



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF
AMERICAN CONTINENTAL INSURANCE COMPANY
(NAIC # 12321)
FRANKLIN, TENNESSEE

AS OF
DECEMBER 31, 2020

TABLE OF CONTENTS

Introduction	1
Scope of Examination	1
Compliance with Previous Examination Findings	3
Company History	4
Management and Control	6
Management	6
Control	7
Abbreviated Organizational Chart	8
Corporate Records	8
Agreements with Parent and Affiliates	9
Territory and Plan of Operation	11
Growth of Company	11
Loss Experience	12
Reinsurance Agreements	12
Accounts and Records	12
Market Conduct Activities	13
Subsequent Events	17
Financial Statements	18
Assets	18
Liabilities, Surplus, and Other Funds	19
Summary of Operations	20
Capital and Surplus Account	21
Analysis of Changes in Financial Statements	22
Comments and Recommendations	22
Conclusion	25
Affidavit	26
Affidavit	27

Franklin, Tennessee
April 28, 2022

Honorable Carter Lawrence
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated (“Tenn. Code Ann.”) § 56-1-408, a full-scope financial examination and market conduct review, as of December 31, 2020, has been made of the condition and affairs of:

AMERICAN CONTINENTAL INSURANCE COMPANY
NAIC # 12321
1021 Reams Fleming Boulevard
Franklin, TN 37064

hereinafter referred to as “ACIC” or the “Company” and a report thereon is submitted as follows:

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or “Department”). The examination was conducted by duly authorized representatives of the Department. This examination was coordinated with other states pursuant to National Association of Insurance Commissioners (NAIC) guidelines. Further description of the coordination effort between the states is discussed below under the heading “Scope of Examination.”

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2019. This examination covers the period January 1, 2020, through December 31, 2020, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

The Company is a member of the CVS Group, NAIC Group Code 0001. CVS Health Corporation (“CVS Health”) acquired Aetna Inc. (“Aetna”) on November 28, 2018. Connecticut is the Lead State of the CVS Group. Arizona, Florida, Georgia, Illinois, Iowa, Kansas, Louisiana, Maine, Michigan, Minnesota, Missouri, Nebraska, North Carolina, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah, Virginia, Vermont, Washington, and West Virginia served as participating states in the coordinated group examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with practices and procedures promulgated by the NAIC in the *Financial Condition Examiners Handbook* (“Handbook”) and the *NAIC Market Regulation Handbook* (“Market Handbook”), as deemed appropriate. The examination was planned and performed to evaluate the financial condition of the Company, as of December 31, 2020. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating system controls and procedures used to mitigate those risks. The 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 significant risks were considered when planning which key activities and accounts would be examined. The key activities included: Financial Reporting; Investments; Reinsurance; Premiums/Underwriting; Reserves; Claims; Related Party/Taxes; and Capital and Surplus.

The Company’s 2020 annual statement was compared with or reconciled to the corresponding general ledger account balances.

A separate market conduct review was performed concurrently with the financial examination. See the “Market Conduct Activities” section of this report.

The Company’s ultimate parent, CVS Health, maintains an Internal Audit (IA) Department, which is charged with performing the IA function for all companies within the holding company system. IA activities focus on Sarbanes-Oxley (SOX) compliance testing. The scope of SOX testing included the Company’s internal controls over financial reporting. During this examination, the processes tested were reviewed and the workpapers were requested for specific processes which had been identified as

significant to the key activities and sub-activities being examined. The workpapers were provided and were utilized, where appropriate.

Independent information technology specialist services, provided by Risk and Regulatory Consulting, LLC, were utilized in the examination review of the Company's information technology general controls (ITGC).

The actuarial firm of Lewis & Ellis, Inc. was utilized in the examination review of the Company's statutory reserves, as well as the risk assessment and review of controls for reserving and pricing risks.

The Company's Certified Public Accountant (CPA) workpapers were reviewed for the 2020 audit, and copies were incorporated into the examination, as deemed appropriate.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

There were five (5) recommendations pertaining to market conduct activities noted in the prior examination report as of December 31, 2019.

1. It was recommended that the Company update its claim forms to include the required fraud warning statement in order to be in compliance with Tenn. Code Ann. § 56-53-111(b)(1)(A).
2. It was recommended that the Company (1) identify all TDCI complaints in the Complaint Register; and (2) provide a timely response to all TDCI complaints based on the due dates specified in the TDCI complaint register in order to comply with Tenn. Code Ann. § 56-8-104(11).
3. It was recommended that (1) the Company provide the existing insurer sufficient notice regarding replacement when an individual intends to replace an existing life insurance policy, as required by Tenn. Comp. R. & Regs. 0780-01-24-.07(2)(b); (2) the Company obtain from the producer a list of sales materials used during sales presentations and maintain adequate documentation of such notice; (3) the Company maintain a complete and accurate replacement register in order to be in compliance with Tenn. Comp. R. & Regs. 0780-01-24-.07(3).
4. It was recommended that the Company comply with applicable standards, rules and regulations for termination of producers and regarding notification to the producer, if applicable, and to the state of the producer's termination. The Commissioner should also be notified of the Company's termination of a producer within thirty (30) days following the effective date of termination in order to be in compliance with Tenn. Code Ann. §§ 56-6-101, *et seq.*

5. It was recommended that (1) the Company ensure that it pays life insurance claims within thirty (30) days of receiving all required proof of loss documentation; (2) the Company send an explanation of benefits document to the claimant within thirty (30) days of receiving the claim; (3) the Company document its life insurance claims policies and procedures; and (4) the Company update each of its claims policies and procedures documents to include standards for acknowledging pertinent communications with respect to claims arising under its policies, as well as standards for prompt investigation and settlement of claims in order to be in compliance with Tenn. Code Ann. § 56-8-105(2) and (3).

The Company is currently in the process of remediating all these prior issues. It should be noted that the time period for this examination pre-dated the finalization of the prior examination. See the “Comments and Recommendations” section in this report.

COMPANY HISTORY

The Company was incorporated on March 18, 2005, under the Tennessee Business Corporation Act, as a for-profit corporation authorized to transact business in the State of Tennessee. The Company’s original charter authorized five million (5,000,000) shares of common stock with a par value of \$1.00 per share.

On March 18, 2005, Continental Life Insurance Company of Brentwood, Tennessee (CLIC) purchased one million (1,000,000) shares of the Company’s common stock at a purchase price of \$3.20 per share, for a total of \$3,200,000, of which \$1,000,000 was capital stock and \$2,200,000 was gross paid in and contributed surplus.

On May 1, 2006, all outstanding shares of Continental Insurance Services, Inc., the parent company of CLIC, were purchased by Genworth Life Insurance Company (GLIC), which is an indirect, wholly-owned subsidiary of Genworth Financial, Inc.

On November 30, 2006, the Company sold five hundred thousand (500,000) additional shares of its authorized common capital stock to CLIC for \$500,000 in cash. On December 31, 2006, CLIC contributed \$5,292,209 in the form of securities to the Company’s gross paid in and contributed surplus. An additional contribution of \$2,675 to gross paid in and contributed surplus was noted in the 2007 Annual Statement, which was a correction to the amount contributed in 2006.

Through September 30, 2011, the Company was a wholly-owned subsidiary of CLIC, which was a wholly-owned subsidiary of GLIC. On October 1, 2011, pursuant to a stock

purchase agreement dated June 12, 2011, GLIC sold all of CLIC's outstanding common capital stock to Aetna, making Aetna the ultimate parent.

On December 3, 2017, CVS Health and Aetna announced a definitive merger agreement under which CVS Health would acquire all outstanding shares of Aetna. The Order Approving Plan of Acquisition was signed by the TDCI Commissioner on October 23, 2018. The \$69,000,000,000 merger between CVS Health and Aetna was approved by the United States Justice Department on October 9, 2018. This acquisition was completed on November 28, 2018. On September 30, 2017, ACIC agreed to issue an additional five hundred thousand (500,000) shares of common stock with a par value of \$1.00 to CLIC for \$500,000.

The Company is a stock for-profit life insurance company licensed to transact business in thirty-four (34) states. The Company's key products are Medicare supplement products, individual life insurance, and individual accident and health insurance.

As of December 31, 2020, the Company had authorized capital stock of five million (5,000,000) shares of common stock with a par value of \$1.00 per share, of which two million (2,000,000) shares were issued and outstanding. All outstanding shares of the Company are owned by CLIC.

During the examination period, the Company did not receive any capital contributions from CLIC.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

The Company's Bylaws state that an annual meeting of the shareholders shall be held each year at which the shareholders shall elect a Board of Directors ("Board") and that the number of directors shall not be less than three (3), nor more than fifteen (15).

The following persons were duly elected by the shareholders and were serving as members of the Board, as of December 31, 2020:

<u>Name</u>	<u>Principal Occupation</u>
Tyree Scott Wooldridge	President and Chief Executive Officer American Continental Insurance Company
Robert Sean Healy	Vice President, Capital Management CVS Health Corporation
Steven Louis Hendrich	Senior Vice President, General Counsel, and Secretary American Continental Insurance Company

Officers

The Bylaws of the Company state that the Board shall annually elect a Chairman of the Board, President, Vice President, Secretary, and Treasurer. The offices of President and Secretary may not be held by the same person.

The following officers were duly elected by the Board and were serving as officers of the Company, as of December 31, 2020:

<u>Name</u>	<u>Title</u>
Tyree Scott Wooldridge	President and Chief Executive Officer
Steven Louis Hendrich	Senior Vice President, General Counsel, and Secretary
James William Waggoner	Controller
Kevin James Casey	Senior Investment Officer
Elizabeth Suzanne Coen	Chief Financial Officer
Peter Keller	Assistant Controller
Bryan James Lane	Assistant Controller
Whitney Dorothy Lavoie	Assistant Controller
Edward Chung-I Lee	Vice President and Assistant Secretary
Tracy Louise Smith	Vice President and Treasurer

Committees

The CLIC audit committee is the only Board level committee for ACIC. The CLIC audit committee reports material issues, if any, to the ultimate parent audit committee of CVS Health.

CONTROL

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(7), and as such, is subject to the Insurance Holding Company System Act of 1986, set forth in Tenn. Code Ann. §§ 56-11-101, *et seq.* All outstanding shares of the Company are owned by the parent company, CLIC, whose ultimate parent is CVS Health.

ABBREVIATED ORGANIZATIONAL CHART

The following abbreviated organizational chart shows the insurance companies and their respective domiciliary states within the CVS Health system:

	<u>NAIC</u> <u>Co. Code</u>	<u>Domiciliary</u> <u>State</u>
CVS Health Corporation		DE
CVS Pharmacy, Inc.		RI
Caremark Rx, LLC		DE
Part D Holding Company, LLC		DE
SilverScript Insurance Company	12575	TN
Accendo Insurance Company	63444	UT
Aetna Inc.		PA
Aetna Health Holdings, LLC		DE
Aetna Financial Holdings, LLC		DE
Aetna Life Insurance Company	60054	CT
Aetna Health and Life Insurance Company	78700	CT
Aetna Health Insurance Company	72502	PA
Aetna Health Insurance Company of New York	84450	NY
Health Re, Inc.	13980	VT
Healthagen LLC		CT
Phoenix Data Solutions LLC		DE
Active Health Management, Inc.		DE
Health Data & Management Solutions, Inc.		DE
Aetna Integrated Informatics, Inc.		PA
ASI Wings, LLC		DE
AUSHC Holdings, Inc.		CT
PHPSNE Parent Corporation		DE
Continental Life Insurance Company of Brentwood, Tennessee	68500	TN
American Continental Insurance Company	12321	TN
Aetna International Inc.		CT

Dividends

The Company did not pay cash dividends to shareholders during the examination period.

CORPORATE RECORDS

Minutes of meetings of the Company's shareholders, Board, and committees were reviewed for the period under examination. The minutes were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board, pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

The Company's original Charter was filed and recorded with the Tennessee Secretary of State on March 18, 2005, after having been approved by the TDCI on March 10, 2005. Effective April 17, 2012, the Charter was amended to reflect the Company's new address at 1021 Reams Fleming Blvd., Franklin, Williamson County, Tennessee.

According to the Charter, the Company was organized "...to engage in the business of insurance as a principal, including but not limited to life insurance and accident and health insurance, and to engage in any other lawful business under the laws of the State of Tennessee."

The Bylaws of the Company were adopted by the Board on March 18, 2005, and have not been amended. The Bylaws provide for an annual shareholders meeting at which time a Board is elected. The business and affairs of the Company shall be managed by the Board. The number of directors shall not be less than three (3), nor more than fifteen (15). The Board may designate an executive committee or such other committees it deems desirable.

AGREEMENTS WITH PARENT AND AFFILIATES

The Company had the following significant agreements with its parent and affiliated companies in effect as of December 31, 2020:

Administrative Services Agreement

Effective October 1, 2011, ACIC entered into an Administrative Services Agreement with Aetna Life Insurance Company (ALIC). Under the agreement, ALIC will provide the Company with personnel necessary to perform administrative services, including accounting, payment of claims, quality assessment, and pharmacy benefit management services. The agreement obligates the Company to pay to ALIC the cost of providing such services, as well as interest on outstanding administrative service balances. For 2020 and 2019, ACIC incurred expenses of \$63,607,456 and \$78,389,491, respectively, related to the agreement.

Services and Shared Expenses Agreement

Effective August 1, 2012, ACIC entered into a Services and Shared Expenses Agreement with CLIC. Under the agreement, ACIC and CLIC agree to share services and expenses, including facilities, data processing, marketing, accounting, and administration of agent and agency matters. ACIC and CLIC will make quarterly estimated payments to each other for each Company's estimated share of common costs, subject to an annual true-up of actual expenses. For the years ended December 31, 2020 and 2019, ACIC received

net payments of \$57,546 and \$6,935,098, respectively, from CLIC related to the agreement.

Marketing Agreement

Effective July 14, 2012, ACIC entered into a Marketing Agreement with ALIC. Under the Marketing Agreement, ACIC promotes individual Medicare Part D plans offered by ALIC to ACIC's respective sales forces and encourages ACIC's producers to refer customers to ALIC for Part D sales. The Marketing Agreement obligates ALIC to pay ACIC a fixed amount for every sale made by ALIC to a consumer referred to ALIC by an ACIC internally appointed producer. In addition, under the Marketing Agreement, ALIC has requested that the Company allow ALIC's field service representatives access to sell certain insurance products issued by the Company. The Marketing Agreement obligates the Company to pay ALIC a one-time payment for every issued policy sold by ALIC's field service representatives. For 2020 and 2019, the companies did not receive or pay any fees to each other pursuant to the Marketing Agreement with ALIC.

Unconditional Guaranty Agreement

An Unconditional Guaranty Agreement between the Company and CLIC was executed on August 29, 2008, as a precondition to the approval of the Company's application for a Certificate of Authority to operate as an insurer in the State of North Carolina. Under the terms of the agreement, CLIC agrees that it will maintain the capital and surplus of the Company at the greater of the financial admission requirements or the risk-based capital requirements set out in North Carolina statute. The agreement is to extend for a minimum of three (3) years after the Company is issued a Certificate of Authority in North Carolina or until the Company can provide a Report on Examination that certifies three (3) consecutive years of net gain from operations, whichever occurs last. As noted in the Form B dated April 26, 2021, the Unconditional Guaranty Agreement between the Company and CLIC is still in effect.

Tax Sharing Agreement

Effective January 1, 2019, ACIC, with its parent CLIC, entered into a written Tax Sharing Agreement ("CVS Health TSA") with CVS Health. Pursuant to IRS rules, ACIC and CLIC joined the CVS Health TSA for sharing and settlement of state taxes only, until such time as ACIC and CLIC are eligible to join the CVS Group federal tax filing. Until ACIC and CLIC are eligible to join the CVS Group federal tax filing, the CVS Health TSA between ACIC and CLIC will govern the sharing and settlement of federal taxes between ACIC and CLIC.

TERRITORY AND PLAN OF OPERATION

TERRITORY

As of December 31, 2020, the Company was domiciled in Tennessee and licensed to transact business in the following states:

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

Certificates of Authority granted by the licensed states were reviewed and found to be in force as of December 31, 2020.

The Company currently has no applications pending for admission to any other states or territories. Premium tax records were reviewed for all states in which the Company writes business, and no exceptions were noted.

PLAN OF OPERATION

The Company and its parent company, CLIC, primarily market Medicare supplement products, individual life insurance, and individual accident and health insurance. The Company has been the primary writer of new Medicare supplement insurance. The operations of ACIC and CLIC are a part of CVS Health's Care segment.

GROWTH OF COMPANY

The table below depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, according to its annual statements filed with the TDCI:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Premiums Earned</u>	<u>Net Income (Loss)</u>
2020	\$386,286,945	\$203,766,218	\$182,520,727	\$458,790,999	\$35,088,108
2019	\$299,286,562	\$174,495,558	\$124,791,004	\$485,437,311	\$10,323

The increase in net income in 2020 was due to a decrease in commissions on premiums as the block of business continues to age for Medicare Supplement.

LOSS EXPERIENCE

The tables below show the mortality and loss experience as of December 31, 2020, for each year under examination, developed from applicable amounts included in the Company's annual statements.

Life:

Ordinary Life

	<u>2020</u>	<u>2019</u>
Net Death Benefits	\$27,501,663	\$27,248,390
Less-Reserves Released by Death	<u>\$5,390,379</u>	<u>\$4,356,037</u>
Actual Death Benefits Incurred	\$22,111,284	\$22,892,353
Divided by Expected Mortality	<u>\$16,736,717</u>	<u>\$16,159,240</u>
Mortality Experience Ratio	<u>132.11%</u>	<u>141.67%</u>

Accident & Health:

Other Accident & Health

	<u>2020</u>	<u>2019</u>
Net incurred claims	\$307,239,424	\$362,200,395
Net premiums earned	<u>\$416,508,784</u>	<u>\$441,656,368</u>
Loss experience ratio	<u>73.77%</u>	<u>82.01%</u>

REINSURANCE AGREEMENTS

Assumed Reinsurance

During the period under examination, the Company did not assume any reinsurance.

Ceded Reinsurance

During the period under examination, the Company did not cede any reinsurance.

ACCOUNTS AND RECORDS

During the course of the examination, certain balances were tested, and amounts were traced from the Company's trial balance to the annual statement. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of the examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed. The test checks and reviews revealed no material discrepancies.

The Company's books and records are located in Franklin, Tennessee.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company, as of December 31, 2020, in conjunction with this examination. The following items were addressed:

Operations and Management Standards

Company antifraud initiatives were examined to determine if they are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts as required by Tenn. Code Ann. § 56-53-111(a) and (b). During the review, it was noted the Company lacked a fraud warning statement as required by Tenn. Code Ann. § 56-53-111(b)(1)(A). See the “Comments and Recommendations” section in this report.

Additionally, Company procedures and policies relating to privacy were reviewed to determine compliance with Tenn. Code Ann. § 56-8-104(19). No issues were noted.

Complaint Handling Standards

The Company maintains a complaint register, as required by State of Tennessee Unfair Trade Practices Acts. The Company’s complaint procedures and complaint register were examined to determine accordance with requirements of Tenn. Code Ann. §§ 56-8-104(11), 56-1-106, and the NAIC *Market Regulation Handbook* (“Market Handbook”).

The following exception was noted:

Untimely Response to TDCI Complaint

During our review, it was noted that the Company failed to provide a timely response to TDCI complaints. The Company agreed the responses were late and that extensions of time to respond had not been requested.

This is in violation of the following:

- Requirement that the timeframe within which the Company responds to complaints is in accordance with applicable statute, Tenn. Code Ann. § 56-1-106.

See the “Comments and Recommendations” section in this report.

Marketing and Sales Standards

Each of the Company’s advertising materials used as of December 31, 2020, were selected for examination in accordance with Tenn. Code Ann. §§ 56-8-104(1, 2, 3) and 56-7-1507; and Tenn. Comp. R. & Regs. 0780-01-33. No issues were noted. A sample of producer training materials in use as of December 31, 2020, was selected for review

to determine compliance. The materials included training presentations, email bulletins, incentive notices, newsletters, and print ads. Each of the materials appeared to reasonably state the types of policies available, sales incentives, states and territories in which business can be written, etc.

The Company's 2020 Medicare Supplement policy replacements were reviewed in accordance with Tenn. Comp. R. & Regs. 0780-01-58-.24. No instances of a policyholder owning multiple Medicare Supplement policies simultaneously were noted.

The Company's 2020 life replacement register, and replacement files were examined in accordance with Tenn. Comp. R. & Regs. 0780-01-24. From a review of the replacement transaction files, it was noted that the Company was unable to provide verification that the Notice Regarding Replacement was sent to the existing insurer via certified or registered mail, constituting a violation of Tenn. Comp. R. & Regs. 0780-01-24-.07(2)(b). Further, although not in direct violation of Tennessee laws or regulations, the following concerns were identified by the examination team:

- The Company was unable to provide a list of materials used by the agent during the presentation to the applicant.
- The Company does not appear to have adequate procedures or systems in place for identifying undisclosed life replacements.

See the "Comments and Recommendations" section in this report.

Producer Licensing and Appointment Standards

New Business

A review of the Company's new business records was conducted to determine compliance with the requirement that producers are properly licensed and appointed at the time of insurance policy application.

The following exception was noted:

- The producers were not properly appointed before the application date or within fifteen (15) days of the date the first application was submitted to the Company.

This is in violation of Standard 2 of the Market Handbook, Chapter 20, Producer Licensing ("Producer Licensing Standard 2"), which requires that producers are properly licensed and appointed, and Tenn. Code Ann. § 56-6-115, which sets forth the standards for appointment of producers.

Producer Terminations

Reconciliation of Company Records compared to State Records

A review was conducted to determine whether the Company's producer termination records reconciled with the state's records.

The following exception was noted:

- The Company failed to properly terminate a producer's appointment, in violation of Tenn. Code Ann. § 56-6-117.

Failure to Issue Producer Termination Notifications

A review was conducted to determine whether the Company properly issued producer termination notifications.

The following exception was noted:

- The Company failed to issue producer termination notices, no producer termination fees were paid, or the producer termination fee was paid late.

This is in violation of Tenn. Code Ann. § 56-6-117, which sets forth the standards for termination of producers.

See the "Comments and Recommendations" section in this report.

Policyholder Services Standards

The Company's timeliness of policy issuance, premium billing, response to policyholder requests, provision of adequate disclosures, and compliance with applicable statutes and rules were examined.

The following exceptions were noted:

- Cancellations were not processed within thirty (30) days.
- Policies were not issued within thirty (30) days of the Company receiving the application.

The above findings are not in compliance with Policyholder Services, Standard 2, which requires the Company to issue policies and process cancellations in a timely manner.

See the "Comments and Recommendations" section in this report.

Underwriting and Rating Standards

A random sample of policies was selected to determine whether premiums were based on applicable filed rates. Premiums were manually calculated. No exceptions were noted.

An examination of the Company's underwriting policies and procedures was conducted to determine compliance with Tenn. Comp. R. & Regs. 0780-01-34. No instances of unfair methods of competition or unfair or deceptive acts were noted.

The Company provided a listing of policy forms in use during the period of examination. All forms were noted, without exception, as having been filed with the TDCI prior to their use, in accordance with Tenn. Code Ann. §§ 56-7-2311(a) and 56-26-102.

Claims Handling Standards

In the examination of claims handling practices, the Company's efficiency of claim handling, accuracy of payment, adherence to contract provisions, and compliance with applicable statutes and rules were examined. In conducting the examination, random samples were selected from claims approved, cancelled/voided, and denied by the Company.

The following exceptions were noted:

- Medicare Supplement claims were not processed (i.e., paid or denied) within the 30-day timeframe, as required by Tenn. Code Ann. § 56-7-109(b)(1)(A) & (B).
- Life claims were not processed within the timeframe required by Tenn. Comp. R. and Regs. 0780-01-05-.07.
- The Company was unable to provide copies of its policies and procedures for processing life claims, which represents a violation of Tenn. Code Ann. § 56-8-105(3).
- Each of the claims policies and procedures reviewed appeared to lack standards for responding to claims correspondence in a timely manner, as required by Tenn. Code Ann. § 56-8-105(2).

See the "Comments and Recommendations" section in this report.

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in this examination report. Management stated in its Letter of Representation that they were not aware of any events subsequent to December 31, 2020, that could have a material effect on the Company's financial condition. Our review confirmed the Company's disclosure in its 2020 Annual Statement and its Letter of Representation.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, surplus, and other funds, and a summary of operations, as of December 31, 2020, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2020 Annual Statement.

	<u>ASSETS</u>		
	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$301,692,238		\$301,692,238
Mortgage loans on real estate	5,614,722		5,614,722
Cash, cash equivalents, and short-term investments	33,188,783		33,188,783
Contract loans	3,744,571		3,744,571
Other invested assets	3,233,489		3,233,489
Investment income due and accrued	1,776,237		1,776,237
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	3,079,951	\$1,726,885	1,353,066
Deferred premiums and agents' balances and installments booked but deferred and not yet due	12,635,501		12,635,501
Net deferred tax asset	48,616,268	26,891,037	21,725,231
Guaranty funds receivable	913,186		913,186
Aggregate write-ins for other than invested assets	<u>6,129,039</u>	<u>5,719,118</u>	<u>409,921</u>
Totals	<u>\$420,623,985</u>	<u>\$34,337,040</u>	<u>\$386,286,945</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Aggregate reserve for life contracts	\$101,818,011
Aggregate reserve for accident and health contracts	21,815,766
Contract claims:	
Life	3,994,658
Accident and Health	39,126,073
Premiums and annuity considerations for life and accident and health contracts received in advance	3,923,981
Interest maintenance reserve	1,305,477
Commissions to agents due or accrued	1,298,967
General expenses due and accrued	706,553
Taxes, licenses, and fees due or accrued	1,507,726
Current federal and foreign income taxes	11,540,173
Remittances and items not allocated	1,378,080
Miscellaneous liabilities:	
Asset valuation reserve (AVR)	1,580,075
Payable to parent, subsidiaries, and affiliates	6,109,950
Payable for securities	2,483,338
Aggregate write-ins for liabilities	<u>5,177,390</u>
 Total Liabilities	 <u>\$203,766,218</u>
 Common capital stock	 \$2,000,000
Gross paid in and contributed surplus	260,367,999
Unassigned funds (surplus)	<u>(79,847,272)</u>
 Total Capital and Surplus	 <u>182,520,727</u>
 Totals	 <u>\$386,286,945</u>

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and A&H	\$458,790,999	
Net investment income	8,138,648	
Amortization of interest maintenance reserve (IMR)	95,030	
Aggregate write-ins for miscellaneous income	<u>348,283</u>	
Total Income		\$467,372,960
Death benefits	27,501,663	
Disability benefits and benefits under A&H contracts	307,239,424	
Surrender benefits and withdrawals for life contracts	1,631,574	
Increase in aggregate reserves for life and A&H	<u>10,891,735</u>	
Total Benefits		347,264,396
Commissions on premiums and annuity considerations	44,309,674	
General insurance expenses	19,148,617	
Taxes, licenses, and fees, excluding federal income taxes	9,304,957	
Increase in loading on deferred and uncollected premiums	41,514	
Aggregate write-ins for deductions	<u>12,111</u>	
Total Expenses		<u>72,816,873</u>
Net gain from operations after dividends to policyholders and before federal income taxes		47,291,691
Federal and foreign income taxes incurred		<u>12,277,932</u>
Net gain from operations after dividends and income taxes and before realized capital gains or (losses)		<u>35,013,759</u>
Net realized capital gains or (losses) less capital gain tax		<u>74,349</u>
Net Income		<u>\$35,088,108</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2020</u>	<u>2019*</u>
Capital and Surplus, December 31, previous year	<u>\$124,791,004</u>	<u>\$118,299,108</u>
Net income or (loss)	35,088,108	10,324
Change in net deferred income tax	48,292,382	323,886
Change in non-admitted assets	(25,326,834)	1,315,840
Change in asset valuation reserve	(323,933)	(158,154)
Surplus Adjustments:		
Paid in	<u>0</u>	<u>5,000,000</u>
Net change in capital and surplus for the year	<u>57,729,723</u>	<u>6,491,896</u>
Capital and Surplus, December 31, current year	<u>\$182,520,727</u>	<u>\$124,791,004</u>

* *Balance includes immaterial rounding differences.*

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$182,520,727

Total capital and surplus, as established by this examination, is the same as reported by the Company in its 2020 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2020.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in the report:

Comments

1. As noted in the “Operations and Management Standards” section in this report, the Company had one (1) exception relating to one (1) claim form that lacked a fraud warning statement.

The Company is in the process of updating its claim forms to include the required fraud warning statement to comply with Tenn. Code Ann. § 56-53-111(b)(1)(A).

2. As noted in the “Complaint Handling Standards” section of this report, the Company had two (2) exceptions for untimely responses to TDCI complaints.

The Company should provide a timely response to all TDCI complaints based on the due date specified in the TDCI complaint letter to comply with Tenn. Code Ann. § 56-1-106.

3. As noted in the “Marketing and Sales Standards” section in this report, the Company was unable to provide verification that the Notice Regarding Replacement was sent to the existing insurer via certified or registered mail for the one (1) life replacement in 2020, constituting a violation of Tenn. Comp. R. & Regs. 0780-01-24-.07(2)(b). It was also noted that the Company was unable to provide a list of materials used by the agent during sales presentation.

The Company is in the process of updating its procedures regarding the following: (1) provide the existing insurer notice regarding replacement via certified or registered mail; (2) obtain from the producer a list of sales materials used during sales presentations and maintain adequate documentation of such materials; and (3) maintain a complete and accurate replacement register to comply with Tenn. Comp. R. & Regs. 0780-01-24-.07(3).

4. As noted in the “Producer Terminations” section of this report, in one (1) instance the Company failed to properly terminate a producer’s appointment, which was noted during a reconciliation of the Company’s records with those of the TDCI. There were also multiple instances in which the Company failed to (1) properly issue producer termination notices and (2) pay the associated fees.

The Company is in the process of updating its procedures to comply with applicable standards, rules and regulations for termination of producers and regarding notification to the producer, if applicable, and to the state of the producer’s termination. The Commissioner should also be notified of the Company’s termination of a producer within thirty (30) days following the effective date of termination to comply with Tenn. Code Ann. §§ 56-6-101, *et seq.*

5. As noted in the “Claims Handling Standards”, the Company did not always process Medicare Supplement and life claims within thirty (30) days. Additionally, the Company was unable to provide its policies and procedures for processing life claims. The claims policies and procedures the Company did provide lacked standards for prompt investigation, settlement, and responding to claims correspondence.

The Company is in the process of updating its procedures regarding the following: (1) processes claims within thirty (30) days of receiving all required information; (2) sends an explanation of benefits document to the claimant within thirty (30) days of receiving the claim; (3) documents its life insurance claims’ policies and procedures; and (4) updates each of its claims policies and procedures documents to include standards for acknowledging pertinent communications with respect to claims arising under its policies, as well as standards for prompt investigation and settlement of claims in order to be in compliance with Tenn. Code Ann. § 56-8-105(2) and (3).

6. As noted in the “Policyholder Services Standards” section of this report, the Company did not always issue policies or process cancellations within thirty (30) days as required by the Market Handbook, Chapter 20.

The Company was not in compliance with the statutes during the examination period. As noted above, the Company is currently in the process of remediating these issues.

Recommendations

1. As noted in the “Producer License and Appointment Review - New Business” section of this report, in multiple instances the producer was not properly appointed before the application date or within fifteen (15) days of the date the first application was submitted to the Company.

It is recommended the Company take appropriate action to ensure all producers are properly appointed and that all requirements of Tenn. Code Ann. § 56-6-115 have been met.

CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee and guidance from the NAIC *Financial Condition Examiners Handbook*, as well as the NAIC *Market Regulation Handbook*, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of American Continental Insurance Company.

In such manner, it was found that as of December 31, 2020, the Company had admitted assets of \$386,286,945 and liabilities, exclusive of capital and surplus, of \$203,766,218. Thus, there existed for the additional protection of the policyholders, the amount of \$182,520,727 in the form of common capital stock, gross paid in and contributed surplus, and unassigned funds. Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum capital of \$1,000,000 and minimum surplus of \$1,000,000, respectively. For this examination, as of December 31, 2020, the Company maintains capital and surplus sufficient to satisfy those requirements.

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

In addition to the undersigned, Jim Hattaway, CFE, CIE, Examination Supervisor, Julie Smith, CFE, and Joseph DeVries, CPA, CFE, Insurance Examiners, Linda Armstrong, and Shelby Lambert, CFE, AIE, MCM, Market Conduct Examiners, of Noble Consulting Services, Inc.; and Rhonda Bowling-Black, CFE, ARe, MCM, of the Tennessee Department of Commerce and Insurance, participated in the work of this examination. An actuarial review was performed by Karen Elsom, FSA, MAAA, of the actuarial firm Lewis & Ellis of Overland Park, Kansas. A review of the Company's information systems was performed by Risk & Regulatory Consulting under the direction of Ken Roulier, Connecticut IT Specialist.

Respectfully submitted,



Scott Williams, CFE, CPA
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the State of Tennessee



A. Jay Uselton, CFE
Department Designee
Tennessee Department of Commerce
and Insurance

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of American Continental Insurance Company located in Franklin, Tennessee, dated April 28, 2022, and made as of December 31, 2020, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.

Scott Williams

Scott Williams, CFE, CPA
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the State of Tennessee

State Indiana

County Delaware

Subscribed to and sworn before me

this 16th day of June, 2022



Kendra Gilmore, Notary Public
Delaware County, State of Indiana
My Commission Expires
December 21, 2025

[Signature]

(NOTARY)

My Commission Expires: December 21, 2025

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of American Continental Insurance Company located in Franklin, Tennessee, dated April 28, 2022, and made as of December 31, 2020, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.



A. Jay Uselton, CFE
Department Designee
State of Tennessee

State Tennessee

County Sumner

Subscribed to and sworn before me

this 17th day of June, 2022


(NOTARY)

My Commission Expires: 8/19/25



EXHIBIT B



Aetna Senior Supplemental Insurance

June 22, 2022

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1135

RE: Report of Examination – American Continental Insurance Company

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for American Continental Insurance Company, made as of December 31, 2020.

By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

A handwritten signature in black ink, appearing to read "Tyree S. Wooldridge". The signature is written in a cursive, flowing style.

Tyree S. Wooldridge
President and Chief Executive Officer
American Continental Insurance Company