

**REPORT ON EXAMINATION**  
**OF THE**  
**PERICO LIFE INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2009**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

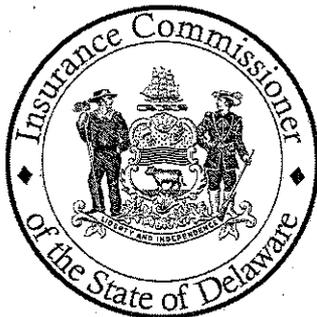
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

**PERICO LIFE INSURANCE COMPANY**

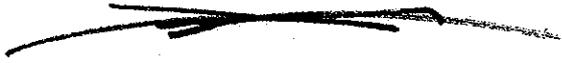
is a true and correct copy of the document filed with this Department.

Attest By: *Sonia C. Harris*

Date: 21 April 2011



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 April, 2011.

  
\_\_\_\_\_  
Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



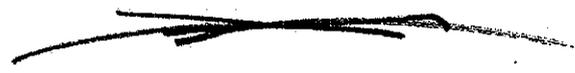
Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
PERICO LIFE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2009

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

Consideration has been duly 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.

  
\_\_\_\_\_  
Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 21st day of April, 2011

## **TABLE OF CONTENTS**

SALUTATION .....	1
SCOPE OF EXAMINATION.....	2
SUMMARY OF SIGNIFICANT FINDINGS .....	3
SUBSEQUENT EVENTS .....	3
COMPANY HISTORY .....	3
CORPORATE RECORDS .....	4
MANAGEMENT AND CONTROL .....	4
HOLDING COMPANY SYSTEM .....	7
AFFILIATED AGREEMENTS .....	8
CORPORATE GOVERNANCE.....	9
FIDELITY BONDS AND OTHER INSURANCE .....	11
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS .....	11
TERRITORY AND PLAN OF OPERATION .....	11
GROWTH OF THE COMPANY .....	13
LOSS EXPERIENCE .....	14
REINSURANCE.....	14
ACCOUNTS AND RECORDS .....	15
STATUTORY DEPOSITS .....	16
FINANCIAL STATEMENTS .....	17
ASSETS.....	18
LIABILITES, SURPLUS AND OTHER FUNDS .....	19
SUMMARY OF OPERATIONS .....	20

RECONCILIATION OF CAPITAL AND SURPLUS .....	21
ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS .....	22
NOTES TO THE FINANCIAL STATEMENTS .....	23
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS .....	24
SUMMARY OF RECOMMENDATIONS .....	24
CONCLUSION.....	25

August 20, 2010

## SALUTATION

Honorable Joseph Torti, III  
Chairman, Financial Condition (E) Committee,  
NAIC  
Superintendent Department of Business  
Regulation Division of Insurance  
1511 Pontiac Avenue, Building 69-2  
Cranston, Rhode Island 02920

Honorable Mila Kofman  
Secretary, Northeastern Zone  
Superintendent Department of Professional &  
Financial Regulation  
Maine Bureau of Insurance  
34 State House Station  
Augusta, Maine 04333-0034

Honorable Sharon P. Clark  
Secretary, Southeastern Zone  
Commissioner Kentucky Dept. of Insurance  
215 West Main Street  
Frankfort, Kentucky 40601

Honorable Stephen W. Robertson  
Secretary, Midwestern Zone  
Indiana Department of Insurance  
311 West Washington Street  
Suite 300  
Indianapolis, Indiana 46204-2787

Honorable Monica J. Lindeen  
Secretary, Western Zone  
Commissioner of Securities & Insurance  
840 Helena Avenue  
Helena, Montana 59601

Honorable Karen Weldin Stewart, CIR-ML  
Commissioner Delaware Department of  
Insurance  
Rodney Building  
841 Silver Lake Blvd.  
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 10.002, an examination has been made of the affairs, financial condition and management of the

### **PERICO LIFE INSURANCE COMPANY**

hereinafter referred to as "Company" or "PLIC", incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 160 Greentree Dr., Suite 101, Dover, Delaware. The examination was conducted at the principal offices of the Company

located at 225 TownPark Drive, NW Suite 145, Kennesaw, GA 30144. The examination report thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

The last examination was as of December 31, 2006. This examination covered the period of January 1, 2007, through December 31, 2009, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2009. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform 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, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Pricewaterhousecoopers, LLP (PWC). Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material adjustments to the Company's financial statement that warranted disclosure in this examination report.

### **SUBSEQUENT EVENTS**

There are no material subsequent events or changes to be reported.

### **COMPANY HISTORY**

The Company was incorporated under the laws of the State of Delaware on June 24, 1975 and commenced business on October 9, 1975. The primary business of the Company was credit life and credit accident and health coverages produced through automobile dealerships when it was formerly known as MIC Life Corporation (MIC). MIC made a decision to exit this business effective November 1, 1995 and allow the in-force business to run-off. This business is still in

run-off on the Company's books as of December 31, 2009. MIC was sold to HCC Insurance Holdings, Inc. in December 2005 and MIC's name was changed to Perico Life Insurance Company. In March 2006, HCC Insurance Holdings, Inc. contributed all the shares of the Company to HCC Life Insurance Company, a subsidiary. Effective in January 2006, the Company began to primarily underwrite medical stop loss and group term life insurance.

On November 3, 2008, HCC purchased CW Midwest, Inc. (Cox Insurance Agency), a managing general underwriter that primarily underwrote medical stop loss business. With the acquisition of the Cox Insurance Agency book, new and renewal business written is being placed on the Company's paper effective January 1, 2009.

During the period covered by this examination, gross paid-in and contributed surplus increased \$760 from \$9,000,000 in 2006 to \$9,000,760 in 2009. The increase for the period is from a \$308 and \$452 paid in adjustment in 2008 and 2009, respectively.

### **CORPORATE RECORDS**

The recorded minutes of the shareholders, Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the approval of investments.

### **MANAGEMENT AND CONTROL**

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and business of the Company shall be managed by the Board. The bylaws provide that the number of directors that shall constitute the whole Board shall not be less than four members or more than ten. Each

director shall be elected for a term of one year and serve until such director's successor is elected and qualified.

The Board, by vote of a majority of the whole Board, may from time to time designate one or more committees. The bylaws provide that the committees shall keep regular minutes of their meetings and the findings of the committees shall be reported to the Board.

Dividends on the capital stock may be declared by the Board at any regular or special meeting. Dividends may be paid in cash, property or in shares of capital stock.

The Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2009, is as follows:

<u>Name</u>	<u>Principal Occupation</u>
John Niels Molbeck, Jr.	President and CEO of HCC Insurance Holdings, Inc. and Executive Vice President of Company
Craig John Kelbel	President and CEO of HCC Life Insurance Company
Jeffrey Eric Petty	President and Chief Executive Officer of Company
Mark Roberts Sanderford	Executive Vice President and Chief Financial Officer of Company
William Tobin Whamond	Executive Vice President of Company
Larry Gene Cook	Chief Operating Officer and Assistant Secretary of Company

The bylaws state that the officers of the corporation shall consist of a Chief Executive Officer, a President, a Secretary, a Treasurer, and any number of Vice Presidents. Any two or more offices may be held by the same person. The following persons were elected as officers and were serving in that capacity at December 31, 2009:

<u>Name</u>	<u>Office</u>
Jeffrey Eric Petty	President and Chief Executive Officer
Mark Roberts Sanderford	Executive Vice President and Chief Financial Officer
Larry Gene Cook	Chief Operating Officer and Assistant Secretary
James Leo Simmons	Vice President and Secretary
Annette Jeannine Goodreau	Senior Vice President and Actuary
John Niels Molbeck, Jr.	Executive Vice President
William Tobin Whamond	Executive Vice President and Treasurer
Derek Dean Cox	Executive Vice President
Andrew Jay Ritchie	Senior Vice President and Assistant Secretary
Sharon Lyons Brock	Vice President
Joycelyn Michele Ray	Vice President and Assistant Secretary
Shaun Lavern Peterson	Vice President, Actuarial
Deborah Louise Riffe	Vice President
Beverly Jeanne Brynda	Assistant Vice President, Human Resources and Compliance
Judith Ann Costello	Assistant Vice President, Claims
Nancy Carole LeGere	Assistant Vice President, Underwriting

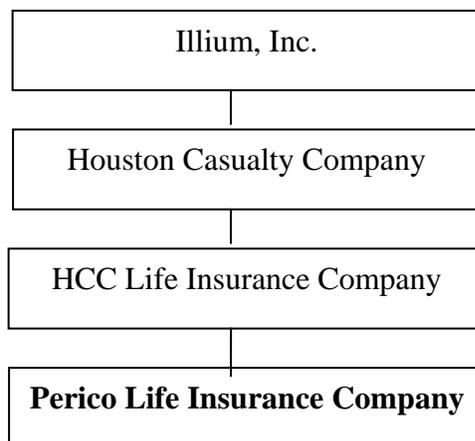
Bradley Thomas Long	Assistant Vice President
Patty Ann Warmbrondt	Assistant Vice President, Accounting
Norm Fogt	Controller

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. §4919.

### **HOLDING COMPANY SYSTEM**

The Company is a member of an insurance holding company system as defined under Chapter 50, “Insurance Holding Companies” of the Delaware Insurance Code. The Company is a wholly owned subsidiary of HCC Life Insurance Company, which is ultimately owned by HCC Insurance Holdings, Inc. (HCC). The following depicts an abbreviated organizational chart of the Company’s relationship within the holding company system at December 31, 2009.

HCC Insurance Holdings, Inc.



### **AFFILIATED AGREEMENTS**

The following agreements were in effect between the Company and its affiliates at December 31, 2009.

#### Service and Cost Allocation Agreement

Effective November 30, 2005, the Company entered into a Participation Agreement which made the Company party to the Service and Cost Allocation Agreement in place between HCC and its subsidiaries. Under this agreement, HCC Service Company, Ltd. provides the Company with services and facilities required to conduct its insurance operations. Costs incurred are based on actual cost to HCC Service Company, Ltd. and are settled in conformity with customary accounting principles and practices.

#### Financial and Statutory Tax Allocation Agreement

Effective November 30, 2005, the Company entered into a Tax Allocation Agreement with other members of the consolidated group. This agreement provides for the allocation of federal income tax liability and tax credits between parties in accordance with their respective contributions to the tax liability for each taxable year.

### Quota Share Reinsurance Agreement

Effective November 30, 2005, the Company entered into a reinsurance agreement with its affiliate, Avemco Insurance Company (Avemco). Under this agreement, the Company assumes 100% of the medical stop loss business written in the state of New York.

## **CORPORATE GOVERNANCE**

The Company's corporate governance is integrated with that of its ultimate parent, HCC Insurance Holdings, Inc. (HCC). HCC holds overall responsibility for the governance, but delegates responsibility for the execution of certain control processes to respective subsidiaries.

### Risk Management

As a subsidiary of HCC, the Company follows the governance policies set out by its parent. HCC has an Enterprise Risk Management (ERM) process. This process is a structured approach to identify, manage, report and respond to downside risks or threats, as well as business opportunities. This process is set up to enable the companies to assess risks in a more consistent and transparent manner, resulting in improved recognition, management and monitoring of risk. The key objectives of the ERM process are to support the decision making and to promote a culture of risk awareness throughout the organization.

The ERM initiative is supported by an Enterprise Risk Oversight Committee of HCC's Board of Directors. The internal risk management functions are led by a Corporate Vice President of the Enterprise Risk Management Department, who reports to the President and Chief Executive Officer. A Risk Committee that reports to the President and Chief Executive Officer assists the Board in risk assessment.

HCC uses a variety of methods and tools company-wide in the risk assessment and management efforts. The key methods and tools include: 1) underwriting risk management, where underwriting authority limits are set; 2) natural catastrophe risk management, where a variety of catastrophe modeling techniques, both internal and external, are used to monitor loss exposures; 3) a Reinsurance Security Policy Committee, which is responsible for monitoring reinsurers, reinsurance recoverable balances and changes in a reinsurer's financial condition; 4) investment risk management, where the Investment and Finance Committee of the HCC Board of Directors provides oversight of the capital and financial resources, and the investment policies, strategies, transactions and investment performance; and 5) the use of outside experts to perform scenario testing, where deemed beneficial. HCC plans to continue to invest in resources and technology to support the ERM process.

#### Board of Directors and Audit Committee

HCC's governance process establishes the roles of its Audit Committee and Board of Directors. Two Boards provide oversight of the Company, the HCC's Board and the Company's specific Board. Together, the Boards are responsible for overseeing the internal controls over financial reporting established by management and the process by which management satisfies itself that they are working effectively. The Boards are apprised of the Company's financial position, operating results and objectives and strategies. Additionally, the Boards are made aware of sensitive information, investigations, and improper acts in a sufficient and timely manner.

The Company does not have a separate Audit Committee, and thus, relies on the HCC Audit Committee for monitoring and assisting the Board. Additionally, HCC has established an Internal Control and an Internal Audit team that report directly to the Audit Committee. The

Internal Control group has as its sole function the implementation and monitoring of controls over financial reporting. Internal Audit assists in the performance of walkthroughs and testing with the Internal Controls group. Additionally, Internal Audit performs operational audits to ensure compliance with HCC policies.

### **FIDELITY BONDS AND OTHER INSURANCE**

The Company maintained fidelity bond coverage, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained General Liability, Employers Liability, Professional Liability, Financial Institutions Excess Liability, and Workers Compensation coverage.

### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

HCC Group has a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees of HCC Group who meet the specified service requirements. Under the plan the HCC Group will match each employee's contribution up to 6% of the employee's salary. The Company is responsible for funding the amounts to be contributed to the plan for the benefit of its employees, and contributed approximately \$130,187 and \$119,854 to the plan during 2009 and 2008, respectively.

### **TERRITORY AND PLAN OF OPERATION**

At December 31, 2009, the Company was licensed in the District of Columbia and all states in the United States, except New York. The Company's affiliate, Avemco Insurance Company, writes medical stop loss business in New York and cedes 100% of the business to the Company.

Medical Stop-Loss is the Company's primary line of business. This product is issued to self-insured employers who have decided to self-fund their employee benefit plans but do not want to assume 100% of the liability for losses arising from the plans. Under the medical stop-loss policy, the Company becomes liable for losses that exceed certain limits. The stop-loss product covers group accident and health medical business on both a specific and aggregate basis. The Company also has a small amount of Group Term Life business. This coverage is sold in conjunction with medical stop-loss product.

The remaining credit term life and credit accident and health coverages from the MIC run-off business are 100% ceded and administered by Union Fidelity Life Insurance Company.

The Company employs a centralized underwriting and a regional marketing strategy, designed to provide higher quality service. The Company's corporate office is located in Kennesaw, GA. Much of the day to day operations and functional activities are conducted in St. Louis, Missouri, while certain underwriting activities are conducted in Indianapolis, IN. There are four marketing regions; the southwest, midwest, northeast, and southeast region.

The Company's overall marketing objective is to develop long-term relationships with established producers, which include Third Party Administrators, brokers, and benefit consultants. Most of the Company's business is placed through Third Party Administrators, with a small percentage placed through brokers. These relationships are initiated primarily through referrals and word-of-mouth. The Company does not actively solicit business directly to potential policyholders. As noted, the Company employs a regional marketing strategy, allowing them to better understand the trends and health insurance issues affecting each local market.

## GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the four year period since the previous exam:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premium Written</u>	<u>Net Income</u>
2009	\$78,626,261	\$49,780,028	\$83,744,179	\$10,308,199
2008	\$61,334,158	\$39,479,672	\$51,935,849	\$7,755,763
2007	\$50,960,307	\$31,606,411	\$46,803,207	\$4,031,234
2006	\$45,424,885	\$27,544,117	\$31,943,811	\$2,950,290

Since December 31, 2006, the Company's financial results were as follows:

- Approximately 73.1% increase in admitted assets. The growth is mainly attributable to the growth of the Company over the period of exam and its increase of investments in bonds.
- Approximately 80.7% increase in capital and surplus. Surplus increased due to the growth of the Company over the period. There have been no capital contributions.
- Approximately 162.2% increase in net premium written. The significant increase in written premium is mainly due to the placement of new and renewal business effective January 1, 2009 from Cox Insurance Agency, purchased by HCC in November 2008.
- Approximately 249.4% increase in net income. Cash flow increased significantly due to the premium growth. Additionally, net investment income has continued to increase, primarily due to an increase in the portfolio resulting from the increased underwriting activity.

## **LOSS EXPERIENCE**

Reserves on accident and health policies for incurred losses and loss adjustment expenses attributable to insured events of prior years have decreased by approximately \$2.2 million in 2009 as a result of re-estimation of unpaid losses and loss adjustment expenses. The decrease is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

## **REINSURANCE**

The Company has assumed and ceded various risks under reinsurance arrangements.

### **Assumed**

In addition to the business written on the Company's paper on a direct basis, the Company assumed medical stop loss business.

- **Avemco Insurance Company** – Effective November 30, 2005, the Company entered into a reinsurance agreement with its affiliate, Avemco Insurance Company (Avemco). Under this agreement, the Company assumes 100% of the medical stop loss business written in the state of New York.
- **Blue Cross Blue Shield of South Carolina, Inc.** – Effective January 1, 2009, the Company entered into an agreement with Blue Cross Blue Shield of South Carolina, Inc. (BCBS). This contract was formerly between BCBS and Cox Insurance Group in regards to the self funded medial stop loss business written through BCBS and underwritten and reinsured by Cox. Due to the acquisition of Cox by HCC, the reinsurance agreement was amended such that the Company is the assuming reinsurer. The Company agrees to assume 75% quota share of the aggregate stop loss business up to a \$1M maximum in the aggregate of any one group and of the specific stop loss business up to a \$1M maximum per person per annum excess of the original policy deductible. Additionally, the Company agrees to a 100% quota share of the specific excess loss business up to a \$1M maximum per person per annum excess of primary \$1M/person/annum.

In 2009, reinsurance assumed was \$1,131,778 or 1.3% of the Company's gross written premiums.

### **Ceded**

The Company does not cede its medical stop loss business. The decision to fully retain its medical stop loss business was a result of less favorable terms in the reinsurance market and the growth in the Company's capital, which allows it to retain higher individual risks. The Company does cede its life business.

- **Union Fidelity Life Insurance Company** – Effective January 22, 1990, MIC Life Insurance Corporation entered into an agreement with Union Fidelity Life Insurance Company (formerly Montgomery Ward Life Insurance Company). The agreement provided for a 100% cession of all remaining ordinary life and accident and health business. This business was still on the books when the MIC was purchased by HCC, and renamed to the Company's current name. All lines of business in the MIC run-off are reinsured 100% with Union Fidelity.
- **Reliastar Life Insurance Company** – Effective January 1, 2006, the Company cedes its group life business to Reliastar Life Insurance Company (Reliastar) on an excess of loss basis. The Company has the liability for the first \$50,000 of incurred losses and Reliastar covers the excess of \$50,000 up to \$500,000 on any one covered person.

In 2009, reinsurance ceded totaled \$328,872, less than 1% of the Company's direct premiums.

### **ACCOUNTS AND RECORDS**

The Company maintains its records on a combination of client server, host, and network applications which utilize various reporting systems to record and report financial information.

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structures, and the processing structure.

The independent certified public accounting firm, Pricewaterhousecoopers, LLP, audited the Company's records for the years ended 2007, 2008 and 2009. Audit reports and applicable work papers were made available for the examiners' use.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The primary systems used in the operations of the Company were also evaluated. The consulting firm of INS Services, Inc. performed an Exhibit C review of the Company IT operations.

During the course of the examination, the Company's books and records were reviewed and compared to reported items and values in the annual statements. No material discrepancies were noted during this review.

### STATUTORY DEPOSITS

Listed below are the Company's statutory deposits.

<u>State</u>	<u>Description</u>	<u>Book Value</u>	<u>Fair Value</u>
DE	Various Bonds	<u>\$5,044,863</u>	<u>\$5,159,512</u>
Total Benefit of All Policyholders		<u>\$5,044,863</u>	<u>\$5,159,512</u>

Perico Life Insurance Company

GA	US Treasury, 5.0%, 2/15/2011	\$ 39,927	\$ 41,920
MA	US Treasury, 5.0%, 2/15/2011	99,818	104,801
NH	US Treasury, 5.0%, 2/15/2011	49,909	52,400
NC	US Treasury, 5.0%, 2/15/2011	399,271	419,203
SC	US Treasury, 5.0%, 2/15/2011	469,144	492,564
<u>VA</u>	US Treasury, 5.0%, 2/15/2011	<u>214,608</u>	<u>225,322</u>
Total All Other Special Deposits		<u>\$1,272,677</u>	<u>\$1,336,210</u>

### 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, 2009.

Assets  
Liabilities, Surplus and Other Funds  
Statement of Income  
Capital and Surplus Account  
Analysis of Financial Statement Changes resulting from Examination

## PERICO LIFE INSURANCE COMPANY

## ASSETS

DECEMBER 31, 2009

Assets	Ledger Assets	Non-Admitted Assets	Net-Admitted Assets
Bonds	\$65,688,642		\$65,688,642
Preferred stocks	0		0
Common stocks	0		0
Cash and Short Term Investments	9,937,855		9,937,855
Receivables for Securities	0		0
Investment income due and accrued	723,776		723,776
Premiums and Considerations:			
Uncollected premiums and agents balances	1,981,093		1,981,093
Deferred premium	0		0
Reinsurance:			
Amounts recoverable from reinsurers	0		0
Federal income tax recoverable	0		0
Net deferred tax asset	989,391	\$749,053	240,338
Guaranty Funds Receivable	25,355	15,386	9,969
EDP equipment and software	0		0
Furniture and equipment	0		0
Receivable from parent, subs and affiliates	44,588		44,588
Aggregate Write-Ins	26,288	26,288	0
	<hr/>		
<b>Total Assets</b>	<b>\$79,416,988</b>	<b>\$790,727</b>	<b>\$78,626,261</b>
	<hr/> <hr/>		

**PERICO LIFE INSURANCE COMPANY**

**LIABILITES, SURPLUS AND OTHER FUNDS**

**DECEMBER 31, 2009**

		<b>NOTES</b>
Aggregate Reserve for Life Contracts	\$17,080	1
Aggregate Reserve for Accident and Health Contracts	0	
Liability for Deposit Type Contracts	0	
Contract Claims:		
Life	142,811	2
Accident and Health	23,703,481	3
Interest Maintenance Reserve	1,356,062	
Commissions to Agents Due or Accrued	94,188	
Commissions and Expense Payable on Reinsurance Assumed	13,182	
General Expenses Due or Accrued	884,755	
Taxes, Licenses and Fees	1,221,599	
Federal and foreign income taxes	1,171,417	
Remittances and Items not Allocated	80,271	
Asset Valuation Reserve	54,297	
Payable to Parent, Subs and Affiliates	107,090	
 Total Liabilities	 <u>\$28,846,233</u>	
 Common capital stock	 \$ 2,500,000	
Gross paid in and contributed surplus	9,000,760	
Unassigned funds (surplus)	<u>38,279,268</u>	
 Surplus as regards policyholders	 <u>\$49,780,028</u>	
 <b>Total liabilities, surplus and other funds</b>	 <b><u>\$78,626,261</u></b>	

**PERICO LIFE INSURANCE COMPANY**

**SUMMARY OF OPERATIONS**

**DECEMBER 31, 2009**

<b>Revenues</b>	
Premiums earned	\$ 83,744,178
Net investment income earned	2,423,198
Amortization of Interest Maintenance Reserve	190,576
Commissions and Expense Allowances on Reinsurance Ceded	3,135
Aggregate Write-In For Miscellaneous Income	11,645
<b>Total Revenues</b>	<u>\$ 86,372,732</u>
<b>Insurance Benefits and Expenses</b>	
Life Benefits	128,463
Accident and Health Benefits	57,732,102
Change in Policy Reserves	(2,143)
Commissions	3,370,761
Commissions and Expense Allowances on Reinsurance Assumed	145,207
General Insurance Expenses	6,959,336
Insurance Taxes, Licenses and Fees	2,618,928
<b>Total Insurance Benefits and Expenses</b>	<u>\$ 70,952,654</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$ 15,420,078
Federal income taxes	<u>5,111,879</u>
<b>Net Income</b>	<u><u>\$10,308,199</u></u>

**PERICO LIFE INSURANCE COMPANY**  
**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FROM DECEMBER 31, 2006 to DECEMBER 31, 2009**

**Capital and Surplus Account**

Capital and Surplus, December 31, 2006	<u>\$27,544,117</u>
Net Income	\$ 22,095,196
Change in net unrealized capital gains	0
Change in net deferred income tax	864,377
Change in non-admitted assets and related items	(700,948)
Change in asset valuation reserve	(23,474)
Capital paid in	0
Surplus Adjustment	760
Change in surplus as regards policyholders	<u>\$ 22,235,911</u>
<b>Capital and Surplus, December 31, 2009</b>	<b><u><u>\$49,780,028</u></u></b>

**ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

There were no financial adjustments to the Company's financial statements as a result of this examination.

## NOTES TO THE FINANCIAL STATEMENTS

**(Note 1) Aggregate Reserve for Life Contracts** **\$17,080**

This liability is the reserve for a closed block of credit life insurance, which is 100% ceded, and the group term unearned premium reserve. The gross reserve is \$33,650 and reinsurance ceded is \$16,570.

**(Note 2) Contract Claims: Life** **\$142,811**

This liability represents the credit life business issued prior to January 1, 2006, which is entirely ceded, and the group term life business. The group term life is new business issued since 2005, which is sold in conjunction with the medical stop loss business. The gross reserve is \$145,753 and reinsurance ceded is \$2,942, of which \$2,860 is for credit life and \$82 is for group term life.

**(Note 3) Contract Claims: Accident and Health** **\$23,703,481**

This liability consists of due and unpaid claims, claims in the course of settlement, and incurred but not reported claims. Gross due and unpaid claims are \$21,267,068, net claims in the course of settlement amount to \$0, and net incurred but not reported claims are \$2,436,414.

Due and unpaid amounts represent amounts that are due but have not yet been paid as of December 31, 2009. The due and unpaid amounts for the medical stop loss business are estimated by a claims adjustor taking into account the cost of medical procedure, deductibles and co-pays.

During 2009, the Company added a new block of medical stop loss business. Different loss ratios were applied for the two separate blocks of business in accordance with actuarial ranges. During a retrospective analysis of the above captioned liability, it was determined that

the loss ratio for the existing block of business had significantly increased. This increase could cause the liability to be deficient by approximately \$2.21 million. However, as the current loss ratio for the existing business and the loss ratio on the new business are not yet final and the projected understatement is less than materiality, no financial adjustment is recommended. Nonetheless, the Company should monitor the adequacy of the reserves.

**Therefore;**

**It is recommended that the Company continue to monitor the adequacy of the case reserves and incurred but not reported reserves.**

#### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The 2006 examination report issued by the Department noted one recommendation regarding the adequacy of case reserves. The case reserves in 2006 were found to be approximately \$1 million deficient. Due to the fact that the case reserves as of 2009 were also found to be deficient, even by an immaterial amount, a repeat recommendation was made in this report.

#### **SUMMARY OF RECOMMENDATIONS**

Examination findings and recommendations as of December 31, 2009 consisted of the following:

- The liability for contract claims was determined to be deficient by approximately \$2.21 million.

**Therefore;**

**It is recommended that the Company continue to monitor the adequacy of the case reserves and incurred but not reported reserves.**

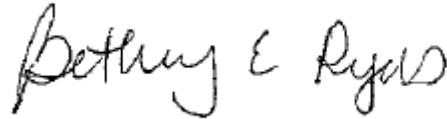
**CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<b><u>Description</u></b>	<b><u>December 31, 2009</u></b>	<b><u>December 31, 2006</u></b>
Assets	\$78,626,261	\$45,424,885
Liabilities	\$28,846,233	\$17,880,768
Capital and Surplus	\$49,780,028	\$27,544,117

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,



---

Bethaney E. Ryals, CFE  
Examiner In-Charge  
State of Delaware