STATE OF ALABAMA

DEPARTMENT OF INSURANCE

MONTGOMERY, ALABAMA

REPORT ON EXAMINATION

OF

PROTECTIVE INDUSTRIAL INSURANCE COMPANY

OF ALABAMA, INC.

BIRMINGHAM, ALABAMA

AS OF

DECEMBER 31, 2002
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STATE OF ALABAMA
COUNTY OF JEFFERSON

Rhonda B. Ball being first duly sworn, under her oath deposes and says:

That she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of Protective Industrial Insurance Company of Alabama, Incorporated, for the period from January 1, 1999 through December 31, 2002;

That the following __61__ pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama; and

That the statements, exhibits, and data therein contained are true and correct to the best of her knowledge and belief.

Rhonda B. Ball
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this 26th day of August, 2004.

Audrey Griffin
(Signature of Notary Public)

Audrey Griffin, Notary Public
(Signature of Notary Public)
in and for the State of Alabama.

Birmingham, Alabama
August 26, 2004

Honorable Walter A. Bell
Commissioner of Insurance
State of Alabama Department of Insurance
P.O. Box 303351
Montgomery, Alabama 36130-3351

Dear Commissioner:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions of the National Association of Insurance Commissioners, an examination as of December 31, 2002, has been made of the affairs, financial condition, and market conduct of Protective Industrial Insurance Company of Alabama at its home office located at 2300 11th Avenue North, Birmingham, Alabama 35234. The report of examination is submitted herewith.

Where the description "Company" appears herein, without qualification, it will be understood to indicate Protective Industrial Insurance Company of Alabama.
SCOPE OF EXAMINATION

The Company was last examined for the four-year period ended December 31, 1998, by examiners from the State of Alabama. The current examination covers the intervening period from the date of the last examination through December 31, 2002, and was conducted by examiners from Alabama. Where deemed appropriate, transactions subsequent to December 31, 2002, were reviewed.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department’s regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards.

This report of examination is qualified and expresses no opinion on the accuracy of the financial statements of Protective Industrial Insurance Company of Alabama. Furthermore, due to the Company’s inability or unwillingness to provide information requested by the examiners during the course of the examination, the examiners were unable to determine if the Company was solvent, impaired or insolvent. See “QUALIFICATION OF EXAMINATION REPORT” for detailed discussion on Page 31.

The discussion of assets and liabilities contained in this report has been confined to those items which indicated a violation of the Alabama Insurance Code, the Insurance Department’s rules and regulations, or which were deemed to require comments and/or recommendations.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2002. A signed letter of representation was also obtained at the conclusion of the examination whereby management represented that, through the date of this examination report, complete disclosure was made to the examiners regarding asset and liability valuation, financial position of the Company, and contingent liabilities.

A market conduct examination was performed concurrently with the financial examination. The market conduct examination included a review of the Company’s operations/management; complaint handling; marketing and sales; producer licensing; policyholder service; policy forms, rating and underwriting practices; privacy issues; and claims. See page 13 for further discussion of the market conduct examination. Certain required elements relating to these areas of examination are included in this report. However, where no exceptions were noted in particular areas, details of
the various tests conducted are not included. If exceptions were identified as part of this examination, the details of the exceptions, the related tests, and recommendations are included in the appropriate sections of this Report of Examination.

ORGANIZATION AND HISTORY

The Company was organized on March 7, 1923, in Jefferson County, Alabama, as "Protective Burial Association," a non-profit society. In 1925, the Company was converted to a mutual aid association, and subsequently, in 1927 to a stock company with $5,000 authorized capital divided into fifty shares of $100 par value common stock. The charter was amended in 1932 to broaden the powers of the corporation and to change its name to "Protective Industrial Insurance Company of Alabama, Inc."

The authorized capital of the Company was increased to $25,000 in 1964 and to $100,000 in 1965. On May 7, 1969, the charter was amended to convert the Company to a legal reserve insurance company, and the authorized capital was increased to $200,000 divided into 2,000 common shares. The par value remained $100 per share throughout these increases.

The par value of the Company's common stock was reduced to $25 per share in 1978. The number of authorized shares was increased to 40,000 shares, thereby providing $1,000,000 of authorized capital. Simultaneously, a four-to-one stock dividend increased the number of shares issued from 6,000 to 24,000.

In 1981, the number of authorized common shares was increased to 50,000, thereby providing authorized capital of $1,250,000. A stock dividend of two-thirds share for each share issued decreased the number of shares issued to 40,000. Of the 10,000 shares authorized and un-issued, 6,666 shares were set aside for the Executive Stock Option Plan.

In 1985, the Company acquired all of the in force business and certain assets of the Christian Benevolent Insurance Company, Mobile, Alabama, under an Assumption Reinsurance Agreement, which was approved by the Alabama Insurance Commissioner.

On April 28, 1990, the Stockholders allocated $100,000 from the unassigned surplus for the purchase of treasury stock. At December 31, 1998, $75,188 had been expended to purchase 1,180 shares, which remained in the Company treasury throughout the examination period.
At December 31, 2002, the Company’s Annual Statement reflected a capital structure of 39,124 shares of common stock, issued and outstanding, with a par value of $25, for total capital of $978,100; paid in and contributed surplus of $9,345; assigned surplus of $24,881; unassigned funds (surplus) of $4,357,541.

GROWTH OF THE COMPANY

The following schedule presents significant items that reflect the growth of the Company for the years indicated:

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Premiums Written</th>
<th>Admitted Assets</th>
<th>Liabilities</th>
<th>Capital and Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998*</td>
<td>$3,239,979</td>
<td>$17,950,322</td>
<td>$15,068,509</td>
<td>$1,874,213</td>
</tr>
<tr>
<td>1999</td>
<td>3,270,549</td>
<td>17,172,930</td>
<td>14,688,348</td>
<td>1,476,982</td>
</tr>
<tr>
<td>2000</td>
<td>2,447,828</td>
<td>19,030,745</td>
<td>13,973,628</td>
<td>4,049,517</td>
</tr>
<tr>
<td>2001</td>
<td>3,037,619</td>
<td>$18,904,339</td>
<td>13,841,078</td>
<td>4,055,658</td>
</tr>
<tr>
<td>2002</td>
<td>3,225,896</td>
<td>$18,787,375</td>
<td>$13,463,126</td>
<td>4,316,649</td>
</tr>
</tbody>
</table>

*Per the examination.

The other amounts were obtained from the Company’s Annual Statements. This report of examination is qualified and expresses no opinion on the accuracy of the financial statements of Protective Industrial Insurance Company of Alabama. Furthermore, due to the Company’s inability or unwillingness to provide information requested by the examiners during the course of the examination, the examiners were unable to determine if the Company was solvent, impaired or insolvent. See “QUALIFICATION OF EXAMINATION REPORT” for detailed discussion on Page 31.

MANAGEMENT AND CONTROL

Stockholders

The common stock of the Company (excluding treasury stock) was held by forty-one individuals, in amounts varying from ten to five thousand shares at December 31, 2002. One stockholder owned 12.78% of the 39,124 total outstanding shares and
seven additional individuals owned more than five percent but less than ten percent, of the outstanding shares.

Trading on the Company’s common stock is restricted, with the Company having first option to purchase any stock that is offered for sale. The Company allocated funds from its unassigned surplus for the purchase of treasury stock.

**Board of Directors**

The Company’s By-Laws stipulated that its property and business shall be managed and controlled by a Board of Directors. The number of directors is fixed at fifteen as a minimum, but may be increased at any time by a vote of the Board of Directors. Fifteen directors were reported in 2002.

Directors were elected by the stockholders and served until their successors were elected and qualified. The By-Laws provided for the election of directors to terms of varying lengths as follows:

- a.) Eight directors to be elected for three-year terms;
- b.) Four directors to be elected for two-year terms; and,
- c.) Three directors to be elected for one-year terms.

The jurat page of the 2002 Annual Statement listed these individuals as directors of the Company at the examination date. It was also noted that the stockholders properly elected these directors at the April 27, 2002 annual meeting. The directors serving were as follows:

Wilson Louis Baugh  
Wilma Singletary Harris  
John Wesley Work V  
Laura Partee Sterling  
Julian Mason Davis Jr.  
James Carl Harrison  
Sharon Ann McGuire  
Janet Marie Work  
Karen Madelyn Davis  
Sadye Harris James  
Janis James Mercer  
Carol Harris Mitchell  
Debra Francine Gatson  
Frances Clarice Jones
Marion Partee Sterling

Marion Sterling was a director and a consultant for the Company. Mr. Sterling was paid for his consulting fees in 2002, which was in violation of ALA CODE § 27-27-26(a) (1975). Per ALA CODE § 27-27-26(a) (1975), "Any officer, or director, or any member of any committee or any employee of a domestic insurer ... shall not take or receive to his own use any fee, brokerage, commission, gift or other consideration for, or on account of, any such transaction made by, or on behalf of, such insurer."

Officers

The following officers were elected at the Annual Meeting of the Board of Directors on April 27, 2002, and were serving at December 31, 2002.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Julian Mason Davis, Jr.</td>
<td>Board Chairman/General Counsel</td>
</tr>
<tr>
<td>Marion P. Sterling</td>
<td>Board Vice Chairman</td>
</tr>
<tr>
<td>James Carl Harrison</td>
<td>President and Actuary</td>
</tr>
<tr>
<td>Harold Washington</td>
<td>Controller</td>
</tr>
<tr>
<td>Alberta Rush Crumb</td>
<td>Secretary</td>
</tr>
<tr>
<td>John H. McCain</td>
<td>Treasurer</td>
</tr>
<tr>
<td>Carol Harris Mitchell</td>
<td>Vice President</td>
</tr>
<tr>
<td>Julian Mason Davis III</td>
<td>Vice President</td>
</tr>
</tbody>
</table>

Committees

On April 27, 2002 at the Annual Meeting of the Board of Directors, the Chairman appointed the following committees:

Executive Committee
- Wilson L. Baugh
- J. Mason Davis, Jr.
- James C. Harrison
- John W. Work, V
- Carol H. Mitchell
- Laura P. Sterling
- Marion P. Sterling

Finance Committee
- Debra F. Gatson
- Sharon A. McGuire
Karen M. Davis

Nominating Committee
W.L. Baugh
Frances C. Jones
Laura P. Sterling

Conflict of Interest

The Company did not have all officers and directors sign conflict of interest statements, therefore, the examiners requested the Company's conflict of interest policy. Per the Company's corporate secretary, the Company did not have a conflict of interest policy. However, the Company's General Interrogatory Number 13 in its 2002 Annual Statement stated that "The reporting entity has an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees which is in or is likely to conflict with the official duties of such person."

The Company was unable to provide a conflict of interest statement for the following directors:

1999
Debra Francine Gatson

2000
Sandra Davis Work
Debra Francine Gatson

2001
John Henry McCain

2002
Julian Mason Davis III
John Wesley Work V
Janet Marie Work

Also, the Company does not require its key employees to sign a conflict of interest statement each year.
**Corporate Records**

The Company’s Certificate of Incorporation, By-Laws and related amendments were inspected and found to provide for the operation of the Company in accordance with usual corporate practices.

Records of the meetings and actions of the Stockholders, Board of Directors, Executive committee, and Finance committee for the examination period were reviewed. Other than the missing conflict of interest statements and the missing proxy statements, the records appeared to be complete and accurately reflected the actions of the respective corporate bodies.

The examiner reviewed the proxies for the period under examination. The Company could not provide three of the proxies for 2001. The Corporate Secretary stated that the Company could not find the three proxies, which made the Company not in compliance with ALA. Code § 27-27-29(a) (1975). Per ALA. Code § 27-27-29(a) (1975), "Every domestic insurer shall have, and maintain, its principal place of business and home office in this states and shall keep therein complete records of its assets, transaction and affairs..."

**HOLDING COMPANY AND AFFILIATE MATTERS**

**Holding Company Matters**

The Company was subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975). In connection, therewith, the Company was registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made by the Company.

**Management Agreement with Universal Life Insurance Company**

The agreement was between the Company (PIICO) and Universal Life Insurance Company (ULICO). The effective date of the agreement was September 28, 2000 and is renewable annually for periods of one year unless written notice is given by either party at least three months in advance of the end of the fiscal year. PIICO shall provide management services and determine and control the overall operations of ULICO under policies approved by ULICO’s board of directors. PIICO shall provide the following services:
a. Establishing management policies and operating procedures with respect to its insurance business;
b. Guidance of management in all employee relations, including the securing of employee fringe benefit programs;
c. Selection and training of all key management personnel;
d. Personnel supervision and training;
e. Operation, supervision and directions through PIICO of those activities fully described in subparagraph (a) hereof;
f. Supervision and control of accounting practices, bookkeeping and computer operations;
g. Selection of qualified professionals, including auditors, accountants, attorneys and salesmen;
h. Selection of internal auditors and accountants and directions of their activities;
i. Direction and control over all financing, including capital investments and other expenditures;
j. Service the needs of ULICO's insureds.

For these services, ULICO shall pay PIICO $75,000 on or before the first day of each month the agreement is in effect. It was noted that ULICO did not always pay this management fee on or before the first day of each month.

ULICO will furnish PIICO with suitable office space, utilities and other necessary services and will reimburse PIICO for all necessary administrative, office, travel, entertainment, advertising and professional expenditures as may be required in the performance of its duties and responsibilities under the Agreement. PIICO shall maintain, at its principal office for the duration of this agreement and for five years thereafter, adequate books and records of all transactions between ULICO and PIICO and ULICO's insureds and shall safeguard all such information in confidence to the same extent that PIICO safeguards comparable information relating to its own business.

This agreement was approved by the Alabama Department of Insurance. The examiners found that ULICO did not provide PIICO with suitable office space. PIICO provided ULICO with office space.

**Management Agreement with Davenport & Harris Funeral Home, Inc.**

The agreement was between the Company and Davenport & Harris Funeral Home, DHFH. The effective date of the agreement was September 28, 2000 and is renewable annually for periods of one year unless written notice is given by either
party at least three months in advance of the end of the fiscal year. The Company shall provide management services and determine and control the overall operation of DHFH under policies approved by DHFH's board of directors. The following services were to be provided to DHFH by the Company:

a. Establishing management policies and operating procedures with respect to its funeral business;
b. Guidance of management in all employee relations, including the securing of employee fringe benefit programs;
c. Selection and training of all key management personnel;
d. Personnel supervision and training;
e. Operation, supervision and directions through the Company of those activities fully described in subparagraph a. hereof;
f. Supervision and control of accounting practices, bookkeeping and computer operations;
g. Selection of qualified professionals, including auditors, accountants, attorneys and salesmen;
h. Selection of internal auditors and accountants and directions of their activities;
i. Direction and control over all financing, including capital investments and other expenditures;
j. Service the needs of DHFH's customers.

For these services, DHGH shall pay PIICO $25,000 per year beginning as of the date the agreement is in effect.

DHFH will furnish the Company with suitable office space, utilities and other necessary services and will reimburse the Company for all necessary administrative, office, travel, entertainment, advertising and professional expenditures as may be required in the performance of its duties and responsibilities under the Agreement. The Company shall maintain at its principal office for the duration of this agreement and for five years thereafter adequate books and records of all transactions between DHFH and the Company and DHFH's customers and shall safeguard all such information in confidence to the same extent that the Company safeguards comparable information relating to its own business.

This agreement was approved by the Alabama Department of Insurance.
Organizational Chart

The following presents the identities of all interrelationships among all affiliated persons within the Insurance Holding Company System as of December 31, 2002:

Protective Industrial Insurance Company of Alabama^@ owns the following:

Universal Life Insurance Company 100.00%
Davenport & Harris Funeral Home, Inc. 76.36%
PIICO Insurance Agency, Inc. 100.00%

^Terry C. Brown became the owner on May 18, 1995 of 12.78% of the outstanding shares of the Company.
@Seven individuals each own shares exceeding 5% of the outstanding shares of the Company.

Dividends to Stockholders

During the period under examination, the Company declared and paid the following cash dividends:

1999 - $78,248 @ $2.00 per share to stockholders of record December 31, 1998; 39,124 shares outstanding.

2000 - $78,248 @ $2.00 per share to stockholders of record December 31, 1999; 39,124 shares outstanding.

2001 - $78,248 @ $2.00 per share to stockholders of record December 31, 2000; 39,124 shares outstanding.

2002 - $117,372 @ $3.00 per share to stockholders of record December 31, 2001; 39,124 shares outstanding.

The declaration of the 2001 dividend was not reported in a timely manner (within five business days) to the Alabama Department of Insurance in accordance with ALA CODE §27-29-5 (g)(2) (1975). This was also noted in the previous examination report.
FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured on a financial institution bond issued by Employers Mutual Casualty Company, which met the suggested minimum requirements of the NAIC Financial Examiners Handbook. However, it was noted that not all key employees who handle cash and claims were included under the coverage of the fidelity bond.

In addition to the aforementioned fidelity bond, the Company also maintained the following coverages to protect the Company against hazards to which it may be exposed:

- Equipment Protection Insurance
- Commercial Property Coverage
- Building and Personal Property Coverage
- Causes of Loss
- Commercial Property
- General Liability
- Commercial General Liability Coverage
- Commercial Crime Coverage
- Commercial Inland Marine Coverage
- Electronic Data Processing Coverage
- Commercial Auto Coverage
- Workers' Compensation and Employers Liability Insurance
- Commercial Umbrella Coverage
- Employee Benefits Liability Coverage

The coverages and limits carried by the Company were reviewed during the course of the examination and appeared to adequately protect the Company's interests at the examination date.

EMPLOYEE AND AGENTS' WELFARE

The Company provided its employees with the following benefits at December 31, 2002:

- Personal Vacation Days
- Holidays
• Sick Days
• Family and Medical Leave
• Health and Dental Plans
• Profit Sharing Plan
• 401 (k) Plan

The Company was not in compliance with the Violent Crime Control and Law Enforcement Act of 1994, US Code, Section 1033(e)(1)(A), which states that insurance companies shall not employ persons convicted of white collar felonies. The law is Violent Crime Control & Law Enforcement Act of 1994, US Code, Section 1033(e)(1)(A). At December 31, 2002, the Company did not require three of its employees to sign a violent crime statement. However, during the course of the examination, the Company had the three employees sign a violent crime statement.

STATUTORY DEPOSITS

The following schedule reflects the deposits held by the State of Alabama at December 31, 2002, for the protection of all policyholders:

<table>
<thead>
<tr>
<th>Description</th>
<th>Par Value</th>
<th>Statement Value</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury Bond</td>
<td>$100,000</td>
<td>$103,316</td>
<td>$121,719</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$100,000</td>
<td>$103,316</td>
<td>$121,719</td>
</tr>
</tbody>
</table>

MARKET CONDUCT ACTIVITIES

 Territory

The Company was only authorized to transact business in the State of Alabama as of December 31, 2002. The examiner reviewed the Alabama certificate of authority and determined that the Company is only writing lines of business that it is authorized to write.
Plan of Operation

At December 31, 2002, the Company employed thirty-five agents. The Company only has two lines of business: industrial life and ordinary life insurance. The Company discontinued the sale of its industrial life policies; however, the Company still serviced these types of policies. The Company offered several types of plans for its term and ordinary life policies. For term policies, the Company issued fifteen-year level term and thirty-year decreasing term mortgage redemption plans. For ordinary life policies, the Company had the following types of plans: whole life, limited-pay life, graded death benefit, and hospital and health expense policies. The Company does provide in its policies the following provisions: waiver of premium rider and accidental death rider.

The Company writes the following kinds of policies: whole life, limited pay life, term life, level term, decreasing term mortgage redemption, graded death benefit, and health plans.

Policy Forms and Underwriting Practices

The Company issued new policy forms during the four-year period covered by this examination as follows: whole life with premiums payable for a specific number of years, increasing death benefit whole life with premiums payable for specific years, level-term life insurance rider, children's term life insurance rider, waiver of premium provisions, waiver of premium on death or disability of payor benefit provisions, accidental death benefit provisions, and the application form. During this review, the examiner determined that the Company did not properly notify the Alabama Insurance Department in its policy form filings that its policies were to be marketed or sold without a policy illustration in accordance with Alabama Insurance Department Regulation No. 114 Section 5, which states the following:

"Each insurer marketing policies to which this regulation is applicable shall notify the commissioner whether a policy form is to be marketed with or without an illustration. For all policy forms being actively marketed on the effective date of this regulation (1-1-98), the insurer shall identify in writing those forms and whether or not an illustration will be used with them. For policy forms filed after the effective date of this regulation, the identification shall be made at the time of filing."

During the review of declined applications, the examiner determined that the Company's standard declination letter did not include the reason for declination nor did it indicate that the proposed insured could request in writing the specific reason for declination in accordance with the guidelines established by NAIC Insurance
Information and Privacy Protection Model Act, Section 10, which states the following:

"In the event of an adverse underwriting decision the insurance institution or agent responsible for the decision shall: Either provide the applicant, policyholder or individual proposed for coverage with the specific reason or reasons for the adverse underwriting decision in writing or advise such person that upon written request he or she may receive the specific reason or reasons in writing."

During the examination period, the Company did not implement any rate increases to its life or accident and health policies (health and hospital). The Company's health and hospital policy rates are fixed throughout the life of the insurance contract because the benefits under its policies are flat rate and/or a specified amount.

After recalculating policy premiums for a sample of fifty in-force policies (in order to determine their accuracy), there were four policies that were not properly allowed a "female discount" in the premium charged in accordance with the Company's rating plan. The Company did not consistently apply its rules for calculating whole life-"female discounted" policy premiums. During the course of the examination, the Company corrected these policy premiums and allowed a credit. However, the examiners determined that this issue needed further review. The Company provided the examiners with a data set for all years, which contained a listing of the plan 700 policies for females not receiving the female discount in its premium. According to ALA. CODE § 27-15-6 (1975), "There shall be a provision that if the age or sex of the insured or of any other person whose age or sex is considered in determining the premium has been misstated, any amount payable or benefit accruing under the policy shall be such as the premium would have purchased at the correct age or sex."

These policies need to be handled as follows:

- For policies where a death claim has already been paid, an increase in the death benefit payable to what the amount of insurance would have been for the premium paid needs to be paid;
- For policies that have terminated by other than death, refund the discount for all premium payment accumulated plus six percent interest; and,
- For policies still in force or active, give the policyholder a choice of an increase in the death benefit payable to what the amount of insurance would have been for the premium paid or refund the discount for all premium payment accumulated plus six percent interest.
There were seventy-nine policies issued during or prior to the examination period and still active with refunds owed of $2,184; 274 policies issued during or prior to the examination period and lapsed or died with refunds owed of $1,036; ninety-seven policies issued after the examination period and still active with refunds of $311; and, ninety-two policies issued after the examination period and lapsed or died with refunds owed of $107. The refund amounts above did not include the six percent of interest per annum.

ALA. CODE § 27-2-23 (c) (1975) states the following:
"If the commissioner or examiner finds any account or record of an insurer being examined to be inadequate or inadequately kept or posted for proper examination of the condition and affairs of the examinee, he shall be given written notice to such examinee specifying: (1) The deficiencies to be corrected; and (2) A reasonable period within which to correct the stated deficiencies."

These deficiencies are to be corrected by December 31, 2004.

The Company could not provide the detail of cancelled/non-renewed policies that reconciled with its 1999 through 2002 Exhibit of Life Insurance. According to the Company, these amounts were arbitrarily determined, which was not in accordance with ALA. CODE § 27-27-29 (a) (1975). This statute states that "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs..." The Company did not complete its Exhibit of Life Insurance in accordance with the NAIC Annual Statement Instructions. Therefore, the examiners were unable to select a sample of these policies to determine if these policies were cancelled in accordance with policy provisions. This contributed to the qualification of this report.

The examiner was unable to determine whether the Company sent reinstatement notices to its policyholders in a timely manner because the Company did not maintain copies of reinstatement notices sent to policyholders in accordance with ALA. CODE §27-27-29 (a) (1975).

During the review of unclaimed property funds, the Company did not maintain documentation in its records showing its attempts to locate beneficiaries and recipients of unclaimed funds to show that it was in compliance with ALA. CODE §35-12-31 (e) (1975), which states the following:

"If the holder of property presumed abandoned under this article knows the whereabouts of the owner and if the owner's claim has not been barred by the statute of limitations, the holder shall, before filing the annual report, attempt to
communicate with the owner and take necessary steps to prevent abandonment from being presumed. The holder shall exercise due diligence to ascertain the whereabouts of the owner. The holder's obligations under this subsection shall be satisfied if the holder mails written notice by certified mail, or any other method approved by the State Treasurer, regarding the property to the owner at the last address of the owner known to the holder, if any, at least 30 days prior to filing the annual report."

Not maintaining this information was not in accordance with ALA. CODE §27-27-29 (a) (1975); therefore, it could not be determined if the Company actually made attempts to locate beneficiaries, policyholders, or recipients of unclaimed properties.

During the review of non-forfeiture transactions: cash surrenders, extended term insurance, reduced paid-up, and additional paid up policies, the Company was unable to locate and provide nineteen policy application files, which was not in accordance with Alabama Department of Insurance Regulation No. 118 Section 3, which states that "All records must be maintained for not less than five (5) years." This contributed to the qualification of this examination report.

**Compliance with Agents’ Licensing Requirements**

During the review of agents licensing, the examiner reconciled the Company's list of active agents to the Alabama Insurance Department's records of active producers without exception. The Company's licensing records documented the date of appointment and the date of termination for each agent.

In order to determine that each producer's license and appointment forms were properly completed and were completed prior to the producer writing business on behalf of the Company, the examiner reviewed a sample of in force policies at December 31, 2002 and issued during the examination period (1999 through 2002). The examiner traced these issued policies to the corresponding agent's file for each policy sold. It was determined from this reconciliation that agents were licensed to sell insurance at the time these policies were issued, and the agents sold policies and lines of business within the scope of their authority.

**Dividends to Policyholders**

During the examination period, the Company paid the following dividends to policyholders.
<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$22,135</td>
</tr>
<tr>
<td>2000</td>
<td>$21,508</td>
</tr>
<tr>
<td>2001</td>
<td>$20,722</td>
</tr>
<tr>
<td>2002</td>
<td>$20,426</td>
</tr>
</tbody>
</table>

The Company paid these dividends to policyholders of North Carolina Mutual Insurance, which was acquired in September 1995.

**Marketing and Sales**

The Company did not have a formal advertising program as of December 31, 2002. During the examination period, the Company placed printed advertisements with local organizations in selected periodicals and newspapers. Materials reviewed by the examiners were factual and did not make false, deceptive or misleading statements.

The Company's advertising file contained specimen copies of the Company's advertisements; however, there was no notation indicating the manner and extent of distribution and the form number of the policy advertised in accordance with Alabama Department of Insurance Regulation No. 69 Section VII (1), which states the following:

"Each insurer shall maintain at its home or principal office a complete file containing a specimen copy of every printed, published, or prepared advertisement of its individual policies and specimen copies of typical printed, published, or prepared advertisements of its blanket, franchise, and group policies, hereafter disseminated in this State, with a notation indicating the manner and extent of distribution and the form number of any policy advertised. Such file shall be subject to inspection by the Alabama Insurance Department. All such advertisements shall be maintained in said file for a period of either four years or until the filing of the next regular report on the examination of the insurer, whichever is the longer time period."

This was noted in the prior examination report.

The Company did not file Certificates of Compliance with its 1999 - 2002 Annual Statements in accordance with Alabama Department of Insurance Regulation No. 69, Section VII (2), which states the following:
“Each insurer subject to the provisions of this Regulation shall file with this Department with its Annual Statement a certificate of compliance executed by an authorized officer of the insurer wherein it is stated that to the best of his or her knowledge, information, and belief the advertisements which were disseminated by or on behalf of the insurer in this State during the preceding statement year, or during the portion of such year when this Regulation was in effect, complied or were made to comply in all respects with the provisions of this Regulation and the Insurance Laws of Alabama as implemented and interpreted by this Regulation.”

The Company did not provide a replacement register in accordance with Alabama Insurance Department Regulation No. 70 Section 9 (C), which states the following:

"Each existing insurer shall:
A. Inform its responsible personnel of the requirements of this Regulation.
B. Furnish the replacing insurer with a copy of any Policy Summary for the existing life insurance within three working days of the date the Policy Summary is sent by the existing insurer to either its agent or directly to the policyowner.
C. Maintain a file containing the following:
   1. The written communication required by Section 7 C 4 and Policy Summaries required by Section 7 C 5 received from the replacing insurers; and
   2. Copies of any Policy Summaries and all Sales Proposals used to conserve the existing life insurance.

This material shall be indexed by replacing insurer and held for three years or until the conclusion of the next regular examination conducted by the Insurance Department of its domicile, whichever is later."

The Company did not use policy illustrations. If the Company did not use or provide its policyholders with policy illustrations, the Company must provide to policyholders a form that acknowledges that no policy illustration is included in accordance with Alabama Insurance Department Regulation No. 114 Section 9 (B) (1), which states the following:

"If no illustration is used by an insurance producer or other authorized representative in the sale of a life insurance policy or if the policy is applied for other than as illustrated, the producer or representative shall certify to that effect in writing on a form provided by the insurer. On the same form the applicant shall acknowledge that no illustration conforming to the policy applied for was provided..."
Claims Payment Practices

The examiners reviewed a sample of fifty paid accident and health claim files, fifty paid life claims files and fifty denied hospital claim files. These files were used for the study of the turnaround times on claims and were selected using the listings of claims paid in 2002. The examiners were able to verify dates of receipt and payment or response on the majority of the claims. Timeliness of response by either payment of the claim or notification of nonpayment to the claimant was studied. Adequacy of documentation was also reviewed.

In 2002, the Company had two accident and health claims, which were paid over forty-five days from the received date. Additional information was requested on these claims. However, it could not be determined if the Company had requested the information within forty-five days of receiving the claim or if the claim was paid within twenty calendar days from the receipt of requested information. ALA. CODE § 27-1-17 (a) (1975) states "Each insurer, health service corporation, and health benefit plan that issues or renews any policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar days upon receipt of a clean written claim or 30 calendar days upon receipt of a clean electronic claim. If the insurer, health service corporation, or health benefit plan is denying or pending the claim, the insurer, health service corporation, or health benefit plan shall, within 45 calendar days for a written claim... notify the health care provider or certificate holder of the reason for denying or pending the claim and what, if any, additional information is required to process the claim... Upon receipt of the necessary information, the claim must be paid, denied, or otherwise adjudicated within 21 calendar days from the receipt of the requested information."

During the review of the paid claim files, it was noted that four claim files were not adequately documented to support or justify the ultimate claim determination. ALA. CODE § 27-27-29 (a) (1975) states "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind or kinds, of insurance transacted."

There were four claim files that the Company could not locate. According to Alabama Department of Insurance Regulation No. 118, "All records must be maintained for not less than five (5) years." This contributed to the qualification of the report.
In 2002, the Company had denied claims after forty-five days from the time the Company received the claim. ALA. CODE § 27-1-17 (a) (1975) states "If the insurer......is denying or pending the claim, the insurer.....shall, within 45 calendar days for a written claim......notify the health care provider or certificate holder of the reason for denying or pending the claim and what, if any, additional information is required to process the claim."

Claim Handling Practices

Fifty application files for a sample of paid life claims were requested on July 14, 2004. These files were requested to determine if the correct beneficiary was paid, whether the Company has misrepresented relevant facts or policy provisions relating to coverages at issue, if claim files are handled according to policy provisions, and if a claim was settled on the basis of an application that was materially altered without the consent of the insured. Thirty-one of the application files were provided on July 21, 2004. The Company, however, did not provide the other nineteen application files, which contributed to the qualification of this report. The Company was not in compliance with ALA. CODE § 27-27-29 (1975) and Alabama Department of Insurance Regulation No. 118, which states that "All records must be maintained for not less than five (5) years." The thirty-one application files provided were not reviewed.

Policyholder Complaints

The Company did not provide a complaints register for 1999, 2000, or 2001 in accordance with guidelines established in Chapter XV, Section B (Complaint Handling) of the NAIC Market Conduct Examiners Handbook and ALA. CODE § 27-27-29 (a) (1975), which states the following:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

This was noted in the previous examination report.

During the examination period, there were six complaints registered with the Consumer Division of the Alabama Insurance Department as follows:
1999  0
2000  0
2001  3
2002  3

Three of these complaints in the Company's complaint register for 2002 were traced to the Alabama Insurance Department's register of complaints. The remaining three complaints registered with the Department for 2001 could not be traced because the Company did not maintain a register prior to 2002. During the review of these complaints, the examiner did not note any trend that would indicate any significant problems.

**Compliance with ALA. ADMIN. CODE 482-1-122**

The Company did not share customers' personal information with any nonaffiliated third parties. Any information the Company disclosed to any third parties was for the purpose of conducting day-to-day business functions such as the payment of claims.

The Company did provide notices to its customers that indicated the types of information it collected, the way it was used and the manner of collection. The notices also informed the customers that the Company did not disclose any information to any nonaffiliated third parties unless permitted to do so by law.

**REINSURANCE**

**Reinsurance Assumed**

In 1996, Optimum Re Insurance Company of Dallas, Texas assumed the Company's closed block of policies assumed from North Carolina Mutual Insurance Company. No business is to be ceded under this Agreement past the effective date.

Effective December 31, 2001, the Company assumed all of Rhodes Mutual Insurance Company, Inc.'s Alabama policies.

The Company did not comply with the NAIC Accounting Practices and Procedures Manual SSAP No. 61, paragraphs 57, 60 and 62 and the NAIC Annual Statement Instructions by disclosing the required reinsurance information in the Company's 2002 Notes to the Financial Statement.
The Company did not report all premiums paid in its Schedule S - Part 3 - Section 1 in accordance with the NAIC Annual Statement Instructions. Schedule S - Part 3 - Section 1, column 10 - Premiums were understated by $12,034; however, there was no affect on the 2002 financial statement because the Company reported these premiums correctly in its 2002 Summary of Operations.

Reinsurance Ceded

The Company had a reinsurance agreement with Republic National, now known as Swiss Reassurance Insurance Company effective January 1, 1982. This agreement was for policies written before 1988. The Company did not use this agreement after 1988.

On June 1, 1988, the Company entered into a reinsurance agreement for ceding new business with AGC Life Insurance Company (AGC) of Nashville, Tennessee. Optimum Re Insurance Company of Dallas, Texas, assumed this contract from AGC effective October 1, 1991. Effective November 1, 1999, the Company increased its retention from $10,000 to $15,000. This was the only active agreement used by the Company at December 31, 2002. The agreement provided for yearly renewable term, accidental death benefits and disability reinsurance and included the following provisions:

Life and Waiver of Premium

<table>
<thead>
<tr>
<th>Issue Age</th>
<th>Standard: Retention</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-18 Months</td>
<td>$2,500</td>
</tr>
<tr>
<td>18 months to 4 years</td>
<td>$5,000</td>
</tr>
<tr>
<td>5 years to 55 years</td>
<td>$10,000</td>
</tr>
<tr>
<td>Over 55 years</td>
<td>None-facultative</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Issue Age</th>
<th>Substandard: Retention</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-18 months</td>
<td>None</td>
</tr>
<tr>
<td>18 months to 5 years</td>
<td>$2,500</td>
</tr>
<tr>
<td>Table 2 &amp; Flat Extra</td>
<td>$5,000</td>
</tr>
<tr>
<td>5 years to 55 years</td>
<td>Table 2 &amp; Flat Extra</td>
</tr>
<tr>
<td></td>
<td>$5,000</td>
</tr>
</tbody>
</table>
Over Table 2

None-facultative

Accidental Death Benefit

<table>
<thead>
<tr>
<th>Issue Age</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-18 Years</td>
<td>None</td>
</tr>
<tr>
<td>18-55 Years</td>
<td>$10,000 Combined Retention (retain $5,000 Life and $5,000 double indemnity)</td>
</tr>
</tbody>
</table>

ACCOUNTS AND RECORDS

The Company's accounting records are maintained primarily on electronic data processing equipment, with certain records maintained manually.

The Company is audited annually by the certified public accounting firm of Banks, Finley, White & Company. The audit reports and audit work papers of said CPA firm were made available to the examiners and were utilized in the examination, where deemed appropriate.

The Company's management did not maintain reconciliations of their general ledger accounts that reconciled to its Annual Statements. This was also noted in the previous examination report.

The Company did not maintain all detailed data sets supporting the information contained in the filed Annual Statement. See the "Notes to Financial Statements" and "Qualification of Examination Report" for accounts and records problems noted.

The Company did not have any written Computer Security procedures. The Company must establish and maintain appropriate controls, safeguards, and have written procedures for protecting the integrity of computer information.

The Company should establish written computer security procedures in accordance with ALA. CODE 27-27-29 (a) (1975), which states the following:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets,
transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

The Company's disaster recovery plan was constructed in May 2000. It appeared to contain all needed elements; however, no evidence was provided to show that it had been tested. This plan needs to be tested in order to determine its effectiveness.
FINANCIAL STATEMENTS INDEX

The Financial Statements included in this are the amounts reported by the Company for the period under examination and were compiled from the Company's copies of filed Annual Statements. This report of examination is qualified and expresses no opinion on the accuracy of the financial statements of the Company. Furthermore, due to the Company's inability to provide information requested by the examiners during the course of the examination, the examiners were unable to determine if the Company was solvent, impaired or insolvent. The statements are presented in the following order.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of Assets, Liabilities, Surplus</td>
<td>27 and 28</td>
</tr>
<tr>
<td>and Other Funds</td>
<td></td>
</tr>
<tr>
<td>Summary of Operations</td>
<td>29</td>
</tr>
<tr>
<td>Capital and Surplus Account</td>
<td>30</td>
</tr>
</tbody>
</table>
### Protective Industrial Insurance Company of Alabama, Inc.

**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS**

for the Year Ended December 31, 2002

<table>
<thead>
<tr>
<th>Assets</th>
<th>Ledger Assets</th>
<th>Nonadmitted Assets</th>
<th>Net Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds (Note 1)</td>
<td>$7,770,803</td>
<td></td>
<td>$7,770,803</td>
</tr>
<tr>
<td>Common Stocks (Note 2)</td>
<td>7,321,191</td>
<td></td>
<td>7,321,191</td>
</tr>
<tr>
<td>Mortgage loans on real estate: first liens (Note 3)</td>
<td>328,012</td>
<td></td>
<td>328,012</td>
</tr>
<tr>
<td>Real estate: properties occupied by the company</td>
<td>1,114,121</td>
<td></td>
<td>1,114,121</td>
</tr>
<tr>
<td>Real estate: properties held for the production of income (Note 4)</td>
<td>2,000</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Real estate: properties: Held for sale (Note 4)</td>
<td>86,233</td>
<td></td>
<td>86,233</td>
</tr>
<tr>
<td>Policy loans (Note 5)</td>
<td>491,913</td>
<td>$22,925</td>
<td>468,988</td>
</tr>
<tr>
<td>Cash ($73,010) and short-term investments ($83,108) (Note 6)</td>
<td>10,099</td>
<td></td>
<td>10,099</td>
</tr>
<tr>
<td>Aggregate write-ins for invested assets (Note 7)</td>
<td>91,793</td>
<td></td>
<td>91,793</td>
</tr>
<tr>
<td>Electronic data processing equipment and software</td>
<td>34,875</td>
<td>34,875</td>
<td>0</td>
</tr>
<tr>
<td>Life insurance premiums and annuity considerations deferred and uncollected on inforce business (Note 8)</td>
<td>1,367,592</td>
<td></td>
<td>1,367,592</td>
</tr>
<tr>
<td>Accident and health premiums due and unpaid (Note 9)</td>
<td>90,574</td>
<td></td>
<td>90,574</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>135,969</td>
<td></td>
<td>135,969</td>
</tr>
<tr>
<td>Amounts due from agents (Note 10)</td>
<td>577,609</td>
<td>577,609</td>
<td>0</td>
</tr>
<tr>
<td>Other assets nonadmitted</td>
<td>9,539</td>
<td>9,539</td>
<td>0</td>
</tr>
<tr>
<td>Aggregate write-ins for other than invested assets</td>
<td>452,567</td>
<td>452,567</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$19,884,890</strong></td>
<td><strong>$1,097,515</strong></td>
<td><strong>$18,787,375</strong></td>
</tr>
</tbody>
</table>

The Financial Statements included in this report are the amounts reported by the Company for the period under examination and were compiled from the Company's copies of filed Annual Statements.
### LIABILITIES, SURPLUS AND OTHER FUNDS

<table>
<thead>
<tr>
<th>Liabilities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate reserve for life contracts (Note 11)</td>
<td>$12,639,019</td>
</tr>
<tr>
<td>Aggregate reserve for accident and health contracts</td>
<td>9,816</td>
</tr>
<tr>
<td>Liability for deposit-type contracts</td>
<td>69,876</td>
</tr>
<tr>
<td>Contract claims: life (Note 12)</td>
<td>55,519</td>
</tr>
<tr>
<td>Contract claims: accident and health (Note 13)</td>
<td>5,811</td>
</tr>
<tr>
<td>Policyholders' dividends (Note 14)</td>
<td>3,088</td>
</tr>
<tr>
<td>Provision for policyholders' dividends and coupons payable</td>
<td>20,426</td>
</tr>
<tr>
<td>Premiums and annuity considerations for life and accident and health contracts received in advance (Note 15)</td>
<td>81,730</td>
</tr>
<tr>
<td>Commissions to Agents due or Accrued (Note 16)</td>
<td>0</td>
</tr>
<tr>
<td>Interest Maintenance Reserve</td>
<td>127,170</td>
</tr>
<tr>
<td>General expenses due or accrued (Note 17)</td>
<td>48,570</td>
</tr>
<tr>
<td>Taxes, licenses and fees due or accrued (Note 18)</td>
<td>36,693</td>
</tr>
<tr>
<td>Unearned investment income</td>
<td>14,403</td>
</tr>
<tr>
<td>Amounts withheld or retained by company as agent or trustee (Note 18)</td>
<td>7,547</td>
</tr>
<tr>
<td>Amounts held for agents' account</td>
<td>50,075</td>
</tr>
<tr>
<td>Remittances and Items not allocated (Note 19)</td>
<td>0</td>
</tr>
<tr>
<td>Asset Valuation Reserve (Note 20)</td>
<td>293,384</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$13,463,126</td>
</tr>
</tbody>
</table>

### SURPLUS AND OTHER FUNDS

<table>
<thead>
<tr>
<th>Surplus and Other Funds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Common capital stock</td>
<td>$1,007,600</td>
</tr>
<tr>
<td>Gross paid in and contributed surplus</td>
<td>9,345</td>
</tr>
<tr>
<td>Aggregate write-ins for special surplus funds</td>
<td>24,881</td>
</tr>
<tr>
<td>Unassigned funds (Note 21)</td>
<td>4,357,541</td>
</tr>
<tr>
<td>Less treasury stock, at cost: common</td>
<td>75,118</td>
</tr>
<tr>
<td>Total Surplus and Other Funds</td>
<td>$ 5,324,249</td>
</tr>
<tr>
<td>Total Liabilities, Surplus and Other Funds</td>
<td>$18,787,375</td>
</tr>
</tbody>
</table>

The Financial Statements included in this report are the amounts reported by the Company for the period under examination and were compiled from the Company's copies of filed Annual Statements.
Protective Industrial Insurance Company of Alabama, Inc.
SUMMARY OF OPERATIONS

<table>
<thead>
<tr>
<th>Income</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums and annuity considerations</td>
<td>$3,239,627</td>
<td>$2,408,410</td>
<td>$3,009,750</td>
<td>$3,225,896</td>
</tr>
<tr>
<td>Considerations for supplementary contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>without life contingencies and dividend</td>
<td>6,093</td>
<td>6,233</td>
<td></td>
<td></td>
</tr>
<tr>
<td>accumulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment income</td>
<td>173,119</td>
<td>215,155</td>
<td>165,628</td>
<td>240,088</td>
</tr>
<tr>
<td>Amortization of Interest Maintenance Reserve</td>
<td>8,582</td>
<td>3,030</td>
<td>3,446</td>
<td>5,084</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>925,000</td>
<td>925,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate write-ins for miscellaneous income</td>
<td>25,126</td>
<td>250,000</td>
<td>314,452</td>
<td>1,360</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>3,452,547</td>
<td>2,882,828</td>
<td>4,418,276</td>
<td>4,397,428</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deductions</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Death benefits</td>
<td>1,080,600</td>
<td>967,849</td>
<td>973,262</td>
<td>981,746</td>
</tr>
<tr>
<td>Matured endowments</td>
<td>20,801</td>
<td>9,215</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Disability benefits and benefits under</td>
<td>66,595</td>
<td>93,482</td>
<td>85,280</td>
<td>69,147</td>
</tr>
<tr>
<td>accident and health contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surrender benefits and other fund</td>
<td>212,329</td>
<td>250,256</td>
<td>226,258</td>
<td>215,865</td>
</tr>
<tr>
<td>withdrawals for life contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments on supplementary contracts without</td>
<td>6,875</td>
<td>5,314</td>
<td></td>
<td></td>
</tr>
<tr>
<td>life contingencies and of dividend</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>accumulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and adjustments on contract or</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>deposit-type contract funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in aggregate reserves for life and</td>
<td>-525,309</td>
<td>-245,864</td>
<td>-38,403</td>
<td>-210,724</td>
</tr>
<tr>
<td>accident and health contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in reserve for supplementary</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>contracts without life contingencies and for</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>dividend and coupon accumulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissions on premiums, annuity</td>
<td>757,608</td>
<td>644,626</td>
<td>641,550</td>
<td>658,139</td>
</tr>
<tr>
<td>considerations, and deposit type contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General insurance expenses</td>
<td>1,817,756</td>
<td>1,566,180</td>
<td>1,818,006</td>
<td>1,853,487</td>
</tr>
<tr>
<td>Insurance taxes, licenses and fees, excluding</td>
<td>160,147</td>
<td>149,166</td>
<td>171,122</td>
<td>171,083</td>
</tr>
<tr>
<td>federal income taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in loading on deferred and</td>
<td>27,117</td>
<td>-208,500</td>
<td>124,179</td>
<td>324,987</td>
</tr>
<tr>
<td>uncollected premiums</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Aggregate write-ins for deductions</strong></td>
<td>-126,893</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Deductions</td>
<td>3,498,485</td>
<td>3,231,724</td>
<td>4,003,994</td>
<td>4,065,496</td>
</tr>
<tr>
<td>Net gain from operations before dividends</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to policyholders and before federal income</td>
<td>-45,938</td>
<td>-348,896</td>
<td>414,282</td>
<td>331,932</td>
</tr>
<tr>
<td>taxes</td>
<td>-27,694</td>
<td>20,793</td>
<td>20,722</td>
<td>20,426</td>
</tr>
<tr>
<td>Net gain from operations after dividends to</td>
<td>-73,632</td>
<td>-369,689</td>
<td>393,560</td>
<td>311,506</td>
</tr>
<tr>
<td>policyholders and before federal income taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal and foreign income taxes incurred</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net gain from operations after dividends to</td>
<td>-73,632</td>
<td>-369,689</td>
<td>393,560</td>
<td>311,506</td>
</tr>
<tr>
<td>policyholders and federal income taxes and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>before realized capital gains/(losses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net realized capital gains or (losses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$ -21,768</td>
<td>$ -323,008</td>
<td>$ 210,103</td>
<td>$ 322,053</td>
</tr>
</tbody>
</table>

The Financial Statements included in this report are the amounts reported by the Company for the period under examination and were compiled from the Company's copies of filed Annual Statements.
Protective Industrial Insurance Company of Alabama  
CAPITAL AND SURPLUS ACCOUNT  

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and surplus December 31, previous year</td>
<td>$2,881,813</td>
<td>$2,484,582</td>
<td>$5,066,250</td>
<td>$5,063,258</td>
</tr>
<tr>
<td><strong>Gains and (Losses) in Surplus</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ -21,768</td>
<td>$ -328,008</td>
<td>$ 210,103</td>
<td>$ 322,953</td>
</tr>
<tr>
<td>Change in net unrealized capital gains (losses)</td>
<td>-127,277</td>
<td>2,755,005</td>
<td>223,278</td>
<td>-96,781</td>
</tr>
<tr>
<td>Change in nonadmitted assets and related items</td>
<td>-84,585</td>
<td>28,772</td>
<td>-374,262</td>
<td>136,694</td>
</tr>
<tr>
<td>Change in asset valuation reserve</td>
<td>-84,403</td>
<td>190,014</td>
<td>16,137</td>
<td>15,497</td>
</tr>
<tr>
<td>Dividends to stockholders</td>
<td>-79,198</td>
<td>-78,248</td>
<td>-78,248</td>
<td>-117,372</td>
</tr>
<tr>
<td><strong>Net change in capital and surplus for the year</strong></td>
<td>-397,231</td>
<td>2,566,535</td>
<td>-2,992</td>
<td>260,991</td>
</tr>
<tr>
<td><strong>Capital and surplus, December 31, current year</strong></td>
<td>$2,484,582</td>
<td>$5,052,117</td>
<td>$5,063,258</td>
<td>$5,324,249</td>
</tr>
</tbody>
</table>

The Financial Statements included in this report are the amounts reported by the Company for the period under examination and were compiled from the Company’s copies of filed Annual Statements.
QUALIFICATION OF EXAM REPORT

The following information was requested by examiners and was never provided by the Company:

- Dataset of policies that were issued with riders and endorsements for the period under examination;
- Detail of cancelled/non-renewed policies that reconciled with its 1999 through 2002 Exhibit of Life Insurance;
- Dataset of reinstated policies that reconciled to the Exhibit of Life Insurance;
- Policy file or any supporting documentation for twenty-nine matured endowments;
- Twelve extended term policies;
- Four paid-up application files;
- 2002 cash receipts journal -originally requested on June 16, 2003;
- 2002 Risk based capital crosscheck letter and the amended risk based capital report - originally requested on November 17, 2003;
- An aging detail of its 2002 policy loan due and accrued interest; and,
- Outstanding check listing at December 31, 2002- originally requested on September 2, 2003.

The Company was not in compliance with Alabama Department of Insurance Regulation No. 118, Section 6, which states, “The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the non-production shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.”

The Company was also not in compliance with ALA. CODE § 27-2-23 (b) (1975), "Every person being examined, its officers, attorneys, employees, agents and representatives, shall make freely available to the commissioner or his examiners the accounts, records, documents, files, information, assets and matters in his possession or control relating to the subject of the examination."

The examiners noted that the Company had a total of twenty-eight policies out of three samples of forty-seven (141 policies), which it could not explain why they were
not on the in force valuation record at December 31, 2002—see “Aggregate reserve for life contracts” on page 38.

ITEMS NOT REVIEWED

The 2002 cash disbursements journal was originally requested on June 16, 2003. The Company did not provide this information until July 19, 2004. Due to the Company not providing the information until July 19th, the examiners could not reconcile the dataset, request a sample of cash disbursements, or scan for unusual transactions.

Fifty application files for a sample of paid life claims were requested on July 14, 2004. These files were requested to determine if the correct beneficiary was paid, whether the Company has misrepresented relevant facts or policy provisions relating to coverages at issue, if claim files are handled according to policy provisions, and if a claim was settled on the basis of an application that was materially altered without the consent of the insured. Thirty-one of the application files were provided on July 21, 2004. The Company, however, did not provide the other nineteen application files, which contributed to the qualification of this report. The Company was not in compliance with ALA. CODE § 27-27-29 (1975) and Alabama Department of Insurance Regulation No. 118, which states that "All records must be maintained for not less than five (5) years." The thirty-one application files provided were not reviewed.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds $7,770,809

The captioned amount is the same as reported in the Company's 2002 Annual Statement.

The examiner reconciled the securities listed in the confirmations with the Company's 2002 Schedule D - Part 1. There was a difference of $32,166 between what the Company stated its 2002 Schedule D - Part 1 and what the SouthTrust confirmation stated. The amounts reported in the statement were greater than the amounts reported in the SouthTrust confirmation. Due to the amount being deemed immaterial, there were no changes made to the financial statement.

The Company reported the incorrect designation for two of its bonds. The Company reported one of the bonds to have a designation of 1 and the 4th Quarter 2002 NAIC
Securities Valuation Office CD reported it to have a designation of 2. This did not affect the valuation of the investment. The Company reported the other bond to have a designation of 2 in its 2002 Schedule D - Part 1. The Company should have rated this bond as a 2PE (provisionally exempt) in accordance with the NAIC SVO Purpose and Procedures Manual.

The Company was not in compliance with NAIC Accounting Practices and Procedures Manual SSAP No. 43, paragraph 9-14 because the Company did not determine prepayment assumptions for its loan-backed securities and review the results periodically.

The Company recorded its bond acquisitions and disposals on the settlement date and not on the trade date, which is not in compliance with the NAIC Accounting Practices and Procedures SSAP No. 26, paragraph 4.

The Company did not state the option date in column 7 and option call price in column 8 for its three callable bonds in accordance with the NAIC Annual Statement Instructions.

The Company classified one of its bonds as a government issued bond when it should have been classified as a mortgage-backed security and reported one wrong cusip number and one wrong bond description in its 2002 Schedule D- Part 1. Therefore, the Company was not in compliance with the NAIC Annual Statement Instructions.

**Note 2 - Common Stocks**

$6,754,985

The captioned amount is $556,206 less than the $7,321,191 reported in the Company's 2002 Annual Statement.

The Company did not submit a SUB 1 form filing to the Securities Valuation Office for its Davenport and Harris Funeral Home stock within thirty days of acquisition in accordance with the NAIC Purposes and Procedures Manual. In addition, the NAIC Securities Valuation Office requires that a SUB 2 form be filed annually, no later than June 1st. The Company has never submitted the required SUB 2 form; therefore, the carrying value of Davenport and Harris was non-admitted in accordance with the Alabama Department of Insurance Regulation Number 98, which requires insurers to not admit any security that is not in compliance with the NAIC SVO Purposes and Procedures Manual. This was noted in the previous examination report.
The Company recorded its investment acquisitions and disposals on the settlement date and not on the trade date, which is not in compliance with the NAIC Accounting Practices and Procedures SSAP No. 30, paragraph 5, for common stocks.

The Company reported the wrong description for one of its common stocks and the wrong cusip number for another common stock in its 2002 Schedule D - Part 2 - Section 2, which was not in compliance with the NAIC Annual Statement Instructions.

**Note 3 - Mortgage Loans**

$328,899

The captioned amount is the same as reported in the Company's 2002 Annual Statement.

The Company did not properly complete its 2002 Schedule B - Part 1. The Company did not state the loan type in column 4 for its mortgage in good standing in accordance with the NAIC Annual Statement Instructions. In addition, for the mortgage with overdue interest over ninety days, the Company did not report the loan type in column 4, the value of the land and/or buildings in column 10, or the date of the last appraisal or valuation in column 11 in accordance with the NAIC Annual Statement Instructions. In addition, the Company did not complete the General Interrogatory for its mortgage loans in its 2002 Schedule B - Part 1.

The Company did not comply with the NAIC Accounting Practices and Procedures Manual, SSAP No. 37, paragraph 20 or the NAIC Annual Statement Instructions by disclosing information concerning its mortgage loans in Note 5 of the 2002 Notes to Financial Statement.

The following disclosures were not made, which is not in compliance with SSAP No. 37, paragraph 20:

a. Fair values in accordance with SSAP No. 27;
b. Description of the valuation basis of the mortgage loans;
c. Maximum percentage of any one loan to the value of security at the time of the loan;
d. Total carrying amount of mortgages with interest 180 days past due and the amount of interest past due thereon;
e. Taxes, assessments, and amounts advanced not included in the mortgage loan total.
In addition, the Company did not comply with the NAIC Annual Statement Instructions, Note 5 - Investments, and disclose the following information in its 2002 Notes to Financial Statements.

3) The maximum percentage of any one loan to the value of security at the time of the loan;
4) The recorded investment excluding accrued interest on mortgages with interest more than 180 days past due and the amount of interest past due thereon;
5) Taxes, assessments and any amounts advanced and not included in mortgage loan total; and,
11) The method for recording cash receipts.

**Note 4 - Real Estate**

The captioned amount is $19,294 less than the $1,202,354 reported in the Company's 2002 Annual Statement.

The Company admitted four lots of land that were not income producing, which was not in compliance with ALA. CODE §27-41-34(d) (1975). Per ALA. CODE §27-41-34(d) (1975), "An insurer may acquire, invest in, own, maintain, alter, furnish and improve real estate acquired to be improved or developed as an investment for the production of income." The examiner nonadmitted these properties, which totaled $19,294. This was also noted in the last examination as of December 31, 1998. Also, the four properties were listed cumulatively in the Company's 2002 Schedule A - Part 1 as "land." It did not list individually each lot of land in its 2002 Schedule A - Part 1 in accordance with the NAIC Annual Statement Instructions.

The Company did not complete Schedule A - Part 1 concerning its real estate in accordance with the NAIC Annual Statement Instructions. The Company did not complete the following columns:

**Schedule A - Part 1**
column 4 - date acquired
column 12 - amounts received during the year

The Company had an appraisal for its rental property that was over five years old. The Company was not in compliance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 40, paragraph 12, which states "All appraisals obtained to determine fair value of real estate investments shall be no more than five years old." In addition, the Company was not in compliance with ALA. CODE § 27-37-7
(b) (1975), which states "Other real property held by an insurer shall not be valued at an amount in excess of fair value as determined by recent appraisal. If valuation is based on an appraisal more than three years old, the commissioner may at his discretion call for and require a new appraisal in order to determine fair value." During the course of the examination, the Company provided a new appraisal with a fair value in excess of the Company's carrying value.

Note 5 - Policy Loans

The captioned amount is $40,711 less than the $468,988 reported in the Company's 2002 Annual Statement.

There was a difference of $30,358 between the amount the Company stated in its 2002 Annual Statement and the detail provided; therefore, the difference was nonadmitted. Not maintaining the detail of this asset was also not in accordance with ALA. CODE § 27-27-29 (a) (1975). According to this statute, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

The examiner also noted that 49 of the 483 policy loans had loan balances greater than the cash value of the policy. The total overage was $10,353 and this amount was nonadmitted, in addition, to the amount noted above. See the reconciliation below.

<table>
<thead>
<tr>
<th>Amount per the detail</th>
<th>$438,630</th>
</tr>
</thead>
<tbody>
<tr>
<td>overage</td>
<td>$10,353</td>
</tr>
<tr>
<td>Total amount admitted</td>
<td>$428,277</td>
</tr>
</tbody>
</table>

The Company was not in compliance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 49, paragraph 5, which states "...amounts in excess of the cash surrender value shall be considered nonadmitted assets." This was also noted in the previous examination report.

Note 6 - Cash and Short-term Investments

The captioned amount was the same as reported in the Company's 2002 Annual Statement.

In addition, there was a difference of $91 between the Company's 2002 Schedule DA - Part 1 par value and the SouthTrust confirmation par value. The confirmation
amount was greater. The total difference between what the Company reported in its 2002 Annual Statement and the SouthTrust confirmation was $32,075. Due to the amount being deemed immaterial, there were no changes made to the financial statement.

The Company reported the wrong cusip number for its short-term investment in its 2002 Schedule DA - Part 1, which was not in compliance with the NAIC Annual Statement Instructions.

**Note 7 - Aggregate Write-Ins for Invested Assets**

The captioned amount is $91,793 less than the $91,793 reported in the Company's 2002 Annual Statement.

It was determined that the Company did not file a SUB1 form with the NAIC Securities Valuation Office for PIICO Agency, which is a subsidiary controlled affiliate. This was not in accordance with the NAIC Purposes and Procedures Manual of the Securities Valuation Office and the Alabama Department of Insurance Regulation Number 98, Section 2 (A) and (C), which states:

"All securities owned by an insurer shall be valued in accordance with those standards promulgated by the NAIC Securities Valuation Office (SVO). Any security owned by an insurer that has not been valued by the SVO shall be submitted to the SVO for valuation in accordance with the procedures of the SVO."

"Any security not valued in accordance with this section shall be carried as a non-admitted asset on all financial statements of the insurer until such time as the insurer has complied with subsection A or B or this section."

It was also determined that the Company should have classified this asset (PIICO Agency) as common stock in accordance with the NAIC Annual Statement Instructions.

**Note 8 – Life Insurance Premiums and Annuity Considerations**

**Deferred and Uncollected on inforce business**

$859,109

The captioned amount is $508,483 less than the $1,367,592 reported by the Company in its 2002 Annual Statement.

The actuarial examiner found that the loading at December 31, 2002 of $831,657 should have been $1,340,140. The life insurance premiums and annuity...
considerations deferred and uncollected on in-force business asset was overstated, therefore, the Company was not in compliance with the NAIC Accounting Practices and Procedures Manual SSAP No. 51, paragraph 23.

The Company paid $1,025 to one of its reinsurers in January 2003 for invoices dated December 2002. The amount should have been reduced from the Company's 2002 life insurance premiums and annuity considerations deferred and uncollected on in-force business amount. However, this amount was deemed immaterial; therefore, no changes were made to the financials.

**Note 9 - Accident and Health Premiums Due and Unpaid**  $0

The captioned amount is $90,574 less than the $90,574 reported in the Company's 2002 Annual Statement.

The Company reported $90,574 in its 2002 Annual Statement; however, the detail provided by the Company totaled $94,688. The Company did not nonadmit any of its premiums due and unpaid in its 2002 Annual Statement. After reviewing the 2002 detail provided by the Company, it was determined that the Company should have nonadmitted $92,367 that was over ninety days old in accordance with the NAIC Accounting Practices and Procedures Manual- SSAP No. 6, paragraph 9, which states "Any uncollected premium balances which are over ninety days due shall be nonadmitted." Consequently, the examiner nonadmitted the entire amount reported in the Company's 2002 Annual Statement.

**Note 10 - Amounts Due from Agents**  $-0-

The captioned amount is the same as reported by the Company in its 2002 Annual Statement.

The Company could not provide a detailed listing of its 2002 amounts due from agents account. However, the Company nonadmitted the entire amount. The Company was not in compliance with ALA. Code § 27-27-29(a) (1975), which states that "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transaction and affairs..."

**Note 11- Aggregate reserve for life contracts**  $12,639,019

The captioned amount is the same as reported by the Company in its 2002 Annual Statement.
There was a difference of $39,129 noted between the Company's reserve amount per the detail provided and the Company's 2002 Exhibit 5 (the data set was less than what was reported in Exhibit 5). This amount was determined to be immaterial. Mr. James Harrison, Company's President and Actuary, explained that the detail contained policies with $0 reserves. An additional reserve was set up for these policies of $27,824 leaving an unexplained difference of $11,305. The Company sent the original adjustments along with other work papers to a potential buyer during their due diligence process and did not obtain these back, which was not in accordance with ALA. CODE §27-27-29 (a) (1975), which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

There was also a difference of $375,995 noted in the Amount of Insurance between the detail and the Company's 2002 Exhibit of Life Insurance, which the Company could not explain. The Company recorded a higher insurance amount total in the 2002 Exhibit of Life Insurance. The Company should maintain detail to support the amounts recorded in its Exhibit of Life Insurance in accordance with ALA. CODE §27-27-29 (a) (1975), which was also noted above.

According to the Company's 2002 Exhibit of Life Insurance, there was an increase of 3,000 industrial policies and an increase of $3,000,000 in the amount of insurance for these policies. The Company could not provide the detail supporting these. It responded that there must have been an error made during the entry of the numbers for this page because this number was a plug since the Company knows the beginning and year-end policies and insurance in force. According to ALA. CODE § 27-27-29 (a) (1975), "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs..." The Company did not complete its Exhibit of Life Insurance in accordance with the NAIC Annual Statement Instructions. Because the Company was able to provide the detail that reconciled to the policy count recorded in the Company's Exhibit of Life Insurance and the industrial policies was a plug, there was no affect on the Company's December 31, 2002 reserves.

The examiner selected a sample of forty-seven 2002 premiums to verify individual determinants with the application file. However, the Company could not provide four of the forty-seven policy applications. The Company was not in compliance with ALA. CODE § 27-27-29(a) (1975).
Due to the Company not being able to locate these files, the examiner attempted to trace these policies to the Company's December 31, 2002 in force valuation record to ensure that the Company was accounting for these policies. The examiner determined that one of the four policies was not included on the valuation record, which the Company could not explain. Because this policy was not included on the in force valuation record, the examiner opted to trace all of the policies in the sample to the valuation record to determine if the Company was accounting for these policies at December 31, 2002. An additional nine policies were not included on the valuation. This problem was noted in the prior examination report and this exception contributed to the qualification of this report.

The Company was one year behind in sending its life policies, where the insured attained the limiting age under the mortality table on which the reserve was based, to the Treasurer of the State of Alabama in accordance with ALA. CODE §35-12-23 (1975). At December 31, 2002, there were twenty-three policies with aggregate amounts of insurance totaling $4,550 that were unpaid and unclaimed for more than five years. These policies had not been remitted to the State Treasurer at July 21, 2004. The Company had three policies with incorrect attained ages (attained ages reported- 236, 2049, and 2004) in its December 31, 2002 valuation records. It was determined that two of these three policies had not reached the attained age of 105 after a review of the application files; however, the examiner could not determine if the third policy had reached an attained age of 105 because the Company could not locate the application file, which was not in accordance with ALA. CODE § 27-27-29 (a) (1975). This contributed to the qualification of this examination report. The Company did however maintain reserves on these policies at December 31, 2002.

The Company could not provide the components adding to or taking away for its 1999 through 2002 Exhibit of Life insurance. According to the Company, these amounts were arbitrarily determined, which was not in accordance with ALA. CODE § 27-27-29 (a) (1975). The Company did not complete its Exhibit of Life Insurance in accordance with the NAIC Annual Statement Instructions. Even though the Company was able to provide the detail that reconciled to the policy count recorded in the Company's Exhibit of Life Insurance and the components were arbitrarily determined, there was no affect on the Company's December 31, 2002 reserves.

The examiner compared the Company's December 31, 1998 in force valuation record and the Company's December 31, 2002 in force valuation record to obtain the unmatched policies. This resulted in 22,763 policies not on the 2002 valuation record. A sample of forty-seven of these policies was randomly selected. The Company could not provide an explanation why eleven of these policies were not on the December 31, 2002 in force valuation record, therefore contributing to the qualification of this
examination report. One of these eleven policies, not on the inforce valuation record, was a North Carolina Mutual policy. The Company was not in compliance with ALA.
CODE § 27-27-29(a) (1975). This was noted in the previous examination report.

Another sample of forty-seven 2002 premium paying policies was randomly selected. The Company could not provide an explanation why seven of these policies were not on the December 31, 2002 in force valuation record, therefore contributing to the qualification of this examination report. One of the policies was a North Carolina Mutual policy. This was also noted in the previous examination report.

A sample of forty-seven application files from the Company's file cabinets was randomly selected. The Company could not provide an explanation why two of these policies were not on the December 31, 2002 in force valuation record, therefore contributing to the qualification of this examination report.

Company management represented the following:
"During the acquisition of companies by PIICO, reserve calculations are submitted in which PIICO balances those calculations to the Company's valuation file. During this process, some records or plans by the Company being acquired may have been omitted. In PIICO's valuation reconciliation, those records will also be omitted. When this omission is detected, the only recourse is to correct the valuation file. There are cases lapsed for non-payment of premium that should have been place in the extended term file; however, some of these cases were manually calculated and may have been omitted. When this omission is detected, it is amended in the valuation file."

ALA. CODE § 27-2-23 (c) (1975) states the following:
"If the commissioner or examiner finds any account or record of an insurer being examined to be inadequate or inadequately kept or posted for proper examination of the condition and affairs of the examinee, he shall be given written notice to such examinee specifying: (1) The deficiencies to be corrected; and (2) A reasonable period within which to correct the stated deficiencies."

The Company is to ensure that all active policies are accounted for and reserves are set up for these policies by December 31, 2004.

Note 12 - Contract Claims- Life  $264,911

The captioned amount is $209,392 more than the $55,519 reported by the Company in its 2002 Annual Statement.
The examiner requested the detail for the claims in course of settlement at December 31, 2002. The Company provided the detail for the claims that were received in 2001 and were paid in 2002, which reconciled with the Company's 2002 Exhibit 8 Part 1; however, this amount was incorrect. A detailed listing of claims received in 2002 and paid in 2003 was provided. There was an immaterial difference of $30,870 between the Company's Exhibit 8-Part 1 and the detail provided. The detail was more than the amount reported. The detail used for the life contract claims was not classified in the correct category in accordance with the NAIC Accounting Practices and Procedures Manual - SSAP No. 55, paragraph 6. b. The claims were not resisted, but were either due and unpaid or in course of settlement - other. According to the Company's President and Actuary, the Company made an error in classification and should have reported its claims in course of settlement - other.

When reviewing this unpaid claims detail (contained fifty death claims), the Company could not locate three applications related to these 2002 incurred paid death claims, which was not in accordance with ALA. CODE § 27-27-29 (a) (1975). According to this statute, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted." This contributed to the qualification of this report.

During a review of 2003 paid claims, it was determined that the Company paid $85,911 for claims received prior to 2003 and paid in 2003. The Company reported $27,519 at December 31, 2002, which was understated by $58,392. $85,911 should have been either reported as Claims Due and Unpaid or In Course of Settlement at December 31, 2002.

In order to determine if the Company's incurred but not reported (IBNR) reserve was accurate, the examiner reviewed the Company's 2003 paid claims. The Company paid $158,801 for claims reported in 2003 with a death date prior to 2003. The Company reported $28,000 for its year-end 2002 life IBNR, which was $130,801 understated. After the actuarial examiner's review, it was determined that an additional $20,199 should be set up for the remainder of the incurred but not reported claims at December 31, 2002 (claims with incurred dates in 2002 and prior that will be paid after September 2003). The total IBNR, at December 31, 2002, should have been $179,000. Guidelines for establishing these liabilities are found in the NAIC Accounting Practices and Procedures Manual - SSAP No. 55.
Note 13 - Contract claims- Accident and health $62,066

The captioned amount is $56,255 more than the $5,811 reported by the Company in its 2002 Annual Statement.

According to the Company's January 2003 through September 2003 paid claims data set, the Company paid claims totaling $43,066, which had received dates and incurred dates prior to 2003, therefore understating the Company's due and unpaid or in course of settlement claims at December 31, 2002. The Company reported $2,811, which was $40,255 less than what should have been reported.

The Company also paid claims in 2003 totaling $16,630, which were received in 2003 and incurred prior to 2003, therefore understating the Company's incurred by not reported (IBNR) by $13,630 (Company reported $3,000) at December 31, 2002. After the actuarial examiner's review, it was determined that an additional $2,370 should be set up for the remainder of the IBNR claims at December 31, 2002 (claims with incurred dates in 2002 and prior that will be paid after September 2003). The total IBNR at December 31, 2002 should have been $19,000 instead of the $3,000 reported.

The Company's contract claims- accident and health line item at December 31, 2002 was understated by $56,255. Guidelines for establishing these liabilities are found in the NAIC Accounting Practices and Procedures Manual - SSAP No. 55

The examiner requested the detail for the claims in course of settlement at December 31, 2002. The Company provided the detail for the claims that were received in 2001 and were paid in 2002, which reconciled with the Company's 2002 Exhibit 8 Part 1; however, this amount was incorrect. A detailed listing of claims received in 2002 and paid in 2003 were provided. There was an immaterial difference of $30,870 between the Company's Exhibit 8- Part 1 and the detail provided. The detail was more than the amount reported. The detail used for the accident and health contract claims was not classified in the correct category in accordance with the NAIC Accounting Practices and Procedures Manual -SSAP No. 55, paragraph 6. b. The claims were not resisted, but were either due and unpaid or in course of settlement- other. According to the Company's President and Actuary, the Company made an error in classification and should have reported its claims in course of settlement - other.

Note 14 - Policyholders' dividends and coupons due and unpaid $3,088

The captioned amount is the same as reported by the Company in its 2002 Annual Statement.
The Company did not comply with the NAIC Accounting Practices and Procedures Manual, SSAP No. 51, paragraph 41 by disclosing the following in its 2002 Annual Statement- Notes to Financial Statement:

"...the method of accounting for policyholder dividends, the amount of dividends, and the amount of any additional income allocated to participating policyholders in the financial statements."

**Note 15 – Premiums and Annuity Considerations for life and Accident and Health Contracts received in advance**

$81,730

The captioned amount is the same as reported in the Company’s 2002 Annual Statement.

After a review of the Company’s December 2002 premiums received, it was determined that the Company did not include three premiums (totaling $45) out of sample of forty-seven premiums, due in January 2003, in its December 31, 2002 premiums received in advance liability. These advance premiums were recorded as earned in the net premium income, therefore, understating this liability and overstatement the net premium income, and not complying with the NAIC Accounting Practices and Procedures Manual - SSAP No. 54, paragraph 6. It could not be determined if the liability was accurately stated, therefore, contributing to the qualification of this report. Due to the amount being deemed immaterial, the examiner did not expand the sample.

**Note 16 - Commissions to Agents due or accrued**

$0

The captioned amount is the same as reported by the Company in its 2002 Annual Statement.

The Company received premiums on December 30th and 31st, 2002, which it did not pay commissions on at December 31, 2002. It was determined that the Company should have set up a liability for $734 at December 31, 2002 in accordance with the NAIC Annual Statement Instructions. Due to the amount being deemed immaterial, no changes were made to the financials within this report.

**Note 17 - General expenses due or accrued**

$48,570

The captioned amount is the same as reported by the Company in its 2002 Annual Statement.
The Company did not set up an adequate accrual for general expense in its 2002 Annual Statement. There were additional disbursements made in January and February of 2003 totaling $37,181 that were related to 2002 and were not accrued for at December 31, 2002. The total for these disbursements was deemed immaterial; however, the Company should establish adequate accruals. This was also noted in the prior examination report.

**Note 18 - Amounts withheld or retained by Company as agent or trustee**

$33,611

**Taxes, Licenses and Fees**

$0

The captioned amounts are $26,064 more than and $36,693 less than, respectively, than the $7,547 and the $36,693, respectively, reported in the Company's 2002 Annual Statement.

The Company improperly reported its 2002 employee tax liability in the taxes, licenses and fees line item. Per the **NAIC Annual Statement Instructions**, the Company should include employees' FICA, unemployment contributions, and other withholdings in the amounts withheld or retained by company as agent or trustee line item. During a review of the payments made for these taxes in 2003, the Company overstated its FICA taxes by $10,629 at December 31, 2002, therefore, reducing the total liability to $26,064. A reclassification was made to the Amounts withheld or retained by Company as agent or trustee line item.

The Company did not remit to the Treasurer of the State of Alabama all unclaimed funds in accordance with **ALA. CODE 35-12-23 (1975)**. This was noted in the last examination report.

The Company did not reduce its direct business in Schedule T by the premiums paid for reinsurance ceded amount of $30,565 in accordance with the **NAIC Annual Statement Instructions**. The sum of columns 2 and 3 from Schedule T did not agree with Exhibit 1, lines 6.4 plus 10.4 plus 16.4, column 1 less columns 8, 9, 10 and 11 in accordance with the **NAIC Annual Statement Instructions**. There was a variance of $855,926. According to a Company official, there were due and deferred premiums included in Schedule T, which was in error.

**Note 19 - Remittances and Items not Allocated**

$0

The captioned amount is the same as reported in the Company's 2002 Annual Statement.
The examiner selected a sample of forty-seven new policies with effective dates in January 2003 to verify that the remittances were received subsequent to year-end 2002 or were included in the Company's 2002 premiums received in advance line item. Five of the forty-seven remittances were received in 2002 and were not included in the Company's 2002 premiums received in advance detail. Per the Company's Chief Financial Officer, the remittance for a new policy is not considered a premium until the policy has been issued. He also stated that the money is treated as unallocated funds and subject to refund if the policy is not issued. The total amount of the five remittances was $156 and was not included in the remittances and items not allocated line item, which was not in accordance with the NAIC Annual Statement Instructions. This did not affect the Company's financials due to the amount being deemed immaterial.

**Note 20 - Asset Valuation Reserve**

$293,384

The above captioned amount is the same as the amount reported in the 2002 Annual Statement.

At December 31, 2002, the Company had reported an incorrect book/adjusted carrying value for long term bonds, mortgage loans and real estate on the Asset Valuation Reserve Basic Contribution, Reserve Objective and Maximum Reserve Calculations. The Company should report the correct book/adjusted carrying value in accordance with the NAIC Annual Statement Instructions.

The Company had reported incorrect realized capital gains/losses for Other Than Mortgage Loans and Real Estate and Other Invested Assets on the 2002 Asset Valuation Reserve schedule. It was also noted that incorrect unrealized capital gains/losses was reported for Other Than Mortgage Loans, Common Stock and Real Estate and Other Invested Assets. The Company should report the correct amount for realized capital gains/losses and unrealized capital gains/losses in accordance with the NAIC Annual Statement Instructions.

Due to the corrections noted above, the Asset Valuation Reserve decreased by $37,732 to $255,652.

**Note 21- Unassigned funds**

$2,795,462

The captioned amount is $1,562,079 less than the $4,357,541 reported in the Company's 2002 Annual Statement.
The following presents a reconciliation of unassigned funds per the Company’s filed 2002 Annual Statement to the unassigned fund per this examination.

Unassigned funds per Company $4,357,541
Examination increase/(decrease) to assets:
Common Stock $(556,206)
Real Estate (19,294)
Accident and Health Premiums due and unpaid (90,574)
Life Insurance Premiums and Annuity Considerations
Deferred and Uncollected (508,483)
Policy Loans (40,711)
Aggregate Write-ins for invested assets (91,793)
NET CHANGES IN ASSETS $1,307,061

Examination (increase)/decrease to liabilities:
Contract claims- Life $(209,392)
Contract claims- Accident and Health (56,255)
Amounts withheld or retained by Company as agent (26,064)
Taxes, Licenses and Fees $36,693
TOTAL (INCREASE) TO LIABILITIES $ (255,018)

TOTAL UNASSIGNED FUNDS PER EXAMINATION* $2,795,462

* This report of examination is qualified and expresses no opinion on the accuracy of the financial statements of Protective Industrial Insurance Company of Alabama. Furthermore, due to the Company’s inability or unwillingness to provide information requested by the examiners during the course of the examination, the examiners were unable to determine if the Company was solvent, impaired or insolvent. See “QUALIFICATION OF EXAMINATION REPORT” for detailed discussion on Page 31.

COMMITMENTS AND CONTINGENT LIABILITIES

Examination of these items included: a review of the Company’s records and files for unrecorded items; obtaining a letter of representation from management; and obtaining confirmations from outside attorneys representing the Company. Nothing significant was noted.
SUBSEQUENT EVENTS

On March 20, 2003, the Company entered into an agreement with Birmingham-Jefferson Civic Center Authority to sell its home office. The Company has to be completely out of the building by September 1, 2004.

On April 15, 2004, all outstanding shares of Protective Industrial Insurance Company of Alabama were purchased by Booker T. Washington Insurance Company, Inc. (BTW). This has resulted in a change of control with the anticipation of ultimately merging the Company and its subsidiary, Universal Life Insurance Company, with BTW. Until this merger, Protective Industrial Insurance Company of Alabama and Universal Life Insurance Company will continue to operate as stand alone corporations.

The examiners requested the Company's January through June 2003 cash receipts journal on October 1, 2003, via e-mail; however, this information was never provided by the Company, which was not in accordance with ALA. CODE § 27-27-29(a) (1975). This statute states "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods of systems as are customary or suitable as to the kind, or kinds, of insurance transacted." The Company was also not in compliance with the Alabama Department of Insurance Regulation No. 118, Section 6, which states, "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response in not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay." According to ALA. CODE § 27-2-23 (b) (1975), "Every person being examined, its officers, attorneys, employees, agents and representatives, shall make freely available to the commissioner or his examiners the accounts, records, documents, files, information, assets and matters in his possession or control relating to the subject of the examination."

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regards to the Company's compliance with the recommendations made in the previous examination
reports. This review indicated that the Company had satisfactorily complied with the prior recommendations, with the exception of the following:

1. During the prior examination, it was recommended that the Company report all dividend declarations in accordance with the requirements of Section 27-29-5(g)(2), Code of Alabama 1975, as amended. The Company did not report its 2001 dividend declaration within the required time frame. See “Dividends to Stockholders” on page 11 where this was noted.

2. During the prior examination, it was recommended that the Company complete and file the specified Certificate of Compliance regarding the Company’s advertising with its Annual Statement in accordance with Alabama Department of Insurance Regulation No. 69, Section VII (2). The Company did not file certificates of compliance with its Annual Statements during the examination period (1999 - 2002). See “Marketing and Sales” on page 18 where this was noted.

3. During the previous examination, it was recommended that the Company maintain its advertisements with a notation that indicates the manner and extent of distribution and the form number of any policy advertised. The Company did not comply with this previous recommendation. See “Marketing and Sales” on page 18 for where this was noted.

4. During the previous examination, it was recommended that the Company provide a complaint register for all years under examination. The Company did not comply with this previous recommendation and again was unable to provide the complaint register for all years under examination. See “Policyholder Complaints” on page 21 for where this was noted.

5. It was noted that Company management did not maintain reconciliations of the general ledger accounts that reconciled to the 2002 Annual Statement. This was also noted in the last exam report. See “Accounts and Records” on page 24 where this was noted.

6. During the prior examination, it was recommended that the Company value its securities in accordance with the requirements of Alabama Department of Insurance Regulation No. 98. During this examination, the Company did not submit to the Securities Valuation Office all securities for valuation in accordance with the procedures of the NAIC. See “Common stocks” on page 33 where this was noted.

It was also recommended, in the last examination, that the Company non-admit any securities until such time as the insurer has complied with the standards of the NAIC
Securities Valuation Office in accordance with the requirements of the Alabama Department of Insurance Regulation Number 98. See “Common stocks” on page 33 where this was noted.

7. It was determined that the Company did not comply with the prior examination report recommendation and only admit policy loans to the extent that a reserve is recorded by the Company in accordance with ALA. Code § 27-41-25 (1975). There were 49 out of the 483 policy loans with loan balances greater than the cash value of the policy at December 31, 2002. The total overage was $10,353, which was nonadmitted. See “Policy loans” on page 36 where this was noted.

8. During the prior examination, it was recommended that the Company identify all policies relating to the North Carolina Mutual Insurance Company and record appropriate reserves on all of the related policies. There were policies noted during the review of the Company's Aggregate reserve for life contracts line item that were not appropriately on the Company's December 31, 2002 in force valuation records. See “Aggregate reserves for life contracts” on page 38 where this was noted.

There were twenty policies noted, which was comprised of at least one North Carolina Mutual policy during the review of Company’s Aggregate reserve for life contract line item- see page 38 where this was noted.

9. During the prior examination, it was recommended that the Company accrue an adequate amount for expenses incurred or relating to current period events, including but not limited to accrued sick and annual leave, unpaid year-end payroll, and costs to defend known litigation. The Company did not establish an adequate accrual at December 31, 2002. See “General expenses due or accrued” on page 44 where this was again noted.

10. The Company was not in compliance with the prior examination report recommendation. The Company did not set up a liability for its unclaimed funds in accordance with the requirements of ALA. CODE §35-12-23 (1975). However, the Company charged the unclaimed funds amount to surrenders and remitted the amount to the Treasurer of the State of Alabama. See “Amounts withheld or retained by agent or trustee” page 45 where this was noted.
COMMENTS AND RECOMMENDATIONS

Management and Control – Page 4
It is recommended that the Company not pay its directors consulting fees in accordance with ALA. CODE § 27-27-26(a) (1975).

Conflict of Interest – Page 7
It is recommended that the Company have all officers and directors sign a conflict of interest statement each year.

It is recommended that the Company not state that it has a conflict of interest policy in its general interrogatories when its does not have a conflict of interest policy.

It is recommended that the Company require its key employees to sign a conflict of interest statement each year.

Corporate Records – Page 8
It is recommended that the Company maintain all proxy statements in accordance with ALA. Code § 27-27-29(a) (1975).

Management Agreement with Universal Life Insurance Company - Page 8
It is recommended that the Company require Universal Life Insurance Company to pay its management fees in accordance with the provisions in the Management Agreement.

Dividends to Stockholders - Page 11
It is again recommended that the Company report the declarations of dividends within five business days in accordance with ALA. CODE § 27-29-5 (g)(2) (1975).

Fidelity Bond – Page 12
It is recommended that all key employees who handle cash and claims be covered by the Company's fidelity bond.
Employee Welfare - Page 12

It is recommended that the Company comply with the Violent Crime Control and Law Enforcement Act of 1994, US Code, Section 1033(e)(1)(A) and have all employees sign a violent crime statement.

Policy forms and Underwriting practices- Page 14

It is recommended that the Company notify the Commissioner whether its policy forms are to be marketed with or without an illustration in accordance with Alabama Insurance Department Regulation No. 114 Section 5, (A).

It is recommended that the Company's declination include the specific reason for declination in accordance with guidelines established by NAIC Insurance Information and Privacy Protection Model Act, Section 10.

It is recommended that the Company charge the correct premium for its policies in accordance with approved policy form filings and rate books in accordance with ALA. CODE § 27-15-6 (1975).

It is recommended that the Company correct the deficiencies noted in the policies that should have had, did not have female discounts as follows, in accordance with ALA. CODE § 27-2-23 (c) (1975) as follows:

- For policies where a death claim has already been paid, an increase in the death benefit payable to what the amount of insurance would have been for the premium paid needs to be paid;
- For policies that have terminated by other than death, refund the discount for all premium payment accumulated plus six percent interest; and,
- For policies still in force or active, give the policyholder a choice of an increase in the death benefit payable to what the amount of insurance would have been for the premium paid or refund the discount for all premium payment accumulated plus six percent interest.

It is recommended that the Company completely comply with this recommendation no later than December 31, 2004.

It is recommended that the Company complete its Exhibit of Life Insurance in accordance with the NAIC Annual Statement Instructions and maintain supporting detail for the transactions in its Exhibit of Life Insurance in accordance with ALA. CODE § 27-27-29 (a) (1975).
It is recommended that the Company comply with Alabama Department of Insurance Regulation No. 118, which states that "All records must be maintained for not less than five (5) years."

Marketing and Sales – Page 18

It is again recommended that the Company's advertisements contain a notation attached to each advertisement that indicates the manner and extent of distribution and form number of any policy advertised in accordance with Alabama Insurance Department Regulation No. 69, Section VII (1).

It is recommended that the Company keep documentation of its replacement documents in compliance with Alabama Insurance Department Regulation No. 70 Section 9 (C).

It is recommended that the Company provide policyholders with an acknowledgement that no policy illustration is included in the insurance contract in accordance with Alabama Insurance Department Regulation No. 114, Section 9 (B).

It is again recommended that the Company file a Certificate of Compliance regarding its advertisements with its future Annual Statements in accordance with Alabama Department of Insurance Regulation No. 69, Section VII (2).

Claim Payment Practices – Page 20

It is recommended that the Company comply with ALA. CODE § 27-1-17(a) (1975) which states "Each insurer, health service corporation, and health benefit plan that issues or renews any policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar days upon receipt of a clean written claim or 30 calendar days upon receipt of a clean electronic claim. If the insurer, health service corporation, or health benefit plan is denying or pending the claim, the insurer, health service corporation, or health benefit plan shall within 45 calendar days for a written claim... notify the health care provider or certificate holder the reason for denying or pending the claim and what, if any, additional information is required to process the claim... Upon receipt of the necessary information, the claim must be paid, denied, or otherwise adjudicated within 21 calendar days from the receipt of the requested information."
It is recommended that the Company comply with ALA. CODE § 27-27-29 (a) (1975) states "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable to the kind, or kinds, of insurance transacted."

It is recommended that the Company comply with Regulation 118, which states that "All records must be maintained for not less than five (5) years."

Claim Handling Practices – Page 21

It is recommended that the Company comply with ALA. CODE § 27-27-29 (a) (1975) states "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable to the kind, or kinds, of insurance transacted."

Policyholder Complaints – Page 21

It is again recommended that the Company maintain a complaint register in accordance with guidelines established in Chapter XV, Section B (Complaint Handling) of the NAIC Market Conduct Examiner Handbook and ALA. CODE §27-27-29 (a) (1975).

Reinsurance – Page 22

It is recommended that the Company comply with the NAIC Accounting Practices and Procedures Manual, SSAP No. 61, paragraphs 57, 60 and 62 and the NAIC Annual Statement Instructions by disclosing the required reinsurance information in its Notes to the Financial Statement in future financial statements.

It is recommended that the Company post all premiums paid to the correct account and report the premiums in Schedule S - Part 3 - Section 1 in accordance with the NAIC Annual Statement Instructions.

Accounts and Records – Page 24

It is again recommended that the Company maintain detail and reconciliations of the general ledger to the filed Annual Statements.
It is again recommended that detailed data sets be maintained supporting the information contained in the filed Annual Statements until a Report of Examination has been filed covering the period relating to the Annual Statement.

It is recommended that the Company establish and maintain appropriate controls, safeguards, and have written procedures for protecting the integrity of computer information in accordance with ALA. CODE §27-27-29 (a) (1975).

It is recommended that the Company test its disaster recovery plan to ensure its effectiveness.

Bonds – Page 32

It is recommended that the Company report the correct par values in its future Schedule D - Part 1.

It is recommended that the Company state the correct designation for its bonds in accordance with the NAIC Securities Valuation Office.

It is recommended that the Company determine prepayment assumptions for its loan-backed securities and review the results periodically in accordance with NAIC Accounting Practices and Procedures Manual SSAP No. 43, paragraph 9-14.

It is recommended that the Company record its bond transactions on the trade date and not the settlement date in accordance with the NAIC Accounting Practices and Procedures, SSAP No. 26, paragraph 4.

It is recommended that the Company complete its Schedule D-Part 1 correctly and state the option date in column 7 and option call price in column 8 for its callable bonds in future financial statements.

It is recommended that the Company properly classify its bonds in Schedule D - Part 1 in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company report the correct cusip numbers, correct descriptions, and correct NAIC designations for its bonds in its future Schedule D - Part 1 in accordance with the NAIC Annual Statement Instructions and the NAIC SVO Purposes and Procedures Manual.
**Common Stocks** – Page 33

*It is again recommended* that the Company not admit any securities until such time as the insurer has complied with the standards of the NAIC Securities Valuation Office in accordance with Alabama Department of Insurance Regulation No. 98.

*It is recommended* that the Company record its common stock acquisitions and disposals on the settlement date and not on the trade date in accordance with the NAIC Accounting Practices and Procedures SSAP No. 30, paragraph 5.

*It is recommended* that the Company report the correct description and correct cusip numbers for its common stocks in its future Schedule D - Part 2 - Section 2 in accordance with the NAIC Annual Statement Instructions.

**Mortgage Loans** - Page 34

*It is recommended* that the Company state the loan type in column 4 in Schedule B - Part 1 for its mortgage in good standing in future financial filings in accordance with the NAIC Annual Statement Instructions.

*It is recommended* that the Company report the loan type in column 4, the value of land and buildings in column 10, and the date of the last appraisal or valuation in column 11 for mortgages with overdue interest over ninety days in Schedule B - Part 1 in future financial filings in accordance with the NAIC Annual Statement Instructions.

*It is recommended* that the Company complete the General Interrogatory for its mortgage loans in future financial statements in accordance with the NAIC Annual Statement Instructions.

*It is recommended* that the Company disclose information regarding its mortgage loans in the Notes to Financial Statements in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 37, paragraph 20 and the NAIC Annual Statement Instructions for Note -5 - Investments.

**Real Estate** - Page 35

*It is again recommended* that the Company nonadmit any property that is not income producing in accordance with ALA. CODE § 27-41-34(d) (1975).
It is recommended that the Company list individually each lot of land owned in its future Schedule A - Part 1 in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company complete all columns in its Schedule A - Part 1 in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company determine fair value of its real estate investments with appraisals that are not over five years old in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 40, paragraph 12.

Policy Loans – Page 36

It is recommended that the Company maintain the detail for its policy loans in accordance with ALA. CODE § 27-27-29 (a) (1975).

It is again recommended that the Company nonadmit any policy loans with loan balances greater than the cash value of the policy in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 49, paragraph 5.

Cash and Short-term Investments - Page 36

It is recommended that the Company report the correct par values for its short-term investments in Schedule DA - Part 1 for future filings.

It is recommended that the Company report the correct cusip numbers for its short-term investments in its future Schedule DA - Part 1 in accordance with the NAIC Annual Statement Instructions.

Aggregate Write-Ins for Invested Assets – Page 37

It is recommended that the Company file a SUB 1 form with the Securities Valuation Office for its subsidiary controlled affiliate in accordance with the NAIC Purposes and Procedures Manual of the Securities Valuation Office and the Alabama Department of Insurance Regulation No. 98, Section 2 (A) and (C).

It is recommended that the Company properly classify its assets in accordance with the NAIC Annual Statement Instructions.
Life Insurance Premiums and Annuity Considerations Deferred and Uncollected on inforce business — Page 37

It is recommended that the Company comply with SSAP No. 51, paragraph 23 and properly calculate its life insurance premiums and annuity considerations deferred and uncollected asset and loading.

Accident and Health Premiums Due and Unpaid — Page 38

It is recommended that the Company nonadmit any uncollected premium balances which are over ninety days due in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 6, paragraph 9.

Amounts Due from Agents — Page 38

It is recommended that the Company maintain detailed records of its amounts due from agents account in accordance with ALA. Code § 27-27-29(a) (1975).

Aggregate Reserve for Life Contracts — Page 38

It is recommended that the Company complete its Exhibit of Life Insurance in accordance with the NAIC Annual Statement Instructions and maintain supporting detail for the transactions in its Exhibit of Life Insurance and Exhibit 5 in accordance with ALA. CODE § 27-27-29 (a) (1975).

It is recommended that the Company remit to the Treasurer of the State of Alabama all unclaimed funds in accordance with ALA. CODE § 35-12-23 (1975).

It is recommended that the Company maintain its application files on its in force business in accordance with ALA. CODE § 27-27-29 (a) (1975).

It is again recommended that the Company ensure that all policies are accounted for and reserves are set up for these policies on its in force valuation record. It is recommended that the Company completely comply with this recommendation no later than December 31, 2004 in accordance with ALA. CODE § 27-2-23 (c) (1975).

Contract Claims- Life — Page 41

It is recommended that the Company report and classify correctly all claims in course of settlement and/or due and unpaid in Exhibit 8-Part 1 in accordance with

It is recommended that the Company maintain all applications on its business in accordance with ALA. CODE § 27-27-29 (a) (1975).

It is recommended that the Company establish adequate amounts for its contract claims-life in its future financial statements. Guidelines for establishing these liabilities are found in the NAIC Accounting Practices and Procedures Manual - SSAP No. 55.

**Contract Claims - Accident and Health - Page 43**

It is recommended that the Company establish adequate amounts for its contract claims-Accident and Health in its future financial statements. Guidelines for establishing these liabilities are found in the NAIC Accounting Practices and Procedures Manual - SSAP No. 55.

It is recommended that the Company report and classify correctly all claims in course of settlement and/or due and unpaid in Exhibit 8 Part 1 in accordance with the NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual - SSAP No. 55, paragraph 6.b.

**Policyholders' dividends and coupons due and unpaid - Page 43**

It is recommended that the Company disclose all required policyholder dividend information in future financial statements in accordance with the NAIC Accounting Practices and Procedures Manual SSAP No. 51, paragraph 41.

**Premiums and annuity considerations for life and accident and health contracts received in advance - Page 44**

It is recommended that the Company account for all premiums received in advance in its premiums and annuity considerations for life and accident and health contracts received in advance liability in future financial filings in accordance with the NAIC Accounting Practices and Procedures Manual - SSAP No. 54, paragraph 6.

**Commissions to Agents due or accrued - Page 44**

It is recommended that the Company set up a liability for its commissions to agents in future financial statements in accordance with the NAIC Annual Statement Instructions.
General expenses due or accrued - Page 44

It is again recommended that the Company estimate adequate accruals for all unpaid expenses in future financial statements.

Amounts withheld or retained by Company as agent or trustee and Taxes, Licenses and Fees – Page 45

It is recommended that the Company include its employees withholdings in the amounts withheld or retained by Company as agent or trustee line item and not in the taxes, licenses and fees line item in accordance with the NAIC Annual Statement Instructions.

It is again recommended that the Company remit all unclaimed property to the State Treasurer in accordance with ALA. CODE 35-12-23 (1975).

It is recommended that the Company comply with the NAIC Annual Statement Instructions when completing Schedule T and Exhibit 1- Part 1 in future financial statements.

Remittances and Items not Allocated – Page 45

It is recommended that the Company establish the appropriate liability for its new policies that have not been issued but have been paid for in the remittances and items not allocated line item in accordance with the NAIC Annual Statement Instructions.

Asset Valuation Reserve – Page 46

It is recommended that the Company establish the Asset Valuation Reserve in accordance with the NAIC Annual Statement Instructions.

Subsequent Events - Page 48

It is recommended that the Company comply with ALA. CODE § 27-27-29(a) (1975), Alabama Department of Insurance Regulation No. 118, Section 6, and ALA. CODE § 27-2-23 (b) (1975) regarding maintaining and providing information on its cash receipts.
CONCLUSION

The customary insurance examination procedures as recommended by the National Association of Insurance Commissioners have been followed to the extent appropriate and possible in connection with the verification and evaluation of assets and determination of liabilities set forth in this report.

This report of examination is qualified and expresses no opinion on the accuracy of the financial statements of Protective Industrial Insurance Company, Inc. Furthermore, due to the Company’s inability or unwillingness to provide information requested by the examiners during the course of the examination, the examiners were unable to determine if the Company was solvent, impaired or insolvent. See "QUALIFICATIONS OF EXAMINATION REPORT" for detailed discussion on Page 31.

In addition to the undersigned, Anne Pruett, Juliette Boston, Jayne Pearce, and Joy Griggs, Examiners; and Don Yates, FSA, MAAA, Consulting Actuary; all representing the Alabama Department of Insurance, participated in this examination of Protective Industrial Insurance Company.

Respectively submitted,

Rhonda B. Ball
Examiner-in-charge
Alabama Department of Insurance