



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

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

AS OF
DECEMBER 31, 2019

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Franklin, Tennessee
March 31, 2021

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, 2019, 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 called through the National Association of Insurance Commissioners (NAIC) Financial Examination Electronic Tracking System (FEETS). This examination was made simultaneously with the Company’s immediate parent, Continental Life Insurance Company of Brentwood, Tennessee (CLIC). There were no requests from other states for a coordinated examination.

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2014. This examination covers the period January 1, 2015, through December 31, 2019, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of 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”), as deemed appropriate. The examination was planned and performed to evaluate the financial condition of the Company, as of December 31, 2019. 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: Investments; Reinsurance; Premiums/Underwriting; Reserves; Claims; and Related Party.

The Company’s 2019 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 Corporation (“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 for specific processes which had been identified as significant to the key activities and sub-activities being examined were requested. The workpapers were provided and were utilized, where appropriate.

Independent information technology specialist services, provided by Noble Consulting Services, Inc., were utilized in the examination review of the Company’s information technology general controls (ITGC).

The actuarial firm of Merlinos & Associates, 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 2019 audit and copies were incorporated into the examination, as deemed appropriate.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

There were no recommendations noted in the prior examination report as of December 31, 2014.

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 July 6, 2005, 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 Inc. ("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 billion 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 20, 2017, ACIC agreed to issue an additional five hundred thousand (500,000) shares of common stock with par value of \$1.00, to its parent CLIC. CLIC agreed to purchase the additional shares 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.

At December 31, 2019, 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 received the following capital contributions from CLIC:

<u>Date</u>	<u>Amount</u>
December 28, 2015	\$7,000,000
March 29, 2016	\$15,000,000
December 5, 2016	\$20,000,000
June 30, 2017	\$20,000,000
September 29, 2017	\$500,000
December 18, 2017	\$15,000,000
December 6, 2018	\$10,000,000
July 30, 2019	<u>\$5,000,000</u>
Total	<u>\$92,500,000</u>

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).

The following persons were duly elected by the shareholders and were serving as members of the Board, as of December 31, 2019:

<u>Name</u>	<u>Principal Occupation</u>
Tyree Scott Wooldridge	President and Chief Executive Officer American Continental Insurance Company
Robert Sean Healy	Executive Director, Corporate Treasury American Continental Insurance Company
Steven Louis Hendrich	Senior Vice President, General Counsel 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, 2019:

<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
Peter Keller	Assistant Controller
Bryan James Lane	Assistant Controller
William Stephen Maynes	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, and the CLIC audit committee reports to the ultimate parent audit committee of CVS Health.

CONTROL

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 all 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 800 Crescent Center Drive, Suite 200, Franklin, 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, 2019:

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 2019 and 2018, ACIC incurred expenses of \$78,389,491 and \$94,667,440, 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, CLIC and ACIC agree to share services and expenses, including facilities, data processing, marketing, accounting, and administration of agent and agency matters. CLIC and ACIC 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, 2019 and 2018, ACIC received a net payment of \$6,935,098 and \$387,280, 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 2019 and 2018, 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.

Sales and Purchase Agreement

Effective September 20, 2017, ACIC agreed to issue an additional five hundred thousand (500,000) shares of common stock with par value of \$1.00 to its parent, CLIC. CLIC owns one million, five hundred thousand (1,500,000) shares, and CLIC agreed to purchase the additional shares for \$500,000, which would increase ACIC's capital stock amount to \$2,000,000.

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, CLIC and ACIC are joining the CVS Health TSA for sharing and settlement of state taxes only, until such time as CLIC and ACIC are eligible to join the CVS Group federal tax filing. Until CLIC and ACIC are eligible to join the CVS Group federal tax filing, the CVS Health TSA between CLIC and ACIC will govern the sharing and settlement of federal taxes between CLIC and ACIC.

TERRITORY AND PLAN OF OPERATION

TERRITORY

The Company is a stock for-profit life insurance company 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 at December 31, 2019.

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 Aetna's Health 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>
2019	\$299,286,562	\$174,495,558	\$124,791,004	\$485,437,311	\$10,323
2018	\$285,792,044	\$167,492,936	\$118,299,108	\$499,397,555	(\$5,106,271)
2017	\$276,937,989	\$161,697,198	\$115,240,790	\$506,256,518	(\$15,002,082)
2016	\$228,967,524	\$134,987,089	\$93,980,434	\$472,940,220	(\$17,748,451)
2015	\$203,099,570	\$123,378,476	\$79,721,094	\$430,134,003	(\$15,338,793)

**Immaterial rounding difference to capital and surplus for 2016 and 2017.*

LOSS EXPERIENCE

The tables below show the mortality and loss experience as of December 31, 2019, for each year under examination, developed from applicable amounts included in the Company's annual statements.

Life:	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Ordinary Life</u>					
Net Death Benefits	\$27,248,390	\$23,121,145	\$20,610,998	\$17,531,441	\$12,559,997
Less-Reserves Released by Death	<u>\$4,356,037</u>	<u>\$3,375,792</u>	<u>\$2,517,913</u>	<u>\$1,474,478</u>	<u>\$731,010</u>
Actual Death Benefits Incurred	\$22,892,353	19,745,353	\$18,093,085	\$16,056,963	\$11,828,987
Divided by Expected Mortality	<u>\$16,159,240</u>	<u>15,908,880</u>	<u>\$14,799,495</u>	<u>14,654,214</u>	<u>\$11,694,028</u>
Mortality Experience Ratio	<u>141.67%</u>	<u>124.12%</u>	<u>122.25%</u>	<u>109.57%</u>	<u>101.15%</u>
Accident & Health:					
<u>Other Accident & Health</u>					
Net incurred claims	\$362,200,395	\$364,788,186	\$360,846,884	\$337,932,566	\$297,812,700
Net premiums earned	\$441,656,368	\$454,407,302	\$457,439,200	\$422,891,894	\$382,471,293
Loss experience ratio	<u>82.01%</u>	<u>80.28%</u>	<u>78.88%</u>	<u>79.91%</u>	<u>77.87%</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, 2019, in conjunction with this examination. The following items were addressed:

Operations and Management Standards

Company antifraud initiatives were examined to determine if the initiatives are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts as required by Tenn. Code Ann. § 56-53-111(a) and (b). One (1) exception was noted relating to one (1) claim form that lacked a fraud warning statement as required by Tenn. Code Ann. § 56-53-111(b)(1)(A). See “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 various state Unfair Trade Practices Acts, and the register and the accompanying files were maintained for a minimum of five (5) years in accordance with statutory requirements. The Company’s complaint procedures and complaint register were examined in accordance with requirements of Tenn. Code Ann. § 56-8-104(11) and the NAIC *Market Regulation Handbook* (“Market Handbook”).

The following exceptions were noted:

Incorrectly Identified Complaint

One (1) complaint was listed in the Company’s Complaint Register with an incorrect tracking number. The discrepancy was acknowledged by the Company.

This is in violation of the following:

- Standard 1 - Requirement that all complaints are recorded in the required format on the Company’s complaint register.
- Tenn. Code Ann. § 56-8-104(11) - Requirement that the insurer maintains a complete record of all complaints received since the date of its last examination.

Untimely Response to TDCI Complaint

In two (2) instances, 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:

- Standard 3 - Requirement that the Company take adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language.
- Standard 4 - Requirement that the timeframe within which the Company responds to complaints is in accordance with applicable statutes, rules, and regulations.

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

Marketing and Sales Standards

Each of the Company’s advertising materials used as of December 31, 2019, were selected for examination including print and internet materials issued by the Company to target consumers and agents. Advertising items were examined in accordance with Tenn. Code Ann. § 56-8-104(1), (2), and (3); Tenn. Comp. R. & Regs. 0780-1-33; and Tenn. Code Ann. § 56-7-1507 and were found to be in compliance.

The Company’s 2019 replacement register and replacement files were examined in accordance with Tenn. Comp. R. & Regs.0780-1-24. The Company was unable to provide evidence that sufficient notice regarding replacement had been sent to the existing insurers in each instance in which a life insurance replacement transaction took place. Additionally, it was noted that the Company did not always provide a list of materials used by the agent during the sales presentation. The Company’s inability to provide the information listed above constitutes a violation of Tenn. Comp. R. & Regs. 0780-1-24.07(2)(b) and (4). See “Comments and Recommendations” section in this report.

The Company’s 2019 replacement register included transactions that did not result in replacement of life insurance policies, which resulted in an incorrect replacement register. This constitutes a violation of Tenn. Comp. R. & Regs. 0780-1-24.07(3). See “Comments and Recommendations” section in this report.

Producer Licensing Standards

Tenn. Code Ann. §§ 56-6-101, *et seq.*, requires the Company to sell its products and services through producers who are properly licensed and appointed by the Company. In the examination of producer licensing, a random sample of producers was selected to determine compliance with applicable Tennessee laws, regulations, and rules, as well as Market Handbook Standards regarding licensure and appointment.

The following exception was noted:

Insurer Failed to Notify the Commissioner of a Producer Termination

In one (1) instance, the Company failed to properly notify the Commissioner of a producer's termination. The Company agreed with the discrepancy and, upon being made aware, took the necessary steps to notify the Commissioner. The producer was effectively terminated on January 27, 2021.

This is in violation of the following:

- Standard 1 - Requirement that Company records of licensed and appointed (if applicable) producers agree with insurance department records.
- Standard 3 - Requirement that termination of producers complies with applicable standards, rules, and regulations regarding notification to the producer and notification to the state, if applicable.
- Tenn. Code Ann. § 56-6-117 - Requirement that the Commissioner is notified of the Company's termination of a producer within thirty (30) days following the effective date of termination.

See "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 Company was found to be in compliance with the relevant market conduct standards.

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 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, resisted, and denied by the Company.

It was noted that the Company did not always pay life insurance claims within thirty (30) days of receiving all required proof of loss documentation as required by Tenn. Comp. R. & Regs. 0780-01-05-.11(4).

In the review of denied claims, it was noted that the Company did not always send the explanation of benefits document to the claimant within thirty (30) days of receiving the claim, as required by Tenn. Code Ann. § 56-8-105(2) and Tenn. Comp. R. & Regs. 0780-01-05-.07(1).

Additionally, the Company's claims policies and procedures were obtained and reviewed for compliance with Tenn. Code Ann. § 56-8-105. It was noted that the Company was unable to provide policies and procedures for processing life claims which is a violation of Tenn. Code Ann. § 56-8-105(3). Additionally, each of the claims policies and procedures provided lacked standards for acknowledging pertinent communications with respect to claims arising under its policies, as well as standards for prompt investigation and settlement of claims as required by Tenn. Code Ann. § 56-8-105(2) and (3).

See "Comments and Recommendations" section in this report.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets, all of which are uncertain and cannot be predicted. Due to the timing of the examination and field work, the effects of the pandemic on this entity are not fully addressed within this examination report.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, surplus and other funds, and a summary of operations, as of December 31, 2019, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2019 Annual Statement.

ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$277,759,699		\$277,759,699
Mortgage loans on real estate	5,662,929		5,662,929
Cash, cash equivalents, and short-term investments	(6,844,745)		(6,844,745)
Contract loans	3,036,286		3,036,286
Other invested assets	1,018,428		1,018,428
Investment income due and accrued	1,636,613		1,636,613
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	2,598,366	\$1,208,681	1,389,685
Deferred premiums and agents' balances and installments booked but deferred and not yet due	13,385,599		13,385,599
Current federal income tax recoverable	1,101,473		1,101,473
Net deferred tax asset	323,886	204,679	119,207
Guaranty funds receivable	838,326		838,326
Receivables from parent, subsidiaries and affiliates	50,244		50,244
Healthcare and other amounts receivable	165,420	165,420	0
Aggregate write-ins for other than invested assets	<u>7,564,244</u>	<u>7,431,426</u>	<u>132,818</u>
Totals	<u>\$308,296,768</u>	<u>\$9,010,206</u>	<u>\$299,286,562</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Aggregate reserve for life contracts		\$93,215,281
Aggregate reserve for accident and health contracts		19,526,761
Contract claims:		
Life		2,734,292
Accident and Health		36,637,949
Premiums and annuity considerations for life and accident and health contracts received in advance		5,903,453
Commissions to agents due or accrued		1,129,816
General expenses due and accrued		639,013
Taxes, licenses and fees due or accrued		2,281,125
Remittances and items not allocated		627,056
Miscellaneous liabilities:		
Asset valuation reserve (AVR)		1,256,142
Payable to parent, subsidiaries and affiliates		5,436,295
Payable for securities		1,056,000
Aggregate write-ins for liabilities		<u>4,052,375</u>
Total Liabilities		\$174,495,558
Common capital stock	\$2,000,000	
Gross paid in and contributed surplus	260,367,999	
Unassigned funds (surplus)	<u>(137,576,995)</u>	
Total Capital and Surplus		<u>124,791,004</u>
Totals		<u>\$299,286,562</u>

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and A&H	\$485,437,311	
Net investment income	8,280,095	
Amortization of interest maintenance reserve (IMR)	(212,614)	
Aggregate write-ins for miscellaneous income	<u>322,004</u>	
Total Income		\$493,826,796
Death benefits	27,248,389	
Disability benefits and benefits under A&H contracts	362,200,395	
Increase in aggregate reserves for life and A&H	<u>12,550,745</u>	
Total Benefits		401,999,529
Commissions on premiums and annuity considerations	56,168,374	
General insurance expenses	21,869,031	
Taxes, licenses and fees, excluding federal income taxes	9,380,485	
Increase in loading on deferred and uncollected premiums	(248,658)	
Aggregate write-ins for deductions	<u>2,009</u>	
Total Expenses		<u>489,170,770</u>
Net gain from operations after dividends to policyholders and before federal income taxes		4,656,026
Federal and foreign income taxes incurred		<u>4,429,030</u>
Net gain from operations after dividends and income taxes and before realized capital gains or (losses)		226,996
Net realized capital gains or (losses) less capital gain tax		<u>(216,673)</u>
Net Income		<u>\$10,323</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital and Surplus					
December 31, previous year	\$118,299,108	\$115,240,790	\$93,980,434	\$79,721,094	\$86,358,972
Net income or (loss)	10,323	(5,106,271)	(15,002,082)	(17,748,451)	(15,338,793)
Change in net deferred income tax	323,886	(1,722,183)	(4,353,150)	33,847	2,079,484
Change in non-admitted assets	1,315,840	(21,413)	5,360,478	(2,833,069)	(216,797)
Change in asset valuation reserve	(158,154)	(227,414)	(244,890)	(192,986)	(161,772)
Capital Changes					
Paid in			500,000		
Surplus Adjustments					
Paid in	5,000,000	10,000,000	35,000,000	35,000,000	7,000,000
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>135,598</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>6,491,896</u>	<u>3,058,318</u>	<u>21,260,356</u>	<u>14,259,340</u>	<u>(6,637,878)</u>
Capital and Surplus					
December 31, current year	<u>\$124,791,004</u>	<u>\$118,299,108</u>	<u>\$115,240,790</u>	<u>\$93,980,434</u>	<u>\$79,721,094</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$124,791,004

Total capital and surplus, as established by this examination, is the same as reported by the Company in its 2019 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed, as of December 31, 2019.

COMMENTS AND RECOMMENDATIONS

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

Comments

There were no comments noted during the completion of this examination.

Recommendations

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

It is recommended that the Company update its claim forms to include the required fraud warning statement as required by Tenn. Code Ann. § 56-53-111(b)(1)(A). See the “Market Conduct Activities” section of the report.

2. As noted in the “Complaint Handling Standards” section of the report, the Company had one (1) exception relating to an incorrectly identified complaint and two (2) exceptions for untimely responses to TDCI complaints.

It is 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). See the “Market Conduct Activities” section of the report.

3. As noted in the “Marketing and Sales Standards” section of the report, the Company was unable to provide evidence that sufficient notice regarding replacement had been sent to the existing insurers in each instance of a life insurance replacement transaction. It was also noted that the Company did not always provide a list of materials used by the Agent during sales presentations. The Company’s 2019 replacement register also included transactions that did not result in replacement of life insurance policies, which resulted in an incorrect replacement register.

It is recommended that (1) the Company provide the existing insurer sufficient notice regarding replacement when an individual intends to replace an existing life insurance policy; (2) the Company obtain from the producer a list of sales materials used during sales presentations and maintain adequate documentation of such notice; and (3) the Company maintain a complete and accurate replacement register in order to be in compliance with Tenn. Comp. R. & Regs. 0780-1-24.07(2)(b) and (4) and Tenn. Comp. R. & Regs. 0780-1-24.07(3). See the “Market Conduct Activities” section of the report.

4. As noted in the “Producer Licensing Standards” section of the report, the Company failed to notify the Commissioner of a producer’s termination.

It is 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 a 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.* See the “Market Conduct Activities” section of the report.

5. As noted in the “Claims Handling Standards” section of the report, it was noted that the Company did not always send the explanation of benefits document to the claimant within thirty (30) days of receiving the claim for denied claims. Additionally, the Company was unable to provide policies and procedures for processing life claims. The policies and procedures lacked standards for acknowledging pertinent communications with respect to claims arising under its policies.

It is 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). See the “Market Conduct Activities” section of the report.

CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee and guidance from the NAIC 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, 2019, the Company had admitted assets of \$299,286,562 and liabilities, exclusive of capital and surplus, of \$174,495,558. Thus, there existed for the additional protection of the policyholders, the amount of \$124,791,004 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, 2019, the Company maintains capital and surplus sufficient to satisfy those requirements.

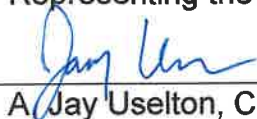
The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Jim Hattaway, CFE, CIE, Examination Supervisor, Julie Smith, AFE, and Joseph DeVries, CPA, AFE, Insurance Examiners, and Linda Armstrong, Market Conduct Examiner, 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 Kirk Braunius, ASA, MAAA, and Marc Altschull, CFA, FSA, MAAA, of the actuarial firm Merlinos & Associates, Inc. of Peachtree Corners, Georgia. A review of the Company's information systems was performed by Carol Riley, AES, CISA, CGEIT, CRISC, CDPSE, and Sharon Riley, CISA, CGEIT, AIRC, FLMI, CDPSE, of Noble Consulting Services of Indianapolis, Indiana.

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 March 31, 2021, and made as of December 31, 2019, 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 Hamilton

Subscribed to and sworn before me

this 17th day of June, 2021



Robin D Garrett, Notary Public
Hamilton County, State of Indiana
My Commission Expires
September 26, 2025

Robin D Garrett

(NOTARY)

My Commission Expires: 9-26-2025

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 March 31, 2021, and made as of December 31, 2019, 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
Tennessee Department of Commerce and Insurance

State Tennessee

County Davidson

Subscribed to and sworn before me

this 18th day of June, 2021

(NOTARY)

My Commission Expires: 1/6/2025



EXHIBIT B



Aetna Senior Supplemental Insurance
1026 Reams Fleming Blvd
Franklin, TN 37064

06/29/2021

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, 2019.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Tyree Scott Wooldridge", written over a horizontal line.

Tyree Scott Wooldridge
President and Chief Executive Officer
American Continental Insurance Company
Continental Life Insurance Company of Brentwood, Tennessee