

Report of Examination of

**Provident American Life & Health Insurance Company**  
Cincinnati, Ohio

As of December 31, 2011

## Table of Contents

<b>Subject</b>	<b>Page</b>
Salutation .....	1
Description of Company .....	1
Scope of Examination .....	1
Management and Control:	
Board of Directors .....	2
Officers .....	2
Insurance Holding Company System .....	3
Territory and Plan of Operations .....	3
Reinsurance.....	3
Financial Statements:	
Statement of Assets, Liabilities, Surplus and Other Funds .....	4
Summary of Operations .....	6
Statement of Changes in the Capital and Surplus Account .....	6
Notes to Financial Statements:	
Investments .....	7
Aggregate Reserve for Life Contracts .....	7
Subsequent Events .....	7
Conclusion .....	8
Acknowledgement .....	8

Columbus, Ohio  
October 26, 2012

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**Provident American Life & Health Insurance Company**

an Ohio domiciled, stock, life insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 301 East Fourth Street, Cincinnati, Ohio.

**Scope of Examination**

The Department last examined the Company as of December 31, 2006. The Department’s current examination covers the period of January 1, 2007 through December 31, 2011.

The Department, as the coordinating state regulator of the insurance company subsidiaries of American Financial Group, Inc. (“AFG”), an affiliate, led the multi-state coordinated examination that included representatives from the states of California, Delaware, Illinois, New York, Ohio and Texas.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

## Management and Control

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<b>Name</b>	<b>Principal Occupation</b>
Christopher P. Miliano	Executive Vice President and Chief Financial Officer, Great American Financial Resources, Inc.
Mark F. Muething	Executive Vice President, General Counsel and Secretary, Great American Financial Resources, Inc.
Michael J. Prager	Executive Vice President, Chief Actuary and Chief Risk Officer, Great American Financial Resources, Inc.
Paul A. Severt	Executive Vice President and Chief Financial Officer, Great American Supplemental Benefits Group
Bradley A. Wolfram	President, Great American Supplemental Benefits Group

## Officers

As of the examination date, the following principal executive officers were elected and serving in accordance with the Company's Bylaws:

<b>Name</b>	<b>Title</b>
Bradley A. Wolfram	President
Paul A. Severt	Executive Vice President and Chief Financial Officer
Tracy E. Maples	Senior Vice President and Chief Actuary
James W Garvin, III	Vice President
Christopher P. Miliano	Vice President and Assistant Treasurer
Mark F. Muething	Vice President and Assistant Secretary
Byron K. Buescher	Chief Accounting Officer and Treasurer
Brenda W. Hardison	Secretary

## **Insurance Holding Company System**

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is a wholly owned subsidiary of Central Reserve Life Insurance Company, domiciled in Ohio, and an indirect wholly owned subsidiary of AFG, the ultimate controlling person in the holding company system. Through its insurance company subsidiaries, AFG is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and the sale of traditional fixed and indexed annuities and a variety of supplemental insurance products. The common stock of AFG is traded on the New York Stock Exchange.

## **Territory and Plan of Operations**

The Company is licensed to transact business in thirty-eight states and the District of Columbia. The Company's business in-force includes life and Medicare supplement insurance products. The Company is not actively writing new business at the present time.

The Company is a member of Great American Supplemental Benefits Group ("GASBG"), a family of companies located in Austin, Texas that offer Medicare supplement, hospital indemnity, specified disease, health and long-term care products.

## **Reinsurance**

On August 1, 2006, the Company entered into a reinsurance agreement under which it ceded 50% of its in-force business. All business written since that date is retained 100% by the Company. All contracts examined contained the necessary clauses to meet the guidelines prescribed by the NAIC.

## **Financial Statements**

The financial condition and the results of its operations for the five-year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds  
Summary of Operations  
Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds  
December 31, 2011**

**Assets**

Bonds	\$ 11,075,784
Common stocks	3,135,253
Cash and short-term investments	4,660,940
Contract loans	<u>4,458</u>
Subtotal, cash and invested assets	18,876,435
Investment income due and accrued	105,044
Uncollected premiums in course of collection	(480,722)
Deferred premiums and installments booked but deferred and not yet due	334,354
Amounts recoverable from reinsurers	362,094
Other amounts receivable under reinsurance contracts	103,847
Net deferred tax asset	1,648,000
Guaranty funds receivable or on deposit	164,568
Receivable from affiliates	<u>27,382</u>
Total assets	<u>\$ 21,141,002</u>

**Statement of Assets, Liabilities, Surplus and Other Funds (continued)**  
**December 31, 2011**

**Liabilities**

Aggregate reserve for life contracts	\$ 1,825,307
Aggregate reserve for accident and health contracts	1,175,750
Life contract claims	69,615
Accident and health contract claims	1,361,781
Premiums and annuity considerations for life and accident and health contracts received in advance	214,160
Interest maintenance reserve	45
Commissions to agents due or accrued	72,437
General expenses due or accrued	54,159
Taxes, licenses and fees due or accrued	242,146
Current federal income taxes	309,685
Unearned investment income	165
Remittances and items not allocated	34,613
Asset valuation reserve	45,139
Payable to parent, subsidiaries and affiliates	882
Escheat liability	<u>97,612</u>
Total liabilities	<u>5,503,496</u>

**Capital and Surplus**

Common capital stock	2,500,000
Gross paid in and contributed surplus	27,346,312
Aggregate write-ins for special surplus funds	1,050,000
Unassigned funds	<u>(15,258,806)</u>
Total capital and surplus	<u>15,637,506</u>
Total liabilities, capital and surplus	<u>\$ 21,141,002</u>

**Summary of Operations**  
**For the Year Ended December 31, 2011**

Premiums and annuity considerations	\$23,930,095
Net investment income	294,337
Amortization of interest maintenance reserve	149
Commissions and expense allowances on reinsurance ceded	498,493
Aggregate write-ins for miscellaneous income	<u>19,176</u>
Total	<u>24,742,250</u>
Death benefits	450,427
Disability benefits and benefits under accident & health contracts	14,720,262
Surrender benefits and other fund withdrawals for life contracts	37,343
Increase in aggregate reserves	<u>104,078</u>
Total	<u>15,312,110</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	3,212,024
General insurance expenses	1,160,393
Insurance taxes, licenses and fees	611,238
Increase in loading on deferred and uncollected premiums	<u>(24,559)</u>
Total	<u>20,271,206</u>
Net gain from operations before federal income taxes	4,471,044
Federal income taxes	<u>1,774,824</u>
Net income	<u>\$ 2,696,220</u>

**Statement of Changes in the Capital and Surplus Account**  
(In thousands)

	2007	2008	2009	2010	2011
Capital and surplus, beginning of year	<u>\$6,551</u>	<u>\$3,097</u>	<u>\$7,295</u>	<u>\$12,166</u>	<u>\$12,751</u>
Net income (loss)	(1,665)	(2,974)	(2,472)	1,546	2,696
Change in net unrealized capital gains (losses)	-	-	6	(6)	10
Change in net deferred income tax	590	1,455	157	533	202
Change in nonadmitted assets	(2,323)	(246)	1,540	(635)	(114)
Change in asset valuation reserve	(2)	(3)	(2)	(3)	(29)
Surplus paid in	-	6,000	4,926	(1,000)	-
Dividends to stockholders	(54)	(34)	(24)	(22)	(16)
Aggregate write-ins	<u>-</u>	<u>-</u>	<u>740</u>	<u>172</u>	<u>138</u>
Net change in capital and surplus	<u>(3,454)</u>	<u>4,198</u>	<u>4,871</u>	<u>585</u>	<u>2,887</u>
Capital and surplus, end of year	<u>\$3,097</u>	<u>\$7,295</u>	<u>\$12,166</u>	<u>\$12,751</u>	<u>\$15,638</u>

## **Notes to Financial Statements**

### **Investments**

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

### **Aggregate Reserve for Life Contracts**

The Company's Board of Directors appointed Mark E. Alberts, FSA, MAAA, Consulting Actuary, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Alberts prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011, Annual Statement.

Peter A. Weber, ASA, MAAA, the Department's Life and Annuity Actuary, reviewed the Actuarial Memorandum and performed other procedures as considered necessary to evaluate the Company's reserves. On the basis of his analysis, Mr. Weber determined that the reserves presented in the December 2011 Annual Statement are consistent with requirements in Ohio law, and furthermore, that the reserves and related items held by the Company are adequate and appropriate.

### **Subsequent Events**

On May 10, 2012, Great American Financial Resources, Inc. and certain of its subsidiaries, including the Company, American Retirement Life Insurance Company ("ARLIC"), Central Reserve Life Insurance Company ("CRLIC"), Continental General Insurance Company ("CGIC"), Great American Life Insurance Company ("GALIC"), Loyal American Life Insurance Company ("LALIC"), United Benefit Life Insurance Company ("UBLIC") and United Teacher Associates Insurance Company ("UTAIC") entered into an agreement (the "Agreement") to sell their Medicare supplement and other supplemental health insurance policies to Cigna Health and Life Insurance Company ("Cigna"). Pursuant to the Agreement, Cigna acquired all of the outstanding common stock of the Company, ARLIC, CRLIC, LALIC, and UBLIC (collectively, the "Targets"). Immediately prior to the sale, the Targets reinsured the life and annuity business they held to GALIC and GALIC, CGIC and UTAIC reinsured all Medicare supplement and other supplemental health policies they held to LALIC. The Department approved the transaction on August 30, 2012. CGIC and UTAIC have agreed to continue writing Medicare supplement and other supplemental health business for up to two years following completion of these transactions, with all business written during that period being reinsured by LALIC.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

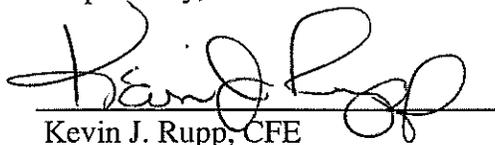
Total Admitted Assets	<u>\$21,141,002</u>
Liabilities	\$5,503,496
Surplus as Regards Policyholders	<u>15,637,506</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$21,141,002</u>

### Acknowledgement

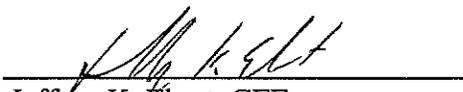
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, AES, CFE, CISA, CIDM, CISSP; Ryan S. Gibson, CFE, FLMI; Aaron R. Hibbs, CFE, ChFC, CPA, FLMI; James H. Luke, CFE, CPA; Larry G. Rice, AES, CFE, CISA, CPA; and Zachary L. Wheatley, CPA.

Respectfully,



Kevin J. Rupp, CFE  
Examiner-In-Charge  
Ohio Department of Insurance



Jeffrey K. Ebert, CFE  
Assistant Chief Examiner  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2011.

Kevin J. Rupp 12/21/12      [Signature] 12/21/12  
Examiner-In-Charge      Date      Assistant Chief Examiner      Date

State of Ohio  
County of Franklin

Personally appeared before me the above named, Kevin J. Rupp, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 21 day of December, 2012.

Elizabeth Chase  
Notary Public  
ELIZABETH CHASE  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires

State of Ohio  
County of Franklin

Personally appeared before me the above named, Jeffrey K. Ebert, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 21 day of December, 2012.

Elizabeth Chase  
Notary Public  
ELIZABETH CHASE  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires