

Report
of the
Examination of
Southern Life and Health Insurance Company
Madison, Wisconsin
As of December 31, 2017

TABLE OF CONTENTS

	Page
I. INTRODUCTION.....	1
II. HISTORY AND PLAN OF OPERATION	3
III. MANAGEMENT AND CONTROL	5
IV. AFFILIATED COMPANIES	6
V. REINSURANCE	12
VI. FINANCIAL DATA	13
VII. SUMMARY OF EXAMINATION RESULTS	22
VIII. CONCLUSION.....	24
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	25
X. ACKNOWLEDGMENT	26



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

Wisconsin.gov

April 29, 2019

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

Honorable Mark V Afable
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:

SOUTHERN LIFE AND HEALTH INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Southern Life and Health Insurance Company (SLH or the company) was conducted in 2013 and 2014 as of December 31, 2012. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement

instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on 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 (OCI). The actuary reviewed the adequacy of aggregate life and annuity reserves, the liability for deposit-type contracts, contract claims for life policies, and asset adequacy analysis. 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

The company was organized in 1890 and incorporated in the State of Alabama. In 1981, the company merged with Standard Security Insurance Company and redomiciled to Delaware. As a result of the merger, SLH became a wholly owned subsidiary of Geneve Capital Group, Inc., now called Honor Capital Corp. (Honor). In 1995, the company redomiciled to Wisconsin.

The ultimate parent of the company is Geneve Holdings, Inc. (GHI), which was wholly owned by Mr. Edward Netter and his family until Mr. Netter's passing in 2011. Mr. Netter's wife, Mrs. Barbara Netter, beneficially owns more than 50.04% of the voting stock of GHI. Other Netter family members beneficially own the balance of the voting stock of GHI but do not have the power to direct or cause the direction of the management and policies of GHI. An abbreviated organizational chart and additional information on SLH's significant affiliates are included in the "Affiliated Companies" section of this report.

SLH historically concentrated on writing individual home service life, disability, and hospitalization policies. Effective March 1, 1992, the company sold all of its premium-paying business, other than annuities, to United Insurance Company of America (United). United then transferred all Louisiana policies from the block to its affiliate, Union National Life Insurance Company (Union National). Effective December 31, 1992, SLH entered into a coinsurance agreement with Union National, under which SLH assumed 100% of Union National's extended term and paid-up life insurance policies in Louisiana. Effective December 27, 1993, the company entered into a coinsurance agreement with United, under which SLH assumed a block of paid-up and extended-term life insurance. With these two assumptions, SLH agreed to coinsure policies that become paid-up or extended term through nonforfeiture election (with some coming from the block that SLH had originally written), while United and Union National continued to insure the premium-paying business. Effective September 30, 2004, the coinsurance agreement with Union National was recaptured and, effective January 1, 2005, the coinsurance agreement with United was recaptured.

At present, SLH is not marketing any new direct business and remains in runoff. SLH's current business consists mostly of direct life policies that have become paid-up or extended-term through nonforfeiture election and assumed annuity policies. Premium income for 2017 consisted of

\$186,532 of individual annuities from assumed reinsurance business with Guaranty Income Life Insurance Company (GILICO). All direct policies outstanding are paid-up or extended-term through nonforfeiture election and are in runoff. The company is licensed in the following states: Alabama, Delaware, Florida, Louisiana, Mississippi, Texas, and Wisconsin.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of three members. All directors are 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. The board members currently do not receive any compensation for serving on the board.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Steven B. Lapin Stamford, CT	Chairman, Chief Executive Officer, and President Geneve Holdings, Inc.	2019
Roy T. K. Thung White Plains, NY	Executive Vice President Geneve Holdings, Inc.	2019
Larry R. Graber Austin, TX	President Southern Life and Health Insurance Company	2019

Officers of the Company

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

Name	Office	2017 Compensation
Larry R. Graber	President	\$ 0*
Donna C. Nelson	Vice President & Controller	109,594
H. William Smith	Secretary	0**
K. Tracy Billingsley	Assistant Controller & Assistant Secretary	91,721

* Mr. Graber received compensation of \$462,604 from Madison National Life Insurance Company, Inc. (MNL). There is no allocation for Mr. Graber's time spent on SLH.

** Salary is paid by Geneve Corporation (Geneve). SLH pays a quarterly management fee of \$125,000 to Geneve, a portion of which covers services provided by Mr. Smith.

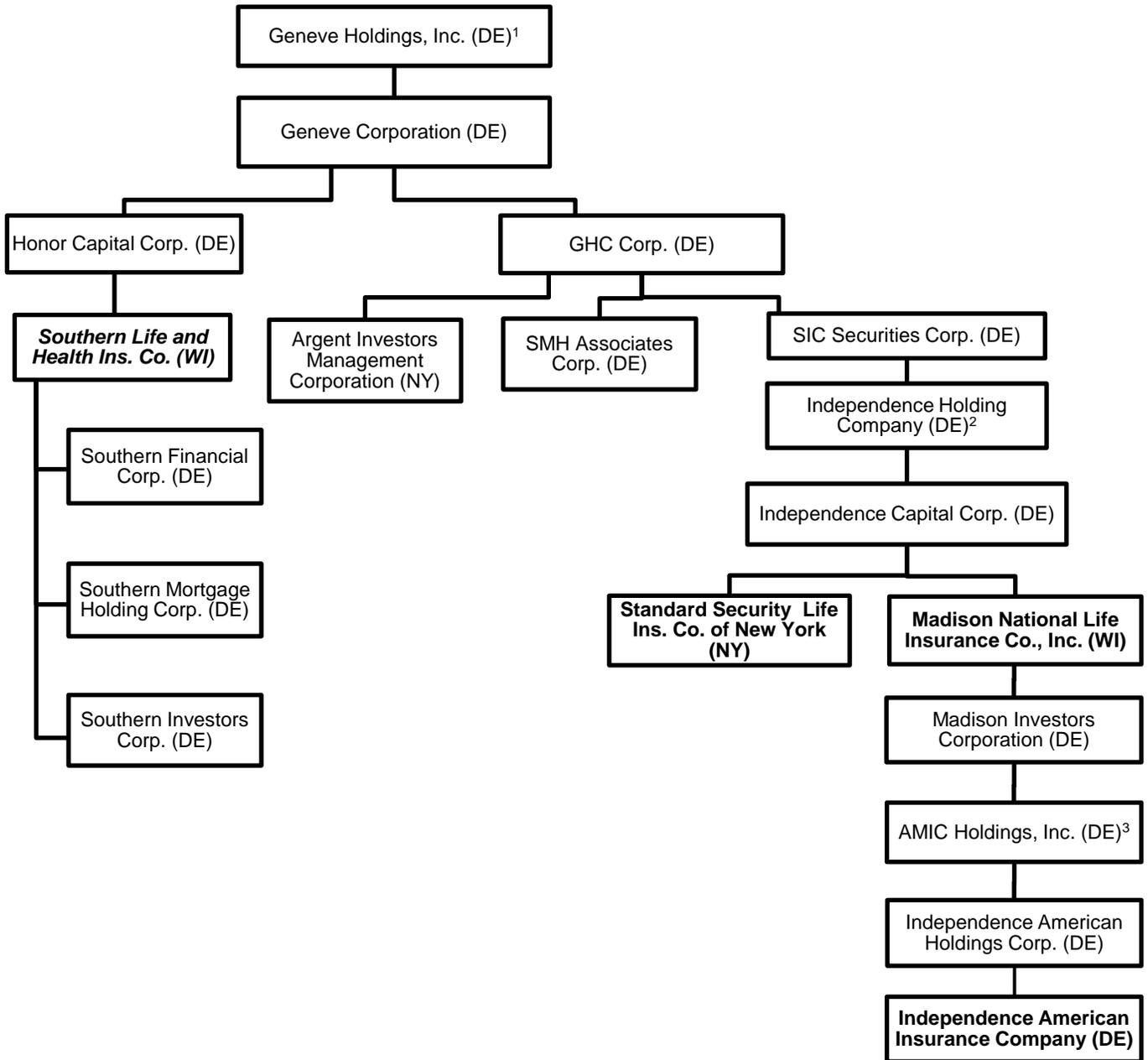
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. At the time of this examination, no board committees had been formed. The members of the board serve as the audit committee.

IV. AFFILIATED COMPANIES

Southern Life and Health Insurance Company is a member of a holding company system. The abbreviated organizational chart on the next page depicts the relationships between the company and affiliates. A brief description of affiliates deemed significant follows the organizational chart.

**Abbreviated Organizational Chart
As of December 31, 2017**



¹Mrs. Barbara Netter beneficially owns more than 50.04% of the voting stock of GHI. Other Netter family members beneficially own the balance of the voting stock of GHI but do not have the power to direct or cause the direction of the management and policies of GHI.

²Independence Holding Company (IHC) is a public company; Geneve Holdings, Inc., and its affiliates, collectively own more than 50% of Independence Holding Company

³Madison Investors Corporation owns 62.3% of AMIC Holdings, Inc. and IHC owns the other 37.7%

Geneve Holdings, Inc.

Geneve Holdings, Inc., the ultimate parent, owns Geneve, a diversified financial holding company which, through its subsidiaries, is engaged primarily in the life and health insurance business. GHI is owned 100% by the Netter Family. Mrs. Barbara Netter beneficially owns more than 50.04% of the voting stock of GHI. Other Netter family members beneficially own the balance of the voting stock of GHI but do not have the power to direct or cause the direction of the management and policies of GHI. As of December 31, 2017, GHI's audited consolidated financial statements reported assets of \$1,300.3 million, liabilities of \$659.9 million, and stockholders' equity attributable to GHI of \$469.1 million. Operations for 2017 produced net income of \$25.6 million available to GHI common stockholders.

Honor Capital Corp.

Honor Capital Corp., a Delaware corporation, is a holding company that owns 100% of the capital stock of SLH. As of December 31, 2017, Honor's unaudited financial statements reported assets of \$68.0 million, liabilities of \$1.4 million, and stockholder's equity of \$66.5 million. Operations for 2017 produced a net loss of \$0.7 million.

Southern Financial Corp.

Southern Financial Corp. (SFC) is a financial holding company that, until 2016, owned Chaparral International Re (Chaparral), a Turks and Caicos property and casualty reinsurance company. As of December 31, 2017, SFC's unaudited financial statements reported assets of \$24,618, liabilities of \$0, and stockholder's equity of \$24,618. Operations for 2017 produced a net loss of \$772. SFC is non-admitted on the 2017 annual statement of SLH.

Southern Investors Corp.

Southern Investors Corp., (SIC) is a company that invests for its own account. As of December 31, 2017, SIC's audited financial statements reported assets of \$23.4 million, liabilities of \$0, and stockholder's equity of \$23.4 million. Operations for 2017 produced a net income of \$1.2 million.

Southern Mortgage Holding Corp.

Southern Mortgage Holding Corp., (SMH) is a holding company that invests for its own account. As of December 31, 2017, SMH's audited financial statements reported assets of \$22.03

million, liabilities of \$0.03 million, and stockholder's equity of \$22.00 million. Operations for 2017 produced a net income of \$1.00 million.

Independence Holding Company

Independence Holding Company, a Delaware corporation, is a holding company that is engaged primarily in life and health insurance activities through its subsidiaries MNL, and Standard Security Life Insurance Company of New York (SSLNY). As of December 31, 2017, IHC's audited consolidated financial statement reported assets of \$1,040.6 million, liabilities of \$604.3 million, and stockholder's equity attributable to IHC of \$431.5 million. Operations for 2017 produced a net income of \$42.0 million.

Madison National Life Insurance Company

Madison National Life Insurance Company, Inc., is a Wisconsin-domiciled life insurer engaged in providing group and credit insurance products and acquiring blocks of business from other insurers. Major products marketed by MNL include group disability, group term life, credit disability, and credit life insurance. As of December 31, 2017, statutory-basis audited financial statements for MNL reported assets of \$326.3 million, liabilities of \$146.7 million, and capital and surplus of \$179.6 million. Operations for 2017 produced a net income of \$12.8 million.

Standard Security Life Insurance Company of New York

Standard Security Life Insurance Company of New York is a New York domiciled stock life insurer licensed in all 50 states, the District of Columbia, U.S. Virgin Islands, and Puerto Rico. It was incorporated on June 28, 1957, and commenced business on December 22, 1958. SSLNY is 100% owned by Independence Capital Corp. (ICC), which is a wholly owned subsidiary of IHC. SSLNY primarily sells specialty health insurance products and short-term statutory disability benefit product in New York through general agents, agents, and brokers. As of December 31, 2017, statutory-basis audited financial statements for SSLNY reported assets of \$131.5 million, liabilities of \$65.9 million, and a surplus of \$65.6 million. Operations for 2017 produced a net income of \$3.6 million.

Independence American Insurance Company

Independence American Insurance Company (IAIC) is a property and casualty company domiciled in Delaware. IAIC is licensed in 50 states and the District of Columbia. IAIC provides

specialty health and pet insurance coverage to commercial customers and individuals through independent agents and controlled distribution channels in the U.S. IAIC retains most of the risk that it underwrites on the following: pet insurance, occupational accident, hospital indemnity, short-term medical, fixed-indemnity medical, limited medical, gap plans, and dental. IAIC also reinsures short-term statutory disability benefit business in New York. As of December 31, 2017, statutory-basis audited financial statements for IAIC reported assets of \$112.9 million, liabilities of \$40.8 million, and a surplus of \$72.1 million. Operations in 2017 produced a net income of \$8.7 million.

Agreements with Affiliates

SLH is a party to various agreements with its affiliates. During the period under the examination, several agreements were terminated. The following is a brief summary of active agreements as well as agreements that were terminated during the period under examination.

Active Agreements

SLH and Geneve entered into a management services agreement effective, January 1, 1989. The agreement was later amended several times, with the most recent amendment taking effect on March 6, 2000. Under the agreement, Geneve provides advice and counsel on accounting practices and procedures and on tax returns, legal matters, tax planning, and general business matters. The fee for these services is \$125,000 per quarter and is payable on the first day of each quarter.

SLH and Argent Investors Management Corporation (AIMC) entered into an Investment Counsel Agreement, effective January 1, 1989. The agreement was later amended in 1997 and 2000. Under the terms of the agreement, AIMC agrees to act as SLH's investment counsel and provide SLH with information, recommendations, and advice regarding its investment portfolio. The fee for this service is 0.45% of the mean value of the investment portfolio assets as determined following the end of each fiscal year.

SLH and its direct parent, Honor, entered into a tax-sharing agreement, effective December 31, 1988, whereby both companies are included in the consolidated tax filing system of the GHI group.

SLH and SFC entered into an administrative service agreement, effective May 1, 2004. Under the terms of the agreement, SLH will pay, at its discretion, certain invoices otherwise payable by SFC upon

presentation of an invoice to SLH. Upon the request of SLH, SFC shall reimburse SLH for all invoices paid by SLH on SFC's behalf.

SLH and IHC entered into a service agreement, effective November 17, 2014. Under the terms of the agreement, SLH provides certain services to IHC. Services provided by SLH include, but are not limited to, advice and counsel on accounting practices and procedures, and preparation of federal, state and local tax returns. IHC pays an annual fee of \$25,000 on the last day of the calendar year.

Terminated Agreements

SLH had a cost-allocation agreement and a service agreement with MNL. The cost-allocation agreement existed so MNL and SLH could share certain personnel, facilities, and/or systems, for the benefit of both companies. Each party billed the other quarterly for its share of the allocated costs. Services provided under the service agreement between SLH and MNL were legal, marketing, management consulting, policy administration, and accounting. All services were provided at cost without profit. This agreement was terminated in September of 2016.

Until its termination in October of 2016, SLH had an administrative service agreement with its former affiliate, Incopoint Limited Partnership, a Connecticut investment limited partnership, pursuant to which SLH provided consulting, administrative, general management, accounting, and other services for an annual fee of \$25,000.

SLH had an administrative service agreement with its former affiliate, SLH Associates Limited Partnership (SLH-ALP), a Delaware investment limited partnership. Under the terms of the agreement, SLH provided SLH-ALP with accounting services and tax return preparation. The fee for these services was \$2,400 per year. This agreement was terminated in October of 2016.

SLH had a management services agreement with a former subsidiary, GYC, LLC (GYC), a Delaware investment limited liability company, dated June 1, 2010, for SLH to provide certain consulting, administrative, general management, accounting, and other services to GYC. SLH received \$1,200 from GYC for the six-month period ended June 30, 2017. The company received a distribution of \$3.0 million on June 29, 2017, from GYC. GYC was dissolved and a certificate of cancellation was filed on July 11, 2017.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A description of the significant reinsurance agreements in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Assuming Contracts

SLH entered into a 100% coinsurance agreement with GILICO on September 30, 2004, under which SLH assumes 100% of a closed block of individual annuity business with a fund value of \$40.2 million as of the closing date. Assets were transferred as of the closing date of the agreement and were reduced by a ceding fee of \$1.6 million. SLH is maintaining assets in a custodial account with a market value equal to or greater than 102% of the statutory reserves on the reinsured policies until such time as the assets in the custodial account are less than \$5.0 million, at which time SLH may request GILICO's approval to convert the custodial agreement to a letter of credit. The agreement states that neither party may terminate the agreement – said agreement remaining in force and effect until all of the liabilities related to the agreement have been discharged or have otherwise expired.

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, 2017, annual statement. 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." Also included in this section are schedules that 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.

Southern Life and Health Insurance Company
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$46,989,630	\$	\$46,989,630
Stocks:			
Preferred stocks	4,563,841		4,563,841
Common stocks	18,141,275	24,618	18,116,657
Cash, cash equivalents, and short-term investments	3,580,174		3,580,174
Contract loans	65,143		65,143
Other invested assets	42,544		42,544
Receivables for securities	51,793		51,793
Investment income due and accrued	250,341		250,341
Current federal and foreign income tax recoverable and interest thereon	264,274		264,274
Electronic data processing equipment and software	170		170
Write-ins for other than invested assets:			
Interest Maintenance Reserve	<u>710,968</u>	<u>710,968</u>	<u> </u>
Total Assets	<u>\$74,660,153</u>	<u>\$735,586</u>	<u>\$73,924,567</u>

Southern Life and Health Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2017

Aggregate reserve for life contracts		\$37,150,877
Liability for deposit-type contracts		460,614
Contract claims:		
Life		455,744
Commissions and expense allowances payable on reinsurance assumed		44,639
General expenses due or accrued		432,030
Unearned investment income		1,884
Amounts withheld or retained by the company as agent or trustee		29
Liability for benefits for employees and agents if not included above		71,474
Miscellaneous liabilities:		
Asset valuation reserve		2,307,844
Write-ins for liabilities:		
Escheat		<u>817,825</u>
Total Liabilities		41,742,960
Common capital stock	\$ 1,600,000	
Preferred capital stock	3,325,000	
Gross paid in and contributed surplus	300,000	
Unassigned funds (surplus)	<u>26,956,607</u>	
Total Capital and Surplus		<u>32,181,607</u>
Total Liabilities, Capital and Surplus		<u>\$73,924,567</u>

**Southern Life and Health Insurance Company
Summary of Operations
For the Year 2017**

Premiums and annuity considerations for life and accident and health contracts		\$ 186,532
Net investment income		6,637,151
Amortization of interest maintenance reserve		50,094
Separate accounts net gain from operations excluding unrealized gains or losses		
Miscellaneous income:		
Write-ins for miscellaneous income:		
Other Income		<u>126,200</u>
Total income items		6,999,977
Death benefits	\$2,630,409	
Matured endowments	34,882	
Annuity benefits	1,319,987	
Surrender benefits and withdrawals for life contracts	863,950	
Interest and adjustments on contract or deposit-type contract funds	(160,389)	
Payments on supplementary contracts with life contingencies	2,398	
Increase in aggregate reserves for life and accident and health contracts	<u>(1,668,650)</u>	
Subtotal	3,022,587	
Commissions and expense allowances on reinsurance assumed	12,790	
General insurance expenses	1,078,985	
Insurance taxes, licenses, and fees excluding federal income taxes	30,050	
Write-in for deductions:		
Increase in Reserves-Employee Benefits	<u>(2,507)</u>	
Total deductions		<u>4,141,905</u>
Net gain (loss) from operations after dividends to policyholders and before federal income taxes		2,858,072
Federal and foreign income taxes incurred (excluding tax on capital gains)		<u>(66,593)</u>
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses		2,924,665
Net realized capital gains or (losses)		<u>848,315</u>
Net Income		<u>\$3,772,980</u>

Southern Life and Health Insurance Company
Cash Flow
For the Year 2017

Premiums collected net of reinsurance		\$ 186,532
Net investment income		6,760,072
Miscellaneous income		<u>126,200</u>
Total		7,072,804
Benefit- and loss-related payments	\$ 4,870,015	
Commissions, expenses paid, and aggregate write-ins for deductions	1,307,075	
Federal and foreign income taxes paid (recovered)	<u>1,000,000</u>	
Total deductions		<u>7,177,090</u>
Net cash from operations		(104,286)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$ 7,270,621	
Stocks	1,560,000	
Other invested assets	314,436	
Net gains (losses) on cash, cash equivalents, and short-term investments	(327)	
Miscellaneous proceeds	<u>1,675</u>	
Total investment proceeds		9,146,405
Cost of investments acquired (long-term only):		
Bonds	20,075,271	
Stocks	1,452,750	
Miscellaneous applications	<u>9,314</u>	
Total investments acquired		21,537,335
Net increase (or decrease) in contract loans and premium notes	<u>(5,949)</u>	
Net cash from investments		(12,384,981)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>733</u>	
Net cash from financing and miscellaneous sources		<u>733</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(12,488,534)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>16,068,708</u>
End of year		<u>\$ 3,580,174</u>

**Southern Life and Health Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2017**

Assets	\$73,924,567
Less liabilities	<u>41,742,960</u>
Adjusted surplus	32,181,607
Greater of 7.5% of considerations or 2% of reserves for annuities and deposit administration funds	<u>\$362,754</u>
Compulsory surplus (subject to a \$2,000,000 minimum)	<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)	<u>\$30,181,607</u>
Adjusted surplus (from above)	\$32,181,607
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 (Deficit)	<u>\$29,381,607</u>

**Southern Life and Health Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2017**

The following schedule details items affecting the company's total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2017	2016	2015	2014	2013
Capital and surplus, beginning of year	\$29,524,199	\$33,363,817	\$34,991,718	\$34,878,630	\$28,176,829
Net income	3,772,980	6,008,344	7,933,309	7,637,455	8,101,665
Change in net unrealized capital gains/losses	(2,079,848)	13,367	(1,665,004)	(1,172,028)	(406,933)
Change in net deferred income tax	(1,862,589)	(33,970)	(10,418)	(197,126)	1,015,326
Change in nonadmitted assets and related items	1,929,623	626,597	246,733	368,257	(1,225,381)
Change in asset valuation reserve	897,242	78,044	399,479	8,530	(250,876)
Dividends to stockholders	<u> </u>	<u>(10,532,000)</u>	<u>(8,532,000)</u>	<u>(6,532,000)</u>	<u>(532,000)</u>
Capital and Surplus, End of Year	<u>\$32,181,607</u>	<u>\$29,524,199</u>	<u>\$33,363,817</u>	<u>\$34,991,718</u>	<u>\$34,878,630</u>

**Southern Life and Health Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2017**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

Ratio	2017	2016	2015	2014	2013
#1 Net change in capital & surplus	9%	-12%*	-5%	0%	24%
#2 Gross change in capital & surplus	9	-12*	-5	0	24
#3 Net income to total income	48	74	72	70	76
#4 Adequacy of investment income	488	502	538	567	446
#5 Non-admitted to admitted assets	1	4	4	4	4
#6 Total real estate & mortgage loans to cash & invested assets	0	0	0	0	0
#7 Total affiliated investments to capital & surplus	56	71	62	69	79
#8 Surplus relief	0	0	0	0	0
#9 Change in premium	14	455*	-25*	-45*	59*
#10 Change in product mix	0.0	0.0	0.0	0.0	0.0
#11 Change in asset mix	2.2	2.0	0.8	0.7	1.4
#12 Change in reserving	0	0	0	0	0

Ratio No. 1 and Ratio No. 2 measure the improvement or deterioration in an insurer's financial condition during the year. Ratio No. 2 measures the gross change in surplus and takes operational results and paid-in or transferred capital into account; while Ratio No. 1 only takes operational results into account. The usual range for both ratios includes all results greater than -10% and less than 50%. Both ratios were the same each year during the period under examination as there were no changes to SLH's capital structure. The company reported exceptional results for both ratios in 2016 due to a 12% decrease in surplus. The decrease was a result of a \$10.5 million dividend payment.

Ratio No. 9 represents the percentage change in premium from the prior to the current year. The usual range includes all results of less than 50% and greater than 10% percent. Unusual results were noted in 2016, 2015, 2014, and 2013. As all of the company's life policies are paid-up, the only premiums that the company receives are from the assumed block of annuities from GILICO. The premiums from the assumed block are small and nearly any fluctuation causes the ratio to fall outside the usual range.

Growth of Southern Life and Health Insurance Company

Year	Admitted Assets	Liabilities	Capital and Surplus
2017	\$73,924,567	\$41,742,960	\$32,181,607
2016	74,970,894	45,446,695	29,524,199
2015	85,483,639	52,119,822	33,363,817
2014	91,321,530	56,329,812	34,991,718
2013	95,013,135	60,134,504	34,878,630
2012	90,371,174	62,194,345	28,176,829

Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2017	\$0	\$186,532	\$0
2016	0	164,100	0
2015	0	29,554	0
2014	0	39,567	0
2013	0	72,148	0
2012	0	45,387	0

Life Insurance In Force (in thousands)

Year	In Force End of Year	Reinsurance Ceded	Net In Force
2017	\$27,723	\$0	\$27,723
2016	29,216	0	29,216
2015	33,252	0	33,252
2014	36,855	0	36,855
2013	40,091	0	40,091
2012	43,354	0	43,354

The company's admitted assets, liabilities, and surplus have generally decreased each year between 2013 and 2017. In 2017, SLH's capital and surplus increased by 12.4% due to the company not paying dividends during the year. The company is not currently marketing direct business and has not assumed additional policies since 2004. SLH's in-force life and annuity businesses are in runoff status.

Premium income reported for 2012 through 2017 was for additional annuity considerations on an existing block of assumed annuities. The company's life insurance business consists of paid-up and extended-term policies, and no premium income was reported during the examination period. The company provided projected runoff of reserves and policyholder claims until 2048. That projection indicated reserves will continue for a substantial period of time after 2048.

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, 2017, is accepted.

Examination Reclassifications

There were no examination reclassifications as a result of this examination.

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. Accounts and Records—It is recommended that the company report its outstanding escheat liability under write-ins, line 25, in accordance with the NAIC Annual Statement Instructions – Life, Accident, and Health.

Action—Compliance.

2. Affiliated Companies—It is recommended that the company amend its existing cost allocation agreement with MNL, in accordance with SSAP No. 25, paragraph 7.

Action—Compliance.

3. Affiliated Companies—It is recommended that the company value GYC, LLC, based on the audited U.S. GAAP equity of the investee, in accordance with SSAP No. 97, paragraph 8 (b) (iii), in future annual statements.

Action—Compliance.

4. Asset Adequacy Analysis—Pursuant to s. Ins 50.79, Wis. Adm. Code, it is recommended that future Actuarial Memoranda:

- a. Include a table of actuarial liabilities net of reinsurance ceded as of the valuation date showing the amounts tested and the amounts;
- b. Contain product descriptions, including market, underwriting and other aspects of a risk profile for all products and the specific risks associated with the products that the appointed actuary deems significant; and
- c. Include an analysis of the sensitivity of variations in some of the critical assumptions such as mortality, persistency, returns on preferred stock and expenses.

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.

Affiliated Agreements

Insurers domiciled in Wisconsin and who are part of an insurance holding company are required to submit an Annual Registration Statement, also known as Form B. During a review of the Form B filing, it was noted that the company entered into an investment accounting services agreement with IHC, effective November 17, 2014. Upon further review, it was discovered that that agreement was never submitted to OCI for non-disapproval. According to s. Ins 40.04 (2) (d), Wis. Adm. Code, all management agreements, exclusive agency agreements, service contracts or cost-sharing agreements that involve a domestic insurer and an affiliate are required to be filed with the Commissioner for non-disapproval at least 30 days before entering into the agreement. It is recommended that the company file all affiliated service agreements with the Commissioner at least 30 days before entering into the transaction, in accordance with s. Ins 40.04 (2) (d), Wis. Adm. Code.

Executive Compensation

The company filed its Report on Executive Compensation as required by ss. 601.42 and 611.63 (4), Wis. Stat. The report requires that:

Compensation reported shall consist of any and all gross direct and indirect remuneration paid and accrued during the reporting year for the benefit of an individual director, officer, or manager, and shall include wages, stock grants, gains from the exercise of stock options, and all other forms of personal compensation (including employer-paid health, life, and any other premiums).

During the examination team's review of executive compensation, it was noted that the company did not include the amount paid for employer matched 401(k) benefits in the "All Other Compensation" column of the 2017 Report on Executive Compensation filed with OCI in early 2018. It is recommended that SLH report compensation in accordance with the instructions on the Report of Executive Compensation per ss. 601.42 and 611.63 (4), Wis. Stat.

VIII. CONCLUSION

The company's admitted assets and liabilities decreased since the prior examination. SLH's capital and surplus decreased each year of the examination period until 2017 when the surplus increased by 12.4% due to the company not paying dividends during 2017. The company's in-force life and annuity businesses are in runoff status. In addition, SLH is not currently marketing direct business and has not assumed additional policies since 2004.

Premium income reported for 2012 through 2017 was from additional annuity considerations on an existing block of assumed annuities. The company's life insurance business consists of either paid-up or extended term policies and no premium income was reported for 2013 to 2017.

The examination resulted in no adjustments to policyholders' surplus or reclassifications to the balance sheet. The current examination resulted in two recommendations. A listing of the current examination recommendations is summarized on the following page.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Affiliated Agreements—It is recommended that the company file all affiliated service agreements with the Commissioner at least 30 days before entering into the transaction, in accordance with s. Ins 40.04 (2) (d), Wis. Adm. Code.
2. Page 23 - Executive Compensation—It is recommended that SLH report compensation in accordance with the instructions on the Report of Executive Compensation per ss. 601.42 and 611.63 (4), Wis. Stat.

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
Nicholas Hartwig	Insurance Financial Examiner
James Krueger	Insurance Financial Examiner
Angelita Romaker	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Marisa K. Rodgers
Examiner-in-Charge