

Report
of the
Examination of
Settlers Life Insurance Company
Madison, Wisconsin
As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

January 30, 2012

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

SETTLERS LIFE INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Settlers Life Insurance Company (Settlers or the company) was conducted in 2006 as of December 31, 2005. The current examination covered the intervening period ending December 31, 2010, and included a review of such 2011 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. 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, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, dividends to policyholders, asset adequacy analysis, and deferred life insurance premiums. The actuary's results were reported to the

examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Settlers Life Insurance Company was originally organized in 1982 as Guarantee American Life Insurance Company (GALIC) pursuant to the laws of Nebraska and commenced business September 7, 1982. The company was organized as a wholly owned subsidiary of Guarantee Life Insurance Company (GLIC) which was also domiciled in Nebraska. The company entered into a coinsurance agreement with its parent in 1992 to assume 50% of certain supplementary contracts with life contingencies. For the period 1992 through 1996, the company transacted no other insurance operations and had no life insurance in force.

The name of the company was changed to NGL American Life Insurance Company (NGLA) on December 12, 1996, in anticipation of the acquisition of the company by National Guardian Life Insurance Company (NGL), a Wisconsin-domiciled insurer. The sale of the company to NGL occurred on January 1, 1997, and the company redomiciled to Wisconsin effective January 10, 1997. Between 1997 and 2005, two other stock life insurers acquired by NGL were merged into the company, with NGLA remaining as the surviving entity.

Effective July 1, 2006, Settlers Life Insurance Company, domiciled in Virginia, was merged into NGLA. NGLA simultaneously changed its name to Settlers Life Insurance Company, the name currently used by the company. The merger was approved by the Commissioners of Insurance for both Wisconsin and Virginia. The new Settlers continues the marketing operations of the prior Settlers Life with a focus toward final expense products.

Effective July 1, 2008, NGL purchased a 100% interest in Key Life Insurance Company (Key Life), an Indiana-domiciled stock life insurer. The acquisition was approved by the Commissioners of Insurance for both Wisconsin and Indiana. On October 1, 2008, NGL merged Key Life with and into Settlers. The merger was approved by the Commissioners of Insurance for both Wisconsin and Indiana. In conjunction with the merger, Settlers issued 100,000 additional shares of its \$10 par value common stock to its parent, NGL, in exchange for the retirement and cancellation of 4,000 shares of Key Life's \$250 par value common stock held by NGL.

The company is licensed in Wisconsin and all states except New York. In 2010, the company collected direct premium in the following states:

Virginia	\$19,278,510	45.1%
North Carolina	6,486,242	15.2
Tennessee	3,256,240	7.6
South Carolina	1,990,605	4.7
Georgia	1,731,600	4.1
Wisconsin	1,540,487	3.6
All others	<u>8,421,454</u>	<u>19.7</u>
Total	<u>\$42,705,138</u>	<u>100.0%</u>

NGL American Life Insurance Company, the predecessor to the current Settlers, initially marketed the preneed products for NGL in the Midwest through a distribution system of independent brokers and funeral directors. During 2003, NGL started implementing a plan to improve operational efficiency by moving all new sales away from NGLA to NGL. By the end of 2005, all initial premiums had ceased and NGLA was simply administering its existing block of business. Following the July 1, 2006, merger, Settlers started marketing simplified-issue whole life insurance products providing coverage for final expenses. Currently all sales of the final expense product within the NGL group are generated by Settlers.

The following chart is a summary of premium income as reported by the company in 2010. The growth of the company is discussed in the "Financial Data" section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Ordinary life	\$ 957,636	\$ 0	\$ 51,480	\$ 906,156
Term life	1,776,278	0	467,708	1,308,570
Universal life	1,027,801	0	210,452	817,349
Interest sensitive life	341,444	0	1,356	340,088
Preneed	190,978	807	49,098,902	(48,907,117)
Final expense	30,617,534	0	0	30,617,534
Individual annuities	59,652	(7)	263,556	(203,911)
Group annuities	5,575	0	0	5,575
Group life	7,466,759	5,344	3,874,562	3,597,541
Other accident and health	<u>489,637</u>	<u>0</u>	<u>147,090</u>	<u>342,547</u>
Total All Lines	<u>\$42,933,294</u>	<u>\$6,144</u>	<u>\$54,115,106</u>	<u>\$(11,175,668)</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of four members. Each director is elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. Three directors of Settlers are senior executives of NGL and are compensated by NGL for services performed as Settlers' directors and executive employees. Settlers does not pay any form of additional compensation to its directors.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
John D. Larson Madison, WI	Chairman and Chief Executive Officer, National Guardian Life Insurance Company	2012
Michael W. Lowe Bristol, VA	President, Chief Operating Officer and General Counsel, Settlers Life Insurance Company	2012
Robert A. Mucci Madison, WI	Senior Vice President, Treasurer and Director of Corporate Services, National Guardian Life Insurance Company	2012
Mark L. Soverud Middleton, WI	President and Chief Operating Officer, National Guardian Life Insurance Company	2012

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2010 Compensation
John D. Larson	Chairman and Chief Executive Officer	*
Michael W. Lowe	President, Chief Operating Officer and General Counsel	\$257,539
Mark L. Solverud	Vice President	*
Robert A. Mucci	Vice President, Investments and Treasurer	*
Denis J. Tauscheck	Vice President and Chief Actuary	*
Brian J. Hogan	Vice President and Chief Financial Officer	*

* Each officer of Settlers is an employee of NGL and serves as a senior executive of one or more companies within the NGL Group in the course of his employment. Each officer of Settlers is compensated for his services by NGL, and no direct compensation is paid by Settlers to its officers. Management Services Agreements between NGL and its affiliates provide that certain affiliates shall pay to NGL a monthly executive management fee of agreed-upon amount for duties performed by NGL officers that are directly related to the business of the respective affiliates. Compensation for those officers designated with an asterisk is included in the examination report of National Guardian Life Insurance Company.

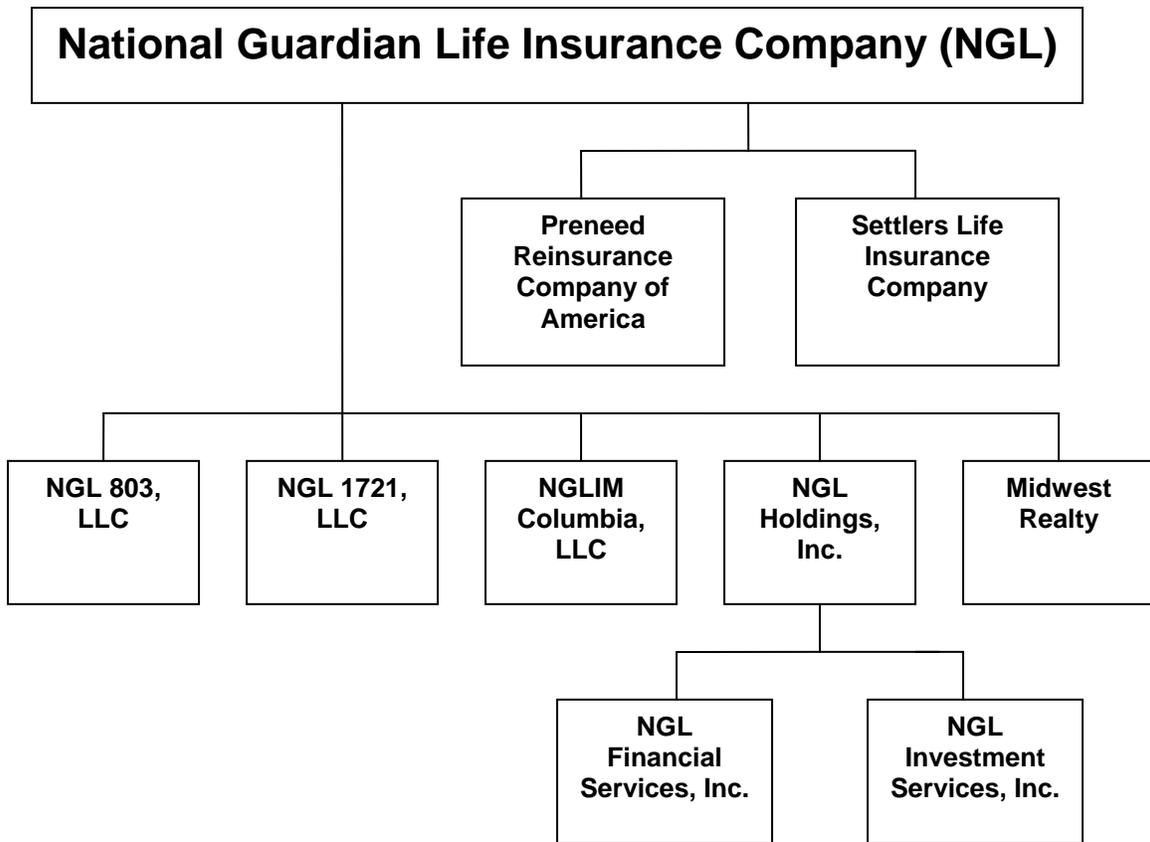
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. At the time of the current examination the board of directors had not established any committees of the board.

IV. AFFILIATED COMPANIES

Settlers Life Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of affiliates deemed significant follows the organizational chart.

**Organizational Chart
As of December 31, 2010**



National Guardian Life Insurance Company (NGL)

National Guardian Life Insurance Company is a Wisconsin-domiciled mutual insurance company originally incorporated in 1909 under the name the Guardian Life Insurance Company. The present name was adopted in 1920. NGL owns and operates various insurance and non-insurance business through the NGL Insurance Group. NGL is currently licensed in 49 states and the District of Columbia. Historically, NGL's marketing strategy centered on the sale of traditional

life insurance and accumulation products through career agents and independent brokers. Starting in the early 2000's, NGL withdrew from traditional life products and entered into new product lines using new forms of distribution. Distribution shifted from the traditional career agent force to wholesale distribution through independent marketing organizations and brokers. Currently the majority of new sales are preneed products, specialized life insurance and annuity products designed to finance and fund funeral plans

As of December 31, 2010, the audited statutory financial statement of National Guardian Life Insurance Company reported total admitted assets of \$2,043,181,390, total liabilities of \$1,846,816,237 and capital and surplus of \$196,365,153. Operations for 2010 produced net income of \$3,288,736.

Preneed Reinsurance Company of America (Preneed Re)

On July 26, 2001, NGL formed Preneed Re as a one-state, captive preneed reinsurance company. On October 12, 2001, Preneed Re received its certificate of authority in Arizona as a domestic life and disability reinsurer. Preneed Re was created to share its ownership and consequently its profitability with select marketing organizations selling NGL's and Settler's preneed products.

Shares of Preneed Re are divided into two classes, A and B. Class A is either directly owned or controlled via a voting trust by NGL. Class B stock is issued annually to marketing groups based on the volume and quality of the business they write. Class A stockholders elect six of the eight members of the board of directors. Class B stockholders elect the other two directors. Class B stock is non-voting except in extraordinary circumstances.

Class B shareholders' ownership of Preneed Re is limited to 75%. That limit has been reached, so additional shares of Class A stock will be issued in proportion to the Class B stock issued annually to maintain Class A ownership at 25%.

As of December 31, 2010, the audited statutory financial statement of Preneed Re reported total admitted assets of \$15,994,789, total liabilities of \$1,650,351, and capital and surplus of \$14,344,439. Operations for 2010 produced net income of \$3,730,262.

NGL Holdings, Inc. (NGL-H)

NGL Holdings, Inc., was incorporated May 18, 1989, as a non-operating subsidiary of NGL. NGL-H is wholly owned by NGL. Effective December 31, 1999, NGL contributed the 97.8% interest it owned of Kentucky Home Capital Corporation (KHCC) to NGL-H. KHCC was a holding company for special-purpose subsidiary corporations that were acquired by NGL with the merger of Kentucky Home Mutual Life into NGL in 1998. KHCC merged into NGL-H on April 1, 2000. The remaining minority ownership of KHCC was eliminated as part of that merger.

As of December 31, 2010, NGL-H reported total assets of \$461,534, total liabilities of \$242,123, and stockholder's equity of \$219,411. Operations for 2010 produced net income of \$29,309. NGL-H is shown as a nonadmitted asset on NGL's annual statement.

NGL Financial Services, Inc. (NGL-FS)

NGL Financial Service, Inc., is 100% owned by NGL Holdings, Inc. In the past, NGL-FS operated as a corporate general agency to market life and health insurance products of other insurance companies that neither NGL nor its insurance subsidiaries wrote. Currently, NGL-FS receives renewal commissions on the business that remains in force.

As of December 31, 2010, NGL-FS reported total admitted assets of \$13,442, total liabilities of \$3,348, and stockholder's equity of \$10,094. Operations for 2010 produced net income of \$626.

NGL Investment Services, Inc. (NGL-IS)

NGL Investment Services, Inc., is 100% owned by NGL Holdings Inc. NGL-IS holds and operates select real estate properties and other investments. In 2008, NGL-IS began to offer advanced funding to selected funeral homes for a fee.

As of December 31, 2010, NGL-IS reported total admitted assets of \$908,675, total liabilities of \$773,454, and stockholder's equity of \$135,221. Operations for 2010 produced a net loss of \$613.

Limited Liability Companies

In 2010, NGL formed three new limited liability companies, namely, NGLIM Columbia, NGL 803 and NGL 1721. These companies were created to acquire, maintain and dispose of

properties obtained through foreclosure. NGL is a 50% owner of these companies. The other 50% interest is held by Illinois Mutual Life Insurance Company.

Agreements with Affiliates

NGL provides Settlers various managerial, administrative, and business services for the company's day-to-day operations. NGL has established management services agreements with its subsidiaries, including a separate agreement with Settlers. Services provided by NGL to Settlers pursuant to the NGL management service agreement include the following:

- Executive management services
- Financial services including accounting, actuarial, tax, and audit
- Policy administration services
- Legal and compliance services
- Marketing, agent support, and human resources services
- Investment management service, corporate insurance, and office space

NGL service fees charged to Settlers for the costs of provided services are intended to approximate the allocation of actual costs and are based on time and cost allocation estimates. The estimates of time and cost allocation are amended by NGL periodically as needed. Direct costs incurred by NGL that are not covered by the services categories specified in the management services agreement are charged on an hourly basis. This agreement can be amended if both parties agree to the contract changes, and either party may terminate the agreement after providing a 90-day written notice to the other party.

NGL and Settlers file consolidated federal tax returns and are parties to a tax allocation agreement. Pursuant to that agreement, the tax liability or benefit to each insurer is the amount that each insurer would have paid or received if filed on a separate-return basis with the federal and, if applicable, state tax authorities. Consolidated tax liability is allocated in accordance with provision of Treasury regulations using the percentage method, with an election to use a percentage of 100%.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. The contracts contained proper insolvency provisions.

Settlers' only assumed reinsurance consists of closed block of preneed life and annuity insurance 100% coinsured from Investors Heritage Life Insurance Company. This treaty was acquired through the merger of Key Life Insurance Company into Settlers discussed below.

Settlers has written preneed life and annuity insurance in the past but currently only writes final expense. For all of these products, the face amounts written are modest and no external reinsurance is ceded. Preneed business which was written by selected third-party marketing groups had been ceded 50% to Preneed Reinsurance Company of America (Preneed Re), an affiliate, on a modified coinsurance basis. Effective October 1, 2010, Settlers reinsures substantially all of its in-force preneed business to NGL under a 100% coinsurance agreement. Currently, NGL cedes 50% of the specified preneed policies to Preneed Re, and Settlers no longer has a reinsurance relationship with Preneed Re.

The remainder of the company's ceded reinsurance treaties are in runoff. These contracts were primarily acquired by the company through NGL's acquisition and merger transactions and have retentions of \$50,000 up to \$200,000. A closed block of cancer business is ceded on a 100% coinsurance basis. These treaties were acquired when Allnation Life Insurance Company was merged into the company on March 31, 2000, Milwaukee Life Insurance Company was merged into the company on October 1, 2001, the prior Settlers Life Insurance Company was merged into the company on July 1, 2006, and Key Life Insurance Company was merged into the company on October 1, 2008.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2010, annual statement. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Settlers Life Insurance Company
Assets
As of December 31, 2010

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$330,998,151	\$	\$330,998,151
Stocks:			
Preferred stocks	4,426,097		4,426,097
Common stocks	4,619,661		4,619,661
Mortgage loans on real estate:			
Real estate:			
Occupied by the company	2,683,396		2,683,396
Held for production of income	1,153,708		1,153,708
Held for sale	336,000		336,000
Cash, cash equivalents, and short-term investments	7,321,877		7,321,877
Contract loans	5,444,816		5,444,816
Other invested assets	742,452		742,452
Investment income due and accrued	5,420,334		5,420,334
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	163,255		163,255
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,008,361		1,008,361
Reinsurance:			
Amounts recoverable from reinsurers	239,778		239,778
Other amounts receivable under reinsurance contracts	1,658,060		1,658,060
Current federal and foreign income tax recoverable and interest thereon	702,700		702,700
Net deferred tax asset	8,418,922	2,423,362	5,995,560
Guaranty funds receivable or on deposit	52,817		52,817
Electronic data processing equipment and software	94,080	20,719	73,361
Furniture and equipment, including health care delivery assets	139,843	139,843	
Health care and other amounts receivable	1,727,512	1,727,512	
Write-ins for other than invested assets:			
Miscellaneous receivables	24,250	20,496	3,754
Prepaid expenses	<u>126,606</u>	<u>126,606</u>	<u>0</u>
Total Assets	<u>\$377,502,676</u>	<u>\$4,458,538</u>	<u>\$373,044,138</u>

Settlers Life Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2010

Aggregate reserve for life contracts		\$299,234,959
Aggregate reserve for accident and health contracts		910,069
Liability for deposit-type contracts		586,361
Contract claims:		
Life		4,431,358
Accident and health		88,000
Policyholders' dividends and coupons due and unpaid		1,108
Provision for policyholders' dividends and coupons payable in following calendar year:		
Apportioned for payment to December 31, 2011		370,000
Premiums and annuity considerations received in advance		350,440
Contract liabilities not included elsewhere:		
Interest maintenance reserve		2,104,542
General expenses due or accrued		277,030
Taxes, licenses, and fees due or accrued, excluding federal income taxes		206,226
Unearned investment income		39,325
Amounts withheld or retained by company as agent or trustee		315
Amounts held for agents' account, including agents' credit balances		71,810
Remittances and items not allocated		114,818
Miscellaneous liabilities:		
Asset valuation reserve		2,291,850
Payable to parent, subsidiaries and affiliates		1,327,695
Payable for securities		566
Write-ins for liabilities:		
Unclaimed checks		610,767
Interest on outstanding claims		<u>39,963</u>
Total liabilities		313,057,202
Common capital stock	\$31,835,800	
Gross paid in and contributed surplus	4,735,292	
Write-ins for special surplus funds:		
Additional deferred tax asset	2,703,251	
Unassigned funds (surplus)	<u>20,712,593</u>	
Total capital and surplus		<u>59,986,936</u>
Total Liabilities, Capital and Surplus		<u>\$373,044,138</u>

Settlers Life Insurance Company
Summary of Operations
For the Year 2010

Premiums and annuity considerations		\$(11,175,668)
Net investment income		23,649,136
Amortization of interest maintenance reserve		322,470
Commissions and expense allowances on reinsurance ceded		88,487
Reserve adjustments on reinsurance ceded		(159,004)
Miscellaneous income:		
Write-ins for miscellaneous income:		
IMR adjustment on reinsurance ceded		1,952,265
Amortization of deferred gain		128,260
Miscellaneous income		<u>13,284</u>
Total income items		<u>14,819,230</u>
Death benefits	\$ 32,127,892	
Matured endowments	9,105	
Annuity benefits	69,943	
Disability benefits and benefits under accident and health contracts	201,817	
Surrender benefits and withdrawals for life contracts	2,243,016	
Interest and adjustments on contract or deposit-type contract funds	140,192	
Payments on supplementary contracts with life contingencies	55,509	
Increase in aggregate reserves for life and accident and health	<u>(49,500,479)</u>	
Subtotal	(14,653,005)	
Commissions on direct business	8,664,940	
Commissions and expense allowances on reinsurance assumed	7,510	
General insurance expenses	6,715,043	
Insurance taxes, licenses, and fees excluding federal income taxes	1,272,582	
Increase in loading on deferred and uncollected premiums	(25,497)	
Write-in for deductions:		
Deferred gain on indemnity reinsurance of in-force block	3,269,512	
Regulatory fees and penalties	15,140	
Miscellaneous expense	<u>291</u>	
Total deductions		<u>5,266,516</u>
Net gain (loss) from operations before dividends to policyholders and federal income taxes		9,552,714
Dividends to policyholders		<u>371,061</u>
Net gain (loss) from operations after dividends to policyholders and before federal income taxes		9,181,653
Federal and foreign income taxes incurred (excluding tax on capital gains)		<u>1,878,138</u>
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses		7,303,515
Net realized capital gains or (losses)		<u>2,091,873</u>
Net Income		<u>\$ 9,395,388</u>

Settlers Life Insurance Company
Cash Flow
For the Year 2010

Premiums collected net of reinsurance		\$(11,058,170)
Net investment income		24,872,404
Miscellaneous income		<u>(1,556,289)</u>
Total		12,257,945
Benefit- and loss-related payments	\$34,435,176	
Commissions, expenses paid, and aggregate write-ins for deductions	16,156,559	
Dividends paid to policyholders	370,441	
Federal and foreign income taxes paid (recovered)	<u>1,168,488</u>	
Total deductions		<u>52,130,664</u>
Net cash from operations		(39,872,719)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$75,021,477	
Stocks	4,867,171	
Other invested assets	<u>291,983</u>	
Total investment proceeds		80,180,631
Cost of investments acquired (long-term only):		
Bonds	33,950,554	
Stocks	3,447,967	
Other invested assets	<u>7,392</u>	
Total investments acquired		37,405,913
Net increase (or decrease) in contract loans and premium notes	<u>436,718</u>	
Net cash from investments		42,338,000
Cash from financing and miscellaneous sources:		
Net deposits on deposit-type contracts and other insurance liabilities	1,076	
Dividends to stockholders	5,000,000	
Other cash provided (applied)	<u>4,512</u>	
Net cash from financing and miscellaneous sources		<u>(4,994,412)</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		(2,529,131)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>9,851,011</u>
End of year		<u>\$ 7,321,880</u>

**Settlers Life Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2010**

Assets			\$373,044,138
Less security surplus of insurance subsidiaries			0
Less liabilities			<u>313,057,202</u>
Adjusted surplus			59,986,936
Annual premium:			
Individual life and health	\$(14,799,414)		
Factor	<u>15%</u>		
Total		\$(2,219,912)	
Group life and health	3,588,260		
Factor	<u>10%</u>		
Total		358,826	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		<u>78,399</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>2,000,000</u>
Compulsory Surplus Excess or (Deficit)			<u>\$ 57,986,936</u>
Adjusted surplus (from above)			\$ 59,986,936
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)			<u>2,800,000</u>
Security Surplus Excess or (Deficit)			<u>\$ 57,186,936</u>

Settlers Life Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2010

The following schedule is a reconciliation of total capital and surplus during the period under examination as reported by the company in its filed annual statements (in thousands):

	2010	2009	2008	2007*	2006
Capital and surplus, beginning of year	\$53,325	\$53,011	\$50,884	\$49,183	\$46,407
Net income	9,395	6,861	843	5,746	5,354
Change in net unrealized capital gains/losses	580	506	(1,083)	(31)	405
Change in net deferred income tax	(3,010)	(4,423)	615	(699)	(653)
Change in nonadmitted assets and related items	2,561	3,849	1,716	723	1,224
Change in reserve on account of change in valuation bases			1,135		(89)
Change in asset valuation reserve	(1,558)	(430)	3,298	(528)	(681)
Capital changes:					
Paid in					13,801
Surplus adjustments:					
Paid in				1,203	(13,801)
Dividends to stockholders	(5,000)	(9,000)	(4,000)	(3,600)	(5,000)
Write-ins for gains and (losses) in surplus:					
Change in deferred gain on indemnity reinsurance of in-force block	3,941				
Change in additional deferred tax asset	(248)	2,951	(397)		31
Allocation to paid-in surplus				(1,113)	
Capital and Surplus, End of Year	<u>\$59,987</u>	<u>\$53,325</u>	<u>\$53,011</u>	<u>\$50,884</u>	<u>\$46,998</u>

* The 2007 numbers were restated to reflect the merger of Settlers Life Insurance Company and Key Life Insurance Company that occurred effective October 1, 2008.

Upon the merger effective July 1, 2006, of Settlers Life Insurance Company into NGL American Life Insurance Company, the combined entity issued 1,532,807 additional shares of \$10 par value common stock to its parent, NGL, in exchange for the retirement and cancellation of 152,739 shares of the original Settlers Life Insurance Company's \$10 par value common stock held by NGL. The offsetting \$13.8 million increase in capital paid in and decrease in surplus paid

in recorded in 2006 reflects the difference in the number of shares issued by the merged companies to NGL and the number of shares retired and cancelled by the original Settlers. The offsetting \$1.1 million increase in surplus paid in and the write-in for gains and losses in surplus recorded in 2007 reflects the allocation of unassigned surplus to the negative surplus paid in balance that resulted from the 2006 merger.

**Settlers Life Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2010**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

Ratio	2010	2009	2008	2007	2006
#1 Net change in capital and surplus	12%	1%	4%	1%	1%
#2 Gross change in capital and surplus	12	1	4	4	1
#3 Net income to total income	56	11	1	10	9
#4 Adequacy of investment income	153	144	141	146	146
#5 Nonadmitted to admitted assets	1	2	3	3	3
#6 Total real estate and mortgage loans to cash and invested assets	1	1	1	1	1
#7 Total affiliated investments to capital and surplus	0	0	0	0	0
#8 Surplus relief	0	0	0	0	0
#9 Change in premium	(127)*	3	4	6	4
#10 Change in product mix	0.0NR	0.6	0.6	0.7	1.1
#11 Change in asset mix	0.1	0.5	0.4	0.3	0.4
#12 Change in reserving	(9)	6	(11)	9	5

Ratio No. 9 represents the percentage change in premium from the prior to the current year. The exceptional result for Ratio No. 9 in 2010 is related to a 100% coinsurance transaction with the company's parent, NGL, whereby approximately \$53.0 million of preneed premiums were ceded to NGL. Ratio No 10 is not calculated if premiums for the year are zero or negative. The company reported total negative premium for 2010 due to the effect of the coinsurance transaction described above. Therefore, no results were calculated for Ratio No. 10.

Growth of Settlers Life Insurance Company

Year	Admitted Assets	Liabilities	Capital and Surplus
2010	\$373,044,138	\$313,057,202	\$59,986,936
2009	414,801,211	361,475,944	53,325,266
2008	414,231,303	361,220,514	53,010,789
2007*	416,793,953	365,909,977	50,883,974
2006	373,479,054	326,481,484	46,997,573
2005**	368,075,219	321,668,046	46,407,174

* The 2007 numbers are restated to reflect the merger of Settlers Life Insurance Company and Key Life Insurance Company that occurred effective October 1, 2008.

** The 2005 numbers are restated to reflect the merger of NGLA and old Settlers Life Insurance Company that occurred effective July 1, 2006.

Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2010	\$(11,189,049)	\$(198,336)	\$3,321
2009	40,905,009	65,947	3,749
2008	39,660,149	117,749	4,159
2007	36,922,785	786	3,892
2006	34,784,442	186	4,898
2005	33,341,158	6,100	4,885

Life Insurance In Force (in thousands)

Year	Gross Risk In Force	Ceded	Net
2010	\$1,866,361	\$197,932	\$1,668,429
2009	1,895,848	155,280	1,740,568
2008	1,921,590	176,147	1,745,443
2007	1,881,727	171,891	1,709,836
2006	1,893,749	185,902	1,707,847
2005	1,977,252	206,950	1,770,302

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2010	\$342,547	\$ (45,121)	\$ 3,245	\$39,889	(0.6)%
2009	313,801	241,519	(5,904)	32,762	85.5
2008	519,332	(72,449)	17,534	37,013	(3.4)
2007	368,826	103,565	1,328	41,023	39.6
2006	417,547	381,509	8,127	42,729	103.5
2005	448,063	121,685	13,187	50,211	41.3

* Includes increase in contract reserves

** Includes taxes, licenses, and fees

The numbers included in the above table are not restated to reflect the 2006 and 2008 mergers.

During the period under examination Settlers' admitted assets have increased by 1%, liabilities have decreased by 3%, and surplus has increased by 29% reaching almost \$60 million in 2010. The financial position and the results of operations of Settlers Life Insurance Company reflect two mergers that occurred in 2006 and 2008. The combined operations of Settlers after the 2006 merger between NGLA and Settlers Life Insurance Company included the administration of NGLA's closed blocks of business and the marketing and administration of final expense products through the operations of the original Settlers Life Insurance Company. In 2008 Key Life Insurance Company was merged with and into Settlers. At the time of acquisition, Key Life Insurance Company had \$33.6 million in assets, \$1.8 million in surplus and approximately 8,500 policies in force which were included in the administrative function of Settlers. The 2010 financial position and results of operations also reflect the results of a coinsurance transaction between Settlers and NGL. Effective October 1, 2010, Settlers reinsured substantially all of its in-force preneed business to NGL under a 100% reinsurance agreement. All sales of preneed products by Settlers have been discontinued since 2005, and, therefore, no new business is ceded under this treaty. As a result of this transaction \$53 million of reserves were transferred from Settlers to NGL, and Settlers received a \$0.8 million ceding commission from NGL that was deferred.

Settlers has reported net income in all years under examination, with the largest values of \$9.4 million and \$6.9 million reported in 2010 and 2009, respectively.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2010, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Bank Accounts—It is recommended that the company devote the resources necessary to clear up the backlog of unreconciled items and to establish procedures to ensure that unrecorded items are cleared in a timely manner.

Action—Compliance

2. Outstanding Checks—It is recommended that the company dedicate the time and resources necessary to clear up the backlog of outstanding checks and adhere to its own system of establishing internal controls over outstanding checks and the bank reconciliation process.

Action—Partial compliance; see comments in the “Summary of Current Examination Results.”

3. Amounts Withheld of Retained by Company as Agent or Trustee—It is recommended that the company report escheatable funds as a write-in in accordance with the NAIC’s Annual Statement Instructions – Life, Accident and Health.

Action—Compliance

4. Deferred Premium—In order to have a sufficient audit trail in the future, it is recommended that the company develop reports that include all the data elements necessary for the audit of deferred premium calculation.

Action—Compliance

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Investment Limitation

The company invests in foreign markets. Foreign investments are subject to certain investment restrictions as described in s. Ins 6.20 (8) (k), Wis. Adm. Code, which limits such investments to 2% of the insurer's assets. The excess of the foreign investment values over the limit prescribed by s. Ins 6.20 (8) (k), Wis. Adm. Code, can be invested under the "basket clause" permitted under s. 620.22 (9), Wis. Stat., which limits all other investments not specifically listed by other sections of s. 620.22, Wis. Stat., to 5% of the insurer's assets. As of December 31, 2010, the company exceeded permissible amounts available to be invested in foreign markets by approximately \$6 million, or less than 2% of the total assets. According to s. 620.21, Wis. Stat., only assets that are invested in compliance with ch. 620, Wis. Stat., may be counted toward satisfaction of the compulsory surplus requirements or the security surplus standards. A review of the company's compulsory and security surplus calculation revealed that the company did not exclude the value of foreign investments that exceeded permissible amounts from the calculation. It is recommended that the company exclude the value of the assets that exceed the investment limitation prescribed by s. Ins 6.20 (8) (k), Wis. Adm. Code, and s. 620.22 (9), Wis. Stat., from the calculation of its compulsory and security surplus requirements in accordance with s. 620.21, Wis. Stat.

Outstanding Checks

The prior examination contained a recommendation directing the company to clear up the backlog of outstanding checks and to adhere to its own system of establishing internal controls over outstanding checks. It was noted that the company was accumulating a large inventory of stale checks, going back as far as four years. The current examination reviewed the company's internal policies and procedures and evaluated the company's compliance with these procedures. Settlers is in the process of developing an automated workflow system which will

assist in tracking and clearing the outstanding checks. The company's target is to cancel and transfer all outstanding checks over \$25.00 to the escheat account after two years of the issuance date of the check in the event the company is not able to complete the payment. For the checks under \$25.00 issued for terminated policies, the company's procedures prescribe moving the checks to the escheat account after six months.

The examination team reviewed the outstanding check lists and concluded that the company has made some progress in reducing the number of stale checks. The overall number of outstanding checks that were more than one year old listed as of December 31, 2010, has slightly decreased compared to the number of outstanding checks reported five year ago. However, it was found that there were still outstanding checks exceeding the two-year limit prescribed by the company's internal standards. It is recommended that the company continue working on reducing the number of outstanding checks to achieve internal goals of transferring outstanding checks to escheat no later than the end of the second year after issuance.

VIII. CONCLUSION

Settlers Life Insurance Company is a stock insurance company domiciled in Wisconsin which specializes in the marketing of simplified-issue whole life insurance products providing coverage for final expenses through independent agents. During the period under examination, two subsidiaries of NGL, NGL American Life Insurance Company and Settlers Life Insurance Company, were merged together. NGL American Life Insurance Company was the surviving entity but the name was changed to Settlers Life Insurance Company upon completion of the merger. Key Life Insurance Company was merged with and into Settlers in October 2008.

The prior examination report contained four recommendations. The current examination determined that the company is in compliance with three recommendations, and partially complied with the other recommendation of the prior examination. The current examination resulted in two recommendations regarding compliance with investment limitations and controlling the outstanding checks backlog. The examination did not make any reclassifications of account balances or adjustments to surplus as reported by the company in its year-end 2010 statutory financial statements. The examination determined that, as of December 31, 2010, the company had admitted assets of \$373,044,138, liabilities of \$313,057,202, and policyholders' capital and surplus of \$59,986,936.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Investment Limitation—It is recommended that the company exclude the value of the assets that exceed the investment limitation prescribed by s. Ins 6.20 (8) (k), Wis. Adm. Code, and s. 620.22 (9), Wis. Stat., from the calculation of its compulsory and security surplus requirements in accordance with s. 620.21, Wis. Stat.
2. Page 26 - Outstanding Checks—It is recommended that the company continue working on reducing the number of outstanding checks to achieve internal goals of transferring outstanding checks to escheat no later than the end of the second year after issuance.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Stephanie Falck	Insurance Financial Examiner
Tom Janke	Insurance Financial Examiner
Michael Miller	Insurance Financial Examiner
Derek Sliter	Insurance Financial Examiner
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Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Elena Vetrina
Examiner-in-Charge