

REPORT ON EXAMINATION  
OF THE  
CONTINENTAL LIFE INSURANCE COMPANY  
OF BRENTWOOD, TENNESSEE  
BRENTWOOD, TENNESSEE

RECEIVED

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Dept. of Commerce & Insurance  
Company Examinations

AS OF  
DECEMBER 31, 2009

THE DEPARTMENT OF COMMERCE AND INSURANCE  
STATE OF TENNESSEE  
NASHVILLE, TENNESSEE



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Brentwood, Tennessee  
June 3, 2011

Honorable Mary Taylor  
Chair, Financial Condition (E) Committee, NAIC  
Director, Ohio Department of Insurance  
50 West Town Street  
Third Floor, Suite 300  
Columbus, Ohio 43215

Honorable Julie Mix McPeak  
Commissioner  
Tennessee Department of Commerce  
and Insurance  
500 James Robertson Parkway  
Nashville, Tennessee 37243

Honorable Jim L. Ridling  
Secretary, Southeastern Zone, NAIC  
Commissioner  
Alabama Department of Insurance  
201 Monroe Street, Suite 502  
Montgomery, Alabama 36104

Commissioners:

Pursuant to your instructions and in accordance with the Tennessee Insurance laws regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), an examination was made of the conditions and affairs of the

**CONTINENTAL LIFE INSURANCE COMPANY  
OF BRENTWOOD, TENNESSEE  
101 Continental Place  
Brentwood, Tennessee 37027**

hereinafter and generally referred to as the "Company."

**INTRODUCTION**

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee through the Examination Tracking System of the NAIC and commenced on April 22, 2010. The examination was conducted under the association plan of the NAIC by duly authorized representatives of the Tennessee Department of Commerce and Insurance.

**SCOPE OF EXAMINATION**

The period covered by this examination is from December 31, 2004, the date of the last previous examination, to the close of business on December 31, 2009, and includes any material

transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the *NAIC Financial Condition Examiners Handbook*. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2009. The financial condition of the Company and its degree of solvency were thereby established. Test checks, covering selected periods, were made of income and disbursement items and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. Independent actuaries were utilized in the review of the Company's loss reserves and due and deferred premiums.

All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus. In addition, an examination of the following areas was made:

- Prior Examination Comments and Recommendations
- Company History
- Growth of Company
- Charter and Bylaws
- Management and Control
- Pecuniary Interest
- Corporate Records
- Fidelity Bond and Other Insurance
- Employee Benefits and Pension Plans
- Territory and Plan of Operation
- Insurance Products and Related Practices
- Mortality and Loss Experience
- Reinsurance
- Agreements with Parent, Subsidiaries and Affiliates
- Litigation and Contingent Liabilities
- Statutory Deposit
- Accounts and Records
- Actuarial Review
- Financial Statements

These are discussed in detail as follows:

#### **PREVIOUS EXAMINATION COMMENTS AND RECOMMENDATIONS**

The previous full scope examination of the Company was conducted as of December 31, 2004, by examiners of the Tennessee Department of Commerce and Insurance. The previous

examination produced several adverse findings. The adverse findings and their resolutions are as follows:

#### Management and Control

Although the By-Laws require an annual election of Officers, there was no evidence of such an election of officers since the annual meeting of the Board of Directors held on February 22, 2002.

*The Company stated that it would commence annual election of officers at each annual Board of Directors meeting.*

#### Bonds

It was noted that the Company does not review the prepayment assumptions for mortgage-backed securities annually as required by SSAP No. 43, paragraph 10.

*The Company established a procedure effective June, 2005 to annually review prepayment assumptions for mortgage-backed securities.*

#### Interest Maintenance Reserve

The Company calculates the Interest Maintenance Reserve using a software package purchased from Sungard Insurance Systems, Inc. The Company does not maintain the supporting documents necessary for verification or recalculation of the amounts calculated by the software.

*The Company now maintains data to duplicate the reserves calculated by the software package.*

#### Premiums and Annuity Considerations for Life and Accident and Health Contracts Received in Advance

It was noted that the Company was not properly accounting for policies that were written prior to December 31, 2004, but with effective dates beginning in 2005. For many policies for which the Company had received a payment for a policy that was not in-force as of the valuation date, the premium was included in the asset item, Deferred and Uncollected Premium. In accordance with SSAP No. 51, the total amount of premium received in advance of the due date should be reported as a liability and not recognized as income until due. No adjustment to this line item was made as the amount of the difference was not considered material.

*The Company established a procedure for such premiums to be properly classified as "Advance Premium".*

### Premium Rates

The Company's manual rate pages often use the term "attained age" when "issue age" is the appropriate terminology. For several of the states represented in a sample of Medicare Supplement policies, "Attained Age" is the column heading for a list of ages while policy documents make it clear that "issue age" or "age in the application" is the appropriate term. While the terminology was not correct, the policies in the sample were being administered on the appropriate age basis.

Several errors in the calculation of policy issue age were also noted. The Medicare Supplement policy samples referred to either issue age, age in the application, or attained age, without specifically stating how "age" should be calculated. The older policy applications made it clear that age-last-birthday was intended. It appears that age-last-birthday is also the appropriate method for newer policies, although this is not specifically stated in the application.

*The Company disputed this comment and asserted that its forms, rate sheets and applications were correct and have been properly used with its agents and policyholders.*

### Controls in Information Systems

It was noted that the Company does not have a contingency plan in place to address the restoration of significant business activities such as financial functions, telecommunication services and data processing following a disaster.

*The Company developed a contingency plan, including establishing an offsite location for significant business activities in the event of a disaster.*

### Agreements with Parent, Subsidiaries and Affiliates

The Company has three agreements with its parent, Continental Insurance Service, Inc. None of these agreements had been submitted to the Tennessee Department of Commerce and Insurance for approval as required by Tenn. Code Ann. § 56-11-206(a)(2)(D). (It is noted that Tenn. Code Ann. §§ 56-11-201 through 56-11-215, former part 2, was redesignated as part 1, §§ 56-11-101 through 56-11-115 by the code commission in 2008). It is recommended that all agreements with affiliates be submitted for approval prior to becoming effective.

*The Company stated that all agreements would be submitted for approval.*

### Reinsurance

It was noted that the effective dates for some reinsurance agreements reported in the 2004 Annual Statement are not correct due to the reporting of multiple agreements on one line. The Company's attention is directed to the Annual Statement Instructions, page 273, that states the "effective date as used in this schedule (Schedule S) is the date the contract originally went into

effect" and Tenn. Code Ann. § 56-1-501(b) which requires that an annual statement "shall be completed and filed in accordance with annual statement instructions established by the commissioner." Tenn. Code Ann. § 56-44-102 requires that this same statement be filed with the NAIC. It is recommended that the Company comply completely with Tenn. Code Ann. § 56-1-501(b) and § 56-44-102.

It was noted that none of the three agreements with Employers Reinsurance Corporation nor the agreement with American National Insurance Company included arbitration or errors & omissions clauses. It is recommended that the Company add these clauses to each of the agreements.

*The Company is now reporting each reinsurance agreement separately in the Annual Statement.*

## COMPANY HISTORY

The Company was incorporated under the name of Continental Life Insurance Company for a perpetual period on December 5, 1983, pursuant to the provisions of the Tennessee General Corporation Act. The Company's original Charter authorized 10,000 shares of common capital stock with a par value of \$75.00 per share.

On December 15, 1983, Continental Insurance Service, Inc. (CIS), a Tennessee general business corporation, subscribed to all 10,000 shares of the Company's authorized common capital stock at a purchase price of \$112.50 per share for a total of \$1,125,000 of which \$750,000 was capital stock and \$375,000 was gross paid in and contributed surplus.

Effective October 3, 1984, the Company amended its charter to provide for 20,000 shares of common capital stock with a par value of \$75.00 per share. Subsequent to this amendment, CIS purchased an additional 8,811 shares of the Company's common capital stock at a purchase price of \$113.50 per share for a total of \$1,000,080.50 of which \$660,825 was paid in capital and \$339,255.50 was gross paid and contributed surplus.

On November 26, 1985 and December 18, 1985, CIS made contributions of \$600,000 and \$210,000, respectively, to the Company's gross paid in and contributed surplus. In accordance with an amendment to the Company's charter effective December 23, 1985, all 18,811 shares issued and outstanding of common capital stock were exchanged by CIS for 18,811 shares of common capital stock with a par value of \$53.50 per share for total paid in capital of \$1,006,388.50. The net decrease of \$404,436.50 to common capital stock due to the exchange was contributed by CIS to gross paid in and contributed surplus.

Effective July 3, 1986, the Company's charter was amended to change the name of the Company to Continental Life Insurance Company of Brentwood, Tennessee. Also, in late 1986 and throughout 1987, CIS made several surplus contributions to the Company which totaled \$1,100,000.

In order to comply with changes in the minimum capital requirements for the State of Georgia, the Company amended its charter effective December 4, 1992, to increase the par value of its common capital stock from \$53.50 to \$79.75. The effect of this change was to transfer \$493,788.75 from gross paid in and contributed surplus to common capital stock. This charter amendment also increased the Company's number of authorized shares to 100,000.

On May 1, 2006, all outstanding shares of CIS were purchased by Genworth Life Insurance Company (GLIC), which is an indirect wholly-owned subsidiary of Genworth Financial, Inc. (Genworth). On May 2, 2006, CIS was merged with and into the Company.

In order to meet the minimum capital requirements for the State of New Jersey, where the Company planned to apply for licensure, a dividend of 389 shares of the Company's common stock was declared on November 6, 2008. This increased total capital to \$1,531,200.

The history of the Company's common capital stock is presented as follows:

<u>Date</u>	<u># of Shares Outstanding</u>	<u>Par Value</u>	<u>Capital Stock</u>	<u>Gross Paid In Surplus</u>
12/15/83	10,000	\$75.00	\$ 750,000	\$ 375,000
07/25/85	18,811	75.00	1,410,825	714,256
11/26/85	18,811	75.00	1,410,825	1,814,256
12/18/85	18,811	75.00	1,410,825	1,524,256
12/31/85	18,811	53.50	1,006,389	1,928,693
11/14/86	18,811	53.50	1,006,389	2,428,693
09/09/87	18,811	53.50	1,006,389	3,028,693
12/04/92	18,811	79.75	1,500,177	2,534,904
5/01/06	18,811	79.75	1,500,177	3,727,004
11/06/08	19,200	79.75	1,531,200	3,727,004

### **GROWTH OF COMPANY**

The following schedule reflects the growth and financial history of the Company since the previous examination, as shown by its annual statements for the years indicated:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Funds (Surplus)</u>	<u>Premiums and Annuity Considerations</u>
2004	\$ 113,166,490	\$ 76,555,093	\$ 32,576,316	\$ 152,583,703
2005	129,339,125	84,812,277	40,491,767	166,982,106
2006	147,696,583	93,515,697	48,953,705	170,781,141
2007	155,922,226	95,814,097	54,880,948	175,603,850
2008	152,962,987	92,969,615	54,735,168	171,113,152
2009	146,042,399	84,655,790	51,534,460	152,193,297

### CHARTER AND BYLAWS

The Company's original charter was filed and recorded with the Department of State, State of Tennessee on December 5, 1983. This charter stated the Company's location as 3709 Nolensville Road, Nashville, Davidson County, Tennessee. Effective February 17, 1986, the charter was amended to reflect the Company's new address at 101 Continental Place, Brentwood, Williamson County, Tennessee.

According to the restated charter as amended through July 3, 1986, and in effect at December 31, 2009, the Company was organized "... to grant insurance upon the lives or health of persons and every assurance pertaining thereto; to grant, purchase or dispose of annuities or endowments; to insure against bodily injury or death by accident; to reinsure all or any portion of its own risks and to accept reinsurance from other companies . . ." The Company's charter was not amended during the period under examination.

The Company's incorporator adopted Bylaws on December 13, 1983. These were still in effect at December 31, 2009.

The Bylaws provide for an annual Shareholders meeting at which a Board of Directors is elected. The Board of Directors are to hold "regular meetings". Officers are to be elected by the Board of Directors annually at the first Board of Directors meeting after the annual Shareholders meeting. The Bylaws also provide for the declaration of dividends by the Board of Directors. No dividends were declared during the examination period. The Company's Bylaws were not amended during the period under examination.

### MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of GLIC, which is a wholly-owned subsidiary of

Genworth North America Corporation. Genworth North America Corporation is a wholly-owned subsidiary of Genworth Financial, Inc., which is the Company's ultimate parent.

The Company's charter, as restated on July 3, 1986 and their Bylaws state that an annual meeting of the Shareholders shall be held each year at which meeting the Shareholders shall elect a Board of Directors.

The Company's restated charter provides that "All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the Board of Directors . . ." Both the charter and the Company's Bylaws state that the number of Directors shall be not less than three.

As reported in the Annual Statement, the following persons were serving as Directors of the Company as of December 31, 2009:

<u>Name and Address</u>	<u>Principal Occupation</u>
Aaron Christian Ball Richmond, VA	Senior General Counsel of Genworth Financial, Inc.
Steven Louis Hendrich Brentwood, TN	Senior Vice President, General Counsel and Secretary of the Company
Christopher Milton Olson Brentwood, TN	President and Chief Executive Officer of the Company
Thomas Melvin Stinson Richmond, VA	President and Chief Executive Officer, Long Term Care Division of Genworth Life Insurance Company
Steven Andrew Zabel Richmond, VA	Chief Financial Officer, Long Term Care Division of Genworth Life Insurance Company

The Bylaws of the Company state that the Board of Directors shall elect a Chairman of the Board, President, a Vice President, a Secretary, and a Treasurer annually. The offices of President and Secretary may not be held by the same person. The following were the duly elected officers of the Company as of December 31, 2009:

<u>Name</u>	<u>Title</u>
Christopher Milton Olson	President and Chief Executive Officer
Steven Louis Hendrich	Senior Vice President, General Counsel and Secretary
Brian Christopher Stewart	Chief Financial Officer
Gary Thomas Prizzia	Treasurer

## PECUNIARY INTEREST TENN. CODE ANN. § 56-3-103

During the period under examination, the Company had an established procedure for disclosure to its Board of Directors of any material interest or affiliation on the part of its officers and directors which conflicts with the person's official duties with the Company. Statements regarding such conflicts of interest were executed by the officers and directors on an annual basis. The statements were found to be in order with no exceptions noted.

### CORPORATE RECORDS

The minutes of the meetings of the Shareholder, the Board of Directors, and Investment Committee held during the period under examination were reviewed and were found to be complete as to necessary detail and appear to adequately reflect the acts of the respective bodies.

### FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured under certain insurance coverages being carried by its parent, Genworth. The following is a summary of the various bonds and insurance policies that provided the enumerated coverages to the Company at December 31, 2009:

<u>Type of Coverage</u>	<u>Limits of Liability</u>
1.Fidelity bond, Standard Form No. 25	\$ 10,000,000 single loss limit \$ 25,000,000 single loss deductible
2.General liability	\$ 1,000,000 per occurrence \$ 2,000,000 general aggregate
3.Excess liability	\$ 25,000,000 each occurrence and aggregate
2 <sup>nd</sup> Excess liability	\$ 25,000,000 per occurrence, excess of \$25,000,000
3 <sup>rd</sup> Excess liability	\$ 25,000,000 per occurrence, excess of \$50,000,000
4 <sup>th</sup> Excess liability	\$ 25,000,000 per occurrence, excess of \$75,000,000
4.Business automobile liability	\$ 1,000,000, after \$100,000 self-insured retention
5.General and employers liability	\$ 1,000,000 each claim \$ 2,000,000 aggregate
6.Workers compensation liability	Statutory limit, after \$250,000 self-insured retention

Minimum fidelity coverage suggested in the *NAIC Financial Condition Examiners Handbook* for a company of the Company's size and premium volume is not less than \$900,000, which the

Company exceeds. The bonds and policies affording the aforementioned coverages were inspected and appear to be in-force as of the date of this examination. Said bonds and policies were written by companies licensed to transact business in the State of Tennessee.

### EMPLOYEE BENEFITS AND PENSION PLANS

The Company has no employees of its own. All services are provided by affiliates, under a written service agreement.

### TERRITORY AND PLAN OF OPERATION

#### Territory

At December 31, 2009, the Company was an authorized insurer in the following states:

Alabama	Illinois	Minnesota	North Dakota	Texas
Arizona	Indiana	Mississippi	Ohio	Utah
Arkansas	Iowa	Missouri	Oklahoma	Virginia
Colorado	Kansas	Montana	Pennsylvania	West Virginia
Delaware	Kentucky	Nebraska	Rhode Island	Wisconsin
Florida	Louisiana	Nevada	South Carolina	Wyoming
Georgia	Maryland	New Mexico	South Dakota	
Idaho	Michigan	North Carolina	Tennessee	

In addition to its authorized writings, the Company also collects premiums in every state plus the District of Columbia and Puerto Rico due to geographical moves by policyholders. Premium tax records were reviewed for all states in which the Company writes business and no exceptions were noted.

Shown below are the figures for premiums by state in which the Company operated for the year ending December 31, 2009, as reported in Schedule T of the Company's Annual Statement:

<u>State</u>	<u>Life Premium</u>	<u>Accident and Health Premium</u>
Alabama	\$ 209,849	\$ 2,661,347
Alaska	813	11,682
Arizona	16,154	506,725
Arkansas	51,754	680,988
California	9,145	236,800
Colorado	6,471	482,350

<u>State</u>	<u>Life Premium</u>	<u>Accident and Health Premium</u>
Connecticut	92	95,664
Delaware	-	44,527
District of Columbia	-	191
Florida	375,293	15,792,704
Georgia	653,923	8,974,285
Hawaii	\$ 240	\$ 11,235
Idaho	12,282	270,807
Illinois	121,051	2,211,995
Indiana	66,512	1,290,390
Iowa	19,544	344,067
Kansas	90,455	1,008,670
Kentucky	359,088	5,983,360
Louisiana	128,184	2,173,497
Maine	-	43,173
Maryland	3,505	103,873
Massachusetts	323	92,230
Michigan	206,097	5,773,000
Minnesota	85,462	4,132,175
Mississippi	196,766	3,859,007
Missouri	533,492	20,303,217
Montana	32,535	519,661
Nebraska	2,393	178,761
Nevada	1,230	63,230
New Hampshire	-	23,563
New Jersey	-	105,633
New Mexico	8,671	220,884
New York	4,709	171,522
North Carolina	379,675	5,610,892
North Dakota	726	57,667
Ohio	651,356	16,088,339
Oklahoma	239,538	7,819,032
Oregon	-	27,223
Pennsylvania	222,968	8,216,873
Rhode Island	-	14,789
South Carolina	432,674	14,291,654
South Dakota	14,124	327,943
Tennessee	596,393	7,593,059
Texas	239,077	4,774,798
Utah	71,754	1,165,565
Vermont	1,074	18,010
Virginia	80,984	1,742,145

<u>State</u>	<u>Life Premium</u>	<u>Accident and Health Premium</u>
Washington	575	79,506
West Virginia	48,685	180,721
Wisconsin	6,374	391,532
Wyoming	2,396	101,676
<b><u>Total</u></b>	<b><u>\$6,184,162</u></b>	<b><u>\$146,872,637</u></b>

### Plan of Operation

The Company writes a number of ordinary life insurance plans and group and individual accident and health ("A&H") insurance plans, primarily Medicare Supplement. The Company markets and distributes its products through independent agents. The agents represent the Company according to the terms and provisions of standard contracts which establish respective rights and responsibilities.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### Advertising

The Company maintains advertising and sales material files in their compliance department. Copies of all material are placed in a state file and the date used or replaced is noted with the revised version. Advertising and sales material that require prior approval (Medicare Supplement, Long Term Care Insurance) are filed with the appropriate State Insurance Department before use.

### Underwriting

The Company uses strict underwriting rules in all of its products with numerous health and history questions contained in the applications. Applications vary somewhat depending on the type of insurance being applied for. All applicants of new agents are audited to verify the correctness of the information furnished and to establish a level of confidence in the field underwriting abilities of the new agent. Thereafter, periodic reviews are also conducted on a random basis for established agents in an effort to monitor the level of completeness of the agents' information.

### Rates and Policy Forms

The Company writes a number of individual life insurance plans and group and individual A&H insurance plans, but most policies written are for Medicare supplement coverages. The life plans include variations of whole life coverage with terminal illness benefits and decreasing and level

term coverages with optional accidental death benefits. In addition to Medicare supplement policies, the Company's A&H plans include cancer coverages, hospital indemnity, medical and surgical expenses, hospital expenses, long term care coverages, home health care, nursing home coverages and major medical plans. Various riders are available that cover items such as expenses for registered nursing, additional charges for private room, intensive care, skilled nursing home, medical and surgical procedures and accidental death benefits. Most of the Company's policies are guaranteed renewable.

The Company's rates and policy forms were reviewed for compliance with state statutes and regulations concerning approval by their respective State Insurance Departments. As discussed under "Territory and Plan of Operation", the Company is authorized to write business in 38 states.

The Company's policies are computerized and are rated automatically by in-house software. The examiners reviewed a random sample of policies issued during the examination period to determine compliance with rates and forms as approved by their respective State Insurance Departments. A review was also made of the Company's procedures for documenting approval of rates and forms. Approved policies for all states are filed by plan and files reviewed appear to be complete.

#### Complaints

The Company's complaint handling practices were reviewed during the examination. The Company maintains a complaint register that records all pertinent information regarding the complaint including date received, date closed, complainant name, respective State Insurance Department involved, nature of complaint, and disposition. A sample of complaints from this listing was traced to the documentation in the respective policy and complaint files. Complaints to the Company generally result from claims not covered, refund requests and policies being rescinded due to misrepresentations on applications submitted.

#### Claims

The Company's claims handling practices were reviewed for timeliness, adherence to proper procedure and fair and consistent treatment of policyholders.

A random sample of policy files was reviewed for proper documentation of policy and claims data and consistency with computerized policy data. This review disclosed that the Company maintains accurate policy and claim file records that correspond correctly to their computer data. In addition to testing the accuracy of the Company's data, a review was made of the Company's practices pertaining to the handling of claim settlements by sampling both open and closed claim files. The sample consisted of claims paid, claims denied and pending claims as of December 31, 2009. The review disclosed that the Company settled its claims promptly after receipt of the necessary documents and in accordance with policy provisions.

The Company maintains an updated set of written claim procedures, claim training manual, and anti-fraud procedures.

### **MORTALITY AND LOSS EXPERIENCE**

As developed from applicable amounts included in the Company's annual statements filed with the Tennessee Department of Commerce and Insurance, the loss and mortality experience of the Company for the examination period is presented as follows:

#### Ordinary Life

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Net Death Benefits Incurred	\$ 1,759,473	\$1,907,683	\$2,079,106	\$ 2,264,185	\$ 2,371,996
Deduct:					
Reserves Released by Death	87,917	99,509	132,517	168,497	201,202
Actual Death Benefits Incurred	1,671,556	1,808,174	1,946,589	2,095,688	2,170,794
Expected Mortality	2,491,109	2,843,235	3,179,076	3,378,193	3,756,126
Mortality Experience	67.10%	63.60%	61.23%	62.04%	57.79%

#### Accident and Health

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Net Incurred Claims	\$111,938,513	\$117,093,382	\$120,302,764	\$115,646,330	\$110,178,521
Net Premiums Earned	160,589,673	163,993,976	169,948,051	166,555,624	148,456,176
Loss Experience Ratio	69.70%	71.40%	70.79%	69.43%	74.22%

### **REINSURANCE**

#### **Reinsurance Ceded:**

The following is a summary of the active reinsurance agreements ceded in effect at December 31, 2009. The Company did not assume any reinsurance for the period under review.

#### **LIFE POLICIES:**

The Company has two ceded life reinsurance agreements in effect during 2009. The first agreement is an automatic yearly renewable term contract between the Company and Optimum Re Insurance Company covering standard and sub-standard life insurance. An addendum terminating this agreement was made effective on October 1, 2009.

Summary of Contract Terms – Automatic Yearly Renewable Term (“ART”)

Reinsurer: Optimum Re Insurance Company  
Irving, Texas

Effective Period: April 1, 1998 through October 1, 2009

Business Ceded: ART plan and 10, 15, and 20 Year Level Term plans.

Type of Reinsurance: Automatic yearly renewable term

Limits: Nine (9) times the Company’s retention  
10,000,000 jumbo limit on life coverages.

Minimum Cession: \$5,000

Company’s Retention: \$25,000

The second ceded life reinsurance agreement is a facultative yearly renewable term contract between the Company and Optimum Re Insurance Company covering standard and sub-standard life insurance. An addendum terminating this agreement was made effective on October 1, 2009.

Summary of Contract Terms – Facultative Yearly Renewable Term

Reinsurer: Optimum Re Insurance Company  
Irving, Texas

Effective Period: September 1, 1994, through October 1, 2009

Business Ceded: Life Insurance (standard and sub-standard); waiver of premium disability

Type of Reinsurance: Facultative yearly renewable term

Limits: \$1,000,000 per insured and an amount of waiver of premium corresponding to \$1,000,000 of life.

Minimum Cession: \$1,000

Company’s Retention: Life: \$25,000; Waiver of Premium: amount associated with life risk retained to a maximum life risk of \$25,000

## **ACCIDENT AND HEALTH POLICIES:**

The Company has two ceded A&H reinsurance agreements in effect during 2009. The first such agreement is a quota share contract between the Company and Employers Reinsurance Corporation covering long term care ("LTC") policies LTC-300 and LTC-400. Employers Reinsurance Corporation has changed its name to Westport Insurance Corporation.

### Summary of Contract Terms – Quota Share Long Term Care

Reinsurer: Employers Reinsurance Corporation (now known as Westport Insurance Corporation)  
Overland Park, Kansas

Effective Period: January 1, 1992, until terminated

Business Ceded: Individual LTC policies LTC-300 and LTC-400

Type of Reinsurance: Quota Share (automatic)

Retention and Cession: Company retains 20% of loss; the remaining 80% is ceded to the reinsurer

Ceding Commission: 90% in the first year; scaled down to 15% in the fifth year and thereafter

The second ceded A&H reinsurance agreement is a quota share contract between the Company and Employers Reinsurance Corporation covering LTC policies LTC-1-97, LTC-2-97, LTC-3-97 and LTC-3-97-TQ. The contract is a standard reinsurance agreement and includes such clauses as offset and insolvency provisions.

Reinsurer: Employers Reinsurance Corporation (now known as Westport Insurance Corporation)  
Overland Park, Kansas

Effective Period: February 1, 1998, until terminated

Business Ceded: LTC insurance policies LTC-1-97, LTC-2-97, LTC-3-97, LTC-3-97-TQ

Type of Reinsurance: Quota Share (automatic)

Retention and Cession: Company retains 50% of loss; the remaining 50% is ceded to reinsurer

Ceding Commission by  
Policy Year

First: (a) issued prior to August 1, 1999; percentage commission allowed by the Company to its producer plus 17%. (b) Issued on or after August 1, 1999; percentage commission allowed by the Company to its producer plus 14%. Renewals: percentage commission allowed by the Company to its producer plus 14 %

#### **UNEARNED CEDING COMMISSIONS:**

The majority of the Company's reinsurance agreements cede premiums on a written basis, and therefore, in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. However, all of the agreements provide that in the event of termination, the reinsurance continues to apply to all policies in force until their expiry or cancellation in the normal course of business. Therefore, no return of premium or ceding commission at the termination of an agreement is required due to the policies continuing in full force. Also, most of the Company's reinsurance agreements provide that ceding commissions be paid based on net premiums; that is, on written premiums less the return premiums (those that are cancelled by policyholders prior to the end of the policy period), and the agreements provide for monthly settlements, including any return premiums and any associated ceding commissions, by offset. Therefore, the Company is deemed to have no ultimate liability for unearned ceding commissions.

*Statement of Statutory Accounting Principles* ("SSAP") No. 61 states that if the reinsurance agreements contain "a persistency guarantee which provides for return of the excess commission, the ceding entity must record the excess commission as a liability." None of the Company's reinsurance agreements contain such persistency guarantees.

#### Other Considerations:

All of the Company's active reinsurance agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit pursuant to Tenn. Code Ann. § 56-2-207(a)(2). All agreements also appear to effectuate proper transfer of risk in accordance with SSAP No. 61 and NAIC guidelines.

#### **AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES**

The Company had three agreements with affiliated companies in effect as of December 31, 2009. The following are summaries of the agreements:

#### Tax Allocation Agreement

The original agreement, dated May 24, 2004, was between GLIC, Genworth Financial, Inc., and several insurance subsidiaries of Genworth Financial, Inc. The Company became a party to the agreement by executing an Adoption Agreement on May 1, 2006. The agreement states that the

participating companies shall allocate the consolidated federal income tax liability of the affiliated group to each participating company by multiplying the consolidated tax liability times a fraction, the numerator of which is the federal income tax liability of the participating company, computed as if it filed a separate federal income tax return, and the denominator of which is the sum of the separate tax liabilities of the participating companies. The amount of the consolidated tax liability allocated to each participating company shall not exceed the separate tax liability of such company; provided, however, that for purposes of computing the separate tax liability of a participating company, any income, deduction, or loss recognized by such participating company in an intercompany transaction with another participating company shall be taken into account as provided in Treasury Regulation §§ 1.1502-13 and 1.1502-13T. Pursuant to Tenn. Code Ann. § 56-11-106(a)(2)(D), this agreement was filed with the Tennessee Department of Commerce and Insurance on Form D on February 22, 2006, and was approved on May 1, 2006.

#### Amended and Restated Services and Shared Expenses Agreement

This agreement, dated as of January 16, 2004 was made by GNA Corporation and various insurance company subsidiaries of General Electric Capital Services, Inc. who were party to the Services and Shared Expenses Agreement effective as of July 14, 1993. The amendment was made primarily to allow a non-insurance company to be party to the agreement. Under the agreement, each company agrees to provide, and each company accepts, certain general services, including data processing, communications, marketing, investment, human resources, personnel, payroll, finance, accounting, tax, treasury, actuarial, accounting, agent administration, underwriting, and claims services. Each company agrees to pay its share of the actual costs incurred by the other companies in providing such services. The Company executed an Adoption Agreement and became party to the Amended and Restated Services and Shared Expenses Agreement on May 1, 2006. Pursuant to Tenn. Code Ann. § 56-11-106(a)(2)(D), this agreement was filed with the Tennessee Department of Commerce and Insurance on Form D on February 22, 2006, and was approved on May 1, 2006.

#### Unconditional Guaranty Agreement

This agreement between the Company and ACIC was executed on August 29, 2008. Under the terms of the agreement the Company agrees that it will maintain capital & surplus of ACIC at the greater of the financial admission requirements or the risk-based capital requirements set out in North Carolina statute. The agreement is to extend for a minimum of three years after ACIC is issued a certificate of authority in North Carolina or until ACIC can provide a Report on Examination that certifies three consecutive years of net gain from operations, whichever occurs last.

## LITIGATION AND CONTINGENT LIABILITIES

From the data made available during the progress of this examination, it would appear that the only matters at law in which the Company was involved, during the period under review, were those relating to the settlement of claims.

The Company also apparently had no agreements or pending matters of contingent nature that would materially affect its financial position or operating results at December 31, 2009.

## STATUTORY DEPOSITS

In compliance with statutory and other requirements, the Company maintained the following deposits with the named jurisdictions or custodians as of December 31, 2009:

### DEPOSITS WHICH ARE NOT FOR THE BENEFIT OF ALL POLICYHOLDERS:

<u>Jurisdiction</u>	<u>Description of Security</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
Florida	US Treasury Note, Due 2/15/29, 5.25%, Cusip # 912810FG8	\$ 210,000	\$ 216,865	\$ 227,564
Georgia	US Treasury Note, Due 2/15/10, 6.5%, Cusip # 9128275Z1	46,000	46,161	46,334
Missouri	Platte County Bond, Due 3/01/15, 4.75%, Cusip # 727730DQ3	600,000	633,859	678,822
Nevada	US Treasury Note, Due 2/15/29, 5.25%, Cusip # 912810FG8	200,000	202,098	216,728
New Mexico	US Treasury Note, Due 2/15/29, 5.25%, Cusip # 912810FG8	125,000	126,164	135,455
North Carolina	US Treasury Note, Due 11/15/14, 4.25%, Cusip # 912828DC1	140,000	143,850	150,807
North Carolina	US Treasury Note, Due 2/15/29, 5.25%, Cusip # 912810FG8	400,000	406,380	433,499
Virginia	US Treasury Bond, Due 5/15/18, 3.875%, Cusip # 912828HZ6	265,000	263,436	269,078
Total		<u>\$1,986,000</u>	<u>\$2,038,813</u>	<u>\$2,158,287</u>

**DEPOSITS WHICH ARE FOR THE BENEFIT OF ALL POLICYHOLDERS:**

<u>Jurisdiction</u>	<u>Description of Security</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
Tennessee	US Treasury Note, Due 2/15/29, 5.25%, Cusip # 912810FG8	\$1,665,000	\$1,719,430	\$1,804,712
Tennessee	US Treasury Note, Due 8/15/19, 3.625%, Cusip # 912828LJ7	1,100,000	1,132,903	1,081,443
Tennessee	US Treasury Note, Due 2/15/37, 4.75%, Cusip # 912810PT9	500,000	529,508	510,940
Tennessee	Morgan Stanley Dean Witter, Due 4/15/11, 6.75%, Cusip # 617446GM5	500,000	501,074	531,085
Tennessee	SunTrust Bank, Due 4/1/11, 6.375%, Cusip # 86787GAB8	500,000	499,263	519,934
Tennessee	Wells Fargo Bank, Due 2/1/11, 6.45%, Cusip # 949748AF4	500,000	499,897	522,097
Tennessee	Goldman Sachs Grp., Inc., Due 1/15/11, 6.875%, Cusip # 38141GAZ7	500,000	500,370	526,561
Total		<u>\$ 5,265,000</u>	<u>\$ 5,382,445</u>	<u>\$ 5,496,772</u>

Deposits with said jurisdictions or custodians were verified by direct correspondence with the custodian of such deposit.

**ACCOUNTS AND RECORDS**

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to establish values for assets and liabilities appearing in the Company's financial statements. Test checks, for selected periods, were made of premium receipts, investment income, interest due and accrued, claim payments, and other disbursements. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed and recalculated. These test checks and reviews revealed no material discrepancies.

A letter of representation, dated as of the date of this report and certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the work papers of this report.

## ACTUARIAL REVIEW

Michael A. Mayberry, FSA, MAAA, and Sarah A. Hoover, FSA, MAAA, of Lewis & Ellis, Inc. performed an actuarial examination of the following reserves reported on the Company's balance sheet:

Aggregate reserve for life policies and contracts (Page 3, Line 1)	\$19,777,911
Aggregate reserve for accident and health policies (Page 3, Line 2)	\$39,314,925
Liability for deposit-type contracts (Page 3, Line 3)	\$0
Policy and contract claims	
Life (Page 3, Line 4.1)	\$234,500
Accident and health (Page 3, Line 4.2)	\$15,330,422
Life insurance premiums and annuity considerations deferred and uncollected (Page 2, Lines 13.1 and 13.2)	\$2,865,944
Liability for advanced premiums (Page 3, Line 8)	\$3,124,097

There were no problems noted with the reserve amounts reported on the Company's balance sheet, nor in the methodology used to obtain those amounts.

## FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, capital and surplus, and summary of operations at December 31, 2009, together with a reconciliation of capital and surplus for the period under review, as established by this examination.

	<b>Assets</b>		
	<b>Assets</b>	<b>Non-Admitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 108,716,822	\$ 137,638	\$ 108,579,184
Common stocks	16,802,548	-	16,802,548
Cash and short-term investments	4,118,307	-	4,118,307
Contract loans	<u>401,183</u>		<u>401,183</u>
Receivables for securities	5,134	-	<u>5,134</u>
Subtotals, cash and invested assets	130,043,994	137,368	129,906,356
Investment income due and accrued	1,295,700	-	1,295,700
Uncollected premiums or agents' balances in the course of collection	438,712	2,747	435,965
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,686,043	256,064	2,429,979
Amounts recoverable from reinsurers	121,281	-	121,281
Other amounts receivable under reinsurance contracts	27,627	-	27,627
Current federal and foreign income tax recoverable	827,006	-	827,006
Net deferred tax asset	19,754,572	12,054,541	7,700,031
Guaranty funds receivable or on deposit	74,345	-	74,345
Electronic data processing equipment and software	1,192,993	1,012,974	180,019
Furniture and equipment	462,808	462,808	-
Receivables from parent, subsidiaries and affiliates	2,719,711	-	2,719,711
Aggregate write-ins for other than invested assets	<u>1,461,505</u>	<u>1,137,126</u>	<u>324,279</u>
<b>Total Assets</b>	<b><u>\$ 161,106,297</u></b>	<b><u>\$ 15,063,898</u></b>	<b><u>\$ 146,042,399</u></b>

## Liabilities and Net Worth

		Net Liabilities
Aggregate reserve for life contracts	\$	19,777,911
Aggregate reserve for accident and health contracts		39,314,925
Contract claims – life		254,500
Contract claims - accident and health		15,330,422
Premiums and annuity considerations received in advance		3,124,097
Contract liabilities not included elsewhere –Other amounts payable on reinsurance		125,734
Commissions to agents due or accrued		1,176,219
General expenses due or accrued		879,602
Taxes, licenses & fees due or accrued		1,340,096
Amounts withheld by company as agent or trustee		727,168
Remittances and items not allocated		410,131
Payable to parent, subsidiaries and affiliates		<u>2,194,985</u>
<b>Total liabilities</b>		<b>84,655,790</b>
Common capital stock		1,531,200
Gross paid in and contributed surplus	3,727,004	
Aggregate write-ins for special surplus funds	4,593,945	
Unassigned funds	<u>51,534,460</u>	
Surplus		<u>59,855,409</u>
Total Capital and Surplus		<u>61,386,609</u>
<b>Total liabilities, capital and surplus</b>		<b><u>\$ 146,042,399</u></b>

## Statement of Revenue, Expenses and Net Worth

Premiums and annuity considerations	\$ 152,193,297
Net Investment Income	5,532,582
Amortization of interest maintenance reserve	2,054
Commissions & expense allowances on reinsurance ceded	177,925
Aggregate write-ins for miscellaneous income	<u>830,282</u>
<b>Totals</b>	<b>158,736,140</b>
Death Benefits	2,371,996
Disability benefits and benefits under accident and health contracts	111,011,564
Surrender benefits and withdrawals for life contracts	329,529
Increase in aggregate reserves for life and accident and health contracts	<u>(1,938,899)</u>
<b>Totals</b>	<b>111,774,190</b>
Commissions on premiums, annuity considerations and deposit-type funds	13,610,017
General insurance expenses	12,378,143
Taxes, licenses and fees	3,780,951
Increase in loading on deferred and uncollected premiums	<u>(90,553)</u>
<b>Totals</b>	<b>141,452,748</b>
Net gain from operations before federal income taxes	17,283,392
Federal income taxes incurred	<u>5,968,469</u>
Net gain from operations after federal income taxes and before realized capital gains or (losses)	11,314,923
Net realized capital gains or (losses)	<u>(183,623)</u>
<b>Net Income</b>	<b><u>\$ 11,131,300</u></b>
Capital and surplus, December 31, prior year	59,993,372
Net Income	<u>11,131,300</u>
Change in net unrealized capital gains (losses)	(13,168,148)
Change in net deferred income tax	(3,514,992)
Change in nonadmitted assets	1,672,781
Cumulative effect of changes in accounting principles	(490,107)
Aggregate write-ins for gains and losses in surplus	5,762,403
Net change in capital and surplus for the year	1,393,237
Capital and surplus, December 31, current year	<b><u>\$ 61,386,609</u></b>

## Net Worth

<b>Capital and surplus, December 31, 2004</b>	<b>\$ 36,611,397</b>
Net income	7,175,031
Change in net unrealized capital gains or (losses)	11,591
Change in net deferred income tax	2,080,737
Change in nonadmitted assets	(1,427,820)
Change in asset valuation reserve	75,912
<b>Capital and surplus, December 31, 2005</b>	<b>44,526,848</b>
Net income	10,265,338
Change in net unrealized capital gains	1,187
Change in net deferred income tax	(365,260)
Change in nonadmitted assets	(1,359,215)
Change in asset valuation reserve	(80,111)
Capital paid-in	1,192,100
<b>Capital and surplus, December 31, 2006</b>	<b>54,180,886</b>
Net income	7,055,074
Change in net unrealized capital gains	(500,214)
Change in net deferred income tax	3,458,660
Change in nonadmitted assets	(1,793,630)
Change in asset valuation reserve	1,840
Aggregate write-ins for gains and losses in surplus	(2,294,487)
<b>Capital and surplus, December 31, 2007</b>	<b>60,108,129</b>
Net income	11,893,229
Change in net unrealized capital gains	(5,524,857)
Change in net deferred income tax	3,225,065
Change in nonadmitted assets	(3,302,776)
Change in asset valuation reserve	117,492
Capital paid-in	31,023
Dividends to stockholders	(7,031,023)
Aggregate write-ins for gains and losses in surplus	477,090
<b>Capital and surplus, December 31, 2008</b>	<b>59,993,372</b>
Net income	11,131,300
Change in net unrealized capital gains	(13,168,148)
Change in net deferred income tax	(3,514,992)
Change in nonadmitted assets	1,672,781
Cumulative effect of changes in accounting principles	(490,107)
Aggregate write-ins for gains and losses in surplus	5,762,403
<b>Capital and surplus, December 31, 2009</b>	<b><u>\$ 61,386,609</u></b>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS  
RESULTING FROM EXAMINATION**

Although minor differences in various items were noted during the course of the examination, none were considered to produce a material effect on surplus, either singly or in the aggregate.

**SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES  
IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM  
EXAMINATION" AS THEY AFFECT SURPLUS**

No schedule or comment is applicable. All noted differences were below the threshold established for examination purposes.

**COMMENTS AND RECOMMENDATIONS**

The following list presents a summary of comments noted in this report:

**Comments:**

The Custodial Agreement with Bank of New York did not contain the required language as referenced in Tenn. Comp. R. & Regs. § 0780-1-46-.03(2)(a)(4). It was recommended to the Company that the agreement be modified to fully comply with this regulation. An amendment containing the language required by Tenn. Comp. R. & Regs. § 0780-1-46-.03(2)(a)(4) was executed prior to the completion of the examination.

## CONCLUSION


The customary insurance examination practices and procedures, as promulgated by the NAIC, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Continental Life Insurance Company of Brentwood, Tennessee.


In such manner, it was found that as of December 31, 2009, the Company had admitted assets of \$146,042,399 and liabilities, exclusive of capital and surplus, of \$84,655,790. Thus, there existed for the additional protection of the policyholders, the amount of \$61,386,609 in the form of common capital stock, gross paid in and contributed surplus, and unassigned funds.

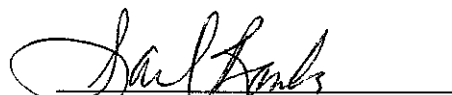
The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Michael A. Mayberry, FSA, MAAA, and Sarah A. Hoover, FSA, MAAA participated in the work of this examination.

Respectfully submitted,

  
Rhonda Bowling-Black, CFE  
Examiner-in-Charge  
State of Tennessee  
Southeastern Zone, NAIC

  
Mike Bacon  
Insurance Examiner  
State of Tennessee  
Southeastern Zone, NAIC

  
Sandy Banks  
Insurance Examiner  
State of Tennessee  
Southeastern Zone, NAIC





Genworth  
Financial

6620 W. Broad Street  
Richmond, VA 23230  
genworth.com

June 7, 2011

Horace E. Gaddis, Jr., CFE  
State of Tennessee  
Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, TN 37243

RE: Response to Report of Financial Condition Examination of the Continental Life Insurance Company of Brentwood, Tennessee as of December 31, 2009

Dear Mr. Gaddis:

I am writing on behalf of Continental Life Insurance Company of Brentwood, Tennessee (the "Company") in connection with the Report of Financial Condition Examination ("Report") of the Company as of December 31, 2009, prepared by the State of Tennessee Department of Commerce and Insurance ("Department") and submitted to the Company for review and comment by cover letter dated June 3, 2011.

The Company acknowledges receipt of the Report, has thoroughly reviewed its contents and agrees with the comments and recommendations.

We would like to request 20 internal copies of the report be submitted to the Company.

The Company wishes to thank you and your examination staff for the courtesy and cooperation extended to us during the exam.

If there are any questions, please do not hesitate to contact me at 804-662-2458 or at [Michele.Trampe@genworth.com](mailto:Michele.Trampe@genworth.com).

Very truly yours,

Michele Trampe  
Genworth Financial Inc.  
Retirement and Protection  
Vice President and Controller, Accounting and Reporting

RECEIVED

JUN 09 2011

Dept. of Commerce & Insurance  
Company Examinations

