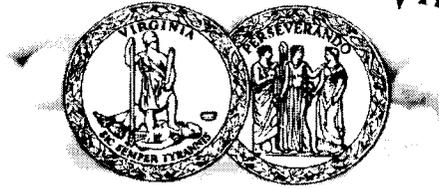


EXAMINATION REPORT
of the
VIRGINIA LIFE, ACCIDENT AND SICKNESS
INSURANCE GUARANTY ASSOCIATION
Richmond, Virginia
as of
December 31, 2010

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/division/boi>

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of the Virginia Life, Accident and Sickness Insurance Guaranty Association as of December 31, 2010, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 10th day of November, 2011

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
August 4, 2011

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of § 38.2-1711 of the Code of Virginia, an examination of the affairs and financial condition of the

**VIRGINIA LIFE, ACCIDENT AND SICKNESS
INSURANCE GUARANTY ASSOCIATION**
Richmond, Virginia

hereinafter referred to as the Association, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Association is an unincorporated non-profit legal entity comprised of insurers who are required to be members as a condition of their authority to transact the business of insurance in the Commonwealth of Virginia. The Association was last examined by representatives of the Virginia State Corporation Commission's (Commission) Bureau of Insurance (Bureau) as of December 31, 2007. This examination covers the three-year period from January 1, 2008, through December 31, 2010.

HISTORY

The Association was created in 1976 by the Life, Accident and Sickness Insurance Guaranty Association Act (Article 5.2, Chapter 9 of Title 38.1 of the [former] Code of Virginia). Its purpose is to protect policyholders, insureds, beneficiaries, annuitants, payees and assignees of life insurance policies, accident and sickness insurance policies, annuity contracts and supplemental contracts thereto, as well as dental benefit contracts entered into with a dental plan organization as provided in Chapter 61 of Title 38.2 of the Code of Virginia. Subject to certain limitations, protection is afforded against failure in the performance of contractual obligations due to the impairment or insolvency of insurers issuing such policies or contracts.

MANAGEMENT AND CONTROL

Management of the Association, according to the Plan of Operation, is vested in a board of directors (board) consisting of not less than five nor more than nine member insurers elected by the members for three-year terms. Code of Virginia § 38.2-1703 requires that all domestic and foreign insurers be fairly represented. A majority of the board constitutes a quorum for the transaction of business. The acts of a majority of members present at any meeting for which there is a quorum are the acts of the board. However, an affirmative vote by a majority of the full board is required to (1) approve a contract with a servicing facility, (2) levy an assessment or provide for a refund, (3) borrow money, (4) approve reinsurance contracts, assumption agreements or guaranty plans, (5) adopt amendments to the Plan of Operation and (6) retain or discharge auditors or the Executive Director.

The Association's Plan of Operation was last amended in 2010. The board meets at least annually, and at December 31, 2010, was comprised as follows:

Genworth Life & Annuity Insurance Company
 Settlers Life Insurance Company
 Anthem Health Plans of Virginia, Inc.
 Lincoln National Life Insurance Company
 ING USA Annuity & Life Insurance Company
 Teachers Insurance and Annuity Association of America

As provided in the Plan of Operation, elected officers at December 31, 2010, were as follows:

<u>Officers</u>	<u>Company</u>	<u>Represented by</u>
Chairman	Genworth Life & Annuity Insurance Company	David H. McMahon
Treasurer	Anthem Health Plans of Virginia, Inc.	S. Owen Hunt
Secretary	Settlers Life Insurance Company	Michael W. Lowe

On January 1, 1999, the Association entered into a service agreement with APM Management Services, Inc. ("APM"), an organization owned and operated by former employees of the Association. The agreement requires APM to provide certain management and accounting services to the Association for an initial monthly fee of \$13,750 or \$165,000 annually. These fees are subject to an annual review with increases

or decreases subject to mutual assent by the Association and APM, and were increased in 2010 to \$218,415. APM agreed to maintain fidelity bonds and insurance policies of the same type that were in effect at the date of the agreement. These policies named the Association as an additional insured.

METHOD OF OPERATION

The Association's members include insurers licensed in the Commonwealth of Virginia to write life insurance policies, accident and sickness policies, annuity contracts, contracts supplemental thereto, and dental benefit contracts entered into with a dental plan organization as provided in Chapter 61. Excluded by law, however, are cooperative nonprofit life benefit companies, mutual assessment life, accident and sickness insurance companies, burial societies, fraternal benefit societies, optometric services and health services plans not subject to Code of Virginia § 38.2-4213. Contracts or certificates that are not issued to and owned by an individual are also excluded, with limited exceptions.

Upon determination that a member insurer has become insolvent, the Association is obligated to the extent of covered claims, but not exceeding \$300,000 in life insurance death benefits, including not more than \$100,000 in net cash surrender and net cash withdrawal values for life insurance; \$300,000 for accident and sickness insurance that constitutes disability insurance or long-term care insurance; \$500,000 for accident and sickness insurance that constitutes basic hospital medical and surgical insurance or major medical insurance; and \$250,000 in the present value of annuity benefits. However, the Association shall not be liable to expend more than \$350,000, in the aggregate, with respect to any one individual except with respect to benefits for basic hospital, medical and surgical insurance, and major medical insurance in which \$500,000 is the aggregate limit.

For purposes of administration and assessment, the Association is required to maintain three separate accounts: a life insurance account, an accident and sickness insurance account and an annuity account. Claims and expenses paid are to be allocated among the three accounts separately. Assessments are to be made for each account against members in amounts necessary to pay obligations.

Code of Virginia § 38.2-1705 B provides for two classes of assessments:

1. Class A assessments for administrative costs and other general expenses not necessarily related to a particular impaired or insolvent insurer.
2. Class B assessments for impaired or insolvent insurers.

The amount of Class A assessments is determined by the board and may be on a pro-rata or non pro-rata basis. If pro-rata, the board may provide that such assessment shall be credited against future insolvency assessments. A non pro-rata assessment shall not exceed \$500 per company in any one calendar year. Class B assessments are made as provided by the Code of Virginia. The total of all assessments upon a member insurer for each account shall not, in one calendar year, exceed two percent of the member insurer's premium income in the Commonwealth of Virginia for the preceding calendar year on policies covered by the account. The Code of Virginia further provides that certificates of contribution shall be issued by the Association for assessments other than Class A and may be shown by the member insurer as an asset in its annual statement. Amounts that are amortized during each calendar year shall be deducted from the premium tax liability incurred on business transacted in the Commonwealth of Virginia for that calendar year, provided the Association diligently pursues all rights available to it to recoup money spent fulfilling its responsibilities.

The Association is a member of the National Organization of Life & Health Insurance Guaranty Associations (NOLHGA), which provides information on pending insolvencies and claims administration. Through its affiliation with NOLHGA, the Association participates in a number of service agreements and reinsurance transactions involving impaired or insolvent companies.

During the period January 1, 2008 to December 31, 2010, the Association's board of directors authorized one Class A assessment. The assessment was approved on October 14, 2009. The assessment was billed in early November 2009.

During the period under review the following companies that were licensed in Virginia were determined to be impaired or insolvent:

<u>Name</u>	<u>State of Domicile</u>
Medical Savings Insurance Company	Indiana
National States Insurance Company	Missouri
Penn Treaty Network America Ins. Co.	Pennsylvania
American Network Insurance Company	Pennsylvania
Shenandoah Life Insurance Company	Virginia
Standard Life Insurance Co. of Indiana	Indiana
Universal Life Insurance Company	Alabama

During 2010, pursuant to § 38.2-1705 of the Code of Virginia and at the request of the Bureau, the Association refunded \$5,202,000 to its member insurers and \$38,433 to the Treasurer of Virginia for closed estates. This refund resulted in the decrease to the Association's reported assets. This refund was the amount of the Association's assets determined by the Board that were expected to exceed the amount necessary to fulfill the Association's obligations during 2010. The Association's assets had increased significantly over the years as a result of recoveries from receivership estates in prior years. The Association used these recoveries to fund other insolvent estates.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2010, the Association was listed as an additional insured on APM's fidelity bond coverage, with a \$1,000,000 limit of liability, subject to a \$10,000 deductible. In addition, the Association was listed as a named insured on comprehensive business liability and fire legal liability policies.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia for the three year period ending December 31, 2010. The Association maintains its records and prepares its financial statements on the modified cash basis of accounting as approved by the Commission. Assessments and other revenue are recognized when received and disbursements are recognized when paid. Assets were verified at December 31, 2010. The Association reported no liabilities in accordance with the modified cash basis of accounting. A review of income and disbursements for the period was made to the extent deemed necessary.

In addition, the following items were reviewed; several of which are discussed separately under their respective captions in this report.

History
Management and Control
Method of Operation
Fidelity Bond and Other Insurance
Financial Statements

FINANCIAL STATEMENTS

There follows, on a modified cash basis, a statement reflecting the financial condition of the Association at December 31, 2010, a statement of cash receipts and disbursements for the year ended December 31, 2010 and a statement of changes in account balances for the period under review. The statements made in this part of the report and the amounts included therein are generally in the form of the financial report filed with the Commission.

STATEMENT OF ASSETS AND NET ASSETS**Assets**

Cash and cash equivalents	<u>\$850,087</u>
Total Assets	<u><u>\$850,087</u></u>

Net Assets

Administrative - unrestricted	\$67,246
Life - temporarily restricted	(65,872)
Accident and sickness - temporarily restricted	813,485
Annuity - temporarily restricted	<u>35,228</u>
Net Assets	<u><u>\$850,087</u></u>

STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID

	2010				
	Unrestricted	Temporarily Restricted			Total
	Administrative	Life	Accident and Sickness	Annuity	
Revenues Collected					
Class A assessments	\$13,400				\$13,400
Premiums collected (net)		2,144	1,632		3,776
Interest	51	300	597	1,060	2,008
Estate distributions		1,310	813,194	2,237	816,741
	<u>\$13,451</u>	<u>\$3,754</u>	<u>\$815,423</u>	<u>\$3,297</u>	<u>\$835,925</u>
Expenses Paid					
Refunds paid to members		\$805,001		\$4,434,999	5,240,000
Insolvency and allocated administrative expenses		485,754	1,014,391	461,151	1,961,296
Unallocated administrative expenses	71,125				71,125
	<u>\$71,125</u>	<u>\$1,290,755</u>	<u>\$1,014,391</u>	<u>\$4,896,150</u>	<u>\$7,272,421</u>
Change in Net Assets	(\$57,674)	(\$1,287,001)	(\$198,968)	(\$4,892,853)	(\$6,436,496)
Net assets, beginning of year	124,920	1,221,129	1,012,453	4,928,081	7,286,583
Net assets, end of year	<u>\$ 67,246</u>	<u>\$ (65,872)</u>	<u>\$ 813,485</u>	<u>\$ 35,228</u>	<u>\$ 850,087</u>

STATEMENT OF CHANGES IN ACCOUNT BALANCES

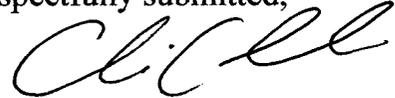
	<u>Life</u>	<u>Accident & Sickness</u>	<u>Annuity</u>	<u>Administrative</u>	<u>Total</u>
Net Assets, December 31, 2007	\$1,558,164	\$1,590,586	\$4,228,639	\$112,213	\$7,489,602
Excess (deficiency) of receipts over disbursements - 2008	<u>(16,247)</u>	<u>38,978</u>	<u>1,173,028</u>	<u>(56,395)</u>	<u>1,139,364</u>
Net Assets, December 31, 2008	\$1,541,917	\$1,629,564	\$5,401,667	\$55,818	\$8,628,966
Excess (deficiency) of receipts over disbursements - 2009	<u>(320,788)</u>	<u>(617,111)</u>	<u>(473,586)</u>	<u>69,102</u>	<u>(1,342,383)</u>
Net Assets, December 31, 2009	\$1,221,129	\$1,012,453	\$4,928,081	\$124,920	\$7,286,583
Excess (deficiency) of receipts over disbursements - 2010	<u>(1,287,001)</u>	<u>(198,968)</u>	<u>(4,892,853)</u>	<u>(57,674)</u>	<u>(6,436,496)</u>
Net Assets, December 31, 2010	<u><u>(\$65,872)</u></u>	<u><u>\$813,485</u></u>	<u><u>\$35,228</u></u>	<u><u>\$67,246</u></u>	<u><u>\$850,087</u></u>

CONCLUSION

The courteous cooperation extended by the representatives of the Association during the course of the examination was sincerely appreciated.

In addition to the undersigned, William K. Knight, AFE participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Chris Collins".

Chris Collins, AFE
Insurance Examiner
Commonwealth of Virginia

Virginia Life, Accident & Sickness Insurance Guaranty Association

11 OCT 20 AM 9:11

October 17, 2011

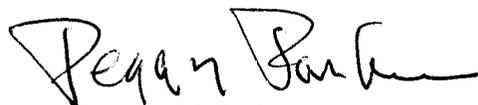
Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

RE: Examination Report as of December 31, 2010

Dear Mr. Smith:

We acknowledge receipt of the Association's Examination Report as of December 31, 2010. We are very pleased that the report does not contain any recommendations for corrective action. Please provide me with 11 copies of the final report.

Sincerely,



Margaret M. Parker
Executive Director

Cc: David H. McMahon, Chairman