

BEFORE THE STATE AUDITOR
AND COMMISSIONER OF INSURANCE,
HELENA, MONTANA

)	CASE NO. 2003-36
IN THE MATTER OF THE BULK)	
REINSURANCE OF:)	
)	
LIFE AND ANNUITY POLICIES OF)	
MONTANA BENEFITS AND HEALTH)	
CONNECTIONS, INC., a domestic)	FINDINGS OF FACT, CONCLUSIONS
stock insurance company)	OF LAW, AND ORDER
)	
BY)	
)	
UNIFIED LIFE INSURANCE CO.,)	
a Texas domestic life insurance co.)	
)	

A hearing in the above-entitled matter was held on May 6, 2003, at 9:00 a.m. in the conference room of the Department of Insurance (Department) at 840 Helena Avenue, Helena, Montana. The hearing was held to obtain the approval of the Commissioner of Insurance to a bulk reinsurance agreement between Montana Benefits and Health Connections, Inc., (Health Connections) and Unified Life Insurance Company (Unified), pursuant to Section 33-2-1211, MCA. Angela Huschka, the Deputy Insurance Commissioner, was appointed as the hearing examiner to issue the final agency decision on behalf of the Commissioner.

Hearing notice had been served on each of the parties and the Guaranty Association. Public notice of the hearing had been provided through publication in the following seven newspapers on April 21, 23 and 25, 2003: Kalispell Daily InterLake; Great Falls Tribune; Bozeman Daily Chronicle; Missoulian; Billings Gazette; Butte Standard; and the Helena

Independent Record.

Present at the hearing from Health Connections were Patrick Aberle, Chief Executive Officer; James Senterfitt, Chief Operating Officer; Denise Pizzini, General Counsel; and Holly Bander, legal staff. Present at the hearing from the Department were Betsy Griffing, Chief Counsel; James Borchardt, Chief Examiner; and Pamela Weitz, Paralegal. Unified's in-person representative at the hearing was Andreu Lawrence Wiltse, with Frank Neidig, President of Unified, who gave brief telephonic testimony. The Montana Health and Life Insurance Guaranty Association (Guaranty Association) was represented at the hearing by its local counsel, Mona Jamison.

The hearing process was explained to the parties. The hearing consisted of two parts: the first part was a contested case hearing in which the parties presented argument, evidence and witnesses in favor of the bulk reinsurance, and the second part was the public hearing portion at which the Guaranty Association presented testimony in favor of the bulk reinsurance. All of the parties and the Guaranty Association presented argument, evidence and testimony in favor of the bulk reinsurance. There was no testimony or comments received by the Department opposing the bulk reinsurance.

The Department had collected, and introduced into the record as Exhibits A through G, the original proposed Treaty of Assumption Reinsurance between Health Connections and Unified (Treaty)(Exhibit A); excerpts from Unified's 2002 Annual Statement for the period ending 12/31/02, which was timely and properly filed with the Department (Exhibit B); information obtained from A.M. Best's website regarding Unified's rating by A.M. Best and its history (Exhibit C); information provided by Unified to the Department in a memorandum dated

April 30, 2003, along with a letter from Unified to James D. Senterfitt dated February 27, 2003 (Exhibit D); the Montana Certificate of Authority granted by the Department to Unified (Exhibit E); the business plan included in Unified's application for a Montana Certificate of Authority (Exhibit F); and a letter dated April 23, 2003, from the Texas Department of Insurance, indicating that it did not have to approve the bulk reinsurance transaction (Exhibit G).

From the documentary evidence submitted and the testimony at the hearing, the Department makes the following:

FINDINGS OF FACT

1. The policies to be bulk reinsured consist of the life and annuity business that was transferred to Health Connections pursuant to the Rehabilitation Plan ("Plan") and approved by the District Court of the First Judicial District Court, Lewis and Clark County. The first Order approving the Plan was signed by the Court on September 6, 2003.

2. Because Health Connections is not an experienced insurer of life and annuity policies, Health Connections intended, and the Rehabilitation Plan expressly recognized, that Health Connections would sell the life and annuity policies it had assumed under the Rehabilitation Plan. See Section 4-b of the Rehabilitation Plan at 6.

3. Recently, it was discovered that the attachment to the Rehabilitation Plan listing all of the life and annuity policies did not include certain group term life policies. On May 22, 2003, the District Court signed an Order acknowledging that those policies inadvertently omitted from the listing in the original Rehabilitation Plan were transferred to Health Connections.

4. In order to obtain a qualified carrier to bulk reinsure the Policies, Health Connections, in consultation with the Department and the Guaranty Association, issued a

Request for Proposals in October of 2002, which was sent to a significant number of insurers. Three companies submitted proposals to Health Connections, two of whom were licensed to solicit and issue insurance in Montana.

5. In order to expedite the reinsurance of the Policies, the proposal of the company that was not licensed in Montana was rejected. Health Connections entered into negotiations with the other two carriers. As a result of these negotiations, and information as to financial stability, experience, and approvability received by Health Connections from the Department and the Association, Health Connections selected Unified with which to enter into a Treaty of Assumption Reinsurance.

6. Pursuant to Exhibit A, the Treaty, Health Connections has agreed to transfer and Unified has agreed to purchase all rights, privileges and prerogatives with respect to the life and annuity policies that Health Connections bulk reinsured under the Rehabilitation Plan. A listing of all of those policies to be transferred to Unified will be attached to the Treaty upon the closing date of the bulk reinsurance.

7. Health Connections is a wholly-owned subsidiary of New West Health Services, Inc. New West Health Services, Inc., as Health Connections' sole shareholder, believes the proposed bulk reinsurance agreement is equitable.

8. Unified was established May 1, 2001, as a life insurance and annuity carrier, as part of an acquisition and reorganization of a predecessor entity, also known as Unified Life Insurance Company.

9. Unified is owned 70% by members of the William Buchanan family and 30% by Old Mutual U.S. Life Holdings, Inc., a United States subsidiary of Old Mutual plc, a foreign

corporation. Mr. Buchanan is the Chairman of Unified's Board of Directors.

10. Unified is in the process of bulk reinsuring all of the policies administered, and, in some cases, reinsured, by the predecessor entity.

11. The management team currently at Unified is effectively the same management team as existed at the predecessor entity, which was formed in 1986.

12. Unified is currently licensed as an insurer and in good standing in 34 states, including Montana, and intends to become licensed as an insurer in at least 8 additional states.

13. Unified is not currently, nor has it been, subject to a revocation of licensure or any disciplinary, supervisory, or rehabilitative oversight in any state.

14. Unified has built its business by bulk reinsuring and/or administering life insurance and annuity policies, and has significant experience in doing so. It currently administers thousands of policies similar to the policies and contracts that would be bulk reinsured by Unified under the terms of the Treaty.

15. Unified has the financial capacity to service the life and annuity policies. Unified's most recent financial statements indicate it has capital and surplus of approximately \$8.5 million. Under the Treaty, Unified will receive assets equal to 75% of the net life reserves and 95% of the annuity reserves. Unified will be financially responsible for 100% of the life & annuity reserves.

16. Unified assigns a dedicated customer service representative to each similarly-situated block of insurance policies it administers, to ensure that the service its policyholders receive is customized to the policyholders' specific circumstances. Customer services representatives may be contacted through a toll-free telephone number. The life and annuity

policies to be bulk reinsured by Unified will be assigned their own customer service representative.

17. Unified has extensive experience in administering and insuring life insurance and annuity policies. It has represented that it has no plans to bulk retrocede any portion of the life and annuity policies at any time in the foreseeable future.

18. Mr. Wiltse testified on behalf of Unified that he is not aware of any complaints filed against it with any Department of Insurance in any state in which it is licensed.

19. In early 2002, as part of Unified's application for a license in the State of Florida, the Florida Department of Insurance required Unified to enter into a consent decree with the Department to confirm that Unified was not, and would not be, subject to the control of a foreign corporation (i.e., Old Mutual plc). Language in the Florida consent decree requiring compliance with Executive Order 13224 was not based on specific instances or situations unique to Unified, but appears to have been routine language eventually included in the Florida Department of Insurance's application for an insurer license. This language was not included in Unified's application because it was filed prior to imposition of Executive Order 13224.

CONCLUSIONS OF LAW

1. Health Connections is a domestic stock insurer within the meaning of Section 33-3-102(2), MCA.

2. Under Section 33-2-1211(1), MCA, Health Connections is permitted to bulk reinsure all or any portion of its insurance in force, with the consent of the Commissioner.

3. Under Section 33-2-1211(2), MCA, the Commissioner is required to approve a

bulk reinsurance agreement within a reasonable time of its filing with the Department unless the Commissioner finds that the agreement is inequitable to the insurer's stockholders or would substantially reduce the protection or service to its policyholders.

4. The proposed bulk reinsurance agreement was envisioned as part of the Plan of Rehabilitation which was approved by the District Court.

5. Health Connections and New West were signatories to the Rehabilitation Plan, and as such, recognize that the proposed bulk reinsurance is not only not inequitable to Health Connections' sole shareholder, New West Health Services, Inc., but follows through with the parties' intent expressed in the Rehabilitation Plan.

6. The bulk reinsurance of Health Connections' life and annuity policies with Unified would not substantially reduce the protection or service to the policyholders. Although Unified was recently organized, its officers and directors have a sound history in the servicing of life and annuity products. Unified also apparently has well-established adequate administrative personnel and systems, as well as the financial stability to service the policies.

ORDER

Having fully considered the evidence presented at the hearing, the bulk reinsurance of the life and annuity policies as identified in the Treaty and pursuant to the terms of the Treaty is hereby approved.

DATED this 29th day of May, 2003.


Angela Huschka
Deputy Commissioner of Insurance