

Report of Examination of

**The Order of United Commercial Travelers of America**  
Columbus, Ohio

As of December 31, 2007

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Columbus, Ohio  
September 19, 2008

Honorable Mary Jo Hudson  
Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code “ORC”, an examination was made of the

**The Order of United Commercial Travelers of America**

an Ohio domiciled, fraternal benefit society, hereinafter referred to as (the “Company”). The examination was conducted at the Company’s home office located at 632 North Park Street, Columbus, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2004, by the Ohio Department of Insurance (“Department”). Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2007.

**Management and Control**

**Board of Governors**

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

<b>Name and Address</b>	<b>Principal Occupation</b>
Glenda L. Dickey	Retired, Insurance Agent/Broker
Darlene A. Gillies	Secretary/Treasurer, Neepawa Tire LTD
Dianna R. Loafman	VP Marketing and Promotion, USA Health Care Services
Stewart F. McDonald, Sr.	Retired, Helena Chemical Co.,

David J. Piper	Retired, HR manager, C & S Plastic
James V. Walsh	Sign Manufacturer, Frank's Signs
Stewart A. Wagner	Manager, Shell Gas & Convenience Center
Keith M. Ward	Retired, Sales Engineer, Rockwell Automation
Randy C. Young	Laboratory Manager, Louisiana Transportation Research Center

### **Officers**

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

<b>Name</b>	<b>Title</b>
Dianna R. Loafman	President
Glenda L. Dickey	Secretary/Treasurer
Ronald E. Hunt	Executive Vice President – Operations
Michael J. Hammontree	Vice President, Fraternal/Marketing
Kevin C. Hecker	Vice President and Comptroller
Ronald A. Ives	Vice President, Information Services and Operations
J. Steven Keck	Consulting Actuary

### **Reinsurance**

The Company had ceded reinsurance agreements in effect at December 31, 2007. The Company retains risks on relatively small face amounts of insurance policies and has no reinsurance assumed coverage in effect.

#### **Ceded:**

Reinsurer:	General Re and Cologne Life Re of America
Type of contract:	90% Quota Share
Effective date:	December 31, 1998
Term:	Continuous
Business covered:	Medicare Supplement
Company retention:	For policies issued before February 1, 2005, the Company's Quota Share shall be 0%. For policies issued after January 31, 2005, the Company's Quota Share shall be 10%.
Reinsurance limits:	For policies issued before February 1, 2005, the Reinsurer's Quota Share shall be 100%. For policies issued after January 31, 2005, the Reinsurer's Quota Share shall be 90%.

Reinsurer:	Sirius International Insurance Company
Type of contract:	Excess of Loss
Intermediary	Holborn Corporation
Effective date:	February 1, 2007 to January 31, 2008
Term:	One Year
Business covered:	Individual Common Carrier Benefits issued under Accident Only Certificate
Company retention:	\$20,000
Reinsurance limits:	\$80,000 excess of \$20,000

All contracts contained an insolvency clause, errors and omission clause, and an arbitration clause, which meet the guidelines prescribed by the National Association of Insurance Commissioners.

### **Territory and Plan of Operations**

The Company is licensed to transact business in all states except Alaska, Hawaii, New Mexico, and Washington. The Company is also licensed to transact business in Canada.

### **Scope of Examination**

The purpose of the examination was to make an assessment of the financial condition of the Company as of December 31, 2007. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the National Association of Insurance Commissioners (“NAIC”) Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

During the period under examination, the Certified Public Accounting (“CPA”) firm of Ernst & Young, LLP, has issued an opinion that the Company’s financial statements are presented fairly in all material respects based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audits of the Company, was reviewed during the examination, and incorporated into the examination work papers where applicable.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers’, employees’, and agents’ welfare and pension plans;
4. mortality and loss experience;
5. pending litigation; and
6. Constitution and Bylaws.

## **Financial Statements**

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

Statement of Assets, Liabilities, Surplus and Other Funds  
Statement of Operations  
Statement of Changes in the Surplus Account

## Statement of Assets

**December 31, 2007**

### **Admitted assets**

#### Cash and invested assets:

Bonds	\$14,175,120
Real estate	364,077
Contract loans	697,458
Cash and short-term investments	<u>2,481,848</u>
Total cash and invested assets	17,718,503

Investment income due and accrued	185,872
Uncollected premiums and agents' balances	34,393
Deferred premiums	104,034
Amounts recoverable from reinsurers	520,654
Other amounts receivable under reinsurance contracts	22,310
Electronic data processing equipment and software	25,297
Aggregate write-ins for other than invested assets	1,431

Total admitted assets	<u>\$18,612,494</u>
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## Liabilities, Surplus and Other Funds

**December 31, 2007**

### **Liabilities and unassigned funds**

#### Liabilities:

Aggregate reserve for life certificates and contracts	\$4,230,030
Aggregate reserve for accident and health contracts	1,395,820
Liability for deposit-type contracts	5,478
Life contract claims	55,349
Accident and health contract claims	1,134,097
Premiums and annuity consideration received in advance	431,693
Interest maintenance reserve	36,107
Commissions to fieldworkers due or accrued	350,360
General expenses and commissions due or accrued	1,012,894
Taxes, licenses and fees due or accrued	45,648
Amounts withheld or retained by Company as agent or trustee	281,684
Remittances and items not allocated	604,147
Asset valuation reserve	56,626
Funds held under coinsurance	3,399,548
Aggregate write-ins for liabilities	<u>1,576,758</u>
Total liabilities	14,616,239
Aggregate write-ins for surplus funds	25,000
Unassigned funds	<u>3,971,255</u>
Total surplus	<u>3,996,255</u>
Total liabilities and unassigned funds	<u><u>\$18,612,494</u></u>

## Statement of Operations

**December 31, 2007**

Premiums and other revenues:	
Life and accident and health certificates	\$5,869,959
Net investment income	492,183
AIMR	23,421
Commissions and expense allowances on reinsurance ceded	17,031,303
Aggregate write-ins for miscellaneous income	1,483,132
Total premiums and other revenues	<u>24,899,998</u>
Benefits paid or provided:	
Death benefits	271,608
Annuity and old age benefits	300,995
Disability, accident and health benefits	3,562,192
Surrender benefits and withdrawals for life contracts	39,391
Interest and adjustments on deposit-type contracts	88
Increase in life, annuity, and accident and health reserves	141,686
Total benefits paid or provided	<u>4,315,960</u>
Commissions on premiums and deposit-type contracts	11,267,309
General expenses	8,186,798
Insurance taxes, licenses and fees	334,855
Increase in loading on deferred and uncollected premiums	(14,851)
Total insurance expenses and other deductions	<u>24,090,071</u>
Gain from operations before refunds to members	809,927
Refunds to members	<u>0</u>
Gain from operations after refunds and before realized capital losses	809,927
Net realized capital losses	<u>0</u>
Net Income	<u>\$809,927</u>

**Statement of Changes in the Surplus Account**  
(in thousands)

	2005	2006	2007
Surplus December 31, previous year	\$2,679	\$2,643	\$2,591
Net income from operations	(138)	18	810
Change in net unrealized foreign exchange capital gains (losses)	117	(4)	694
Change in nonadmitted assets	(33)	(73)	(163)
Change in asset valuation reserve	19	7	1
Aggregate write-ins for gains in surplus			63
Net change in surplus for the year	(36)	(51)	1,405
Surplus December 31, current year	\$2,643	\$2,591	\$3,996

**Summary of Examination Changes**

There were no changes made as a result of this examination.

**Notes to the Financial Statements**

**Investments**

At December 31, 2007, the Company's investments, as measured by statement valuations, were primarily comprised of:

Invested Assets	Ratio to Total	
	Investments	Assets
Bonds	80.0%	76.2%
Real Estate	2.1%	2.1%
Cash	14.0%	13.3%
Contract Loans	3.9%	3.7%

The Company appears to be in compliance with the investment statute, ORC Section 3907.14.

### **Aggregate Reserve for Life Certificates and Claims**

It has been determined that the value of the Company's aggregate reserve for life certificates and claims as of December 31, 2007 is \$4,230,030. The reserves are determined in accordance with Actuarial Standards of Practice and Actuarial Guidelines that specifically relate to the opinion required under Section 7 of the NAIC Model Actuarial Opinion and the Memorandum.

Alan Furan, FSA, MAAA, the Department's life actuary examined and evaluated the Company's reserves performed by J. Steven Keck, FSA, MAAA of Wakley Actuarial Services, Inc., and tested by the Company's independent accountants determined that the reserves presented in the December 31, 2007, statutory financial statement made a reasonable provision for future guaranteed benefits and meeting statutory minimum standards. Based on subsequent development, the Company's reserves appear to be slightly deficient.

### **Subsequent Events**

In August 2008, the Company did not renew its license to write business in the State of Maine.

On August 29, 2008, Ronald E. Hunt, Executive Vice President of Operations resigned.

### **Conclusion**

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2007, and is summarized as follows:

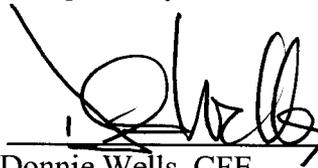
Total Admitted Assets	<u>\$18,612,494</u>
Liabilities	\$14,616,239
Unassigned Funds	<u>3,996,255</u>
Total Liabilities and Unassigned Funds	<u>\$18,612,494</u>

### Acknowledgement

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

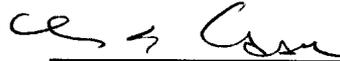
In addition to the undersigned, the following representatives of the Department participated in this examination: Larry G. Rice, CPA, CFE, Ed Nagorny, CPA, CFE, Alan Furan, FSA, MAAA.

Respectfully,



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Donnie Wells, CFE  
Examiner-In-Charge  
Ohio Department of Insurance



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David A. Cook, 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, 2007

[Signature]  
Examiner-In-Charge

10/8/08  
Date

[Signature]  
Assistant Chief Examiner

10/8/08  
Date

State of Ohio  
County of Franklin

Personally appeared before me the above named Donnie Wells, 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/her knowledge and belief.

Subscribed and sworn to before me this 8 day of October, 2008.

[Signature]  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
**MY COMMISSION EXPIRES MAY 22, 2012**  
My Commission Expires

State of Ohio  
County of Franklin

Personally appeared before me the above named David A. Cook, 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/her knowledge and belief.

Subscribed and sworn to before me this 8 day of October, 2008.

[Signature]  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
**MY COMMISSION EXPIRES MAY 22, 2012**  
My Commission Expires