

No. **07-0916**

OFFICIAL ORDER
of the
COMMISSIONER OF INSURANCE
of the
STATE OF TEXAS
AUSTIN, TEXAS

Date: **OCT 24 2007**

Subject Considered:

LINCOLN MEMORIAL LIFE INSURANCE COMPANY
Austin, Texas

CONFIDENTIAL ORDER CREATING
STATE OF SUPERVISION AND APPOINTING SUPERVISOR

General Remarks and official action taken:

On this day, the Commissioner of Insurance, ("Commissioner"), considered whether Lincoln Memorial Life Insurance Company, ("RESPONDENT"), should be placed under confidential supervision under TEX. INS. CODE ANN. CHAPTER 441 and in conjunction with all other applicable laws.

RESPONDENT is an "insurer" as that term is defined in TEX. INS. CODE ANN. § 441.002.

Based on current circumstances, the Commissioner has determined that RESPONDENT's condition is such as to render the continuance of its business hazardous to the public, its certificate holders or policyholders, and has failed to comply with the law. The Commissioner has based his determination, in part, upon information submitted to the Texas Department of Insurance ("Department") indicating that: (a) RESPONDENT has had net losses of approximately \$3.1 million through August 31, 2007; (b) RESPONDENT's surplus has decreased by 32% or \$3.9 million from December 31, 2006 through August 31, 2007; (c) RESPONDENT has made net contract loans to an affiliated company totaling approximately \$32.2 million as of August 31, 2007; (d) RESPONDENT failed to file its monthly August 2007 financial statement within the time requested by the Department; (e) RESPONDENT was ordered by the Iowa Commissioner of Insurance on October 16, 2007 to obtain capital infusions of \$1,000,000 each quarter starting with the 4th quarter of 2007 and continuing until the Iowa Commissioner of Insurance agrees that the infusions are no longer needed.

Nevertheless, based on current information, the Commissioner believes that the circumstances of RESPONDENT's condition warrant an attempt to conserve or rehabilitate RESPONDENT and to protect RESPONDENT's assets pending determination of whether RESPONDENT can successfully



07-0916

SUPERVISION ORDER
LINCOLN MEMORIAL LIFE INSURANCE COMPANY
Page 2 of 6

be rehabilitated. As a result, the Commissioner has determined that RESPONDENT should be placed under supervision. The Commissioner by separate order is also placing Memorial Service Life Insurance Company, the parent company of RESPONDENT, under confidential supervision.

THEREFORE the Commissioner ORDERS that RESPONDENT be placed under his supervision in accordance with the provisions of TEX. INS. CODE ANN. CHAPTER 441 and, consequently, that he apply and effect the provisions of TEX. INS. CODE ANN. § 441.104, including the authority to disburse, transfer, or substitute RESPONDENT's assets, in conjunction with all other applicable laws. The Commissioner hereby appoints Angel Garrett to act as Supervisor of RESPONDENT.

The Commissioner FURTHER ORDERS that during the period of supervision RESPONDENT shall not do any of the following acts without the prior written approval of the Commissioner or the Supervisor:

1. dispose of, convey, or encumber any assets, property, or business in force;
2. withdraw funds from any bank accounts;
3. lend or invest any funds or assets;
4. transfer any assets or property;
5. incur any debt, obligation or liability, either direct or contingent;
6. merge or consolidate with any other company;
7. amend or enter into any reinsurance contract or treaty;
8. terminate, surrender, forfeit, convert, or lapse any policy or contract of insurance, except for nonpayment of premiums due;
9. release, pay, or refund premium deposits, accrued cash or loan values, unearned premiums or other reserves on an insurance policy or contract;
10. enter into any new contract loans or extend the amount or terms of any existing contract loans.

The Commissioner FURTHER ORDERS that the supervision created by this Order may be abated upon RESPONDENT's showing that it has complied with the requirements set forth below.

In order to abate the Commissioner's determination, RESPONDENT must meet the following requirements:

1. RESPONDENT must demonstrate that it is solvent;

07-0916

SUPERVISION ORDER
LINCOLN MEMORIAL LIFE INSURANCE COMPANY
Page 3 of 6

2. RESPONDENT must demonstrate that it has the ability to pay its outstanding lawful obligations as they mature in the regular course of business;
3. Respondent must demonstrate that its capital and surplus are sufficient to support its current and projected business;
4. RESPONDENT must demonstrate that it has profitable operations;
5. RESPONDENT must demonstrate that it has not exceeded its powers as set forth in TEX. INS. CODE ANN. § 441.052;
6. RESPONDENT must demonstrate that its management is adequate and has the experience, competence, and trustworthiness to operate RESPONDENT in a safe and sound manner;
7. RESPONDENT's books and records must be in current condition and must accurately reflect its financial affairs, and be readily available for to the Department for review and examination. Specifically, RESPONDENT and RESPONDENT's agents must have permitted examination of its books, papers, accounts, records, and affairs by the Supervisor;
8. RESPONDENT must demonstrate that reinsurance balances have been properly reconciled and settled;
9. RESPONDENT must develop a corrective action plan to ensure that it collects payments timely and complies with the terms of all federal tax agreements, loan agreements and other agreements filed with the Commissioner pursuant to TEX. INS. CODE ANN. Chapter 823;
10. RESPONDENT must demonstrate that settlements under the consolidated federal tax agreements between Memorial Service Life Insurance Company and Lincoln Memorial Life Insurance Company are made pursuant to the terms of the agreement and TEX. INS. CODE ANN. Chapter 823;
11. RESPONDENT must demonstrate that it has ceased issuing contract loans to affiliates and has no plans to enter into such loans again and that any such existing loans are supported by proper documentation and are collectible; RESPONDENT must also demonstrate that all parties to contract loans are in compliance with loan documents and all applicable law and that each individual contract loan is fully secured by the cash surrender value of the specific policy that supports the loan;
12. RESPONDENT must show that the pending arbitration with Hannover Life Reassurance Company of America has been settled or finalized and that RESPONDENT has the means to pay any amounts owed when due or that if the arbitration is not settled or finalized RESPONDENT must demonstrate that it has the means to pay amounts that may be owed;
13. RESPONDENT must show that it has taken corrective action to ensure that it responds timely to all Department requests for information;

07-0916

SUPERVISION ORDER
LINCOLN MEMORIAL LIFE INSURANCE COMPANY
Page 4 of 6

- 14. RESPONDENT must demonstrate that all intercompany receivables have been approved by the Department and that all intercompany balances are properly reported and settled in compliance with the terms of the approved agreements;
- 15. RESPONDENT must develop and implement a plan of rehabilitation designed to bring itself into compliance with all relevant provisions of the Texas Insurance Code and Title 28 of the Texas Administrative Code by way of infusion of additional capital in an amount acceptable to the Commissioner, reinsurance, and reduction of premiums; such plan shall be designed to return RESPONDENT to a financially stable condition and to prevent hazardous financial conditions from occurring in the future and shall contain financial projections that indicate RESPONDENT's future financial condition; such plan shall include: (a) statutory quarterly projections on a cumulative basis; balance sheets, statements of operation, and cash flow statements through 2010; any appropriate operational changes, including a reduction in expenses and in commissions to demonstrate that operations will be profitable, and increase surplus and liquidity; and a quarterly cash flow analysis for 2007, 2008, 2009, and 2010; (b) detailed and adequate procedures and systems for operations and books and records that ensure the establishment and maintenance of accurate and current books and records, and adequate internal accounting controls; (c) a detailed schedule, analysis, and description of resolving, addressing, and making all intercompany receivables current; (d) detailed description and explanation of the source of any necessary contributions; and (e) such other additional audits and data as required by the Supervisor or her staff in the format so requested; such business plan shall be delivered in written form to the Supervisor for her review within 45 days of RESPONDENT's receipt of this Order.

The Commissioner hereby notifies RESPONDENT that either the Commissioner or RESPONDENT may choose to convene a hearing, after proper notice to the other party, to be conducted at the State Office of Administrative Hearings, William P. Clements Building, 300 West 15th Street, 4th Floor, Austin Texas, 78701, in order for RESPONDENT to show whether it has fully complied with this Order and has met all requirements set forth in this Order to abate the Commissioner's determination.

The Commissioner FURTHER ORDERS that if the Commissioner finds, after hearing, that RESPONDENT has failed to show that it has complied with each of the requirements set forth in this Order, or that RESPONDENT has committed an act or acts prohibited by, or is in a status or condition contemplated by, TEX. INS. CODE ANN. Chapter 441, or is in such a status or condition that allows the Commissioner to exercise discretionary authority in accordance with the provisions of TEX. INS. CODE ANN. Chapter 441 or any other law, then the Commissioner may enter an order applying the remedies and sanctions authorized by Chapter 441 of the Texas Insurance Code and take any other action that is authorized by law.

The Commissioner FURTHER ORDERS that, during the course of supervision, RESPONDENT shall continue to make timely claims payments.

07-0916

SUPERVISION ORDER
LINCOLN MEMORIAL LIFE INSURANCE COMPANY
Page 5 of 6

The Commissioner FURTHER ORDERS that the Commissioner shall determine the costs related to the Supervisor's service rendered in accordance with this Order and Chapter 441, which costs shall be a charge against RESPONDENT's assets and paid as the Commissioner determines.

The Commissioner FURTHER ORDERS that this Order and all hearings, orders, notices, correspondence, reports, records, and other information in the Department's possession relating to the supervision of RESPONDENT be, and are, confidential except to the extent set out in this Order or in the Texas Insurance Code. The Supervisor is expressly authorized to disclose this Order and the state of supervision to a department, agency, or instrumentality of this or another state or the United States if the Commissioner determines that disclosure is necessary or proper for the enforcement of the laws of this or another state or the United States; the Supervisor is also expressly authorized to disclose this order and the state of supervision to financial institutions as needed to obtain access to RESPONDENT's deposits and records, or to set up additional accounts in RESPONDENT's name, or to effectuate the terms of this Order and the provisions of TEX. INS. CODE ANN. Chapter 441.

The Commissioner FURTHER ORDERS that this Order shall be binding on RESPONDENT, RESPONDENT's agents, all affiliated companies, servants, third-party administrators, officers, directors, employees, and attorneys, and on those persons in active concert or participation with them or who receive actual or constructive notice of this Order by personal service or otherwise.

The Commissioner FURTHER ORDERS that a certified copy of this Order shall forthwith be deposited with the United States Postal Service as certified mail, return receipt requested, addressed to Lincoln Memorial Life Insurance Company, 1250 Capital of Texas Hwy South, Bldg 1, Ste. 470, Austin, Texas 78746 such being RESPONDENT's last and best-known address as shown by the Department's records.

The Commissioner FURTHER ORDERS that nothing in this Order ratifies any action taken by RESPONDENT, or any parent or affiliate, nor does it express the Commissioner's or the Department's approval of any such action, nor does anything in this Order prevent the Commissioner or the Department from initiating any proceeding, taking any action, seeking any remedy, or pursuing any right, at any time.

MIKE GEESLIN
COMMISSIONER OF INSURANCE

By: _____

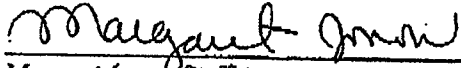
Danny Saery
Danny Saery
Senior Associate Commissioner
Financial Program

Commissioner's Order No. 94-0487

07-0916

SUPERVISION ORDER
LINCOLN MEMORIAL LIFE INSURANCE COMPANY
Page 6 of 6

Reviewed by:



Margaret Jonoff, Staff Attorney
Financial Counsel Section
Legal Services Division