
Annuity	\$35,000	\$35,000	\$35,000	0	0

**GROWTH OF COMPANY**

The following schedule shows the growth of the Company from 2001 through 2005. The numbers on the schedule were taken from the Company's filed Annual Statement.

Year	Gross Written Premium	Net Premium Earned	Net Cash From Operations	Admitted Assets	Surplus	Net Income
2001	\$851,970	\$823,701	\$537,102	\$5,734,798	\$5,789,723	\$664,148
2002	283,584	285,891	319,764	16,007,049	7,487,442	1,725,881
2003	(151,297)	(148,864)	(364,219)	15,912,649	8,687,738	1,340,089
2004	(66,314)	(66,977)	(9,275)	15,942,297	9,438,612	468,041
2005	(15,991)	(16,578)	89,047	16,065,755	9,974,074	518,859

**REINSURANCE**

The Company is in run off and had little reinsurance activity.

Assumed Reinsurance

The Company had no assumed reinsurance as of December 31, 2005.

Ceded Reinsurance

The Company had \$587 in ceded reinsurance as of December 31, 2005.

The Company had no reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for non-payment of premium or other similar creditors.

There were no reinsurance agreements in effect such that an amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of an amount which, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceeds the total direct premium collected under the reinsured policies. The estimated amount of the aggregate reduction in surplus was \$2,698 and \$12,016 for reinsurance

agreements of termination of all reinsurance agreements, by either party, as of December 31, 2005 and 2004, respectively.

There were no new agreements executed or existing agreements amended for the years ended December 31, 2005 and 2004, including policies or contracts which were in force or which had existing reserves established by the Company as of the effective date of the agreement.

A. Uncollectible Reinsurance

The Company had no uncollected reinsurance that was written off for the years ended December 31, 2005 and 2004.

B. Commutation of Reinsurance Reflected in Income and Expenses

The Company had no amounts reported in its statements of operations for the years ended December 31, 2005 and 2004, as a result of commutation of reinsurance.

### **ACCOUNTS AND RECORDS**

The Company keeps its records on Quick Books. The president of the company and his associates make the entries to the Company's books.

### **FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2005.

Analysis of Assets  
Liabilities, Surplus and Other Funds  
Statement of Income  
Examination and Surplus Changes

**Analysis of Assets**

	<u>Assets</u>	Non-admitted <u>Assets</u>	Net Admitted <u>Assets</u>	Notes
Bonds	\$11,110,195	\$0	\$11,110,195	Note 1
Preferred stocks	100,000	0	100,000	
Common stocks	46,148		46,148	
Cash and short term investments	4,675,784		4,675,784	
Investment income due and accrued	132,106		132,106	
Aggregate write in for other than invested assets	<u>556,376</u>	<u>554,854</u>	<u>1,522</u>	
Total Assets	<u>\$16,620,609</u>	<u>\$554,854</u>	<u>\$16,065,755</u>	

**Liabilities, Surplus and Other Funds**

Aggregate reserve for life contracts	\$3,488,919	Note 2
Aggregate reserve for accident and health contracts	181,788	
Liability for deposit-type contracts	0	
Life (contract claims)	20,566	
Accident and health (contract claims)	50,400	
Interest maintenance reserve	92,383	
General expenses due or accrued	225	
Taxes, licenses and fees due or accrued, excluding federal income taxes	5,690	
Current federal and foreign income taxes	50,082	
Asset valuation reserve	35,754	
Reinsurance in unauthorized companies	2,698	
Aggregate write-ins for liabilities	<u>221,176</u>	
Total liabilities excluding Separate Accounts business	\$4,149,681	
From Separate Accounts statement	<u>0</u>	
Total liabilities	<u>4,149,681</u>	
Common capital stock	\$1,774,000	
Preferred capital stock	168,000	
Gross paid in and contributed surplus	2,089,974	
Unassigned funds (surplus)	<u>7,884,100</u>	
Surplus	<u>\$11,916,074</u>	
Total of common and preferred stock and surplus	<u>\$11,916,074</u>	
Total of liabilities, common and preferred stock and surplus	<u>\$16,065,755</u>	

**Statement of Income**

Premiums and annuity considerations for life and accident and health contracts	(\$16,578)
Net investment income	731,076
Amortization of Interest Maintenance Reserve (IMR)	6,925
Commissions and expense allowances on reinsurance ceded	188
Aggregate write-ins for miscellaneous income	<u>24,806</u>
Total	\$746,417
Death benefits	12,527
Disability benefits and benefits under accident and health contracts	84,247
Increase in aggregate reserves for life and accident and health contracts	<u>(330,801)</u>
Total	(\$234,027)
Commissions on premiums, annuity considerations and deposit-type contract funds (direct business only)	(\$9,072)
General insurance expenses	319,437
Insurance taxes, licenses and fees, excluding federal income taxes	37,394
Aggregate write-ins for deductions	<u>8,126</u>
Total	<u>\$121,858</u>
Net gain from operations before dividends to policyholders and federal income taxes	\$624,559
Dividends to policyholders	<u>0</u>
Net gain from operations after dividends to policyholders and before federal income taxes	\$624,559
Federal and foreign income taxes incurred (excluding tax on capital gains)	<u>92,473</u>
Net gain from operations after dividends to policyholders and federal income tax and before realized capital gains or (losses)	\$532,086
Net realized capital gains or (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax of \$0 (excluding taxes of \$0 transferred to the IMR)	<u>(13,227)</u>
Net income (net gain from operations after dividends to policyholders plus net realized capital gains or (losses))	<u>\$518,859</u>

**Capital and Surplus Account**

Capital and surplus, December 31, prior year	\$11,380,610
Net income	518,859
Change in net unrealized capital gains or (losses)	865
Change in net unrealized foreign exchange capital gain (loss)	0
Change in net deferred income tax	0
Change in non-admitted assets and related items	(24,807)
Change in liability for reinsurance in unauthorized companies	9,318
Change in reserve on account of change in valuation basis, (increase) or decrease	0
Change in asset valuation reserve	48,029
Dividends to stockholders	<u>(16,800)</u>
Net change in capital and surplus for the year	<u>\$535,464</u>
Capital and surplus, December 31, current year	<u>\$11,916,074</u>

**Examination and Surplus Changes**

No changes were made per this examination.

	Company Amount <u>          </u>	Exam Amount <u>          </u>	Surplus Increase (Decrease)	<u>Total</u>
Capital and Surplus per Company	\$11,916,074	\$11,916,074	\$0	\$11,916,074
Net change per examination				<u>0</u>
Capital and Surplus per Examination				<u>\$11,916,074</u>

**FOOTNOTES TO FINANCIAL STATEMENTS**Note 1 Bonds**\$11,110,195**

The Company's bonds are composed of the following class of bonds.

<b>Bond Description</b>	<b>Book/Adjusted Carrying Value</b>	<b>Fair Value</b>	<b>Actual Cost</b>	<b>Par Value of Bonds</b>
Governments - bonds - US	\$8,568,480	\$8458,286	\$8,769,033	\$8,606,472
Industrial and miscellaneous bonds - US	<u>2,541,715</u>	<u>2,631,619</u>	<u>2,521,292</u>	<u>2,561,000</u>
Total bonds	<u>\$11,110,195</u>	<u>\$11,089,905</u>	<u>\$11,290,325</u>	<u>\$11,167,472</u>

The Company still maintains its investments in brokerage accounts.

**It is again recommended that the Company move all investments not physically held directly by the Company into a custodial account located in a bank or trust company in accordance with Part 1 Section J of the NAIC Financial Condition Examiner's Handbook and Title 18 Del.C. §1328(c).**

**It is also again recommended that the Company obtain a custodial agreement containing acceptable language with regards to loss and indemnity in accordance with Volume 1, Part 1 "General", Section IV – J "Conducting Examinations – Custodial and Safekeeping Agreements", Sections 1-3(g) of the NAIC Financial Condition Examiner's Handbook.**

Note 2 Aggregate reserve for life contracts**\$3,488,919**

This liability was reported on Page 3, Line 1 and in Exhibit 5 of the Company's 2005 Annual Statement. The reserve breakdown in Exhibit 5, by type of benefit, was \$60,856 for credit life and \$3,428,063 for deferred annuities. Each of these segments is discussed below in further detail.

Life Insurance

As of December 31, 2005, the life insurance reserves consisted of \$63,554 for credit life insurance business, less a \$2,698 reserve credit for reinsurance ceded to Roseberry Life Insurance

Company, a non affiliated life insurance company. During the certificate of reserve valuation process, reserves were reconciled from seriatim valuation listings. A trend analysis was performed over the examination period. The trend analysis indicated a reasonable decreasing trend for a closed block of business. The consulting actuary therefore concluded that the Company's life reserve is fairly stated.

### Annuities

The reserve of \$3,438,063 was held in connection with three deferred annuity contracts. During the certificate of reserve valuation process, a roll-forward analysis was completed. That analysis indicated a reasonable reserve trend for the period under examination. During the examination, the items affecting the roll-forward analysis (such as credited interest rates and the dates and amounts of additional premium deposits) were verified without exception. The consulting actuary therefore concluded that the reserve for deferred annuities is fairly stated.

### Reserve Analysis

The consulting actuary performed a roll forward analysis over the examination period for the deferred annuities.

Life and health reserves were reviewed using a trend analysis over the examination period. These tests indicated that the reserves were reasonable.

The consulting actuary used retrospective loss development analysis to confirm the adequacy of the credit accident and health claim liability. The credit accident and health claim liability was sufficient by \$10,686. The credit life claim liability was deficient by \$1,114. The deficiency is offset by the credit accident & health sufficiency and is acceptable. The consulting actuary also reviewed the unearned premium reserve (UPR) calculation for credit disability. The UPR held by ACL is \$65,500 less than the UPR prescribed under Regulation 1700 of the Delaware Insurance Code. Since this amount is below the tolerable error, no financial adjustment is recommended. The

consulting actuary recommends that the Company comply with Regulation 1700 of the Delaware Insurance Code

During the prior examination, reserve testing had indicated that the credit accident and health UPR was not in compliance with Regulation 1700 of the Delaware Insurance Code. Discussions with the Company's appointed actuary indicate that the Company has not complied with that recommendation.

**It is again recommended that the Company hereafter calculate the credit health insurance reserve in compliance with Regulation 1700 of the Delaware Insurance Code.**

Based on the above discussion, the consulting actuary concluded that the items covered by this examination were fairly stated. They have been accepted as stated for the purpose of this report. With respect to credit disability, the consulting actuary is not recommending a financial adjustment to the active life reserve, but recommends that the Company hereafter calculate the credit health insurance reserve in compliance with Regulation 1700 of the Delaware Insurance Code.

### **COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS**

1. Prior Exam Comment:

It is recommended that the Company obtain letters of credit for unauthorized reinsurance with an NAIC approved banking institution in accordance with Title 18 DeL.C. § 913(a) (3).

Current Exam Comment:

The Company had only \$587 in ceded reinsurance. The Company is in a runoff position. The immaterial amount of reinsurance activity renders the prior recommendation academic as of December 31, 2005.

2. Prior Exam Comment:

It is recommended that the Company move all investments not physically held directly by the Company into a custodial account located in a bank or trust company, in accordance with Part 1, Section H (2) (c) of the NAIC Financial Condition Examiner's Handbook and Title 18 Del.C. §1328 (c).

Current Exam Comment:

The Company still maintains its investments in brokerage accounts. It is again recommended that the Company move all investments not physically held directly by the Company into a custodial account located in a bank or trust company in accordance with Part 1 Section J of the NAIC Financial Condition Examiner's Handbook and Title 18 Del.C. §1328(c).

3. Prior Exam Comment:

It is recommended that the Company obtain a custodial agreement containing acceptable language with regards to loss and indemnity in accordance with Volume 1, Part 1 "General," Section IV – H "Conducting Examinations – Custodial and Safekeeping Agreements," Sections 1(b) – 1(d) of the NAIC Financial Condition Examiner's Handbook.

Current Exam Comment:

It is again recommended that the Company obtain a custodial agreement containing acceptable language with regards to loss and indemnity in accordance with Volume 1, Part 1 "General," Section IV – J "Conducting Examinations – Custodial and Safekeeping Agreements," Sections 1-3(g) of the NAIC Financial Condition Examiner's Handbook.

4. Prior Exam Comment:

It is recommended that the Company submit all securities to the SVO for proper valuation, and report all investments in the Annual Statement in accordance with applicable sections of Part 4, Part 5, Part 6 and Part 11 of the NAIC - SVO Purposes and Procedures Manual, NAIC Annual Statement Instructions for Life and Accident and Health Companies and Title 18 Del.C. §526(c).

Current Exam Comment:

The Company's investment portfolio appeared to be valued properly. The NAIC Jumpstart reports comparing the Company's portfolio to the SVO data base did not reveal

material differences.

5. Prior Exam Comment:

It is recommended that the Company hereafter calculate the reserve for credit health insurance in compliance with Regulation 5 of the Delaware Insurance Code.

Current Exam Comment:

A similar recommendation regarding the reserves is included in the current examination. See the “Losses” section for the current examination recommendation.

## **RECOMMENDATIONS**

### **Corporate Records**

**It is recommended that the Company make all Board of Directors and stockholders minutes available for examination. (p. 4)**

**It is recommended that the Company make the bylaws available for examination. (p. 4)**

### **Bonds**

**It is again recommended that the Company move all investments not physically held directly by the Company into a custodial account located in a bank or trust company in accordance with Part 1 Section J of the NAIC Financial Condition Examiner’s Handbook and Title 18 Del.C. §1328(c). (p. 11)**

**It is again recommended that the Company obtain a custodial agreement containing acceptable language with regards to loss and indemnity in accordance with Volumes 1, Part 1 “General”, Section IV – J “Conducting Examinations – Custodial and Safekeeping Agreements”, Sections 1-3(g) of the NAIC Financial Condition Examiner’s Handbook. (p. 11)**

### **Aggregate Reserve for Life Contracts**

**It is recommended that the Company hereafter calculate the credit health insurance reserve in compliance with Regulation 1700 of the Delaware Insurance Code. (p. 13)**

**CONCLUSION**

The following schedule shows the changes from the previous examination.

<u>Description</u>	<u>12/31/00</u>	<u>12/31/05</u>	<u>Increase/(Decrease)</u>
Assets	\$15,264,192	\$16,065,755	\$801,563
Liabilities	\$8,306,810	\$4,149,681	(\$4,157,129)
Capital and Surplus	\$6,957,382	\$11,916,074	\$4,958,692

In addition to the undersigned, INS Consultants, Inc. participated in this examination. The examiner would like to extend his thanks to the Company employees.

Respectfully submitted,



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Max P. Vega, CFE, AIE  
Examiner in Charge  
State of Delaware  
Northeastern Zone, NAIC

**SUBSEQUENT EVENTS**

The Company had no significant subsequent events.