

Report
of the
Examination of
Stonebridge Insurance Company
Plano, Texas
As of December 31, 1997

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September 25, 1998

Honorable Randy Blumer
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, WI 53702

Commissioner:

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

STONEBRIDGE INSURANCE COMPANY
Plano, Texas

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the company was conducted in 1994 as of December 31, 1992. The current examination covered the intervening period ending December 31, 1997, and included a review of such 1998 transactions as deemed necessary to complete the examination.

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
- 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 section of this report titled "Summary of Examination Results" 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.

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.

II. HISTORY AND PLAN OF OPERATION

The company was incorporated on December 3, 1958, as a stock life company, under the name of General Life Insurance Corporation of Wisconsin (General Life). In 1989, the company ceased writing new business and transferred all its in-force business to its immediate parent, United Insurance Company of America, through a reinsurance assumption agreement. Thereafter, General Life existed as a corporate shell maintaining the minimum required capital and surplus.

On November 12, 1992, J.C. Penney Life Insurance Company (JCPLIC) purchased all 2,000 shares of the authorized common stock of General Life and changed the name of the company to J. C. Penney Insurance Company.

In 1993, the company began direct marketing life insurance, long-term care, and medicare supplement products to the senior citizen market. Effective October 1, 1994, the long-term care block of business was sold to American Travellers Life Insurance Company through a 100% indemnity reinsurance agreement. Effective December 1, 1994, the medicare supplement block of business was transferred to United American Insurance Company by an assumption reinsurance agreement. In addition, the company stopped marketing its life insurance products in 1994. As a result of these three events, the company became largely inactive.

Effective January 1, 1996, the company's name was changed to Stonebridge Insurance Company to allow JCPLIC to further utilize its marketing strategy. Currently, JCPLIC specializes in the solicitation of business through mail and telemarketing. It targets holders of J.C. Penney credit cards and other credit card issuers it has established a business relationship with. It is JCPLIC's intent to use Stonebridge to attract retailers that might prefer to have a company without the J.C. Penney name market to their customers. Stonebridge currently offers group accidental death and dismemberment and group accident hospital indemnity coverages.

The company writes direct premium in the following states:

Ohio	16%
Oklahoma	11
Kentucky	9
Nebraska	9
Texas	8
All others	<u>47</u>
	<u>100%</u>

Stonebridge is currently licensed in the District of Columbia and the following

40 states:

Alabama	Kansas	Ohio
Alaska	Kentucky	Oklahoma
Arizona	Louisiana	Oregon
Arkansas	Maryland	Pennsylvania
California	Minnesota	South Carolina
Colorado	Mississippi	South Dakota
Delaware	Missouri	Tennessee
Florida	Montana	Texas
Georgia	Nebraska	Utah
Hawaii	Nevada	Virginia
Idaho	New Mexico	Washington
Illinois	North Carolina	Wisconsin
Indiana	North Dakota	Wyoming
Iowa		

The following chart is a summary of the net insurance premiums written by the company in 1997. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Conventional life	\$141,452	\$263	\$	\$141,715
Group accident and health	13,970			13,970
Long-term care	<u>139,303</u>	<u>—</u>	<u>139,303</u>	<u>0</u>
Total All Lines	<u>\$294,725</u>	<u>\$263</u>	<u>\$139,303</u>	<u>\$155,685</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven 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 receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
John Eugene Fesperman Dallas, Texas	President and Chief Operating Officer, Insurance, Credit, and Facilities Services J.C. Penney Company, Inc.	1999
Donald LaVerne Heise Garland, Texas	Executive Vice President, Chief Financial Officer, and Treasurer J.C. Penney Life Insurance Company	1999
Charles Robert Lotter Dallas, Texas	Executive Vice President, Secretary, and General Council J.C. Penney Company, Inc.	1999
Donald Alan McKay Dallas, Texas	Executive Vice President and Chief Financial Officer J.C. Penney Company, Inc.	1999
Regina Veronica Rohner Dallas, Texas	Senior Vice President and Chief Actuary J.C. Penney Life Insurance Company	1999
George Edward Suiter Plano, Texas	Executive Vice President - Marketing J.C. Penney Life Insurance Company	1999
Fred Arnold Williams Dallas, Texas	President and Chief Executive Officer J.C. Penney Life Insurance Company	1999

Officers of the Company

Officers of the company, except the Chairman of the Board, receive their compensation directly from the company's parent, J.C. Penney Life Insurance Company. The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office
John Eugene Fesperman	Chairman of the Board
Fred Arnold Williams	President and Chief Executive Officer
George Edward Suiter	Executive Vice President, Marketing
Donald LaVerne Heise	Executive Vice President, Chief Financial Officer and Treasurer
John Robert Camillo	Senior Vice President, Secretary and Counsel
Donald Bruce Christensen	Senior Vice President and Controller
Donald Scott Creveling	Senior Vice President, Customer Retention
Thomas Daniel McGahey	Senior Vice President, Information Systems
Deborah Lynne Megee	Senior Vice President, Product Development and Target Marketing
Karen Francis Newton	Senior Vice President, Insurance Operations
Regina Veronica Rohner	Senior Vice President
Joseph Anthony Sartoris	Senior Vice President, Personnel
John Frederic Schulik	Senior Vice President, Support Services
John C. DiJoseph	Vice President and Chief Actuary
L. Keith Morris	Vice President and Assistant Secretary

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee

John Eugene Fesperman, Chair
Charles Robert Lotter
Donald Alan McKay
Fred Arnold Williams

Audit Committee

Regina Veronica Rohner, Chair
Donald Bruce Christensen
Donald LaVerne Heise
Fred Arnold Williams

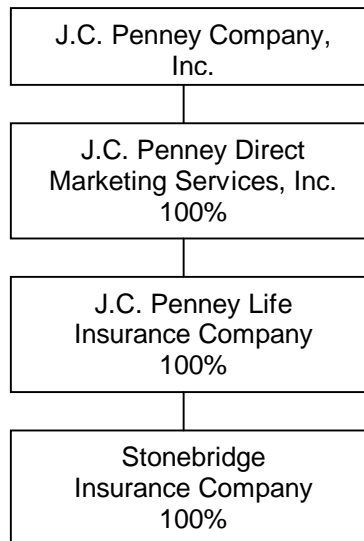
Investment Committee

Donald LaVerne Heise, Chair
Regina Veronica Rohner
Fred Arnold Williams

IV. AFFILIATED COMPANIES

Stonebridge Insurance Company is a member of a holding company system. Its ultimate parent is J. C. Penney Company, Inc. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of Stonebridge Insurance Company follows the organizational chart. For the purpose of brevity, the organizational chart only includes that portion of the group that directly or indirectly owns Stonebridge Insurance Company.

**Organizational Chart
As of December 31, 1997**



J. C. Penney Company, Inc.

J. C. Penney Company, Inc., is a nationwide general merchandising organization domiciled in Delaware. It also owns numerous subsidiaries involved in retail sales, real estate, banking, and insurance. As of December 31, 1997, the company's audited consolidated financial statement reported assets of \$23.5 billion, liabilities of \$16.1 billion, and stockholders' equity of \$7.4 billion. Operations for 1997 produced net income of \$566 million.

All administrative services for Stonebridge are provided by J.C. Penney Company, Inc., and J. C. Penney Life Insurance Company. Services are provided on an actual cost basis.

J. C. Penney Direct Marketing Services, Inc.

J. C. Penney Direct Marketing Services, Inc., is a holding company for J. C. Penney Company Inc.'s insurance operations. It is domiciled in Delaware. As of December 31, 1997, the company's unaudited financial statement reported assets of \$564,451,553, liabilities of \$42,984,276, and stockholders' equity of \$521,467,277. Operations for 1997 produced net loss of \$2,400,753.

J. C. Penney Life Insurance Company

J. C. Penney Life Insurance Company is a life insurance company domiciled in Vermont. It markets individual and group accident and health coverages, whole life, term life, credit insurance, and a hospital indemnity product. JCPLIC specializes in the solicitation of business through mail and telemarketing. It targets holders of J.C. Penney credit cards and other credit card issuers it has established a business relationship with. As of December 31, 1997, the company's audited financial statement reported assets of \$1,364,268,625, liabilities of \$1,195,242,735, and capital and surplus of \$169,025,890. Operations for 1997 produced net income of \$47,147,583.

V. REINSURANCE

Currently, the company has one ceding reinsurance contract in effect and no assuming contracts. Effective October 1, 1994, Stonebridge ceded 100% of its existing long-term care and hospital indemnity with home care insurance policies to American Travellers Life Insurance Company. The agreement did not include future new business. The contract contained proper insolvency provisions.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 1997, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company for the period under examination and the compulsory and security surplus calculation.

Stonebridge Insurance Company
Assets
As of December 31, 1997

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	\$11,955,048	\$	\$	\$11,955,048
Stocks:				
Preferred stocks	152,550			152,550
Policy loans	1,393			1,393
Cash	4,201			4,201
Short-term investments	234,611			234,611
Life premiums and annuity considerations deferred and uncollected		42,056		42,056
Accident and health premiums due and unpaid		187		187
Investment income due and accrued		224,304		224,304
Receivable from parent, Subsidiaries, and affiliates	5,188			5,188
Other assets nonadmitted:				
Agents' balances	16,538		16,538	
Write-ins for other than invested assets:				
Miscellaneous receivable	5,572		5,572	
Arizona revolving fund	100			100
Suspense debits	10,334		10,334	
Guaranty fund assessment	<u>49,245</u>	<u> </u>	<u> </u>	<u>49,245</u>
Total Assets	<u>\$12,434,780</u>	<u>\$266,547</u>	<u>\$32,444</u>	<u>\$12,668,883</u>

Stonebridge Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 1997

Aggregate reserve for life policies and contracts	\$ 230,959
Aggregate reserve for accident and health policies	1,288
Policy and contract claims:	
Life	4,268
Accident and health	18,562
Premiums and annuity considerations received in advance	4,090
Interest maintenance reserve	114,819
General expenses due or accrued	5,437
Taxes, licenses, and fees due or accrued, excluding federal income taxes	36,400
Federal income taxes due or accrued	323,939
Remittances and items not allocated	175
Miscellaneous liabilities:	
Asset valuation reserve	36,085
Payable to parent, subsidiaries, and affiliates	5,871
Drafts outstanding	2,532
Write-ins for liabilities:	
Other liabilities	<u>1,046</u>
Total Liabilities	<u>785,471</u>
Common capital stock	2,500,000
Gross paid-in and contributed surplus	9,678,688
Unassigned funds (surplus)	<u>(295,276)</u>
Surplus	<u>11,883,412</u>
Total Liabilities, Surplus, and Other Funds	<u>\$12,668,883</u>

Stonebridge Insurance Company
Summary of Operations
For the Year 1997

Premiums and annuity considerations	\$155,685
Net investment income	727,668
Amortization of interest maintenance reserve	8,009
Commissions and expense allowances on reinsurance ceded	25,886
Write-in for miscellaneous income:	
Miscellaneous Operating Income	<u>9,145</u>
Total income items	<u>926,393</u>
Death benefits	65,232
Disability benefits and benefits under accident and health policies	35,815
Surrender benefits and other funds withdrawals	2,674
Increase in aggregate reserve for life and accident and health policies and contracts	<u>35,755</u>
Subtotal	139,476
Commissions on premiums and annuity considerations	47,324
Commissions and expense allowances on reinsurance assumed	414
General insurance expenses	54,950
Insurance taxes, licenses, and fees excluding federal income taxes	55,604
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	(615)
Write-in for deductions:	
A&H Loading	(163)
Miscellaneous expense	<u>18,896</u>
Total deductions	<u>315,886</u>
Net gain from operations before federal income taxes	610,507
Federal income taxes incurred	<u>162,386</u>
Net Income	<u>\$448,121</u>

Stonebridge Insurance Company
Cash Flow
As of December 31, 1997

Premiums and annuity considerations	\$162,871		
Net investment income	719,371		
Commissions and expense allowances on reinsurance ceded	25,886		
Miscellaneous Income	<u>9,145</u>		
Total		\$917,273	
Death benefits	66,998		
Disability and A&H benefits	18,217		
Surrender benefits and other fund withdrawals	<u>2,674</u>		
Subtotal	87,889		
Commissions on premium and annuity considerations	47,324		
Commissions and expense allowances on reinsurance assumed	414		
General insurance expenses	54,950		
Insurance taxes, licenses and fees	55,605		
Miscellaneous income	18,893		
Federal income taxes (excluding tax on capital gains)	<u>95,922</u>		
Total deductions		<u>360,997</u>	
Net cash from operations			\$556,276
Proceeds from investments sold, matured, or repaid	1,754,197		
Net tax on capital losses	<u>(791)</u>		
Total investment proceeds		1,754,988	
Cost of investments acquired (long-term only):			
Bonds	<u>2,418,735</u>		
Total investments acquired		2,418,735	
Net increase in policy loans and premium notes		<u>998</u>	
Net cash from investments			(664,745)
Cash provided from financing and miscellaneous sources:			
Other sources	<u>2,137</u>		
Total		2,137	
Cash applied for financing and miscellaneous uses:			
Other applications	<u>15,221</u>		
Total		<u>15,221</u>	
Net cash from financing and miscellaneous sources			<u>(13,084)</u>
Net change in cash and short-term investments			(121,553)
Reconciliation			
Cash and short-term investments, December 31, 1996			<u>360,365</u>
Cash and short-term investments, December 31, 1997			<u>\$238,812</u>

Stonebridge Insurance Company
Compulsory and Security Surplus Calculation
December 31, 1997

Assets		\$12,668,883	
Less liabilities		<u>785,471</u>	
Adjusted surplus			\$11,883,412
Annual premium:			
Individual life and health	\$145,580		
Factor	<u>15%</u>		
Total		21,837	
Group life and health	17,292		
Factor	<u>10%</u>		
		1,729	
Compulsory surplus (subject to a minimum of \$2 million)			<u>2,000,000</u>
Compulsory surplus excess or (deficit)			<u>\$ 9,883,412</u>
Adjusted surplus			\$11,883,412
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>\$ 9,083,412</u>

Stonebridge Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 1997

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

	1993	1994	1995	1996	1997
Surplus, beginning of year	\$10,036,390	\$10,362,839	\$10,618,072	\$10,994,995	\$11,431,725
Net income	339,491	301,982	376,096	442,575	448,121
Change in nonadmitted assets and related items	(2,980)	(33,123)	10,776	(433)	(3,444)
Change in asset valuation Reserve	(10,062)	(13,626)	(9,949)	(5,412)	7,010
Surplus, end of year	<u>\$10,362,839</u>	<u>\$10,618,072</u>	<u>\$10,994,995</u>	<u>\$11,431,725</u>	<u>\$11,883,412</u>

Growth of Stonebridge Insurance Company

Year	Admitted Assets	Liabilities	Policyholders' Surplus
1993	\$10,955,389	\$592,550	\$10,362,839
1994	11,069,514	451,442	10,618,072
1995	11,515,809	520,814	10,994,995
1996	12,088,683	656,958	11,431,725
1997	12,668,883	785,471	11,883,412

Life Insurance In Force (in thousands)

Year	Gross Direct and Assumed	Ceded	Net
1993	\$ 515	\$0	\$ 515
1994	3,500	0	3,500
1995	2,572	0	2,572
1996	2,260	0	2,260
1997	2,046	0	2,046

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred	Commissions Incurred	Other Expenses Incurred	Combined Loss and Expense Ratio
1993	\$ 270	\$ 16	\$ 0	\$ 3,663	1363%
1994	125,856	(16)	84,219	85,337	135
1995	0	0	0	0	0
1996	4,602	1,009	0	3,949	108
1997	12,944	35,769	0	11,737	367

Admitted assets and surplus have increased in each of the past five years. Surplus has increased 18.4% during this time.

Prior to 1993, the company was largely inactive. In 1993, the company began direct marketing life insurance, long-term care, and medicare supplement products to the senior citizen market. Effective October 1, 1994, the long-term care block of business was sold to American Travellers Life Insurance Company through a 100% indemnity reinsurance agreement. Effective December 1, 1994, the medicare supplement block of business was transferred to United American Insurance Company by an assumption reinsurance agreement. In addition, the company stopped marketing its life insurance products in 1994.

The company no longer offers life insurance policies and is running off the life business written in 1993 and 1994. During 1996 and 1997, the company wrote a small amount of group accidental death and dismemberment policies.

VII. SUMMARY OF EXAMINATION RESULTS

Summary of Current Examination Results

There were no recommendations as a result of the examination.

VIII. CONCLUSION

The current examination resulted in no recommendations. Surplus increased 18.4% since the last examination. The company has been minimally active since the last examination. Effective January 1, 1996, the company's name was changed to Stonebridge Insurance Company. The name was changed to permit the company to establish additional business relationships with retail credit card issuers outside the J.C. Penney group.

IX. 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
Tim Vande Hey	Insurance Examiner
Cruz Flores	Senior Examiner – Advanced

Respectfully submitted,

Roger O. Pilecky
Examiner-in-Charge

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