

Report of Examination of

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

As of December 31, 2015

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Columbus, Ohio  
July 20, 2016

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

Dear Lt. Governor/Director:

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

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

an Ohio domiciled, fraternal benefit society, hereinafter referred to as the “Company”.

**Scope of Examination**

The Department last examined the Company covering the period of January 1, 2008, through December 31, 2010. This examination covers the period of January 1, 2011, through December 31, 2015.

The Department conducted the examination in accordance with the NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

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. 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 is documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in Section 3901.07 of the ORC and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For all the years during the period under examination, the Certified Public Accounting firm of BKD, LLP, provided an unqualified opinion on the Company's Financial Statements based on Statutory Accounting Principles. Representatives of the Department reviewed the independent auditors' reports and supporting work papers during the examination.

## **Management and Control**

### **Board of Directors**

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</b>	<b>Principal Occupation</b>
David L. Burt, Chairman	Retired; former Customer Service Representative, Ohio Power Lancaster, Ohio
Glenn E. Suever	Engineering Tech, Kautex-Textron Avilla Quincy, Michigan
Christopher B. Phelan	Director of Sales, CKF, Inc. Calgary, Alberta
Thomas D. Hoffman	Retired; former Contractor, CDI Engineering Solutions Pasadena, Texas
Stephen R. Desselles	Estimator-Project Manager, Manno Electric, Inc. Baton Rouge, Louisiana
Jerry G. Giff	Management Consultant-Controller, Aaron Transportation Sudbury, Ontario Owner, JGG Business Services Sudbury, Ontario
Mary F. Applegate	Realtor, GRI, Rossetti Realty Inc. Crawfordville, Florida
Gordon P. Woodworth	Retired; Territory Manager, Pfizer Pharmaceutical Dartmouth, Nova Scotia Owner. GJ's Small Engine Repair Dartmouth, Nova Scotia
Numan D. Loafman	Insurance Sales, Innovative Medicare Solutions Aledo, Texas

## 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>
Thomas D. Hoffman	President
Joseph H. Hoffman	Chief Executive Officer
Stephen R. Desselles	Secretary/Treasurer
Kevin C. Hecker	Senior Vice President and Chief Financial Officer
Ronald A. Ives	Vice President
Jeffrey L. Smith	Consulting Actuary

## Territory and Plan of Operations

The Company is licensed to transact business in forty-five states, the District of Columbia and Canada. Medicare Supplement policies are the Company's core business. In 2010, the Company began strategic initiatives to diversify its portfolio of products by introducing new life and accident and health products including term life, final expense plans and dental, vision and hearing products. Business is written through a network of independent agents. The table below illustrates the Company's 2015 premiums written, in thousands, by line of business:

<b>Line of Business</b>	<b>Direct</b>	<b>Assumed</b>	<b>Ceded</b>	<b>Net</b>	<b>Net %</b>
Life Insurance	\$ 985	\$ 0	\$ 778	\$ 207	1.7
Individual Annuities	54	0	15	39	0.3
Accident and Health	<u>64,214</u>	<u>0</u>	<u>52,334</u>	<u>11,880</u>	<u>98.0</u>
Totals	<u>\$ 65,253</u>	<u>\$ 0</u>	<u>\$ 53,127</u>	<u>\$ 12,126</u>	<u>100.0</u>

## Reinsurance

At December 31, 2015, the Company has the following reinsurance agreements in place on its product offerings to reduce its risk exposure:

- GenRe assumes 100% of all Medicare Supplement ("Med Supp") business issued prior to 2005. In addition, GenRe assumes 90% of all "standardized" Med Supp business in-force that was issued from 2005 to May 31, 2010 and 80% of all Med Supp policies issued after June 1, 2010. GenRe provides the Company with an expense allowance to cover the administration expenses.

- Hannover assumes 95% of all U.S. Life and Annuity business in-force that was issued prior to January 8, 2004.
- Transamerica assumes 75% of the "non-standardized" Med Supp block of business. "Non-standardized" Med Supp business is essentially business which was in existence prior to federal regulation which created "standardized" Med Supp products in the early 1990's.
- Sirius International Insurance Corp. through Holborn, provides reinsurance of \$80,000 per person in excess of \$20,000 per person, common carrier only.
- Optimum Re provides excess reinsurance over \$75,000 on the Hannover reinsured Life and Annuity products. Optimum Re also, under separate treaties, reinsures 75% of Single Premium whole life policies issued after March 1, 2008 and 50% of U.S. and Canadian Term Policies issued after June 1, 2010.
- Munich reinsures 50% of all Short-Term Care policies that are in-force.

The Company does not have any reinsurance coverage on its Dental/Vision/Hearing product.

### **Financial Statements**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2015. The accompanying Notes to Financial Statements should be considered an integral part of the financial statements.

**Statement of Assets  
December 31, 2015**

**Assets**

Bonds	\$ 15,226,248
Cash, cash equivalents and short-term investments	1,824,294
Contract loans	<u>916,891</u>
Subtotal, cash and invested assets	17,967,433
Investment income due and accrued	106,705
Uncollected premiums and agents' balances	29,474
Deferred premiums, agents' balances and installments	87,364
Amounts recoverable from reinsurers	368,157
Other amounts receivable under reinsurance contracts	63,404
Electronic data processing equipment and software	52,985
Aggregate write-ins for other than invested assets	<u>11,790</u>
Total admitted assets	<u><u>\$ 18,687,312</u></u>

**Statement of Liabilities, Surplus and Other Funds  
December 31, 2015**

**Liabilities**

Aggregate reserve for life contracts	\$ 3,218,364
Aggregate reserve for accident and health contracts	1,204,712
Liability for deposit-type contracts	16,336
Contract claims:	
Life	30,772
Accident and Health	1,460,228
Premiums and annuity considerations received in advance	162,021
Interest maintenance reserve	282,205
Commissions to fieldworkers due or accrued	9,572
General expenses due or accrued	566,278
Taxes, licenses and fees due or accrued	114,658
Amounts withheld or retained as agent or trustee	183,838
Remittances and items not allocated	23,924
Asset valuation reserve	52,429
Aggregate write-ins for liabilities	<u>1,938,857</u>
Total liabilities	<u>9,264,194</u>

**Surplus**

Aggregate write-ins for surplus funds	25,000
Unassigned funds	<u>9,398,118</u>
Total surplus	<u>9,423,118</u>
Total liabilities and surplus	<u><u>\$ 18,687,312</u></u>

**Statement of Operations**  
**For the Year Ended December 31, 2015**

Premiums and annuity considerations	\$ 12,125,829
Net investment income	453,698
Amortization of interest maintenance reserve	54,512
Commissions and expense allowances on reinsurance ceded	6,632,434
Aggregate write-ins for miscellaneous income	<u>1,142,595</u>
Total	<u>20,409,068</u>
Death benefits	280,978
Matured endowments	218
Annuity benefits	63,281
Disability benefits and benefits under accident and health contracts	7,672,629
Surrender benefits and withdrawals for life contracts	39,083
Interest and adjustments on contract or deposit-type contract funds	171
Increase in aggregate reserve for life and accident and health contracts	<u>(268,031)</u>
Total	7,788,329
Commissions on premiums and annuity considerations	4,234,283
General insurance expenses and fraternal expenses	7,787,372
Insurance taxes, licenses and fees	451,715
Increase in loading on deferred and uncollected premiums	<u>5,234</u>
Total	<u>20,266,933</u>
Net income from operations before refunds to members	142,135
Net realized capital gains less capital gains tax	<u>44,066</u>
Net Income	<u><u>\$ 186,201</u></u>

## Statement of Changes in the Surplus Account

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Surplus, prior year end	\$ 9,612,437	\$ 9,503,654	\$ 10,739,937	\$ 10,971,603	\$ 11,976,389
Net income from operations	186,201	411,799	(1,869,744)	(145,501)	(285,383)
Change in net unrealized capital gains (losses)	0	(5,714)	1,824	3,890	0
Change in net unrealized foreign exchange capital gains (losses)	(575,126)	(339,929)	(285,059)	124,005	(49,372)
Change in non-admitted assets	194,155	42,315	918,350	(205,449)	(681,233)
Change in asset valuation reserve	<u>5,452</u>	<u>312</u>	<u>(1,654)</u>	<u>(8,611)</u>	<u>11,202</u>
Net change in surplus for the year	<u>(189,318)</u>	<u>108,783</u>	<u>(1,236,283)</u>	<u>(231,666)</u>	<u>(1,004,786)</u>
Surplus, current year end	<u>\$ 9,423,119</u>	<u>\$ 9,612,437</u>	<u>\$ 9,503,654</u>	<u>\$ 10,739,937</u>	<u>\$ 10,971,603</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.

### Aggregate Reserve for Life Certificates and Accident and Health Contracts, and Liability for Deposit-Type Contracts

The Company's Board of Directors appointed Jeffrey L. Smith, FCA, MAAA, a Consulting Actuary with Diamond Consulting Group, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Smith prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's 2015 Annual Statement.

Peter A. Weber, FSA, MAAA, the Department's Chief Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the reserves. On the basis of his analysis, Mr. Weber concluded the reserves fall within a reasonable range of reserve estimates at December 31, 2015.

### Subsequent Events

There were no significant subsequent events noted through the date of this report.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2015, and is summarized as follows:

Total Admitted Assets	<u>\$ 18,687,312</u>
Liabilities	9,264,194
Surplus	<u>9,423,118</u>
Total Liabilities and Surplus	<u>\$ 18,687,312</u>

### Acknowledgement

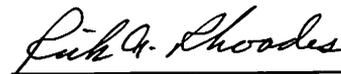
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Jill J. Kovacs, CPA; Edward J. Nagorny, AES, CFE, CISA, CPA; and Mary K. Raps, AFE.

Respectfully,



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



Rick A. Rhoades, CPA  
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, 2015.

Kevin J. Rupp  
Examiner-In-Charge

7/20/16  
Date

Rick A. Rhoades  
Assistant Chief Examiner

7/20/16  
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 20 day of July, 2016.

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, Rick A. Rhoades, 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 20 day of July, 2016.

Elizabeth Chase

(Notary Public)

**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017

My Commission Expires