

Report of Examination of

Motorists Life Insurance Company
Columbus, Ohio

As of December 31, 2013

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Columbus, Ohio
August 15, 2014

Honorable Mary Taylor
Lieutenant Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lieutenant Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Motorists Life Insurance Company

an Ohio domiciled, stock, life and accident and health insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2008. The Department’s current examination covers the period of January 1, 2009 through December 31, 2013.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
John J. Bishop	Chairman of the Board, Retired President and Chief Executive Officer Motorists Insurance Group
Susan E. Haack	Secretary and Senior Vice President, Motorists Insurance Group
David L. Kaufman	President and Chief Executive Officer, Motorists Insurance Group
Michael L. Wiseman	Treasurer and Chief Financial Officer Motorists Insurance Group

Officers

As of the examination date, the following principal executive officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
John J. Bishop	Chairman of the Board
David L. Kaufman	President and Chief Executive Officer
Michael L. Wiseman	Senior Vice President, Treasurer and Chief Financial Officer
Susan E. Haack	Senior Vice President, Assistant Treasurer, Chief Risk Officer and Secretary
Charles A. Wickert	Senior Vice President, Chief of Staff
Peter A. Hitchcock	Vice President, Life Financial Operations and Corporate Actuary

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is a subsidiary of Motorists Mutual Insurance Company, a mutual, property and casualty company. The Company's stock is 70% owned by Motorists Mutual Insurance Company and 30% owned by Motorists Commercial Mutual Insurance Company, an affiliate of Motorists Mutual Insurance Company.

Territory and Plan of Operations

The Company's main product offerings include individual life insurance and annuity products. The Company's products are sold through independent agents and other distribution channels. The Company is licensed to transact business in the states of Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, West Virginia, and Wisconsin. During 2013, approximately 45% of the direct premium was written in Ohio.

The table below illustrates the Company's 2013 direct and net premiums written, in thousands, by line of business:

Line of Business	Direct	Assumed	Ceded	Net	Net %
Ordinary life insurance	\$ 52,556	\$ -	\$ 11,509	\$ 41,047	57.9
Individual annuities	29,327	-	-	29,327	41.3
Group life insurance	821	-	472	349	0.5
Deposit-type contracts	<u>188</u>	<u>-</u>	<u>-</u>	<u>188</u>	<u>0.3</u>
Totals	<u>\$ 82,892</u>	<u>\$ -</u>	<u>\$ 11,981</u>	<u>\$ 70,911</u>	<u>100.0</u>

Reinsurance

Certain premiums and benefits are assumed from and ceded to other insurance companies under various reinsurance agreements. Reinsurance assumed is not significant.

All contracts contained an insolvency clause, errors and omissions clause and an arbitration clause, which meet the guidelines prescribed by the NAIC.

Financial Statements

The financial condition and the results of its operations for the five-year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds

Summary of Operations

Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2013

Assets

Bonds	\$ 422,367,257
Common stocks	20,992,641
Cash and short term investments	7,137,600
Contract loans	12,806,988
Receivable for securities	<u>14,507</u>
Subtotal, cash and invested assets	463,318,993
Investment income due and accrued	4,443,595
Uncollected premiums in course of collection	(750,866)
Deferred premiums and installments booked but deferred	17,901,866
Amounts recoverable from reinsurers	552,183
Other amounts receivable under reinsurance contracts	1,208,249
Current federal income tax recoverable and interest thereon	441,928
Net deferred tax asset	7,459,712
Guaranty funds receivable or on deposit	155,454
Receivable from parent, subsidiaries and affiliates	504,270
Aggregate write-ins for other than invested assets	<u>21,990</u>
Total assets	<u>\$ 495,257,374</u>

Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2013

Liabilities

Aggregate reserve for life contracts	\$ 422,249,699
Liability for deposit-type contracts	829,179
Life contract claims	3,312,028
Dividends apportioned for payment	954,443
Premiums received in advance	122,641
Provision for experience rating refunds	361,454
Interest maintenance reserve	2,868,568
Commissions to agents due or accrued	623,176
General expenses due or accrued	748,378
Taxes, licenses and fees due or accrued	559,787
Amounts withheld or retained by company as agent or trustee	246,112
Remittances and items not allocated	1,220,282
Asset valuation reserve	6,084,507
Payable to parent, subsidiaries and affiliates	50,735
Aggregate write-ins for liabilities	<u>290,953</u>
Total liabilities	<u>440,521,942</u>

Capital and Surplus

Common capital stock	1,200,000
Gross paid in and contributed surplus	20,768,060
Unassigned funds	<u>32,767,372</u>
Total capital and surplus	<u>54,735,432</u>
Total liabilities, capital and surplus	<u>\$ 495,257,374</u>

Summary of Operations
For the Year Ended December 31, 2013

Premiums and annuity considerations	\$ 70,722,988
Considerations for supplementary contracts with contingencies	842,834
Net investment income	19,494,277
Amortization of interest maintenance reserve	578,262
Commissions and expense allowances on reinsurance ceded	3,394,896
Aggregate write-ins for miscellaneous income	<u>13,475</u>
Total	<u>95,046,732</u>
Death benefits	15,962,472
Matured endowments	2,148
Annuity benefits	5,517,796
Benefits under accident and health contracts	161,746
Surrender benefits and withdrawals for life contracts	14,486,242
Interest and adjustments on contracts	140,570
Payments on supplementary contracts	1,018,283
Increase in aggregate reserves	<u>35,458,271</u>
Total	72,747,528
Commissions on direct business written	8,764,630
General insurance expenses	7,660,820
Taxes, licenses and fees, excluding federal income taxes	1,367,170
Increase in loading on deferred and uncollected premiums	35,417
Aggregate write-ins for deductions	<u>361,454</u>
Total	<u>90,937,019</u>
Net gain before policyholder dividends and federal income taxes	4,109,713
Dividends to policyholders	<u>940,087</u>
Net gain after policyholder dividends but before federal taxes	3,169,626
Federal income taxes	<u>555,907</u>
Net gain before realized capital gains	2,613,719
Net realized capital gains	<u>1,000,131</u>
Net income	<u>\$ 3,613,850</u>

Statement of Changes in the Capital and Surplus Account
As of and For the Year Ended December 31
(In thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus, prior year end	\$ 56,063	\$ 53,520	\$ 49,687	\$ 44,497	\$ 43,109
Net income (loss)	3,614	3,004	1,904	980	(1,056)
Change in net unrealized capital gains	2,014	411	1,188	926	400
Change in net deferred income tax	435	437	1,861	(1,415)	170
Change in nonadmitted assets	(695)	1,180	(1,136)	5,587	1,112
Change in asset valuation reserve	(1,725)	(1,443)	(268)	(901)	(1,748)
Cumulative effects of changes in accounting principles	-	-	-	-	967
Dividends to stockholders	(5,001)	-	-	-	-
Aggregate write-ins	30	-	284	13	1,543
Other	-	(1,046)	-	-	-
Net change in capital and surplus	<u>(1,328)</u>	<u>2,543</u>	<u>3,833</u>	<u>5,190</u>	<u>1,388</u>
Capital and surplus, current year end	<u>\$ 54,735</u>	<u>\$ 56,063</u>	<u>\$ 53,520</u>	<u>\$ 49,687</u>	<u>\$ 44,497</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Policy Reserves and Related Actuarial Items

The Company's Board of Directors appointed Peter A. Hitchcock, ASA, MAAA, Vice President, Life Financial Operations and Corporate Actuary of the Company, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Hitchcock prepared an Actuarial Memorandum supporting the Opinion in connection with the preparation of the Company's December 31, 2013 Annual Statement.

Peter A. Weber, ASA, MAAA, the Department's Life and Annuity Actuary, reviewed the Actuarial Memorandum and performed other procedures as considered necessary to evaluate the Company's policy reserves and related actuarial items. On the basis of his analysis, Mr. Weber determined that the policy reserves and related actuarial items presented in the December 31, 2013 Annual Statement are consistent with requirements in Ohio law, and furthermore, that the policy reserves and related actuarial items held by the Company are adequate and appropriate.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

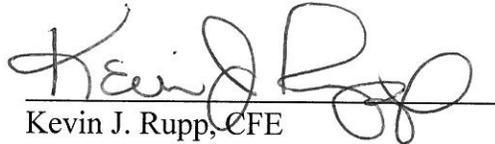
Total Admitted Assets	\$ <u>495,257,374</u>
Liabilities	\$ 440,521,942
Capital and Surplus	<u>54,735,432</u>
Total Liabilities, Capital and Surplus	\$ <u>495,257,374</u>

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, CFE, AES, CISA, CISSP, CIDM; Ryan S. Gibson, AES, CFE, CISA, FLMI; Bryan E. Radecky, CFE, CPA; Stephen W. Bishel, CPA; and Aaron R. Hibbs, CFE, ChFC, CPA, FLMI.

Respectfully,



Kevin J. Rupp, CFE
Examiner-in-Charge
Ohio Department of Insurance



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2013.

Kevin J. Rupp
Examiner-In-Charge

10/7/14
Date

Jeffrey K. Ebert
Assistant Chief Examiner

10/7/14
Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Kevin J. Rupp, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 7 day of October, 2014.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 7 day of October, 2014.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires