STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Individual Assurance Company, Life, Health & Accident for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Individual Assurance Company, Life, Health & Accident for the period ended December 31, 2012, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Individual Assurance Company, Life, Health & Accident as of December 31, 2012, be and is hereby ADOPTED as filed and for Individual Assurance Company, Life, Health & Accident to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 17th day of March, 2014.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE

FINANCIAL EXAMINATION OF

INDIVIDUAL ASSURANCE COMPANY, LIFE, HEALTH & ACCIDENT

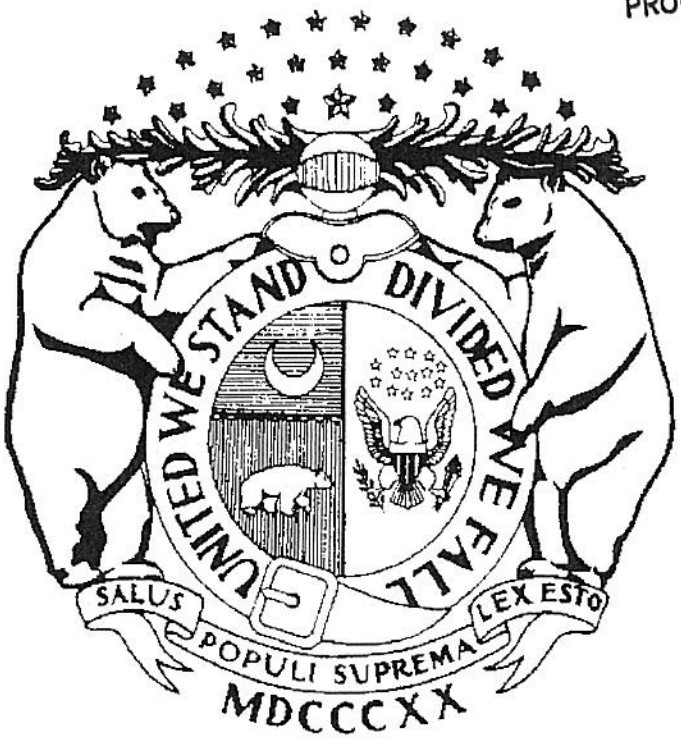
AS OF

DECEMBER 31, 2012

FILED

MAR 27 2014

DIRECTOR OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Prairie Village, Kansas
February 19, 2014

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Director Huff:

In accordance with your financial examination warrant, a full scope financial association examination has been made of the records, affairs, and financial condition of

Individual Assurance Company, Life, Health & Accident

hereinafter referred to as Individual Assurance Company, as IAC, or as the Company. Its administrative office is located at 2400 West 75th Street, Prairie Village, Kansas 66208, telephone number (913) 432-1451. This examination began on May 13, 2013 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed our full scope association financial examination of Individual Assurance Company. The last examination was completed as of December 31, 2008. This examination covers the period of January 1, 2009 through December 31, 2012 and also includes the material transactions and/or events occurring subsequent to the examination date which are noted in this report. Both the current and prior examinations were conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zone participating.

Procedures

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook, except where practices, procedures, and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (the MO DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, inherent risks within the Company, and system controls and procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as

well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination approach. Key activities for Individual Assurance Company included: Related Party, Expenses, Reinsurance, Investments, Claims and Reserving, Premiums and Underwriting, and Taxes.

Reliance Upon Others

The examination relied heavily upon information provided by the Company and its management. Where the examiners have deemed appropriate, this information has been tested or verified with external sources. The examiners also relied upon information supplied by the Company's independent auditor, KPMG, LLP, of Kansas City, Missouri, for its audits covering the periods from January 1, 2011 through December 31, 2012. Information relied upon included fraud risk analysis, attorney letters, tests of controls, and narrative descriptions of processes and controls.

SUMMARY OF SIGNIFICANT FINDINGS

IAC failed to disclose all significant related parties and related party transactions in a timely manner in regulatory filings such as the Quarterly and Annual Statements and Forms B and C. IAC also failed to file a number of significant related party agreements for prior approval with MO DIFP as required by Section 382.195, RSMo (Prohibited transactions, exceptions).

SUBSEQUENT EVENTS

Effective October 1, 2013, IAC entered into an assumption reinsurance agreement with Great Cornerstone Life & Health Insurance Company of Edmond, Oklahoma. Under this agreement, IAC assumed a small block of group dental and supplemental accident, cancer, and limited benefit health policies written in Oklahoma and Texas.

In preparation for the closing of the sales of several IAC subsidiaries as discussed below, these subsidiaries paid dividends to IAC. Westport Life Insurance Company (Westport) paid several 2013 dividends to IAC totaling $2,519,810. Horizon Services Company paid a December 2013 dividend of $329,259 to IAC.

Effective May 31, 2013, IAC entered into an agreement to sell its stock in Westport to Plateau Insurance Company for $125,000. This sale closed in August 2013.

In late 2013, IAC and its affiliates sold their Agency business and IAC's Debt Protection Products (DPP) business to The Plateau Group, Inc. and its affiliates. This transaction included a five-year DPP non-compete agreement, the sale of IAC's FourPoint® technology solutions software and equipment; the sale of two IAC direct and indirect subsidiaries, Horizon Services Company and Horizon Services Reinsurance, Ltd.; and the sale of two Individual Assurance Company Group

indirect subsidiaries, Highland Ohio Agency and Insured Accounts Company. IAC recognized its entire $2,965,000 share of the proceeds from this sale in 2013 although $855,000 of the total is scheduled to be paid in 2014 through 2018.

COMPANY HISTORY

General

Individual Assurance Company was incorporated on October 18, 1973 and commenced business on January 1, 1974 under Chapter 376 RSMo (Life, Health and Accident Insurance). IAC's principal lines of business have historically included credit life insurance, credit accident and health insurance, and ordinary and group life insurance.

Capital Stock

The Company has authority to issue 1,250,000 shares of $2.00 par value common stock. As of December 31, 2012, all the 1,250,000 shares of common stock were issued and outstanding for a balance of $2.5 million in the Company's common capital stock account. All of the issued and outstanding common stock is owned by IAC Group, Inc.

Surplus Debentures

There were no surplus debentures issued or outstanding for the period under examination.

Capital Contributions

No capital contributions were made during the period under examination.

Dividends

IAC paid the following dividends during the period under examination:

Year of Dividend	Amount of Dividend
2009	$ 0
2010	400,000
2011	95,586
2012	14,100,000

Mergers and Acquisitions

There were no mergers or acquisitions related to IAC or its holding company during the period under examination; however, control of IAC did change during the period under examination. Ultimate control of IAC historically rested with the Stroud family. The change in control of IAC

began in 2011 and was completed in 2012 with control now resting with the group described in the Holding Company, Subsidiaries, and Affiliates section of this report.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. The Articles of Incorporation were amended effective December 27, 2012 to reduce the number of Board members from ten to nine members. The Bylaws were not amended during the examination period.

The minutes of the Board of Directors' meetings were reviewed for proper approval of corporate transactions. The Board of Directors usually meets once per year for the Annual meeting. Meetings appear to be routine and the minutes contained limited information. Evidence that significant intercompany transactions and significant reinsurance transactions were discussed and approved by the Board of Directors was largely lacking.

MANAGEMENT AND CONTROL

Board of Directors

The Articles of Incorporation state that the Board of Directors shall be composed of nine members, which is in compliance with Section 376.060, RSMo (Stock companies-content of charter). Members of the Board of Directors indicated below were elected and serving as of December 31, 2012.

Name	Address	Principal Occupation & Business Affiliation
James L. Harlin	Edmond, OK	Chairman of the Board of Directors President and CEO, IAC
David A. Dillon	Prospect Heights, IL	Sr. Managing Director, Dillon Kane Group
Donald G. Kane	Hinsdale, IL	Sr. Managing Director, Dillon Kane Group
Keith E. Nelson (a)	Waupaca, WI	Vice President & Actuary, IAC
John A. Diebold	Shawnee, KS	Vice President – Finance, Treasurer & Secretary, IAC
Diana L. Santellan (b)	Fairway, KS	Vice President – Operations, IAC
Ladena G. Keuhn	Platte City, MO	Vice President - Human Resources, IAC
Scott E. Dumbauld	Maple Grove, MN	Vice President - Business Development, IAC
Ante J. Pervan	Willowbrook, IL	Sr. Managing Director, Dillon Kane Group

(a) Ceased to be officer on July 1, 2013, still an IAC Director.
(b) Resigned as of January 29, 2013, replaced by Thomas M. Cumbo, Inverness, IL, Sr. Managing Director, Dillon Kane Group.

Officers

The following officers were serving in their position as of December 31, 2012.

Name	Position at Company
James L. Harlin	Chairman of the Board of Directors, President & CEO
John A. Diebold	Vice President - Finance, Treasurer & Secretary
Scott E. Dumbauld	Vice President - Business Development
Ladena G. Keuhn	Vice President - Human Resources
Keith E. Nelson (a)	Vice President & Actuary
Diana L. Santellan (b)	Vice President – Operations

(a) Ceased to be officer on July 1, 2013, still an IAC Director.
(b) Resigned as of January 28, 2013.

Committees

The Board of Directors elected Executive, Investment, and Audit Committees to serve on their behalf. During the period under examination, the Executive Committee approved via written consent salaries over $40,000 on a yearly basis. The Audit Committee did not meet during the examination period but did meet on May 29, 2013 to review and discuss the 2012 audit report prepared by KPMG, LLP. The Investment Committee met twice per year in 2009, 2010, and 2012; once in 2011; and did not meet in 2013. The members of the committees during 2012 were as follows:

Executive Committee	Investment Committee	Audit Committee
Robert E. Stroud, Chairman	Robert E. Stroud, Chairman	Robert E. Stroud, Chairman
SueAnn S. Wright	Ronald F. Jones	SueAnn S. Wright
James L. Harlin	James L. Harlin	James L. Harlin

The members of the committees as of April 23, 2013 were as follows:

Executive Committee	Investment Committee	Audit Committee
James L Harlin, Chairman	James L. Harlin, Chairman	James L. Harlin, Chairman
David A. Dillon	David A. Dillon	David A. Dillon
Donald G. Kane	Ante J. Pervan	Donald G. Kane

Holding Company, Affiliates, and Subsidiaries

IAC is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). IAC is wholly owned by IAC Group, Inc. (IACG), a Missouri holding company. IACG is controlled in majority by David Dillon, Donald Kane (through a trust) and James Harlin (through a separate trust); each owning directly or beneficially 24.67% of IACG's stock. Certain associates of David Dillon and Donald Kane own the remaining 26.00% of IACG.

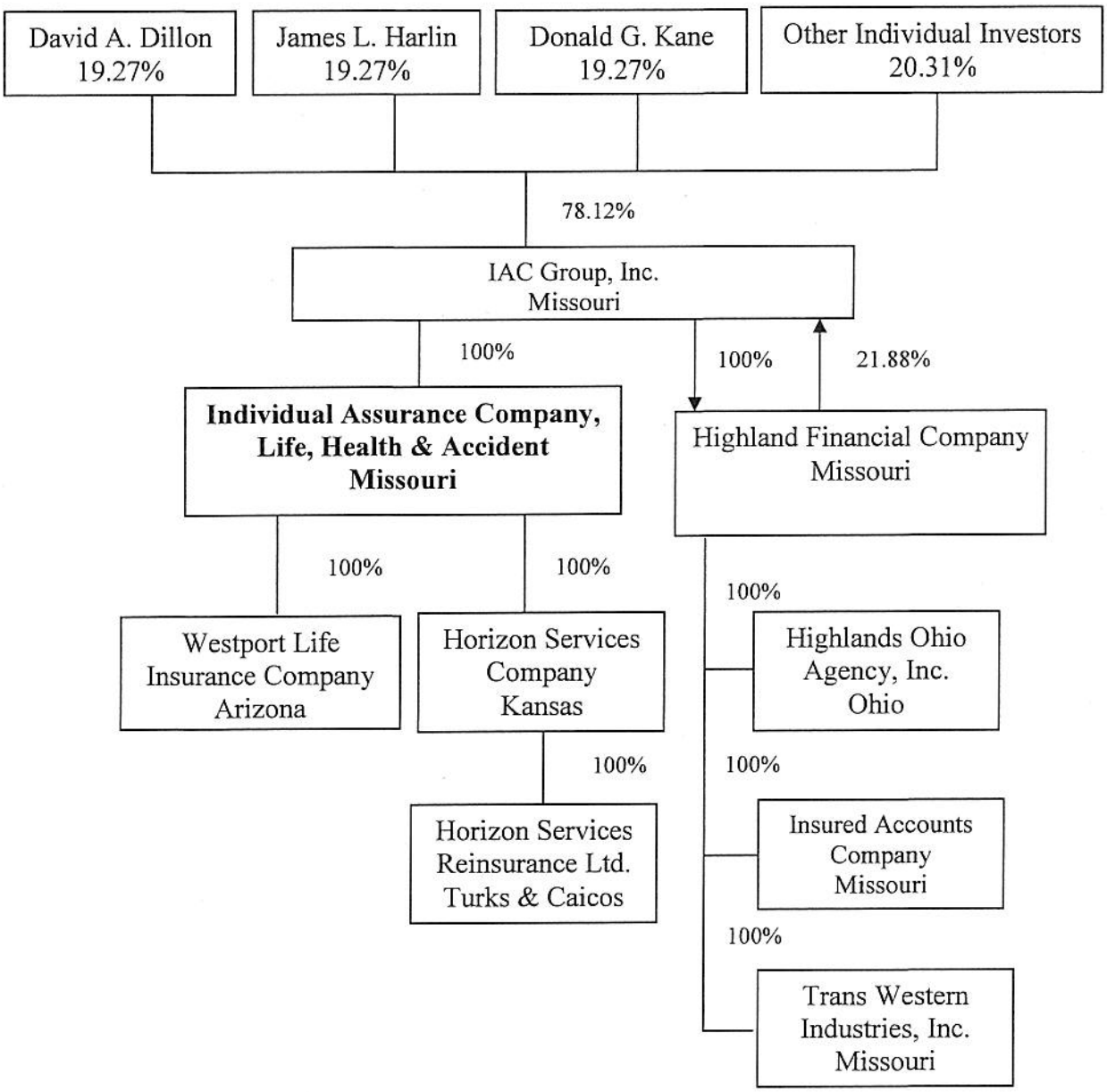
IACG has no significant business operations other than its ownership of IAC and Highland Financial Company (Highland). Highland, IAC's sister company, owned three subsidiaries: Insured Accounts Company, Highland Ohio Agency, Inc., and Trans Western Industries, Inc., all of which were insurance agencies, Effective September 30, 2013, Insured Accounts Company and Highland Ohio Agency, Inc. were both sold to The Plateau Group, Inc.

IAC and IACG have a number of additional affiliates by virtual of common ownership and/or common control. IAC had significant intercompany agreements with three of these affiliates: STEP Solutions Group, LLC, FiSource, Inc., and Oklahoma Communities LLC. David Dillon and Donald Kane have an ownership interest in STEP Solutions Group, LLC and James Harlin has an economic interest in it. James Harlin owns FiSource, Inc. and manages Oklahoma Communities LLC. The additional affiliates discussed in this paragraph were not disclosed in IAC's 2012 Annual Statement or its 2012 Form B as originally filed. At the request of MO DIFP, IAC did submit an amended Form B in late 2013 which included these disclosures.

As of December 31, 2012, IAC had two direct subsidiaries and one indirect subsidiary. IAC owned 100% of the voting stock of Westport Life Insurance Company, an Arizona domiciled reinsurer of credit life, credit accident and health, and group life business. A non-voting class of Westport stock was owned by various financial institutions for purposes of reinsuring risks. IAC also owned 100% of Horizon Services Company (Horizon), a software and administrative company incorporated in the State of Kansas. Horizon in turn owned 100% of Horizon Services Reinsurance Ltd. (Horizon Re), a Turks and Caicos domiciled reinsurance company. In 2013, Westport, Horizon and Horizon Re were sold to The Plateau Group, Inc. and its affiliates. See the Subsequent Events section of this report for additional details on the sale.

Organizational Chart

The following organizational chart illustrates, in part, the IAC Group, Inc. holding company structure as of December 31, 2012.



Intercompany Transactions

The Company's intercompany agreements in effect, as of December 31, 2012, are outlined below:

1. Type: Management Services Agreement
   Parties: Westport Life Insurance Company
   Effective: January 1, 2012. Replaced a similar agreement. Terminated January 1, 2013 in preparation for sale of Westport.
   Terms: IAC provided various services on behalf of Westport including accounting, financial reporting, collection and depositing of funds received, payment of

accounts payable, investment managing, and third party expenses for actuarial, information systems, auditing, and legal services.

Rates: Westport reimbursed IAC an allocated percentage of incurred expenses and fees based on premiums.

2. Type: Management Services Agreement
Parties: Highland Financial Company and subsidiaries (Highland)
Effective: January 1, 2012. Replaced a similar agreement.
Terms: IAC provides various services on behalf of Highland including accounting, financial reporting, collection and depositing of funds received, payment of accounts payable, investment managing, advice, and other services.
Rates: Highland pays IAC an allocated percentage of incurred expenses and fees generally based on time studies of employees providing the services.

3. Type: Technology License and Joint Development Agreement
Parties: Horizon Services Company
Effective: December 26, 2007. Terminated October 1, 2013 with the sale of Horizon.
Terms: IAC granted Horizon an exclusive license for 15 years to use the package of web-based computer software, programs, data, and related materials known as FourPoint® solely in connection with Debt Protection Programs (DPP). IAC retained the exclusive right to utilize the FourPoint® in connection with any Credit Life Program (CL). IAC also retained sole and exclusive ownership of FourPoint®. Any FourPoint® development costs for DPP were to be borne by Horizon. Any FourPoint® development costs for CL were to be borne by IAC.
Rates: Flat rate of $1.6 million payable as $800,000 at execution of the agreement and $400,000 each during 2008 and 2009.

4. Type: Management Services Agreement
Parties: Horizon and Horizon Re
Effective: January 1, 2012. Terminated October 1, 2013 with the sale of Horizon and Horizon Re.
Terms: IAC provided various services on behalf of Horizon and Horizon Re including accounting, financial reporting, collection and depositing of funds received, payment of accounts payable, maintenance of reports and records, advice, and other services.
Rates: Horizon and Horizon Re paid IAC an allocated percentage of incurred expenses and fees generally based on time studies of employees providing the services.

5. Type: Services Agreement
Parties: FiSource, Inc.
Effective: March 1, 2011
Terms: FiSource, Inc. provides the services of James Harlin to act as President, Chief Executive Officer and Director of IAC and its subsidiaries.
Rates: IAC pays FiSource, Inc. $22,000 per month plus any travel or entertainment expenses incurred by James Harlin in the scope of his duties as officer or director of IAC or its subsidiaries.

6. Type: Professional Service Agreement, STEP Statement of Work
Parties: STEP Solutions Group, LLC (SSG)
Effective: March 1, 2011. This agreement was never filed with or approved by MO DIFP. Terminated and replaced by the Professional Services Agreement with STEP Solutions LLC effective January 1, 2013.
Terms: SSG agreed to provide management and support for IAC's information technology needs. SSG could assume various IT functions/contracts already in place.
Rates: IAC was to pay $65,232 per month at inception, escalating to $133,333 per month, with a two-year maximum of $3.2 million. Any IT costs paid direct by IAC were to reduce the fees paid to SSG. IAC paid SSG $744,672 in 2011 and $1,062,584 in 2012 under this agreement.

7. Type: Program License and Technology Support Agreement
Parties: STEP Solutions, LLC (SSL)
Effective: March 1, 2011. This agreement was never filed with or approved by MO DIFP. Terminated and replaced by the Professional Services Agreement with SSL effective January 1, 2013.
Terms: After conversion of IAC business to the STEP IT platform, IAC was to pay a licensing and maintenance fee.
Rates: IAC was to pay $300,000 per year scheduled to begin in 2013 after conversion was complete. As the agreement was terminated, the fee was not paid.

8. Type: Professional Services Agreement
Parties: STEP Solutions, LLC
Effective: January 1, 2013. Replaced the preceding two agreements, #6 and #7 above. Effective October 1, 2013, IAC provided notice of termination and exercise of IAC's six month transition option to SSL.
Terms: SSL will manage and support information technology needs of IAC. SSL is to provide IAC various services including IT strategy, IT infrastructure support, IT hosting and operations, applications management of current systems and applications, continuing legacy modernization and conversion, and STEP portal platform licenses. Upon notice of termination, IAC is allowed to exercise a six-month transition option during which it will receive reasonable IT services from SSL at the same rate in effect prior to termination.
Rates: IAC shall pay SSL actual costs and expenses to provide the services, not to exceed $1,080,000 for 2013. The maximum fee payable to SSL will be reduced by any fees IAC pays directly to IT related venders or consultants.

9. Type: Consulting Agreement
Parties: Oklahoma Communities, LLC (OCL)
Effective: July 16, 2011
Terms: OCL acts as consultant and advisor with respect to various programming matters, primarily of an actuarial nature.
Rates: IAC will pay 75% of the salary and benefits of the consultant providing the services. OCL will annually perform a time-study to justify the fee.

10. Type: Tax Allocation Agreement
Parties: Parties to the agreement have changed multiple times through amendments. As of December 31, 2012, parties were IACG, IAC, Horizon Services Company and Horizon Services Reinsurance Ltd.
Effective: January 1, 1996
Terms: Parties to the agreement file a consolidated federal income tax return. The allocation of the consolidated tax liability to each company is based upon each company's liability on a stand-alone basis.
Rates: Intercompany tax settlements are to be made within 90 days after the filing of the tax return.

A number of the agreements listed above were not filed for prior approval with MO DIFP as required by Section 382.195, RSMo (Prohibited transactions, exceptions) and were not disclosed in IAC's 2012 Form B as originally filed. IAC did subsequently file the active agreements with MO DIFP and submitted an amended Form B which included the agreements.

In addition to the transactions described above, IAC also contributed capital to Horizon Services Company during the examination period; $218,186 during 2011 and $50,000 during 2012.

FIDELITY BOND AND OTHER INSURANCE

IAC and various affiliates are named insureds on a standard financial institution bond providing fidelity and crime coverage with an aggregate liability limit of $1,000,000 and a $10,000 deductible. This level of coverage exceeds the suggested minimum amount of fidelity insurance per NAIC guidelines.

IAC and various affiliates are also named insureds under a number of other insurance policies which include, but are not limited to, property coverage, general liability, employee benefits liability, commercial auto, directors and officers liability, umbrella liability and workers compensation.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

IAC employees are provided standard benefits that include but are not limited to, medical, dental, life, accidental death and dismemberment insurance, short and long-term disability and a 125 cafeteria plan.

The Company also offers a 401(k) plan with employer matching. The Company's obligations for the plan appear to have been properly reported in the annual statements for the period under examination.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, IAC was licensed to write business in 43 states, the District of Columbia, and the U.S. Territories of Guam and Commonwealth of Northern Marianas Islands in the Pacific Island Region. The Company was also licensed in the Federated States of Micronesia, Republic of Marshall Islands, and Republic of Palau.

During the examination period, IAC wrote Credit Life and Credit A&H policies in the United States, sold mostly by banks and financial institutions, which act as agencies for IAC. The Credit Life and Credit A&H lines of business accounted for 27% and 13%, respectively, of direct premiums written in 2012. The financial institutions also produce small amounts of ordinary life and group mortgage insurance business, although the percentages of these lines have increased with the decrease in credit premiums. For business transacted in the United States, the five states with the largest percentage of 2012 Direct written premium were: Pennsylvania (12%), Missouri (10%), Arkansas, Illinois, and Ohio (4% each).

In addition to business written in the United States, the Company writes a large portion (52% of 2012 direct written premium) in the Pacific Island region. The Company provides group term life insurance and supplemental universal life insurance for government employees working in these island regions.

IAC also derived income from processing Debt Protection or Debt Cancellation policies or packages offered by banks and financial institutions through the use of their proprietary software program, FourPoint®. Debt Protection/Cancellation products serve as an alternative to credit insurance in markets that do not favor traditional insurance products. As these are not insurance products, the Company does not bear any underwriting risk associated with these products. As discussed in the Subsequent Events section, this business and software was sold in 2013.

GROWTH OF COMPANY AND LOSS EXPERIENCE

IAC's direct written premium was relatively constant during the examination period as was IAC's net written premium until 2012. In 2012, IAC reported negative net premium of $15 million. This decline was a direct result of the Company's new business initiative to reduce underwriting risk through various reinsurance agreements. In 2012 IAC ceded over $63 million in premium, including three new reinsurance agreements with Plateau Insurance Company (100% of credit life and credit accident and health business); Unified Life Insurance Company (100% of Pre-Need ordinary and annuity and certain other ordinary insurance business); and Aurigen Reinsurance Limited (95% of ordinary, annuity, and Pacific group business). In addition to the ceded premium amounts, the decline in 2012 net premium can also be attributed to a $1.2 million reduction of Guam premiums due to the loss of the contract in June 2011 and a $1.1 million reduction in credit premium from the loss of a single premium education program in January 2012.

IAC suffered net losses during the majority of the examination period. Besides declines in surplus related to net losses, IAC's total policyholder surplus decreased substantial between 2011 and

2012, dropping 70% from $15.7 million at year-end 2011 to $4.8 million at year-end 2012. Two main contributing factors to this $11 million decrease were $14 million in dividend payments to stockholders partially offset by $4 million in settlement considerations from Unified Life Insurance Company and Plateau Insurance Company connected to the new reinsurance agreements effective in 2012.

A summary of key IAC statistics is provided in the table below:

	2009	2010	2011	2012
Direct Written Premium	33,685,328	37,744,229	35,402,905	32,179,437
Net Written Premium	21,285,636	22,617,717	23,695,761	(14,952,822)
Total Policyholder Surplus	12,130,692	10,300,208	15,746,989	4,769,041
Direct Premium to Surplus Ratio	2.78	3.66	2.25	6.75
Net Premium to Surplus Ratio	1.75	2.20	1.50	(3.14)
Admitted Assets	44,823,107	44,746,383	53,587,724	19,340,266
Life Insurance In Force	4,054,822	4,961,923	4,336,342	4,229,668
Net Income (Loss)	45,857	(2,287,817)	(139,874)	(1,114,428)

REINSURANCE

General

IAC's earned premium activity on a direct, assumed and ceded basis, for the period under examination, is detailed below:

	2009	2010	2011	2012
Direct Business	$33,656,444	$38,284,784	$35,168,017	$31,860,241
Reinsurance Assumed:				
Affiliates	0	0	0	0
Non-affiliates	485,402	486,096	1,906,186	15,669,858
Reinsurance Ceded:				
Affiliates	(2,663,025)	(2,685,391)	(2,726,038)	(2,591,184)
Non-affiliates	(10,576,969)	(13,234,124)	(10,783,072)	(61,076,742)
Net Earned Premiums	**$20,901,852**	**$22,851,365**	**$23,565,093**	**$(16,137,828)**

Assumed

As discussed in the ceded section below, in 2012 IAC ceded its net credit business liability after other reinsurance to Plateau Insurance Company (PIC). Rather than showing the amount ceded to PIC on a net basis in its Annual Statement, IAC showed 100% of the credit business as ceded to PIC and then showed the amounts ceded to other reinsurers as if it were assumed from PIC such that the net of the amounts ceded and assumed from PIC equals the net amount ceded to PIC. This credit business shown as assumed from PIC represented $13.9 million or 89% of the amount IAC

reported as 2012 assumed premium. The next largest source of 2012 assumed premium was the life portion of CLIP (contract liability insurance product) business assumed from Virginia Surety Insurance Company which accounted for $1.7 million or 11% of IAC's 2012 assumed premium.

Ceded

As of December 31, 2012, IAC ceded the majority of its direct and assumed business. Reinsurance coverage varied depending on the underlying business as discussed below.

For credit life and A&H business, IAC historically obtained reinsurance coverage from Westport Life Insurance Company, an affiliate, producer-owned captive companies, and outside reinsurers, primarily Munich Re. In 2012, IAC ceded 100% of its net liability for this credit life and A&H business to Plateau Insurance Company. For presentation purposes, IAC showed 100% of the credit business as ceded to PIC and then showed the amounts ceded to other reinsurers as ceded to those reinsurers and assumed from PIC.

IAC previously wrote a large block of funeral service plan (FSP) business that was 100% reinsured by Lincoln Memorial Life Insurance Company. In 2011, this business was recaptured and, in 2012, it was 100% ceded to Unified Life Insurance Company.

In 2012, IAC ceded the majority of its exposure for ordinary, annuity and Pacific Group business to Aurigen Reinsurance Limited, not including the credit or FSP business mentioned in the preceeding paragraphs. For ordinary and annuity business, reinsurance was at 95%. Ceded percentages on Pacific Group business vary between 85% and 95%.

IAC has a number of other reinsurance contracts which are in runoff. The Pacific Group business had been previously reinsured with other reinsurers; business written during those periods is still reinsured under those contracts. Also, IAC previously fronted business for several companies and ceded 100% of the business. IAC terminated the fronting contracts prior to the current examination period and this fronted business is currently in runoff.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP as of December 31, 2012, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities):

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Notes	$1,490,000	$1,740,737	$1,483,962

Deposits with Other States, Territories, and Countries

The Company also has the following deposits with other states and political entities:

State	Type of Security	Par Value	Fair Value	Statement Value
Arkansas	U.S. Treasury Note	$150,000	$150,698	$150,044
Georgia	U.S. Treasury Bill	50,000	50,053	50,000
New Mexico	U.S. Treasury Note	250,000	251,162	250,381
North Carolina	U.S. Treasury Note	500,000	501,512	501,269
South Carolina	U.S. Treasury Note	175,000	175,814	175,110
Virginia	U.S. Treasury Note	100,000	116,789	102,652
America Samoa	Cert. of Deposit	53,735	53,735	53,735
Guam	Cert. of Deposit	52,568	52,568	52,568
Federated States of Micronesia	Cert. of Deposit	127,867	127,867	127,867
Total		$1,459,170	$1,480,198	$1,463,626

Deposits for the Benefit of Reinsureds

The Company has the following amounts on deposit for the benefit of one reinsured, Virginia Surety Company, Inc.:

Type of Security	Par Value	Fair Value	Statement Value
US Special Revenue and Assessment Obligations	$550,000	$550,164	$550,901
Money Market Account	38,892	38,892	38,892
Total	$588,892	$589,056	$589,793

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Individual Assurance Company for the period ending December 31, 2012. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statement Items." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements and therefore were only communicated to the Company and noted in the workpapers for each individual activity.

Assets

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$3,211,673	$ 0	$3,211,673
Common Stocks	2,049,361	0	2,049,361
Real Estate – Occupied by the Company	2,665,459	0	2,665,459
Real Estate – Held for Income Production	1,129,447	0	1,129,447
Cash and Short-term Investments	2,167,333	0	2,167,333
Contract Loans	3,149,461	0	3,149,461
Investment Income Due and Accrued	14,143	0	14,143
Uncollected Premium and Agents' Balances	441,806	1,539	440,267
Deferred Premiums	51,043	0	51,043
Amounts Recoverable from Reinsurers	2,998,779	53,770	2,945,009
Other Amounts Receivable Under Reinsurance	1,436,316	0	1,436,316
Guaranty Funds Receivable	87,771	87,771	0
Receivable from Parent and Affiliates	80,754	0	80,754
Aggr. Write-Ins for Other than Invested Assets:			
Prepaid Expenses	73,804	73,804	0
Other Non-admitted Assets	422,177	422,177	0
TOTAL ASSETS	**$19,979,327**	**$639,061**	**$19,340,266**

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Contracts	$1,852,028
Liability for Deposit-Type Contracts	402,841
Contract Claims – Life	1,570,952
Premiums Received in Advance	4,791
Other Amounts Payable on Reinsurance	3,772,071
Interest Maintenance Reserve	1,732,341
Commissions to Agents Due or Accrued	6,075
Commissions on Reinsurance Assumed	86,003
General Expenses Due or Accrued	367,902
Taxes, Licenses and Fees Due or Accrued	99,713
Current Federal Income Taxes	312,702
Net Deferred Tax Liability	613,585
Unearned Investment Income	109,453
Remittances and Items Not Allocated	162,434
Asset Valuation Reserve	260,809
Funds Held Under Reinsurance Treaties	2,840,507
Aggregate Write-Ins for Liabilities:	
Unclaimed Property	97,591
Other Payables	279,427
TOTAL LIABILITIES	**$14,571,225**
Common Capital Stock	2,500,000
Gross Paid In and Contributed Surplus	595,420
Unassigned Funds (Surplus)	1,673,621
TOTAL CAPITAL AND SURPLUS	**$4,769,041**
TOTAL LIABILITIES AND SURPLUS	**$19,340,266**

Summary of Operations

Premiums and Annuity Considerations	$(16,137,828)
Net Investment Income	1,211,875
Amortization of Interest Maintenance Reserve	138,376
Commission and Expense Allowances on Reinsurance Ceded	7,900,983
Miscellaneous Income	831,521
TOTAL	**$(6,055,073)**
Death Benefits	2,417,637
Matured Endowments	47,090
Annuity Benefits	498,920
Disability Benefits and Benefits Under Accident and Health Contracts	(740,921)
Surrender Benefits and Withdrawals for Life Contracts	254,294
Interest on Contract or Deposit-Type Funds	8,257
Increase in Aggregate Reserves for Life and Accident & Health Contracts	(23,334,806)
Commissions on Premiums, Annuity Considerations & Deposit-Type Funds	5,766,145
Commissions and Expense Allowances on Reinsurance Assumed	956,825
General Insurance Expenses	7,478,884
Insurance Taxes, Licenses and Fees	850,186
Increase in Loading on Deferred and Uncollected Premiums	(253,944)
TOTAL	**$(6,051,433)**
Net Gain from Operations	($3,640)
Dividends to Policyholders	(885)
Federal Income Taxes Incurred	1,111,673
NET INCOME	**$(1,114,428)**

Capital and Surplus Account

Surplus as Regards Policyholders, December 31, 2011	$15,746,989
Net Income	(1,114,428)
Change in Net Unrealized Capital Gains or (Losses)	17,480
Change in Net Deferred Income Tax	(61,608)
Change in Non-Admitted Assets	53,334
Change in Asset Valuation Reserve	66,903
Dividends to Stockholders	(14,100,000)
Aggregate Write-Ins for Gains and Losses in Surplus	
Unified Settlement Consideration	559,888
Plateau Settlement Consideration and Reserves	3,600,483
Examination Change	(0)
Net Change in Capital and Surplus for the Year	**(10,977,948)**
CAPITAL AND SURPLUS, DECEMBER 31, 2012	**$4,769,041**

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

SUMMARY OF RECOMMENDATIONS

IAC should institute appropriate controls to ensure all related parties and related party transactions are disclosed in a timely manner as required in all regulatory filings such as the Quarterly and Annual Statements and Forms B & C.

IAC should institute appropriate controls to ensure all related party agreements which require approval be submitted for prior approval with its state of domicile.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Individual Assurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Alvin Garon, CFE, Bernie Troop, CFE, Kimberly Dobbs, CFE, and Sara McNeely, examiners for the MO DIFP, participated in this examination. The firm of Lewis & Ellis, Inc. also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Vicki L. Denton, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Individual Assurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Vicki L. Denton
Vicki L. Denton, CFE
Examiner-In-Charge
MO DIFP

Sworn to and subscribed before me this 19th day of February, 2014.

My commission expires: 01/07/18

Tammy Morales
Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Mark Nance
Mark Nance, CFE, CPA
Audit Manager
MO DIFP