

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)

HCC Life Insurance Company)
150 West Market Street, Suite 800)
Indianapolis, IN 46204)

Examination of HCC Life Insurance Company

NOTICE OF ENTRY OF ORDER

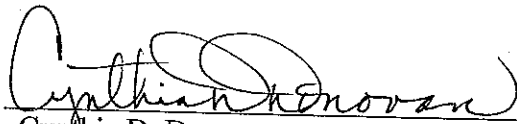
Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of HCC Life Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of HCC Life Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

Date

6/12/2015



Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 91 7190 0005 2720 0044 6180

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COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)

HCC Life Insurance Company)
150 West Market Street, Suite 800)
Indianapolis, IN 46204)

Examination of HCC Life Insurance Company

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the HCC Life Insurance Company (hereinafter "Company") for the time period January 1, 2009 through December 31, 2013.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on April 22, 2015.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on May 12, 2015 and was received by the Company on May 18, 2015.

On May 22, 2015, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

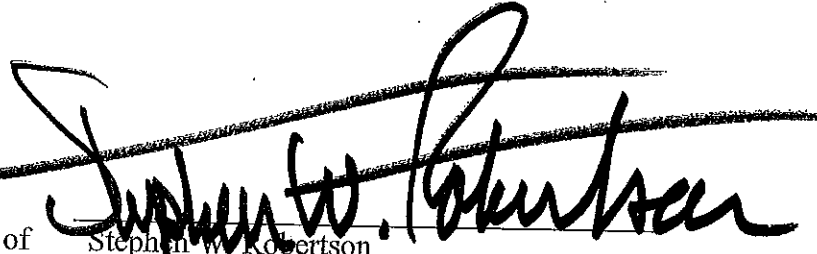
1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2013.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 17th day of June, 2015.

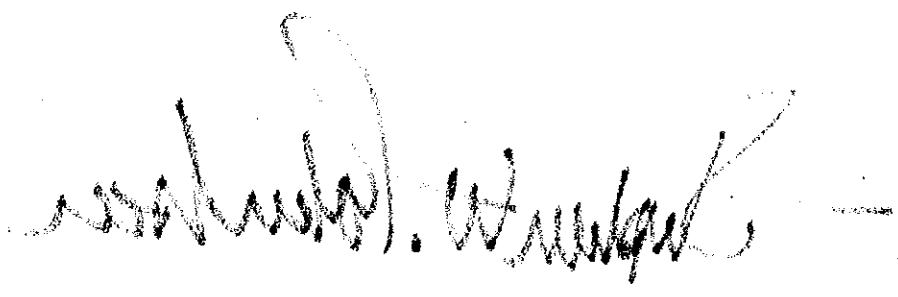

Stephen W. Robertson
Insurance Commissioner

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A handwritten signature in cursive script, appearing to read "Robert D. Winters", is written across the bottom of the page.

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

HCC LIFE INSURANCE COMPANY
NAIC COMPANY CODE 92711

As of

December 31, 2013

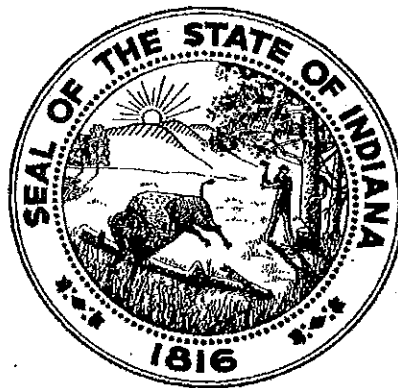


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STATE OF INDIANA

IDOI

MICHAEL R. PENCE, Governor

Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787
Telephone: (317) 232-2385
Fax: (317) 232-5251
Stephen W. Robertson, Commissioner

April 22, 2015.

Honorable Stephen W. Robertson
Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3806, an examination has been made of the affairs and financial condition of:

HCC Life Insurance Company
150 West Market Street, Suite 800
Indianapolis, IN 46204

an Indiana domestic life and health insurance company hereinafter referred to as the "Company." The examination was conducted at the main administrative offices of the Company located at 225 TownPark Drive, NW Suite 350, Kennesaw, Georgia 30144-5885.

The Report of Examination, showing the status of the Company as of December 31, 2013, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES (317) 232-2413 COMPANY COMPLIANCE (317) 233-0697 CONSUMER SERVICES (317) 232-2395 EXAMINATIONS/FINANCIAL SERVICES (317) 232-2390 MEDICAL MALPRACTICE (317) 232-2402 SECURITIES/COMPANY RECORDS (317) 232-1991 STATE HEALTH INSURANCE PROGRAM 1-800-332-4674

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2009. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2010 through December 31, 2013, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by PricewaterhouseCoopers LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

The actuarial firm of Actuarial Options, LLC was appointed by the INDOI and conducted a review of the following accounts as of December 31, 2013: Uncollected Premiums and Agent Balances, Aggregate Reserves for Life Contracts, Aggregate Reserves for Accident & Health Contracts, Contract Claims – Life Contract Claims – Accident and Health, and Provision for Experience Rated Refunds.

In accordance with the 2013 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company, and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, the Examiners performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company was incorporated as a stock life insurance company under the laws of the State of Indiana on December 3, 1980, as the Indianapolis Life Pension and Insurance Company, and commenced business on March 12, 1981. The Company adopted the name VASA Life Insurance Company in 1991 after being acquired by Brougher Insurance Group. The ownership was transferred to Eureka B.V. in 1993 and later was contributed to Eureka's Canadian subsidiary, Seaboard Life Insurance Company (USA). The Company merged with Enumclaw Life Insurance in 1994 and California Casualty and Life Insurance Company in 1995 as the surviving entity.

In December 1998, the Company was acquired by The Centris Group, Inc. and its name changed to Centris Life Insurance Company on March 1, 1999. On December 20, 1999, the Company was acquired by HCC Insurance Holdings, Inc. (HCC), a Delaware corporation formed in 1991 as a holding company for insurance companies, underwriting agencies, and intermediary operations. After the acquisition, the Company became a subsidiary of Houston Casualty Company. The Company changed its name to HCC Life Insurance Company on December 28, 1999.

In 2005, the Company acquired Perico Life Insurance Company (Perico), a Delaware domestic insurer that specializes in writing small medical stop-loss insurance.

On October 2, 2006, the Company acquired the assets of the Health Products Division of Allianz Life Insurance Company of North America for a cash consideration of \$140,000,000 and assumed the outstanding loss reserves.

On December 20, 2007, the Company's parent, HCC, acquired Multinational Underwriters and began writing short term medical insurance products on the Company's policy forms.

On September 28, 2012, the Company formed HCC Risk Solutions Company (HCCRS), a Sponsored Captive in Nevada, for self-funded employees who desire to share limited additional layers of risk on their stop loss insurance.

CAPITAL AND SURPLUS

As of December 31, 2013, the Company's total capital and surplus was \$436,892,573 which included: common capital stock of \$2,500,000, consisting of 250 shares of outstanding common stock, with a par value of \$10,000 per share, aggregate write-ins for other than special surplus funds of \$613,574, gross paid-in and contributed surplus of \$316,135,005, and unassigned funds (surplus) of \$117,643,994. All of the issued and outstanding shares were owned by HCC at the date of examination.

DIVIDENDS TO STOCKHOLDERS

The Company paid \$307,829,627 in dividends to HCC during the examination period. The following exhibit presents the dividends paid to HCC:

<u>Year</u>	<u>Dividends Paid</u>
2010	\$56,000,000
2011	78,500,000
2012	89,035,000
2013	84,294,627
Total	<u>\$307,829,627</u>

TERRITORY AND PLAN OF OPERATION

The Company was licensed to transact business in all states, the District of Columbia, and the Commonwealth of Puerto Rico as of December 31, 2013. The Company's primary lines of business are Medical Stop-Loss, Group Life, Disability, and Short-term Medical Insurance. The Company concentrates its writings in selected narrowly defined lines of business where the Company believes it can achieve an underwriting profit. During the period covered by this examination, the Company exited from certain lines of business which included HMO Reinsurance, Medical Excess, and Provider Excess. The Company markets its current insurance products primarily through third party administrators, independent, or affiliated agents and brokers.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Net Premiums Earned</u>	<u>Net Income/ (Loss)</u>
2013	\$ 750,192,368	\$ 313,299,796	\$ 436,892,573	\$ 854,593,789	\$ 142,116,324
2012	731,234,248	317,506,903	413,727,345	821,010,675	100,212,610
2011	655,730,610	255,482,532	400,248,078	685,996,456	89,035,419
2010	608,334,420	217,997,143	390,337,277	637,048,244	78,556,803

The Company reported positive net income in each of the four years under examination.

LOSS EXPERIENCE

The loss experience of the Company's accident and health business is presented in the following exhibit:

<u>Year</u>	<u>A&H Premiums Earned</u>	<u>Losses and Loss Expenses Incurred</u>	<u>Underwriting Expense Incurred</u>	<u>Loss and Loss Expense Ratio</u>	<u>Underwriting Expense Ratio</u>	<u>Combined Ratio</u>
2013	\$ 847,780,236	\$618,579,958	\$110,047,707	72.96%	12.98%	85.95%
2012	819,455,752	614,201,900	100,800,556	74.95%	12.30%	87.25%
2011	683,013,587	502,092,995	89,176,943	73.51%	13.06%	86.57%
2010	632,969,170	471,536,252	83,440,753	74.50%	13.18%	87.68%

A combined ratio below 100% indicates an underwriting profit. As noted above, the Company reported an underwriting profit on its accident and health business in each of the years covered by this examination.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the number of directors, which shall constitute the whole Board of Directors, shall be fixed from time to time by resolution of the Board of Directors or Shareholders. The following is a listing of persons serving as directors as of December 31, 2013:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Mark A. Carney	President

Carmel, Indiana	HCC Medical Insurance Services, LLC
Brad T. Irick Houston, Texas	Chief Financial Officer HCC Insurance Holdings, Inc.
Craig J. Kelbel Henderson, Nevada	Executive Vice President, HCC Insurance Holdings, Inc./President, HCC Life Insurance Company
Mark R. Sanderford Marietta, Georgia	Chief Financial Officer HCC Life Insurance Company
Christopher J. Williams Houston, Texas	Chief Executive Officer HCC Insurance Holdings, Inc.

Officers

The Company's Bylaws specify that the officers of the Company, who shall be elected by the Board of Directors, shall consist of a President, one or more Vice Presidents, a Secretary, and such other officers as the Board of Directors may determine from time to time. The daily operations were primarily managed by the following key senior officers and their respective titles as of December 31, 2013:

<u>Name</u>	<u>Position</u>
Craig J. Kelbel	President & Chief Executive Officer
Mark R. Sanderford	Executive Vice President & Chief Financial Officer
Daniel A. Strusz	Executive Vice President & Chief Operating Officer
Sharon L. Brock	Vice President
William N. Burke, Jr.	Executive Vice President
Mark W. Callahan	Executive Vice President
Mark A. Carney	Executive Vice President
Brad T. Irick	Executive Vice President
Alexander M. Ludlow	Secretary
Christopher J. Williams	Executive Vice President
Timothy R. Campbell	Vice President
Valda H. Flowers	Vice President
John D. Grider, Jr.	Senior Vice President
Michael A. Holthaus	Senior Vice President
Karen S. Johnson	Senior Vice President
Peter G. Johnson	Vice President
Dwayne J. Lee	Vice President, Treasurer
Michael J. Lee	Senior Vice President
Pamela G. McGovern	Vice President
Jeffrey E. Petty	Senior Vice President
Joycelyn M. Ray	Vice President, Assistant Secretary

Michael J. Remeika	Senior Vice President
Deborah L. Riffe	Vice President
Randy D. Rinicella	Vice President, Assistant Secretary
Andrew J. Ritchie	Senior Vice President, Assistant Secretary
Lawrence J. Stewart	Senior Vice President, Chief Underwriting Officer
Thomas E. Weist	Senior Vice President

In addition, the following officers and their respective HCC Life Insurance Company titles performed various functions for the Company at the HCC holding company level:

Sharon L. Brock	Vice President of Corporate Tax
William N. Burke, Jr.	Executive Vice President
Mark W. Callahan	Executive Vice President
Dwayne J. Lee	Vice President and Treasurer
Alexander M. Ludlow	Corporate Secretary
Joycelyn M. Ray	Vice President & Assistant Secretary
Deborah L. Riffe	Vice President of Administration
Randy D. Rinicella	Vice President & Assistant Secretary
Thomas E. Weist	Senior Vice President & Chief Actuary
Christopher J. Williams	Executive Vice President

Corporate Governance

In addition to its Board of Directors, the Company receives oversight from the board and board committees of HCC. As of December 31, 2013, the HCC directors and their respective committees were as follows:

Audit Committee:

James C. Flagg, Ph.D.	Chair
Walter M. Duer	Member
Robert A. Rosholt	Ex-Officio
J. Mikesell Thomas	Member

Compensation Committee:

Judy C. Bozeman	Chair
Emmanuel T. Ballases	Member
Thomas M. Hamilton	Member
Robert A. Rosholt	Ex-Officio

Enterprise Risk Oversight Committee:

Frank J. Bramanti	Chair
Emmanuel T. Ballases	Member
Walter M. Duer	Member
John N. Molbeck, Jr.	Member
Hans D. Rohlf	Member

Robert A. Rosholt	Ex-Officio
Christopher J. Williams	Member

Investment and Finance Committee:

Leslie S. Heisz	Chair
Judy C. Bozeman	Member
Frank J. Bramanti	Member
John N. Molbeck	Member
Robert A. Rosholt	Ex-Officio
J. Mikesell Thomas	Member
Christopher J. Williams	Member

Nominating and Corporate Governance Committee:

Thomas M. Hamilton	Chair
James C. Flagg, Ph.D.	Member
Leslie S. Heisz	Member
Robert A. Rosholt	Member

CONFLICT OF INTEREST

The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer, or employee, which is likely to conflict with their official duties. From a review of the officers and directors signed statements, there were no material conflicts of interest noted for the period under examination.

OATH OF OFFICE

Indiana Code 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each director signed an Oath of Office statement when elected for the period under examination.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the period under examination.

Bylaws

There were no amendments made to the Bylaws during the period under examination.

Minutes

The Board of Directors and Shareholders meeting minutes were reviewed for the period under examination through the fieldwork completion date, and significant actions taken during each meeting were noted. The Company's Annual Shareholders meetings for the period under examination were held in accordance with IC-27-1-7-7(b).

AFFILIATED COMPANIES

Organizational Structure

The Company is a member of an insurance holding company system as defined within IC 27-1-23 and Regulation of Insurance Holding Company Systems. The Company is wholly owned by HCC, a Delaware domiciled corporation. The following organizational chart depicts the Company's relationship within the holding company system:

	NAIC Co. <u>Code</u>	Domiciliary <u>State/Country</u>
HCC Insurance Holdings, Inc.		DE
Illium, Inc.		DE
Houston Casualty Company	42374	TX
U.S. Specialty Insurance Company	29599	TX
HCC Life Insurance Company	92711	IN
Perico Life Insurance Company	85561	DE
HCC Risk Solutions Company		
HCC Intermediate Holdings, Inc.		
HCC Risk Management Corporation		
HCC Service Company, Inc.		
HCC Service Delaware, LLC		
HCC Reinsurance Company Limited		
HCC Re Agency, Ltd.		
Avemco Corporation		DE
Avemco Insurance Company	10367	MD
HCC Specialty Insurance Company	11243	OK
HCC Indemnity Guaranty Agency, Inc.		
HCC Insurance Holdings (International) Limited		
HCC Specialty Holdings (No. 1) Limited		
Pepys Holdings Limited		
HCC Group Limited		
HCC Int'l Insurance Company PLC		
Houston Casualty Co. Europe, S.A.		
HCC Marine 1, Ltd.		
HCC Acquisition Sub, Inc.		
Professional Indemnity Agency, Inc.		
HCC Specialty Underwriters, Inc.		

MAG Acquisition Sub, Inc.		
HCC Global Finance Products, LLC		
HCC Global Financial Products, SL		
HCC Global Financial Products of Texas, LLC		
Surety Associates Holdings Company, Inc.		
American Contractors Indemnity Company	10216	CA
USSC Holdings, Inc.		
United States Surety Company	10656	MD
HCC Medical Insurance Services, LLC		
G.B. Kenrick & Associates, Inc.		

Note: All companies were 100% owned.

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B Holding Company Registration Statement and were filed with the INDOI and not disapproved by the INDOI in accordance with IC 27-1-23-4(b)(4).

Intercompany Service and Cost Allocation Agreement

Effective January 1, 2000, the Company entered into an Intercompany Service and Cost Allocation Agreement with HCC Service Company, Inc. (HCC Service). Under this agreement, HCC Service agrees to provide personnel, administrative, and other services and facilities to the Company. Additionally, the Company performs services on behalf of Perico under the same agreement. HCC Service charges the Company monthly for its proportionate share of the costs. During 2013, the Company incurred \$9,282,057 of allocated costs from affiliates under the terms of this agreement. This agreement was filed with the INDOI in accordance with IC 27-1-23-4(b)(4).

Financial and Statutory Accounting Tax Allocation Agreement

Effective January 1, 2000, the Company became party to a Financial and Statutory Accounting Tax Allocation Agreement with various affiliates within the HCC holding company system. This agreement provides for the filing of consolidated federal income tax returns by HCC on behalf of the insurers and non-insurer affiliates in the holding company system, and the allocation of tax liabilities among those entities. Under the agreement, each party's respective obligation or benefit is calculated on a separate return basis. This agreement was filed with the INDOI in accordance with IC 27-1-23-4(b)(4).

Managing General Underwriter Agreements and Arrangements

Effective September 2, 2003, the Company entered into an MGU Agreement entitled Memorandum of Understanding (MOU) with ASU International, Inc., whose name changed to HCC Specialty Underwriters, Inc. (HCCSU) effective November 1, 2005. The MOU was filed with the INDOI on July 9, 2004. Subsequent amendments to the MOU and effective dates were as follows:

- September 1, 2007 amended lines of business, limits of liability, and commission,
- September 1, 2008 amended limits of liability and commission,
- September 1, 2009 amended limits of liability and commission,
- September 1, 2010 amended limits of liability and commission,

- January 1, 2012 (No. 2012-1) amended Section 3.1 Claims and 3.2 Contested Claims of Article II – Administration of Claims.

The above amendments were filed with the INDOI in accordance with IC 27-1-23-4(b)(4).

Amendment (No. 2012-2) to the MOU, which lowered commission on certain lines of business, was not filed with the INDOI in accordance with IC 27-1-23-4(b)(4) during the period covered by this examination. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

During 2013, the Company paid commissions of \$16,963,842 to HCCSU under the provisions of the MGU Agreement.

On January 2, 2008, HCC acquired MultiNational Underwriters, LLC, an underwriting agency located in Indianapolis, Indiana, and renamed it HCC Medical Insurance Services, LLC (HCCMIS). In 2008, HCCMIS commenced writing short-term medical insurance policies for the Company. As an alternative to entering into an MGU Agreement, the Company appointed employees of HCCMIS as authorized persons to conduct the sale of the short-term medical product. During 2013, the Company paid \$4,202,900 of commissions to HCCMIS. This arrangement was disclosed in Form B for each respective year under examination.

Assignment and Assumption of Lease Agreement

Effective February 1, 2013, the Company entered into an Assignment and Assumption of Lease Agreement with its affiliate, Professional Indemnity Agency, Inc. (PIA). Under this agreement, PIA assigned and the Company assumed the remaining term of a lease agreement originally entered into by PIA (Tenant) and PIMA Freeway Commerce Center III, LLC (Landlord) dated December 1, 2010 and ending May 31, 2015 for office space of 3,917 square feet located at 8925 East Pima Center Parkway, Suite 215, in Scottsdale, Arizona. Under the terms of this agreement, the annual base rent is \$45,672. This transaction was filed pursuant to IC 27-1-23-4(b)(4).

Captive Services Agreement

Effective December 15, 2013, the Company entered into a Captive Services Agreement with HCCRS. Under this agreement, the Company agreed to perform certain administrative services for HCCRS which were stated in Exhibit A of this agreement. The agreement was filed pursuant to IC 27-1-23-4(b)(4).

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by a fidelity bond issued by Federal Insurance Company. The bond has aggregate coverage of \$20,000,000 and a single loss limit of liability of \$10,000,000 and it carried a single loss deductible of \$250,000. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2013, including but not limited to, directors and officers coverage, fiduciary, liability, excess liability, umbrella, and worker's compensation.

STATUTORY DEPOSITS

The Company reported special deposits comprised of U.S. Treasury Notes and short-term investments held by various Departments of Insurance as of December 31, 2013:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	\$ 5,021,435	\$ 5,084,973
All Other Special Deposits:		
Georgia	45,204	45,050
Massachusetts	99,989	100,250
New Hampshire	499,946	501,250
New Mexico	125,567	125,137
New York	401,816	400,440
North Carolina	404,713	405,943
South Carolina	527,383	525,577
Virginia	124,987	125,313
Total Other Special Deposits	<u>\$ 7,251,040</u>	<u>\$ 7,313,933</u>

REINSURANCE

Reinsurance Assumed

Prior to January 1, 2013, the Company assumed medical business from small regional insurance carriers and Health Maintenance Organizations (HMOs) mainly in the form of excess of loss agreements with terms of one year. During 2013, the Company reported assumed premiums of \$12,830,599 under its terminated HMO Reinsurance Agreements.

Reinsurance Ceded

The Company periodically evaluates the need to purchase reinsurance on its medical stop loss, life, and accident and health business primarily based on its current level of surplus, actuarial projection models, and reinsurance market price analyses. As of December 31, 2013, the Company's reinsurance program included the following significant coverages:

Medical Stop Loss, Medical Excess, HMO Reinsurance

Effective January 1, 2012, the Company entered into a two year excess of loss reinsurance agreement whereby it cedes risks related to its Medical Stop Loss, Medical Excess, and HMO Reinsurance business. Under the terms of the agreement, the Company cedes 100% of its ultimate net losses for Medical Stop Loss claims in excess of \$6,000,000 per covered member. For HMO Reinsurance and Medical Excess, the agreement provides reinsurance through two layers of coverage. Under the first layer, the Company cedes ultimate net losses up to \$5,000,000 in excess of \$5,000,000 per covered member. For the second layer, the Company cedes 100% of ultimate net losses in excess of \$10,000,000 per covered member.

Life Insurance and Annuities

The Company's Seaboard Life Insurance Company (USA) run-off business of individual life and annuity products is primarily reinsured on a 100% coinsurance basis by Swiss Re Life & Health America under an Indemnity Reinsurance Agreement which became effective July 1, 1998.

The Company commuted its excess of loss reinsurance agreement for its group life business on November 13, 2013. The agreement provided coverage for losses in excess of \$50,000 per person up to a limit of \$1,200,000 per person.

Accident and Health Insurance (A&H)

During the period covered by this examination, the Company ceded a portion of its A&H business to the European reinsurance market through a number of quota share treaties. As of December 31, 2013, the Company ceded A&H business under certain treaties with the following respective line of business and quota share percentages:

<u>Line of Business</u>	<u>Percentage Retained by the Company</u>	<u>Percentage Ceded</u>
AD&D and Sports Disability	0%	100%
Baseball Individual Disability	5%	95%
Prestige Disability	20%	80%

In addition to the treaty reinsurance described above, the Company ceded business under various facultative arrangements.

RESERVES

Sam Gutterman, FSA, MAAA, FCAS, of the firm PricewaterhouseCoopers LLP, is the Appointed Actuary for the Company. Mr. Gutterman has been appointed by the Board of Directors to render an actuarial opinion on the statutory-basis loss reserves of the Company. He rendered an opinion on such reserves for all years covered by this examination.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining reserves and related actuarial items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials as of December 31, 2013. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used, and such tests of the calculations as considered necessary.

The 2013 opinion stated that the amounts carried in the balance sheet on account for policy reserves and related actuarial items: 1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles, 2) are based on actuarial assumptions which produce reserves at least as great as those called for in any policy or contract provision as to reserve basis and method, and are in accordance with all other contract provisions, 3) meet the requirements of Indiana insurance law and regulations and are at least as great as the minimum aggregate amounts required by the State of Indiana, 4) are computed on the basis of assumptions

consistent with those used in computing the corresponding items in the Annual Statement of the preceding year end, and 5) include provisions for all actuarial reserves and related statement items that ought to be established.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The detail trial balance prepared from the Company's general ledger for the year ended December 31, 2013, was agreed to the Annual Statement without exception. The Company's independent auditors issued unqualified opinions on the Company's audited statutory statements for each year during the examination period. The audited financial statements were agreed to the Annual Statement for the year ended December 31, 2013, with no exceptions noted. All of the independent audit work papers were made available to the Examiners during the examination.

The Company's accounts and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger. The Company maintains adequate supporting work papers which were reviewed during the examination. From a review of the internal controls, it was determined that the Company's current information systems possess most of the physical and internal controls as prescribed by the NAIC.

Overall, the Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

FINANCIAL EXHIBITS

Comparative Exhibit – Statutory Statement of Assets
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds
Comparative Exhibit - Statutory Summary of Operations
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

HCC LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

	As of December 31, 2013			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Assets:				
Bonds	\$ 673,632,243	\$ -	\$ 673,632,243	\$ 591,409,195
Common stocks	19,127,047	-	19,127,047	51,580,879
Cash, cash equivalents and short-term investments	10,299,955	-	10,299,955	41,758,179
Subtotals, cash and invested assets	<u>\$ 703,059,245</u>	<u>\$ -</u>	<u>\$ 703,059,245</u>	<u>\$ 684,748,253</u>
Investment income due and accrued	\$ 7,127,580	\$ -	\$ 7,127,580	\$ 6,590,790
Uncollected premiums and agents' balances in the course of collection	20,558,121	-	20,558,121	20,906,715
Amounts recoverable from reinsurers	663,351	-	663,351	-
Other amounts receivable under reinsurance contracts	5,142,887	-	5,142,887	3,109,740
Net deferred tax asset	13,385,385	-	13,385,385	15,473,974
Guaranty funds receivable or on deposit Receivable from parent, subsidiaries and affiliates	71,766	-	71,766	100,291
	184,033	-	184,033	304,485
Total Assets	<u><u>\$ 750,192,368</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 750,192,368</u></u>	<u><u>\$ 731,234,248</u></u>

HCC LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus, and Other Funds

	As of December 31, 2013			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Liabilities:				
Aggregate reserve for life contracts	\$ 75,499	\$ -	\$ 75,499	\$ 108,158
Aggregate reserve for accident and health contracts	8,973,886	-	8,973,886	4,344,215
Contract claims: Life	1,122,142	-	1,122,142	1,025,707
Contract claims: Accident and Health	256,757,090	-	256,757,090	261,450,966
Provision for experience rating refunds	3,166,935	-	3,166,935	4,277,308
Interest Maintenance Reserve	5,446,313	-	5,446,313	4,880,638
Commissions to agents due or accrued - life and annuity contracts and accident and health	5,268,655	-	5,268,655	2,869,657
General expenses due or accrued	7,713,606	-	7,713,606	6,505,104
Taxes licenses, and fees due or accrued	8,143,307	-	8,143,307	5,734,581
Current federal and foreign income taxes	6,206,739	-	6,206,739	1,668,892
Remittances and items not allocated	5,741,007	-	5,741,007	8,177,297
Asset valuation reserve	1,520,558	-	1,520,558	1,179,469
Reinsurance in authorized and certified companies	-	-	-	47,115
Funds held under reinsurance treaties	113,779	-	113,779	57,990
Payable to parent, subsidiaries and affiliates	2,378,224	-	2,378,224	858,965
Payable for securities	-	-	-	13,746,714
Aggregate write-ins for liabilities	672,057	-	672,057	574,126
Total Liabilities	\$ 313,299,796	\$ -	\$ 313,299,796	\$ 317,506,903
Common capital stock	\$ 2,500,000	\$ -	\$ 2,500,000	\$ 2,500,000
Aggregate write-ins for other than special surplus funds	613,574	-	613,574	1,227,148
Gross paid in and contributed surplus	316,135,005	-	316,135,005	316,031,223
Unassigned funds (surplus)	117,643,994	-	117,643,994	93,968,974
Total capital and surplus	\$ 436,892,573	\$ -	\$ 436,892,573	\$ 413,727,345
Total liabilities, capital and surplus	\$ 750,192,367	\$ -	\$ 750,192,367	\$ 731,234,248

HCC LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Summary of Operations

	As of December 31, 2013			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Premium and annuity consideration and a&h contracts	\$ 854,593,789	\$ -	\$ 854,593,789	\$ 821,010,675
Net investment income	59,013,354	-	59,013,354	29,486,100
Amortization of Interest Maintenance Reserve	2,387,500	-	2,387,500	1,492,415
Commission and expense allowances on reinsurance ceded	18,336,019	-	18,336,019	9,693,946
Aggregate write-ins for miscellaneous income	1,312,684	-	1,312,684	684,937
Totals	\$ 935,643,346	\$ -	\$ 935,643,346	\$ 862,368,073
Death benefits	\$ 1,441,446	\$ -	\$ 1,441,446	\$ 1,117,870
Disability benefits and benefits under accident and health contracts	618,579,958	-	618,579,958	614,201,900
Increase in aggregate reserves for life and health contracts	4,597,012	-	4,597,012	(844,839)
Totals	\$ 624,618,416	\$ -	\$ 624,618,416	\$ 614,474,931
Commissions on premiums, annuity considerations and deposit-type contract funds	59,427,159	-	59,427,159	45,429,465
Commissions and expense allowances on reinsurance assumed	658,450	-	658,450	1,962,718
General insurance expenses	45,333,981	-	45,333,981	43,450,642
Insurance taxes, licenses and fees, excluding federal income taxes	22,853,400	-	22,853,400	19,666,879
Totals	\$ 752,891,406	\$ -	\$ 752,891,406	\$ 724,984,635
Net gain from operations before dividends to policyholders and federal income taxes	182,751,940	-	182,751,940	137,383,438
Federal and foreign income taxes incurred	40,635,616	-	40,635,616	37,140,388
Net gain from operations after dividends to policyholders and federal income taxes	\$ 142,116,324	\$ -	\$ 142,116,324	\$ 100,243,050
Net realized capital gains (losses) (excluding gains (losses))	-	-	-	(30,440)
Net Income	\$ 142,116,324	\$ -	\$ 142,116,324	\$ 100,212,610

HCC LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and Surplus Account:				
Surplus as regards policyholders, December 31 prior year	\$ 413,727,345	\$ 400,248,078	\$ 390,337,277	\$ 367,721,301
Net income	142,116,324	100,212,610	89,035,419	78,556,803
Change in unrealized capital gains (loses)	(32,453,832)	210,424	(464,137)	551,306
Change in net deferred income tax	(5,033,801)	(4,060,903)	(2,949,731)	(2,632,829)
Change in nonadmitted assets	3,211,709	5,735,784	3,607,090	2,574,419
Change in liability for reinsurance in unauthorized and certified companies	47,115	494,464	(541,579)	22,124
Change in asset valuation reserve	(341,088)	(280,096)	(278,875)	(210,173)
Paid in surplus adjustment	315,181	610,634	319,353	54,169
Dividends to stockholders	(84,294,627)	(89,035,000)	(78,500,000)	(56,000,000)
Aggregate write-ins for gains and losses in surplus	(401,753)	(408,650)	(316,739)	(299,843)
Change in surplus as regards policyholders for the year	\$ 23,165,228	\$ 13,479,267	\$ 9,910,801	\$ 22,615,976
Surplus as regards policyholders, December 31 current year	\$ 436,892,573	\$ 413,727,345	\$ 400,248,078	\$ 390,337,277

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2013, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

Amendment No. 2012-2 to the MGU Agreement with HCCSU, which lowered commission on certain lines of business, was not filed with the INDOI in accordance with IC 27-1-23-4(b)(4) during the period covered by this examination.

It is recommended that the Company file all amendments to intercompany agreements in accordance with the provisions of IC 27-1-23-4(b)(4).

Subsequent to the examination date, on September 9, 2014, the Company filed amendment No. 2012-2 to the MGU Agreement with HCCSU with the INDOI.

SUBSEQUENT EVENTS

Sale of Subsidiary

Under the terms of a Purchase Agreement effective June 1, 2014, the Company sold its subsidiary, Perico to MAPFRE U.S.A. CORP. (MAPFRE). In order for Perico to be sold to MAPFRE as a "clean shell", free and clear of any liabilities, the Company entered into a Reinsurance Agreement with Perico effective June 1, 2014. Under the terms of the Reinsurance Agreement, the Company agrees to assume 100% of Perico's insurance liabilities from and after the effective date of the Reinsurance Agreement.

In accordance with the Purchase Agreement, effective June 1, 2014, the Company also entered into an Administrative Services Agreement with MAPFRE pursuant to which the Company agrees to administer all aspects of the insurance contracts ceded under the Reinsurance Agreement.

Captive Insurance Subsidiary Transactions

Subsequent to the examination date the Company's captive insurer affiliate, HCCRS, began facilitating the assumption of insurance business through its protected cell companies. Effective January 1, 2014, the Company entered into reinsurance agreements with both of the unaffiliated protected cell companies within HCCRS. During 2014, the Company ceded \$2,191,673 of premiums to the HCCRS protected cell companies under these reinsurance agreements.

Officer Changes

The Company's President and Chief Executive Officer, Craig J. Kelbel, retired effective January 31, 2015. On this same date, the Company's Executive Vice President and Chief Operating Officer, Daniel A. Strusz, was appointed as the Company's new President and Chief Executive Officer. Mr. Kelbel will continue to serve in a consulting capacity, and as chairman of the Company's board.

Reinsurance and Administrative Services Agreement

Effective July 1, 2014, the Company entered into a Reinsurance and Administrative Services Agreement (Agreement) with Hartford Life and Accident Insurance Company (Hartford). The Agreement provides for reinsurance and administrative services for the Company's new products which will include Basic, Supplemental and Voluntary Group Life with or without Accidental Death and Dismemberment benefits, Long Term Disability and Short Term Disability policies.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the Examiners.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., hereinafter collectively referred to as the "Examiners" performed an examination of the **HCC Life Insurance Company** as of **December 31, 2013**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2013 NAIC *Financial Condition Examiner's Handbook* and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of the **HCC Life Insurance Company** as of **December 31, 2013**, as determined by the undersigned.



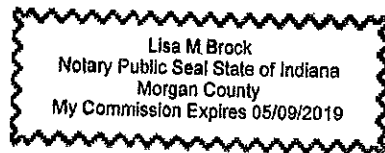
D. Patrick Huth CFE
The Thomas Consulting Group, Inc.

State of:
County of:

On this 1st day of June, 2015, before me personally appeared, D. Patrick Huth, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires 5/9/2019 Lisa M. Brock
Notary Public



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