

**REPORT ON EXAMINATION**

**OF THE**

**SAGICOR ALLNATION  
INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2006**

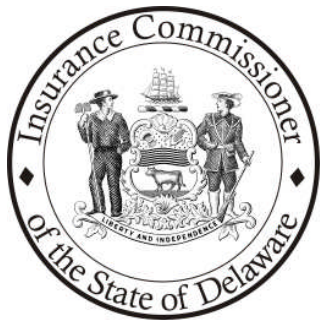
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

**SAGICOR ALLNATION INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 16 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 16TH DAY OF JUNE 2008.

Matthew Denn  
Insurance Commissioner

**REPORT ON EXAMINATION**  
OF THE  
**SAGICOR ALLNATION INSURANCE COMPANY**  
AS OF  
**December 31, 2006**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", written in a cursive style.

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MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 16TH Day of JUNE 2008.

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ALLNATION INSURANCE COMPANY

February 22, 2008

Honorable Matthew Denn  
Insurance Commissioner  
Delaware Department of Insurance  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 07-049, dated September 5, 2007, an Association examination has been made of the affairs, financial condition and management of the

**SAGICOR ALLNATION INSURANCE COMPANY**

hereinafter referred to as "Company," incorporated under the laws of the State of Delaware as a stock company with its home office located at 801 West Street, Second Floor, Wilmington, Delaware. The examination was conducted at the main administrative office of the Company, located at 1511 North West Shore Boulevard, Suite 820, Tampa, Florida.

The report of such examination is submitted herewith.

**SCOPE OF EXAMINATION**

The last examination was conducted as of December 31, 2003. This examination covered the period from January 1, 2004 through December 31, 2006, and consisted of a general survey of the Company's business policies and practices, management, and corporate matters thereto,

including verification, and evaluation of assets, and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

In addition to the noted items in this report, the following were reviewed without exception and are included in the files of this examination:

- Corporate Records
- Officers', Employees', and Agents' Welfare and Pension Plans
- Conflict of Interest
- Legal Actions
- NAIC Financial Ratios
- All Asset and Liability Items not Mentioned

Workpapers prepared by the Company's external accounting firm, Pricewaterhouse-Coopers, Jacksonville, Florida, in connection with the annual audit, were reviewed and relied upon to the extent deemed possible. INS Consultants, Inc. was retained by the Delaware Department of Insurance to assist the Examiner In-Charge in the actuarial phase of this Financial Condition Examination.

This report is presented on an exception basis. It is designed to set forth the facts with regard to any adverse findings disclosed during the examination. If necessary, comments and recommendations have been made in those areas needing correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of this examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The examination

was conducted in accordance with the Association Plan of Examination guidelines established by the National Association of Insurance Commissioners.

## **HISTORY**

Sagicor Allnation Insurance Company was originally incorporated under the laws of Delaware on December 21, 1977, under the name The EPIC Corporation. The initial certificate of incorporation called for a stockholder-run closed corporation. In October 1984, the stockholders voted to accept an offer to sell the common stock. The sale was not consummated until March, 27, 1986, at which time the Company became a wholly owned subsidiary of Blue Cross & Blue Shield of Delaware, Inc.

On October 30, 1986, the Company's name was changed to Allnation Liability Insurance Company. On March 27, 1997, the Company's name was changed to Allnation Insurance Company and Amended and Restated Articles of Incorporation were adopted. On November 3, 2004, the Company's name was changed to Sagicor Allnation Insurance Company and Amended and Restated Articles of Incorporation were adopted.

The Company is now a direct subsidiary of Sagicor Life Inc., formerly known as Barbados Mutual Life Assurance Society. When the Barbados Mutual Life Assurance Society demutualized on December 6, 2002, the name Sagicor Life Inc. was adopted.

Sagicor Life Inc. entered into an agreement to purchase the Company from Blue Cross & Blue Shield of Delaware, Inc. on February 1, 2001. Following approval by the Delaware Department of Insurance, the purchase was consummated on October 31, 2001, retroactive to February 1, 2001. Following the sale to Sagicor Life Inc., substantially all management activities were assumed by Sagicor International Management Services, Inc. (formerly known as Capital

International Management Services, Inc.), a Florida-based company that is also a wholly owned subsidiary of Sagicor Life Inc. Sagicor Life Inc. is owned by Sagicor Financial Corporation, a Barbados corporation, which is the ultimate parent.

This Company has one wholly owned subsidiary: Allnation Global Insurance Agency, which was incorporated in 1986 and is now inactive.

### **CAPITALIZATION**

The capital stock of the Company has not changed since the previous examination. The Restated Articles of Incorporation authorize the issuance of 1,000 shares of common capital stock with no par value. At December 31, 2006, the Company had issued 206 shares of common capital stock with a stated value of \$4,000, for a total of \$824,000.

During this examination period, gross paid in and contributed surplus increased from \$3,856,000 to \$8,356,000. The parent company contributed additional capital of \$500,000 in 2004, \$2,000,000 in 2005, and \$2,000,000 in 2006.

Upon the purchase of the Company, The Barbados Mutual Life Assurance Society (now Sagicor Life, Inc.) executed a surplus maintenance agreement approved by the Delaware Department of Insurance. Under the agreement Sagicor Life, Inc. will maintain the minimum capital and surplus of the Company at the higher of \$750,000 or 200% of the Authorized Control Level Risk Based Capital.

### **Surplus Notes**

The Company has issued capital surplus notes to its parent, Sagicor Life, Inc. On July 31, 2002, a surplus note was issued for \$686,000. On March 31, 2003, the existing note was



canceled and a new note in the amount of \$986,000 was issued. Proper filings were made to and the notes approved by the Delaware Department of Insurance.

The note has the following repayment conditions and restrictions:

- Interest accrues at prime rate based on a 360 day year until the note is paid in full
- Interest is due and payable quarterly on the tenth day following the end of the quarter. However, no interest payment can be made without the prior approval of the Delaware Department of Insurance
- The note matures on March 31, 2008 and all principal and accrued interest is due at that time. However, no principal payment can be made without the prior approval of the Delaware Department of Insurance

### **MANAGEMENT AND CONTROL**

Pursuant to general corporation laws of the State of Delaware, as implemented by the Company's Restated and Amended Certificate of Incorporation and Bylaws, all corporate powers are exercised by or under the direction of a Board of Directors, which shall be determined by the stockholder. Both the Certificate of Incorporation and the Bylaws were amended during this examination period.

The Amended and Restated Certificate of Incorporation, reflecting the corporate name change to Sagicor Allnation Insurance Company, was adopted November 3, 2004, and properly filed with the Delaware Department of Insurance.

The Amended and Restated Bylaws, reflecting the corporate name change to Sagicor Allnation Insurance Company, were adopted November 3, 2004, and properly filed with the Delaware Department of Insurance.

As of the examination date, the Board of Directors was comprised of eight members, all of whom were elected at the annual meeting of the sole stockholder held on November 16, 2006. The members of the Board are elected for a term of one year and serve until their successors are elected and qualified. At December 31, 2006, the members of the Board of Directors were as follows:

J. Arthur L. Bethell  
George John Estock  
Stephen McNamara  
Dodridge Denton Miller, Chairman  
Krishna Narinesingh  
Sandra Kathleen Osborne  
Beverly Sisson  
Steven Roger Stoute

The Bylaws of the Company indicate that the Board of Directors shall consist of such number as the Board of Directors shall from time to time have designated, except that in the absence of such designation such number shall be seven. At December 31, 2006, the designated number was eight.

The review of correspondence with the Delaware Department of Insurance revealed that the Company did not notify the Delaware Department of Insurance of the November 16, 2005, change in directors as is required under 18 Del. C. §4919. Therefore,

**It is recommended that the Company promptly notify the Delaware Department of Insurance of any change in officers or directors as is required under 18 Del. C. §4919.**

By resolution on November 16, 2006, the Board of Directors appointed an Audit Committee consisting of the following individuals.

J. Arthur L. Bethell  
Krishna Narinesingh, Chairman  
Beverly Sisson

By resolution on November 16, 2006, the Board of Directors appointed an Investment Committee consisting of the following individuals.

Dodridge Denton Miller, Chairman  
Stephen McNamara  
Steven Roger Stoute

The Company's Bylaws state that the Board of Directors shall appoint a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary, a Treasurer and other such officers as may from time to time be appointed. The Chief Executive Officer shall be elected to a one year term. Each other officer shall hold office until his successor is elected and qualified or until his earlier death, resignation or removal. Any two or more offices may be held by the same person. Officers elected as of December 31, 2006 were as follows:

George John Estock, Chief Executive Officer and President  
David Barry Williams, Secretary and Treasurer  
Kenneth Bruce Jackson, Vice President Underwriting

During the examination of corporate records, it was noted that the minutes reviewed appear to adequately reflect and document the proceedings and approvals of meetings of the stockholder, directors, and committees which support Company transactions and events.

## HOLDING COMPANY SYSTEM

The Company is a member of the Sagicor Financial Corporation (Sagicor Group) group of companies.

Sagicor Group is a publicly traded company, based in Barbados, which was formed with the demutualization of the Barbados Mutual Life Assurance Society. Sagicor Group operates mainly in the Caribbean, and provides individual life and health insurance, annuities, general insurance, investments, group life and health insurance, and group pensions.

The following is a partial organizational chart that reflects the identities and interrelationships between the Company and some of the affiliates as of December 31, 2006.

Ownership is 100% unless otherwise indicated.

- Sagicor Financial Corporation (Barbados)
  - Sagicor USA Inc. (Delaware)
  - Sagicor Finance Limited (Cayman Islands)
  - LTE Limited (Barbados)
  - Sagicor Life Inc. (Barbados)
    - Sagicor Capital Life Insurance Company Limited (Bahamas)
      - Capital Life Insurance Company Bahamas Limited (Bahamas)
      - Sagicor International Management Services, Inc. (Florida)
      - Capital de Seguros, S. A. (Panama)
      - Capital Pension Services Limited (Cayman Islands)
    - Sagicor Allnation Insurance Company** (Delaware)
    - Nationwide Insurance Company Limited (Trinidad and Tobago)
    - Mutual International Holdings Limited (Bermuda)
    - The Mutual Financial Services Inc. (Barbados) (73%)
    - The Mutual International Cayman Limited (Cayman Islands)
    - RGM Limited (Trinidad and Tobago) (33.8%)
    - The Mutual Finance Inc. (St. Lucia) (70%)
    - Sagicor Funds Incorporated (Barbados)
    - Sagicor Asset Management Inc. (Barbados)
    - LOJ Holdings Limited (Jamaica)
      - Life of Jamaica Limited (Jamaica) (60%)
    - Sagicor General Insurance Inc. (Barbados) (52.8%)
    - Globe Finance Inc. (Barbados) (60%)
    - Sagicor Merchant Limited (Trinidad and Tobago)
    - FamGuard Corporation Limited (Bahamas) (20%)

Subsequent to December 31, 2006, Sagicor Group expanded operations into the United Kingdom.

## **MANAGEMENT AND SERVICE AGREEMENTS**

### **Agreements with Affiliates**

The Company participated in a management agreement with Sagicor International Management Services, Inc. (SIMS), formerly known as Capital International Management Services, Inc.

This agreement, effective January 1, 2004, replaces an earlier agreement dated January 1, 2002. This agreement provides for SIMS to perform various management services including identification of new business and distribution opportunities, development of marketing and promotional plans, development of information technology, policy serving support, claim adjudication and processing, accounting services, management services, and risk review and acceptance services. In return, the Company pays SIMS an annual management fee, which is calculated as the direct incurred expenses of SIMS for services provided to the Company, up to a limit of 15% of gross written premiums. Either party may terminate this agreement upon 90 days written notice.

### **Agreements with Non-affiliates**

The Company has a custody agreement with a bank, dated November 1, 2002, with respect to the custody and management of its investments. As noted in the 2003 examination report, a review of this agreement disclosed that the agreement does not clearly state:

- That in the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced; or

- That if the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner; or
- The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation or the Federal Reserve book-entry system which the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control; or
- That the custodian shall secure and maintain insurance protection in an adequate amount.

Therefore,

**It is recommended that the Company amend the custodial agreement to include all safeguards as described in the *NAIC Financial Condition Examiners' Handbook*, Part 1, Section IV, Paragraph J.**

#### **FIDELITY BOND COVERAGE**

The Company carries fidelity bond coverage and that coverage was reviewed during the course of the examination. The guidelines contained in the *NAIC Financial Condition Examiners' Handbook*, Exhibit I, indicate that this coverage is adequate.

## **TERRITORY AND PLAN OF OPERATIONS**

### **Territory**

The Company is licensed only in the State of Delaware. All products are marketed only outside the United States.

### **Plan of Operation**

The Company is authorized to write the following lines of business: health and casualty, including liability and malpractice. The Company cancelled the class of business with insureds over the age of 50 effective July 1, 2005.

This Company is licensed as a property and casualty company and files the health annual statement. Part 1 of the 2006 Annual Statement indicates that direct business written was all comprehensive (hospital and medical).

The Company has a reinsurance intermediary agreement with Guy Carpenter of Marsh USA, Inc. The Company is in compliance with 18 Del. C. § 16.

## **GROWTH OF COMPANY**

The following information was obtained from the Company's filed Annual Statements:

	<b>Net Admitted Assets</b>	<b>Policyholders' Surplus</b>	<b>Total Revenue</b>	<b>Net Income</b>
2006	\$4,916,828	\$1,744,057	\$6,256,615	\$(1,815,470)
2005	5,508,504	1,706,450	10,799,431	(1,915,591)
2004	9,600,063	1,693,652	11,733,725	(1,970,425)
2003	9,301,231	2,838,526	7,649,065	(963,246)

In 2005, the Company analyzed the individual health business by age bands to identify where the majority of underwriting losses were occurring. The Company identified the class of

insureds over the age of 50 and, in order to control losses, that class of business was cancelled effective July 1, 2005.

Each year during this examination period, the Company received capital contributions from the parent company.

### **REINSURANCE**

The 2006 Annual Statement indicates the following:

Direct business	\$5,276,555
Assumed	1,191,168
Ceded	<u>(421,725)</u>
Net premiums written	<u>\$6,045,998</u>

#### **Assumed**

The Company first entered into the reinsurance assumed market in 2004. Under an agreement effective July 1, 2004 through December 31, 2005, the Company acquired a participation in the Latin American Reinsurance Facility (LARF).

The LARF reinsured Latin American medical business assumed by London Life Reinsurance Company (London Life). Business retroceded to the pool has a limit of \$1,000,000 (US dollars) on one life and London Life retrocedes 65% to the pool.

The Company has assumed a 10% quota share of the LARF on a risk attaching basis.



## **Ceded**

Business was ceded to QBE Reinsurance Corporation, an authorized company, under an automatic excess of loss agreement. The treaty provides coverage over \$100,000 to a maximum of \$4,900,000 per contract year for individual major medical, a maximum of \$1,900,000 per contract year for group medical and a maximum of \$150,000 per contract year for individual critical illness medical.

## **ACCOUNTS AND RECORDS**

The accounts and records review included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, and the processing structure. The Company's books and records were reviewed and compared to reported items and values in the Annual Statements as filed. A trial balance for the final year under review was obtained and traced to the Company's Annual Statement.

## **FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2006.

Analysis of Assets  
Liabilities, Surplus and Other Funds  
Statement of Income  
Capital and Surplus Account

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

## Assets

December 31, 2006

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	
Bonds	\$ 2,280,216		\$ 2,280,216	Note 1
Preferred stocks	490,256		490,256	
Common stocks	203,258	10,850	192,408	
Cash	287,758		287,758	
Investment income due and accrued	24,567		24,567	
Amounts recoverable from reinsurers	187,674		187,674	Note 2
Funds held by or deposited with reinsured companies	451,793		451,793	
Receivable from parent, subsidiaries and affiliates	1,002,156		1,002,156	
Prepaid expenses	1,061	1,061		
	<hr/>			
Total Assets	<u>\$ 4,928,739</u>	<u>\$ 11,911</u>	<u>\$ 4,916,828</u>	

## Liabilities, Surplus and Other Funds

December 31, 2006

Claims unpaid	\$ 1,651,793	
Unpaid claims adjustment expenses	55,000	
Aggregate health policy reserves	1,207,129	Note 3
Premiums received in advance	65,619	
General expenses due or accrued	33,272	
Ceded reinsurance premiums payable	36,171	
Amounts withheld or retained on account of others	109,489	
Remittances and items not allocated	14,298	
	<hr/>	
Total Liabilities	\$ 3,172,771	
	<hr/>	
Common capital stock	\$ 824,000	
Gross paid in and contributed surplus	8,356,000	
Surplus notes	986,000	
Unassigned funds (surplus)	(8,421,943)	
	<hr/>	
Total Capital and Surplus	\$ 1,744,057	
	<hr/>	
Total Liabilities, Capital and Surplus	\$ 4,916,828	
	<hr/>	

## Statement of Income

December 31, 2006

Revenues:	
Net premium income	<u>\$ 6,256,615</u>
Hospital and medical:	
Hospital/medical benefits	\$ 4,653,680
Less: Net reinsurance recoveries	<u>428,485</u>
Total hospital and medical	<u>\$ 4,225,195</u>
Claims adjustment expenses	\$ 646,662
General administrative expenses	<u>3,652,142</u>
Total underwriting deductions	<u>\$ 8,523,999</u>
Net underwriting gain (loss)	\$ (2,267,384)
Net investment gains (losses)	446,025
Miscellaneous income	<u>5,889</u>
Net Loss	<u><u>\$ (1,815,470)</u></u>

## Capital and Surplus Account

December 31, 2005 to December 31, 2006

Total capital and surplus, December 31, 2005	\$ 1,706,450
Net Loss	(1,815,470)
Change in net unrealized capital gains	(151,159)
Change in net deferred income tax	(2,403,365)
Change in nonadmitted assets	2,407,601
Capital paid in	<u>2,000,000</u>
Net change in capital and surplus for the year	37,607
Total capital and surplus, December 31, 2006	<u>\$ 1,744,057</u>

## NOTES TO FINANCIAL STATEMENTS

**Note 1. Bonds** **\$2,280,216**

The amount per examination is the same as the Company reported in the 2006 Annual Statement.

**Note 2. Amounts Recoverable from Reinsurers** **\$185,674**

The amount per examination is the same as the Company reported in the 2006 Annual Statement. Subsequent to year end, the Company learned that a recoverable of \$68,285 was disputed by the reinsurer and wrote off the recoverable in the first quarter of 2007. The audited statutory statements filed June 1, 2007, reflected the write off in the December 31, 2006 balances. Subsequent to filing the audited statutory statements, the Company received payment in full from the reinsurer.

**Note 3. Claims Unpaid** **\$1,651,793**  
**Unpaid Claims Adjustment Expenses** **\$55,000**  
**Aggregate Health Policy Reserves** **\$1,207,129**

The above-captioned amounts, which are the same as that reported by the Company in its Annual Statement, have been accepted for purposes of this Report of Examination.

The examination retained the firm of INS Consultants, Inc. (INS or Consulting Actuary) to review the Company's stated reserves.

As part of the examination INS reviewed the 2006 Actuarial Opinion Memorandum

(AOM). INS also reviewed the 2006 AOM for consistency with the 2005 AOM and found they were consistent. The Company's appointed actuary used a margin analysis to analyze the liabilities. INS believes this analysis is appropriate because the liabilities for medical insurance are short term and not sensitive to interest rates. Since the appointed actuary did not include a discussion of the assets in the AOM, INS confirmed that the asset portfolio has sufficient liquid assets not otherwise assigned to support these liabilities.

Based on the analysis performed as part of the 2006 AOM, the Company's appointed actuary concluded that additional actuarial reserves were not required as of December 31, 2006. Based on INS' review of that analysis, that conclusion has been accepted for the purpose of this report. However, it is recommended that the appointed actuary include a discussion of the quality and nature of assets supporting all actuarial liabilities.

In conjunction with the actuarial review, the examination team was tasked with verifying paid claims data. Test sampling to determine the accuracy of paid and outstanding claims data for the year 2006 revealed no errors in the underlying records.

#### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were five recommendations made in the prior examination report as of December 31, 2003. The Company's compliance with prior examination recommendations was reviewed during the current examination. It has been determined in the current examination that the Company has complied with the prior examination recommendations except as follows.

The prior examination report recommended that the Company amend the custodial agreement to include all safeguards as described in the *NAIC Financial Condition Examiners' Handbook*, Part 1, Section IV, Paragraph J. During this examination, it was noted that the

Company did contact the custodian bank to have the agreement amended. However, neither the bank nor the Company followed through.

### **SUMMARY OF RECOMMENDATIONS**

It is recommended that the Company promptly notify the Delaware Department of Insurance of any change in officers or directors as is required by 18 Del. C. § 4919. (Page 7)

It is again recommended that the Company amend the custodial agreement to include all safeguards as described in the *NAIC Financial Condition Examiners' Handbook*, Part 1, Section IV, Paragraph J. (Page 10)

### **CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<b><u>Description</u></b>	<b><u>December 31, 2006</u></b>	<b><u>December 31, 2003</u></b>	<b><u>Increase</u></b>
Assets	\$4,916,828	\$9,285,191	(\$4,368,363)
Liabilities	\$3,172,771	\$6,373,806	(\$3,201,035)
Capital and Surplus	\$1,744,057	\$2,911,385	(\$1,167,328)

Respectfully submitted,



Patricia Casey Davis, CFE  
Examiner In-Charge  
State of Delaware  
Northeastern Zone, NAIC



## **SUBSEQUENT EVENTS**

In November 2007, the Company moved its main administrative office to 4010 West Boy Scout Boulevard, Suite 800, Tampa, FL 33607-5735.

Effective February 1, 2008, all existing policies were cancelled and immediately re-written by Gulf Insurance Global Benefits Group. After this transaction, the Company had no active direct business. The only existing function is settlement of the pre February 1, 2008, claims.

The Company plans to transfer the business assumed by Sagicor Allnation from London Life to an affiliate, Sagicor Capital Life, retroactive to January 1, 2008.