

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

IN THE MATTER OF:)
)
HCC Life Insurance Company)
225 TownPark Drive, Suite 145)
Kennesaw, Georgia 30144-5509)

Examination of HCC Life Insurance Company

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Doug Webber, Acting Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of HCC Life Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on April 8, 2010, has been adopted by the Commissioner.

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

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

April 26, 2010
Date

Connie Ridinger
Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner

CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 1920

STATE OF INDIANA) BEFORE THE INDIANA
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225 TownPark Drive, Suite 145)
Kennesaw, Georgia 30144-5509)

Examination of HCC Life Insurance Company

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the HCC Life Insurance Company (hereinafter "Company") for the time period January 1, 2005 through December 31, 2009.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on April 1, 2010.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on April 8, 2010 and was received by the Company on April 12, 2010.

The Company did not file any objections.

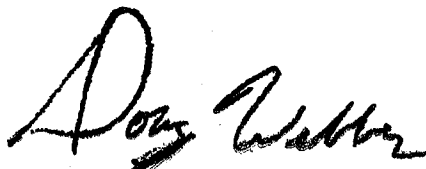
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the HCC Life Insurance Company as of December 31, 2009.
2. That the Examiners' Recommendations are reasonable and necessary in order for the HCC Life Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby **ORDER**:

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

Signed and Sealed this 26th day of April, 2010.



Douglas Webber
Acting Insurance Commissioner

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

HCC LIFE INSURANCE COMPANY

NAIC COMPANY CODE 92711

As of

December 31, 2009

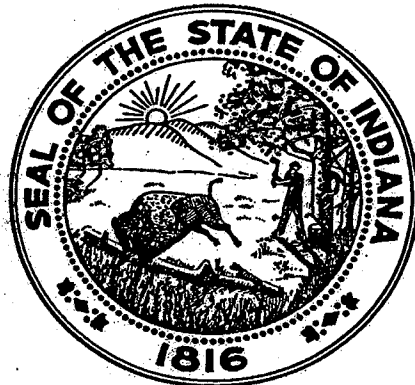


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

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

CAROL CUTTER, Commissioner

April 2, 2010

Honorable Alfred W. Gross, Chairman
Financial Condition (E) Committee, NAIC
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23218

Honorable Douglas Webber
Acting Commissioner, Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioners:

Pursuant to the authority vested in Appointment Number 3607, an examination has been made of the affairs and financial condition of:

HCC Life Insurance Company
320 North Meridian St, Suite 817
Indianapolis, IN 46204

hereinafter referred to as the "Company", an Indiana domestic, stock, life and annuity insurance company. The examination was conducted at the corporate offices of the Company at 225 TownPark Drive, NW, Kennesaw, Georgia.

The Report of Examination, reflecting the status of the Company as of December 31, 2009, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

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MEDICAL MALPRACTICE
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SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (IDOI) as of the period ending December 31, 2004. The present risk-focused examination covered the period from January 1, 2005 through December 31, 2009, and was conducted by Huff, Thomas & Company (HuffThomas) and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the examination, the IDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by PricewaterhouseCoopers LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

Jeffrey Beckley, FSA, MAAA, of Actuarial Options, LLC, a consulting actuary appointed by the IDOI, conducted a review of the Company's reserves as of December 31, 2009.

The risk-focused examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). 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, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks.

The comments and recommendations from the previous IDOI examination were reviewed. It was noted the Company has taken corrective action with respect to all prior recommendations.

HISTORY

The Company was incorporated as a stock life insurance company under the laws of the State of Indiana on December 3, 1980 as the Indianapolis Life Pension and Insurance Company and commenced business on March 12, 1981. The Company adopted the name VASA Life Insurance Company in 1991 after being acquired by Brougher Insurance Group. The ownership was transferred to Eureka B.V. in 1993 and later was contributed to Eureka's Canadian subsidiary, Seaboard Life Insurance Company (USA). The Company was merged with Enumclaw Life Insurance Company in 1994 and California Casualty and Life Insurance Company in 1995 as the surviving entity.

In December 1998, the Company was acquired by The Centris Group Inc. and its name changed to Centris Life Insurance Company on March 1, 1999. On December 20, 1999, the Company was acquired by HCC Insurance Holdings, Inc. (HCC), a Delaware corporation formed in 1991 as a holding company for insurance companies, underwriting agencies and intermediary operations. After the acquisition, the Company became a subsidiary of Houston Casualty Company (HC). The Company changed its name to HCC Life Insurance Company on December 28, 1999.

In 2005, the Company acquired Perico Life Insurance Company, a Delaware domestic that specializes in

writing small-case medical stop-loss insurance.

On October 2, 2006, the Company acquired the assets of the Health Products Division of Allianz Life Insurance Company of North America (the Health Products Division) for cash consideration of \$140 million and assumed the outstanding loss reserves. The Health Products Division's operations include medical stop-loss insurance for self-insured corporations and groups; medical excess insurance for HMOs; provider excess insurance for integrated delivery systems; excess medical reinsurance to small and regional insurance carriers; and LifeTrac, a network for providing organ and bone marrow transplants. The Health Products Division's operations were integrated into the Company's operations.

CAPITAL AND SURPLUS

As of December 31, 2009, the Company had 1,000 shares of \$10,000 par value common stock authorized and 250 shares issued and outstanding. HC owns all of the outstanding shares of the Company. The amount of issued common capital stock did not change during the period under examination. The Company has no preferred stock authorized, issued or outstanding.

Gross Paid-In and Contributed Surplus

During 2006 the Company received a contribution to its gross paid-in and contributed surplus of \$180,333,523 from its parent, HC.

DIVIDENDS TO STOCKHOLDERS

During the examination period the Company declared and paid dividends to HC as follows:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Amount</u>
November 12, 2008	December 17, 2008	\$60,000,000
November 30, 2009	December 18, 2009	\$60,000,000

TERRITORY AND PLAN OF OPERATION

The Company is licensed in all states and the District of Columbia. The Company's primary line of business is medical stop-loss (group accident and health medical business on both a specific and aggregate basis). The Company also writes medical excess for fully insured individuals and groups; HMO reinsurance; group term life sold in conjunction with medical stop loss business; specialty lines (sports and prestige), including disability and accidental death and dismemberment (AD&D); and short-term medical. Prior to June of 2009 the Company insured provider excess of loss business including physician and hospital groups. This business is currently in run-off and the renewal rights were sold to One Beacon Group.

The Company's products are primarily sold through a network of unaffiliated third party administrators, brokers, and agents to employer groups with less than 500 employees. The Company's short-term medical product is marketed to individuals through an affiliated Managing General Underwriter, HCC Medical Insurance Services. The Company's underwriting process is conducted through five regional offices located throughout the United States.

GROWTH OF THE COMPANY

Comparative financial data, as reported in the Company's financial statements, was as follows:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Premium Income</u>	<u>Net Income</u>
2009	\$ 598,019,261	\$ 230,297,960	\$ 367,721,301	\$ 651,837,810	\$ 65,955,242
2008	584,804,063	239,433,832	345,370,231	663,429,174	60,295,659
2007	623,202,851	287,037,619	336,165,232	649,528,978	64,233,685
2006	549,103,758	280,326,712	268,777,046	494,156,743	47,995,504
2005	325,311,048	134,731,055	190,579,993	421,079,486	30,418,720

The increase in Assets and Liabilities in 2006 was primarily attributable to the acquisition of the Health Products Division on October 2, 2006, including the assumption of outstanding loss reserves. Capital and Surplus increased in years 2006 and 2007 due to the retention of net income as well as an increase due to its investment in Perico Life Insurance Company. Admitted Assets decreased in 2008 as a result of the \$60 million ordinary dividend paid on December 17, 2008.

LOSS EXPERIENCE

The loss experience of the Company's accident and health business is presented in the following schedule:

<u>Year</u>	<u>A&H Premiums Earned</u>	<u>Losses and Loss Expenses Incurred</u>	<u>Underwriting Expense Incurred</u>	<u>Loss and Loss Expense Ratio</u>	<u>Underwriting Ratio</u>
2009	\$ 649,228,357	\$ 494,653,224	\$ 85,520,873	76.2%	13.2%
2008	659,814,253	503,448,029	89,701,964	76.3%	13.6%
2007	646,382,378	498,691,618	90,494,335	77.2%	14.0%
2006	490,621,004	509,840,530	75,417,055	103.9%	15.4%
2005	418,002,206	309,671,540	74,128,205	74.1%	17.7%

The increase in the Losses and Loss Expenses ratio from 2006 to 2007 occurred as a result of the assumption of the loss reserves from the Company's acquisition of the Allianz Health Products Division. The growth in the A&H premiums earned in 2007 was due to having a full year of new and renewal business from the acquisition compared to only one quarter in 2006.

MANAGEMENT AND CONTROL

Directors

The Company's Articles of Incorporation provide that the number of Directors of the Corporation shall not be less than five or more than fifteen, with the exact number to be specified from time to time in the manner provided by the Corporation's Bylaws. The following is a listing of persons serving as directors at December 31, 2009:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Mark A. Carney Indianapolis, IN	HCC Medical Insurance Services, LLC President
Craig J. Kelbel Kennesaw, GA	HCC Life Insurance Company President & Chief Executive Officer
John N. Molbeck, Jr. Houston, TX	HCC Insurance Holdings, Inc., President and Chief Operating Officer
Mark R. Sanderford Kennesaw, GA	HCC Life Insurance Company Executive Vice President & Chief Financial Officer
William T. Whamond Houston, TX	HCC Insurance Holdings, Inc., Executive Vice President and Chief Financial Officer

Officers

The Company's Bylaws state the officers of the Company, who shall be elected by the Board of Directors, shall consist of a President, one or more Vice Presidents, a Secretary, and such other officers as the Board of Directors may determine from time to time. The Company's daily operations were primarily managed by the following key senior officers and their respective titles as of December 31, 2009.

Craig J. Kelbel	President & Chief Executive Officer
Mark R. Sanderford	Executive Vice President & Chief Financial Officer
Daniel A. Strusz	Executive Vice President of Regional Marketing & Underwriting
Larry J. Stewart	Senior Vice President & Chief Underwriting Officer
Karen Sue Johnson	Senior Vice President of Claims
Andrew J. Ritchie	Senior Vice President of Compliance and Assistant Secretary
John D. Grider, Jr.	Senior Vice President of Corporate Marketing
Mark A. Carney	President of HCC Medical Insurance Services, LLC
Michael A. Holthaus	Regional Executive Vice President of Underwriting & Marketing

Joeseph W. Kipp
Michael J. Remeika
Michael J. Lee
Shaun L. Peterson

Regional Executive Vice President of Underwriting & Marketing
Regional Executive Vice President of Underwriting & Marketing
Regional Executive Vice President of Underwriting & Marketing
Vice President of Health Risk Management

In addition, the following officers and their respective HCCL titles performed various functions for the Company at the HCC holding company level:

John N. Molbeck, Jr.
William T. Whamond
Annette J. Goodreau
James L. Simmons
Joycelyn M. Ray
Sharon L. Brock
Deborah L. Riffe

Executive Vice President
Executive Vice President
Senior Vice President and Chief Actuary
Vice President and Secretary
Vice President of Corporate Compliance
Vice President of Corporate Tax
Vice President of Administration

Corporate Governance

It was determined the Board approves all significant transactions of the Company's officers, including investment transactions, on a quarterly basis. In addition to the Board's involvement with managing the Company, the Board of Directors of HCC also provides oversight to the Company's operations. As of December 31, 2009, members of the Board of Directors of HCC were comprised of 11 individuals, of which nine individuals were independent members.

The HCC Board of Directors provides governance through the following committees: Audit, Compensation, Investment and Finance, Nominating & Corporate Governance and Enterprise Risk Oversight. Each of these committees functioned under the provisions of a charter. Each of the committee charters were determined to provide adequate governance over the respective areas of HCC and its subsidiaries' operations. From a review of the committee minutes, it was determined the committees were operating in accordance with the provisions of their respective charters and each committee was appropriately staffed.

Based on a review of the information contained in each of the directors and executive officer's biographical affidavits and through management interviews, it was determined that these individuals are adequately qualified and have the experience necessary to conduct the operations and affairs of the Company.

Overall, the Company's corporate governance structure was determined to be effective. Corporate policies and strategies as designed and implemented by the board and management are effectively communicated throughout the HCC organization. In addition, it was determined the Board and key executives set an appropriate "tone at the top" with a clear commitment to set ethical behavior throughout the Company.

CONFLICT OF INTEREST

Directors, officers and certain employees are required to annually complete a questionnaire which discloses conflicts of interest. It was determined that all officers and Directors serving during the examination period completed the required conflict of interest questionnaire. No exceptions were noted.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. It was noted during the examination the Directors did subscribe to an Oath of Office.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company amended its Bylaws on December 14, 2007, setting the annual meeting of the shareholders to be held prior to May 31st, of each year. The amended and restated Bylaws were approved by a Unanimous Written Action of The Board of Directors of the Company on December 14, 2007.

Minutes

The Board of Directors and Shareholder meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that the annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

The Company is a wholly owned subsidiary of HC and is a member of a holding company system whereby HCC is the ultimate parent. The Company's abbreviated organization chart as included in this report shows its position and relationship with other insurers within HCC.

Affiliated Agreements

As of December 31, 2009, the Company operated under the following intercompany agreements:

Intercompany Service and Cost Allocation Agreement

Effective January 1, 2000, the Company entered into an Inter-Company Service and Cost Allocation Agreement with HCC Service Company, Ltd (HCC Service). Under this agreement, HCC Service agrees to provide personnel, administrative and other services and facilities to the Company. Additionally, the Company performs services on behalf of Perico Life Insurance Company under the same agreement. HCC Service charges the Company monthly for its proportionate share of the costs. During 2009, the Company incurred approximately \$4,604,884 of allocated costs from affiliates under the terms of this agreement. This agreement was filed with the IDOI in accordance with IC 27-1-23-4(b)(4).

Managing General Underwriter Agreements and Arrangements

Effective May 1, 2000, the Company entered into a Managing General Underwriter (MGU) Agreement with HCC Benefits Corporation (HCCB). Under the agreement, HCCB agrees to perform the marketing and sales of policies including solicitation, negotiation, binding, acceptance, execution, issuance and delivery of the policies as well as policy administration inclusive of billing, collection, accounting, distribution and issuance of receipts for premiums. Effective January 1, 2005 HCCB consolidated its new and renewal business operations into the Company. This included effectively transferring employees of HCCB to the Company. Though minimal at this point, HCCB continues to administer run off business and fixed asset accounting continues to be administered in HCCB. This agreement was filed with the IDOI in accordance with IC 27-1-23-4(b)(4).

Effective September 2, 2003, the Company entered into a MGU Agreement with ASU International, Inc. whose name changed to HCC Specialty Underwriters, Inc. (HCCSU) effective November 1, 2005. This agreement was filed with the Department on July 9, 2004. Subsequently, effective September 1, 2007, this agreement was amended for its name change and to indicate a change in lines of business, limits, and commission payable on certain lines of business. This agreement was again amended on September 1, 2008. During 2009 the Company paid commissions of \$6,004,701 to HCCSU under the provisions of the MGU Agreement. This agreement was filed with the IDOI in accordance with IC 27-1-23-4(b)(4).

On January 2, 2008, HCC acquired MultiNational Underwriters, LLC, an underwriting agency located in Indianapolis, Indiana and renamed it HCC Medical Insurance Services (HCCMIS). In 2008, HCCMIS commenced writing short-term medical insurance policies for Company. During 2009, the Company paid \$439,196 of commissions to HCCMIS.

Financial and Statutory Accounting Tax Allocation Agreement

The Company, effective January 1, 2000, became party to a Financial and Statutory Accounting Tax Allocation Agreement with various affiliates within the HCC holding company system. This agreement provides for the filing of consolidated federal income tax returns by HCC on behalf of the insurers and non-insurer affiliates in the holding company system, and the allocation of tax liabilities among those entities. Under the agreement, each party's respective obligation or benefit is calculated on a separate return basis. This agreement was filed with the IDOI in accordance with IC 27-1-23-4(b)(4).

Intercompany reinsurance agreements are included under the Reinsurance section of this report.

Organizational Chart

The following abbreviated organization chart shows the insurance entities and certain holding companies within HCC:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
HCC Insurance Holdings, Inc.		DE
Illium, Inc.		DE
Houston Casualty Company	42374	TX
U.S. Specialty Insurance Company	29599	TX
SureTec Financial Corporation (23.47%)		DE
SureTec Insurance Company	10916	TX
HCC Life Insurance Company	92711	IN
Perico Life Insurance Company	85561	DE
HCC Insurance Company	36781	IN
HCC Reinsurance Company, Ltd.		Bermuda
Avemco Corporation		DE
Avemco Insurance Company	10367	MD
HCC Specialty Insurance Company	11243	OK
HCC Insurance Holdings (International), Ltd.		UK
HCC Int'l Insurance Company PLC		UK
Houston Casualty Co. Europe, SA		Spain
Surety Associates Holdings Company, Inc.,		NM
American Contractors Indemnity Company	10216	CA
USSC Holdings, Inc.		MD
United States Surety Company	10656	MD
Ponderosa Management, Inc.,		CO
Pioneer General Insurance Company	12670	CO

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued to HCC and its subsidiaries. The Company is insured through two layers of coverage for losses up to \$10,100,000 without a deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

Other significant insurance coverages in force at December 31, 2009, included Umbrella Liability, Employment Practices Liability, Fiduciary Liability, and Directors & Officers Liability. All other coverages were determined to be adequate as of December 31, 2009.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following special deposits that were comprised of US Treasury Notes as of December 31, 2009:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	\$5,009,995	\$5,229,565
All Other Special Deposits:		
Georgia	44,944	48,297
Massachusetts	99,875	107,320
New Hampshire	500,544	530,196
New Mexico	124,844	134,150
New York	399,501	429,281
North Carolina	400,508	423,629
South Carolina	524,345	563,432
Virginia	125,136	132,549
Total Deposits	\$ 7,229,692	\$ 7,598,419

REINSURANCE

Reinsurance Assumed

The Company assumes business from small regional insurance carriers and Health Maintenance Organizations primarily in the form of excess of loss treaties. During the examination period the Company assumed the following types of business: Medical Stop Loss (MSL), HMO Reinsurance (HMO), Medical Excess of Loss (MXS) and Provider Excess of Loss (PXS). During 2009, the assumed business comprised approximately 11.5% of the Company's total gross written premium.

The Company also assumed business under the HCC group's intercompany Master Reinsurance Agreement whereby the Company is a named reinsurer and its affiliate, U.S. Specialty Insurance Company (USSIC), is a named reinsured. Under the terms of the Master Reinsurance Agreement and a Cover Note to the Master Reinsurance Agreement, USSIC cedes 100% of its liability for provider excess business to the Company. During 2009, USSIC ceded \$5,058,072 of premium to the Company under this agreement.

Reinsurance Ceded

Effective in 2008, the Company no longer reinsures its MSL business nor does it retrocede any of its risks for HMO, MXS and PXS lines of business. Prior to 2008, during the period covered by this examination, the Company reinsured its MSL and excess of loss business under a quota share treaty with its affiliate, HCC Reinsurance Company Limited (HCC Re). Under the quota share treaty with HCC Re the Company ceded or retroceded 5% of its MSL and excess of loss business. During the examination it was determined the Company frequently evaluates the need to purchase reinsurance on its MSL and excess of loss lines of business primarily based on its current level of surplus, actuarial projection models and reinsurance market price analyses.

As of December 31, 2009, a majority of the Company's business other than MSL and excess of loss business was ceded under the following reinsurance agreements:

Individual Life Insurance and Annuities

The Company's Seaboard Life run-off business of individual life and annuity products is primarily reinsured on a 100% Coinsurance basis by Swiss Re Life & Health America under an Indemnity Reinsurance Agreement which became effective July 1, 1998. The IDOI approved the Indemnity Reinsurance Agreement in 1999.

Accident and Health Insurance

During the period covered by this examination the Company ceded a portion of its accident and health business to the European reinsurance market through a number of quota share treaties. As of December 31, 2009 the Company ceded accident and health business under three treaties with the following respective line of business and quota share percentages:

<u>Line of Business</u>	<u>Percentage Retained by the Company</u>	<u>Percentage Ceded</u>
AD&D and Sports Disability	20%	80%
Prestige Disability	10%	90%
Baseball Individual Disability	5%	95%

In addition to treaty reinsurance, the Company cedes business under various facultative arrangements.

RESERVES

Sam Gutterman, FSA, MAAA, of the firm of PricewaterhouseCoopers LLP is the Appointed Actuary for the Company. Mr. Gutterman was appointed by the Board of Directors effective September 3, 2008 to render an opinion on the statutory-basis loss reserves of the Company for years 2008 and 2009. For the years ended December 31, 2007, 2006, and 2005, the Opinion was rendered by Eric R. Schuering, ASA, MAAA. Mr. Schuering was appointed by the Board of Directors on July 1, 2002 and left the firm of PricewaterhouseCoopers LLP during 2008.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining

reserves and related items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as considered necessary.

The 2009 opinion stated the balances of reserves 1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles 2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions 3) meet the requirements of the insurance law and regulations of the state of Indiana and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed 4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end and 5) include provision for all actuarial reserves and related statement items which ought to be established.

During the examination, it was determined by the IDOI consulting actuary, Jeff Beckley, FSA, MAAA, that the significant actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balance prepared from the Company's general ledger for the year ended December 31, 2009 was agreed to the 2009 Annual Statement without exception. The Annual Statement for the years ended December 31, 2005 through December 31, 2008 were agreed to each year's independent audit report with no exceptions noted. The Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

As of year end 2009, the Company's corporate and investment records are primarily maintained by HCC in Houston, Texas. Financial records, policy files and claims files are maintained at the Company's principal office located in Kennesaw, Georgia.

HCC LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

As of December 31, 2009

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Assets:				
Bonds	\$ 472,955,976	\$ -	\$ 472,955,976	\$ 454,712,939
Common stocks	49,780,028	-	49,780,028	39,479,672
Cash \$21,271,925, cash equivalents \$0 and short-term investments \$23,535,867	44,807,792	-	44,807,792	63,188,115
Subtotals, cash and invested assets	\$ 567,543,796	\$ -	\$ 567,543,796	\$ 557,380,726
Investment income due and accrued	5,253,150	-	5,253,150	5,038,712
Uncollected premiums and agents' balances in the course of collection (premiums and considerations)	10,964,892	-	10,964,892	13,936,014
Amounts recoverable from reinsurers	28,530	-	28,530	745,819
Other amounts receivable under reinsurance contracts	998,951	-	998,951	1,239,311
Net deferred tax asset	12,742,406	-	12,742,406	6,160,926
Guaranty funds receivable or on deposit	141,149	-	141,149	137,501
Receivables from parent, subsidiaries and affiliates	346,387	-	346,387	159,861
Miscellaneous receivable	-	-	-	5,193
Total Assets	\$ 598,019,261	\$ -	\$ 598,019,261	\$ 584,804,063

HCC LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

As of December 31, 2009

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Liabilities:				
Aggregate reserve for life contracts	\$ 111,686	\$ -	\$ 111,686	\$ 120,020
Aggregate reserve for accident & health contracts	3,151,951	-	3,151,951	3,590,756
Contract Claims:				
Life	1,177,244	-	1,177,244	1,280,750
Accident and health	204,383,408	-	204,383,408	210,156,401
Contract liabilities not included elsewhere:				
Provision for experience rating refunds	2,962,116	-	2,962,116	3,679,915
Interest maintenance reserve	2,818,137	-	2,818,137	3,186,747
Commissions to agents due or accrued	1,839,266	-	1,839,266	3,149,284
Commissions and expense allowances payable on reinsurance assumed	90,304	-	90,304	88,595
General expenses due and accrued	5,011,540	-	5,011,540	4,576,770
Taxes, licenses, and fees due or accrued	1,783,225	-	1,783,225	2,245,301
Current federal income taxes	4,906,626	-	4,906,626	4,149,816
Remittances and items not allocated	1,091,099	-	1,091,099	1,043,908
Miscellaneous Liabilities:				
Asset valuation reserve	410,325	-	410,325	212,171
Reinsurance in unauthorized companies	22,124	-	22,124	13,276
Funds held under reinsurance treaties with unauthorized reinsurers	163,272	-	163,272	1,738,847
Payable to parent, subsidiaries, and affiliates	100,680	-	100,680	86,792
Aggregate write-ins for liabilities	274,957	-	274,957	114,483
Total Liabilities	\$ 230,297,960	\$ -	\$ 230,297,960	\$ 239,433,832
Common capital stock	\$ 2,500,000	\$ -	\$ 2,500,000	\$ 2,500,000
Aggregate write-ins for other than special funds	3,067,868	-	3,067,868	3,681,442
Gross paid in & contributed surplus	315,127,005	-	315,127,005	315,098,571
Aggregate write-ins for special surplus funds	6,824,503	-	6,824,503	-
Unassigned funds (surplus)	40,201,925	-	40,201,925	24,090,218
Surplus	365,221,301	-	365,221,301	342,870,231
Capital and surplus, December 31, current year	\$ 367,721,301	\$ -	\$ 367,721,301	\$ 345,370,231
Total liabilities, capital and surplus	\$ 598,019,261	\$ -	\$ 598,019,261	\$ 584,804,063

HCC LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Summary of Operations

As of December 31, 2009

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Premiums and annuity considerations for life and accident and health contracts	\$ 651,837,810	\$ -	\$ 651,837,810	\$ 663,429,174
Net investment income	20,214,883	-	20,214,883	22,666,322
Amortization of interest maintenance reserve	587,429	-	587,429	46,707
Commissions and expense allowances on reinsurance ceded	7,291,633	-	7,291,633	7,418,356
Miscellaneous income:				
Aggregate write-ins for miscellaneous income	127,993	-	127,993	41,427
Total	\$ 680,059,748	\$ -	\$ 680,059,748	\$ 693,601,986
Death benefits	\$ 1,694,884	\$ -	\$ 1,694,884	\$ 2,820,223
Disability benefits and benefits under accident and health contracts	494,653,224	-	494,653,224	503,448,029
Increase in aggregate reserves for life and A&H contracts	(447,139)	-	(447,139)	(190,567)
Totals	\$ 495,900,969	\$ -	\$ 495,900,969	\$ 506,077,685
Commissions on premiums, annuity considerations, and deposit type contract funds	39,362,360	-	39,362,360	45,540,257
Commissions and expense allowances on reinsurance assumed	5,486,635	-	5,486,635	6,174,997
General insurance expenses	33,091,082	-	33,091,082	33,864,821
Insurance taxes, licenses and fees, excluding federal income taxes	15,116,810	-	15,116,810	12,071,360
Totals	\$ 588,957,856	\$ -	\$ 588,957,856	\$ 603,729,120
Net gain from operations before dividends to policyholders and federal income taxes	\$ 91,101,892	\$ -	\$ 91,101,892	\$ 89,872,866
Dividends to policyholders	-	-	-	-
Net gain from operations after dividends to policyholders and before federal and foreign income taxes incurred	\$ 91,101,892	\$ -	\$ 91,101,892	\$ 89,872,866
Federal and foreign income taxes incurred	25,146,650	-	25,146,650	24,195,871
Net gain from operations after dividends to policyholders and federal income taxes and before realized gains or (losses)	\$ 65,955,242	\$ -	\$ 65,955,242	\$ 65,676,995
Net realized capital gains (losses) less capital gains tax	-	-	-	(5,381,336)
Net income	\$ 65,955,242	\$ -	\$ 65,955,242	\$ 60,295,659

HCC LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

	As of December 31, 2009			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Capital and Surplus Account:				
Capital and surplus, December 31, prior year	\$ 345,370,231	\$ -	\$ 345,370,231	\$ 336,165,232
Net income	\$ 65,955,242	\$ -	\$ 65,955,242	\$ 60,295,659
Change in net unrealized capital gains (losses)	10,300,356	-	10,300,356	7,943,318
Change in net deferred income tax	(3,404,137)	-	(3,404,137)	(4,123,922)
Change in nonadmitted assets	3,467,248	-	3,467,248	4,044,548
Change in liability for reinsurance in unauthorized companies	(8,848)	-	(8,848)	11,150
Change in asset valuation reserve	(198,155)	-	(198,155)	1,528,700
Surplus adjustment:				
Paid-in	28,434	-	28,434	119,120
Dividends to stockholders	(60,000,000)	-	(60,000,000)	(60,000,000)
Aggregate write-ins for gains and losses in surplus:				
Amortization of gain on indemnity reinsurance	(613,574)	-	(613,574)	(613,574)
Increase from admitted adjusted gross DTA under SSAP 10, paragraph 10e	6,824,503	-	6,824,503	-
Net change in capital and surplus for the year	\$ 22,351,070	\$ -	\$ 22,351,070	\$ 9,204,999
Capital and surplus, December 31, current year	\$ 367,721,301	\$ -	\$ 367,721,301	\$ 345,370,231

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2009 based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

There were no significant findings made as a result of this examination. In addition, the Company has complied with the comments made in the prior report of examination.

SUBSEQUENT EVENTS

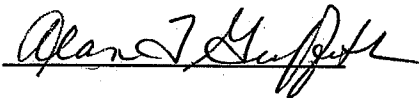
There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in this report.

MANAGEMENT REPRESENTATION

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

CONCLUSION

The preceding report of examination of HCC Life Insurance Company as of December 31, 2009 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, D. Patrick Huth, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of HCC Life Insurance Company.



Alan T. Griffith, CFE
Examinations Manager
Department of Insurance
State of Indiana