

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

IN THE MATTER OF:)
)
Somerset Life Insurance Company)
6704 Somerby Lane)
Mobile, Alabama 36695)

Examination of **Somerset Life Insurance Company**

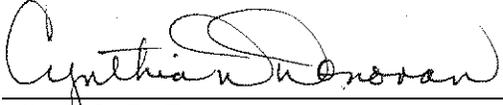
NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **Somerset Life Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on May 7, 2012, has been adopted by the Commissioner.

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

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

June 20, 2012
Date


Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0000 3465 55

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FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Somerset Life Insurance Company** (hereinafter "Company") for the time period January 1, 2006 through December 31, 2010.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on April 5, 2012.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on May 7, 2012 and was received by the Company on May 14, 2012.

The Company did not file any objections.

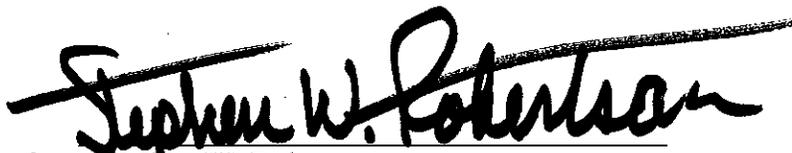
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the **Somerset Life Insurance Company** as of December 31, 2010.
2. That the Examiner's Recommendations are reasonable and necessary in order for the **Somerset Life Insurance Company** to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

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

Signed and Sealed this 20th day of
June, 2012.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

SOMERSET LIFE INSURANCE COMPANY
NAIC COMPANY CODE 73180

As of

December 31, 2010

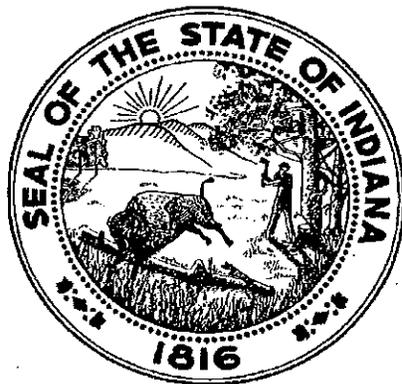


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

April 6, 2012

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

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3696, an examination has been made of the affairs and financial condition of:

**Somerset Life Insurance Company
4500 Bank One Tower
Indianapolis, IN 46204**

hereinafter referred to as the "Company", an Indiana mutual life insurance company. The examination was conducted at the corporate office of The Thomas Consulting Group, Inc. located in Indianapolis, Indiana.

The Report of Examination, showing the financial status of the Company as of December 31, 2010, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
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MEDICAL MALPRACTICE
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SECURITIES / COMPANY RECORDS
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SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2005. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (TTCGI) and covered the period from January 1, 2006, through December 31, 2010, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Actuarial specialists were not considered necessary in support of examination objective due to the limited operations of the Company. The Company is not actively writing new business and only a few claims were paid during 2010. The Examiners verified that limited loss or claims related activity had occurred during or subsequent to the examination period ending December 31, 2010.

The risk-focused examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition. Examination procedures included the verification and evaluation of assets, determination of liabilities and review of income and disbursement items, minutes, corporate documents, policy and claim files, and other records to the extent deemed necessary.

HISTORY

The Company was incorporated on February 3, 1913, under the provisions of the Acts of 1897, Section 473 and Acts succeeding supplemental and amendatory thereto and commenced business the same year. On April 27, 1949, the Company was reorganized and its name was changed to Churchmembers' Life Insurance Company (CLIC).

In December 1984, with the Company under a potential court-ordered liquidation, the INDOI approved a petition filed by Edward J. Peters & Associates, Inc., for the sale and purchase of the remaining assets and liabilities of CLIC. The Company changed its name from CLIC to Somerset Life Insurance Company on July 25, 1985.

CAPITAL AND SURPLUS

The Company has no authorized shares of common stock issued or outstanding. No shareholder dividends have been paid since the inception of the Company. During the period under review, there were reductions in Surplus Notes of \$30,000 due to the repayment of surplus debentures. There were no other changes to the capital account, surplus paid-in or capital contribution activity during the exam period.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total Repayment of Surplus Debentures	\$10,000	\$10,000	\$10,000	0.00	0.00

TERRITORY AND PLAN OF OPERATION

The Company's only product is Ordinary Life policies, and it is licensed only in the state of Indiana. Other than one policy issued in 2009, the Company is not actively writing business and has no agency force. Currently, the Company is servicing its in-force business and conservatively managing its investment portfolio.

GROWTH OF COMPANY

The following exhibit depicts the Company's financial results throughout the examination period:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total admitted assets	\$876,191	921,266	\$922,069	\$934,487	\$933,332
Total liabilities	143,431	183,254	193,101	193,741	203,035
Policyholder surplus	732,760	738,012	728,968	740,746	730,297
Net income	4,711	19,015	-21,825	10,569	15,204
Net premiums written	1,750	3,070	2,671	3,538	3,044

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

MANAGEMENT AND CONTROL

Board of Directors

The following persons served as directors of the Company as of December 31, 2010:

<u>Name</u>	<u>Residence</u>	<u>Affiliation</u>
Patricia P. Martin	Longmeadow, MA	Clinical Psychologist Private Practice
Charles A. Peters	Madison, WI	Hydrologist U.S. Geological Survey
Dolores H. Peters	Mobile, AL	Vice President Somerset Life Insurance Company
Edward J. Peters	Mobile, AL	President Edward J. Peters & Associates, Inc.

Vincent S. Taylor

Bloomington, IN

Attorney-at-Law

Vince Taylor Law Offices

Officers

The Company's Bylaws state the officers of the Company, who shall be chosen by the Board of Directors, shall consist of a President, Vice President, General Counsel, Treasurer, Secretary and Medical Director. The same person may hold any two or more offices. The following is a list of key officers and their respective titles as of December 31, 2010:

<u>Name</u>	<u>Title</u>
Edward J. Peters	President
Vincent S. Taylor	Secretary
Dolores H. Peters	Vice President

CONFLICT OF INTEREST

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

OATH OF OFFICE

Indiana Code 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation: It was noted during the examination that in 2007 the elected Board did not subscribe to an "Oath of Office." See the "Other Significant Findings" section of this report for further explanation on this exception.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

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

Minutes

The Board of Directors and Shareholder meeting minutes were reviewed for the period under examination

through the fieldwork completion date and significant actions taken during each meeting were noted. It was noted that the annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

The Company is not part of an insurance holding company system as defined within IC 27-1-23, and Regulation of Insurance Holding Company Systems.

Management Contracts

Since February 28, 1985, the Company has been party to a management contract with the manager, Edward J. Peters & Associates, Inc. Under the terms of the contract, the manager agrees 1) that statutory surplus requirements will be met, 2) to manage the business of the Company, 3) to designate and appoint agents, 4) to provide adequate office space and equipment to perform necessary functions, 5) to execute all required documents, 6) to advise and assist in investment duties, and 7) to maintain all necessary records in support of required reserves. Under this agreement, the Company paid a total of \$28,000 each year under examination to Edward J. Peters & Associates, Inc.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by CNN Surety Company. The bond has blanket coverage of \$50,000 with a deductible of \$0. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had no other additional types of coverage in-force at December 31, 2010.

STATUTORY DEPOSITS

The following table lists the deposits held under the control of the State of Indiana at December 31, 2010, in compliance with the requirements of regulatory statutes under which the Company is licensed or has authority to operate:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders		
Indiana	\$ 200,000	\$ 206,000
Total for all Policyholders	<u>\$ 200,000</u>	<u>\$ 206,000</u>

REINSURANCE

Reinsurance Ceded

Effective May 1, 1990, the Company entered into a coinsurance reinsurance agreement with The Lincoln National Life Insurance Company. Effective January 1, 2000, the coinsurance agreement was amended so that Optimum Re assumes all rights, obligations, and liabilities under the agreement. Effective January 1, 2003, the retention level of the reinsured increased to \$20,000. In 2010, the Company ceded approximately \$4,313 of written premiums to Optimum Re Insurance Company.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2006 to 2010 were agreed to the respective Annual Statements. No independent audit reports were available as no independent audit is required due to the Company's size.

FINANCIAL EXHIBITS

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

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

SOMERSET LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

As of December 31, 2010

	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Assets:				
Bonds	\$ 733,668	\$ -	\$ 733,668	\$ 764,796
Mortgage loans	25,640	-	25,640	35,018
Cash \$0 cash equivalents \$0 and short-term investments \$105,768	105,768	-	105,768	111,418
Contract loans	3,715	-	3,715	3,454
Subtotals, cash and invested assets	\$ 868,791	\$ -	\$ 868,791	\$ 914,686
Investment income due and accrued	7,400	-	7,400	6,580
Total assets	\$ 876,191	\$ -	\$ 876,191	\$ 921,266

SOMERSET LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2010			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Liabilities:				
Aggregate reserve for life contracts	\$ 136,430	\$ -	\$ 136,430	\$ 176,114
Contract claims: Life (Exhibit 8 Part 1, Line 4.4 Col 1 less sum of Cols 9,10 and 11)	298		298	-
Provision for policyholders' dividends and coupons payable in following calendar year- estimated amounts:				
Dividends apportioned for payment	200	-	200	700
Dividends not yet apportioned	400	-	400	300
General expenses due or accrued	6,000	-	6,000	6,000
Asset valuation reserve	103	-	103	140
Total liabilities	\$ 143,431	\$ -	\$ 143,431	\$ 183,254
Surplus notes	\$ 480,000	\$ -	\$ 480,000	\$ 490,000
Unassigned funds (surplus)	252,760	-	252,760	248,012
Surplus	\$ 732,760	\$ -	\$ 732,760	\$ 738,012
Total liabilities and surplus	\$ 876,191	\$ -	\$ 876,191	\$ 921,266

SOMERSET LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2010

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Premium and annuity considerations for life and accident and health contracts	\$ 1,750	\$ -	\$ 1,750	\$ 3,070
Net investment income	(6,274)	-	(6,274)	(7,576)
Total	<u>\$ (4,524)</u>	<u>\$ -</u>	<u>\$ (4,524)</u>	<u>\$ (4,506)</u>
Death benefits	\$ 2,298	\$ -	\$ 2,298	\$ 3,000
Surrender benefits and withdrawals for life contracts	42,499	-	42,499	13,726
Increase in aggregate reserves for life, accident & health contracts	(39,684)	-	(39,684)	(11,618)
Total	<u>\$ 5,113</u>	<u>\$ -</u>	<u>\$ 5,113</u>	<u>\$ 5,108</u>
General insurance expenses	\$ 11,502	\$ -	\$ 11,502	\$ 10,587
Totals	<u>\$ 16,615</u>	<u>\$ -</u>	<u>\$ 16,615</u>	<u>\$ 15,695</u>
Net gain from operations before dividends and federal income taxes	\$ (21,139)	\$ -	\$ (21,139)	\$ (20,201)
Dividends to policyholders	(2)	-	(2)	(448)
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	(21,141)	-	(21,141)	(20,649)
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains	25,852	-	25,852	39,664
Net income (loss)	<u>\$ 4,711</u>	<u>\$ -</u>	<u>\$ 4,711</u>	<u>\$ 19,015</u>

SOMERSET LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

	<u>As of December 31, 2010</u>			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Capital and Surplus Accounts:				
Surplus as regards policyholders, December 31 prior year	\$ 738,012	\$ -	\$ 738,012	\$ 728,968
Net income	\$ 4,711	\$ -	\$ 4,711	\$ 19,015
Change in asset valuation reserve	37	-	37	29
Change in surplus notes	(10,000)	-	(10,000)	(10,000)
Change in capital and surplus as regards policyholders for the year	\$ (5,252)	\$ -	\$ (5,252)	\$ 9,044
Surplus as regards policyholders, December 31 current year	\$ 732,760	\$ -	\$ 732,760	\$ 738,012

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2010, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

The following accounts and records deficiencies or concerns were noted:

Oath of Office:

It was identified during the period under examination that in 2007 the Company's elected board members did not subscribe to an "Oath of Office" as required by IC 27-1-7-10(i), stating he or she will faithfully, honestly and diligently administer the affairs of the Company as his or her duties may encompass and will not knowingly violate or willingly permit to be violated any of the provision of laws applicable to the Company.

It is recommended the Company comply with IC 27-1-7-10(i) by requiring each elected director to subscribe to an "Oath of Office."

Issued Policy to Non-Indiana Resident

During the examination, the examiners noted from a sample of life policy applications that the Company issued life insurance contracts to individuals that reside in the States of Alabama, Washington and Wisconsin. The applicant's place of residence was clearly recorded and signed by the applicant on the policy application at the time the policy was issued. These contracts were issued during a period from 1990 to 2009. The Company was never licensed in those states and only held a certificate of authority in the State of Indiana.

It is recommended the Company comply with IC 27-1-3-20(d) and not make, issue, sell or advertise any kind of insurance in another state unless authorized to do business in that state. The Company should only conduct business within the limits of its certificate of authority.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in this report.

MANAGEMENT REPRESENTATION

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

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., hereinafter collectively referred to as the "Examiners" performed an examination of the **Somerset Life Insurance Company** as of **December 31, 2010**.

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

The examination was performed in accordance with those procedures required by the 2010 NAIC Financial Condition Examiner's Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of the **Somerset Life Insurance Company** as of **December 31, 2010**, as determined by the undersigned.



David Daulton, CFE
The Thomas Consulting Group, Inc.

State of: Indiana
County of: Hamilton

On this 1st day of May, 2012, before me personally appeared, David Daulton, to sign this document.

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

My commission expires 16 NOV 2012 Kathleen K Duckwall
Notary Public

