

REPORT OF EXAMINATION
OF THE

SOCIEDADE PORTUGUESA RAINHA
SANTA ISABEL DO ESTADO
DA CALIFORNIA (S.P.R.S.I.)

AS OF
DECEMBER 31, 2005

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION.....	1
SUBSEQUENT EVENTS	2
MANAGEMENT AND CONTROL	2
TERRITORY AND PLAN OF OPERATION	4
GROWTH OF SOCIETY	5
REINSURANCE:	5
Assumed.....	5
Ceded	6
FINANCIAL STATEMENTS:.....	6
Statement of Financial Condition as of December 31, 2005	7
Summary of Operations and Surplus Account for the Year Ended December 31, 2005	8
Reconciliation of Surplus from December 31, 2002 through December 31, 2005	9
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	10
Aggregate Reserve for Life Certificates and Contracts	10
SUMMARY OF COMMENTS AND RECOMMENDATIONS:.....	10
Current Report of Examination.....	10
Previous Report of Examination.....	10
ACKNOWLEDGMENT.....	11

San Francisco, California
May 4, 2007

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of

SOCIEDADE PORTUGUESA RAINHA SANTA ISABEL DO ESTADO DA CALIFORNIA
(S.P.R.S.I.)

(also referred to as the Society) at its home office located at 3031 Telegraph Avenue, Oakland, California 94609.

SCOPE OF EXAMINATION

The previous examination of the Society was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. The present examination included a review of the Society's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances.

The following areas were reviewed that require no further comment: Society history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; business in force by states; mortality and loss experience; accounts and records; and sales and advertising.

SUBSEQUENT EVENTS

The Society's 2006 Annual Statement filing revealed a decrease in surplus of \$1,562,135. The majority of the decrease is attributable to the impact of the asset adequacy testing being performed for the first time. The asset adequacy testing increased the change in reserves due to a change in valuation basis by \$1,250,000 and the Society reported a net loss from operations of \$355,962. The net loss from operations is due to increasing expenses and decreasing premium income. The Society's surplus as of December 31, 2006 was \$262,271.

MANAGEMENT AND CONTROL

The grand council is the governing body of the Society. The grand council is composed of all the grand officers, state junior officers, past grand presidents, past state junior presidents, elected delegates of subordinate councils, junior unit delegates, intermediate group delegates and delegates-at-large.

Annual conventions or annual meetings of the grand council are held in July. The Society's officers for the following year are elected during the annual convention. Elected officers are grand directors, regular officers (except secretary and treasurer) and members of the finance committee. The secretary and treasurer are appointed by the board.

A majority of the delegation is a quorum, two-thirds of those present are needed to amend the constitution, and a majority is sufficient for the passing of all other acts. During the odd numbered years proposed amendments to the constitution can be made.

Extraordinary meetings may be called by the grand president if requested in writing by a majority of the subordinate councils.

Between sessions of the grand council, management is vested in the nine-member grand board of directors. The outgoing grand president automatically becomes a member of the board for a term of one year; the others are elected annually by the convention delegation.

An organizational meeting is held by the newly-elected board at convention to elect the board secretaries (corresponding and recording secretaries) and the vice chairperson of the board. Board meetings are held monthly.

Directors and officers serving as of December 31, 2005, were as follows:

Grand Board of Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Alice F. Carreiro Watsonville, California	Homemaker
Louise Z. Chivers Gustine, California	Librarian
Marjorie A. Gifford Vacaville, California	Homemaker
Maria G. Graham Fremont, California	Homemaker
Maxine J. Martinez Alameda, California	Retired
Korinne M. Monroig San Diego, California	Secretary
Joan E. Peros Watsonville, California	Insurance Agent
Darcy A. Quinn Novato, California	Sales
Maria F. Simoes Hanford, California	Retired

Grand Officers

<u>Name</u>	<u>Title</u>
Katherine E. Evangello	Grand President
Mary A. Worden	First Vice President
Pamela J. Smith	Second Vice President
Claudia Macias	Grand Secretary
Carolina E. Mazilu	Grand Treasurer

TERRITORY AND PLAN OF OPERATION

The Society operates under the lodge system as described under Division 2, Part 2, Chapter 10, of the California Insurance Code. It is only licensed to transact life and annuity business in the State of California.

As of December 31, 2005, the Society had eighty-six subordinate councils. Applications for membership are restricted to Christians of feminine gender, in good health, and good moral character, between the ages of 0 to 15 for juveniles and between the ages of 16 to 90 for adults.

The Society has six part-time sales agents. The agents are paid commissions according to the Society's commission scale ranging from 50% to 65% on first year premiums, 5% on 2nd through 9th year and 2% from 10th through 49th year. Premiums written in 2005 totaled \$241,915 which includes \$161,219 of life premiums and \$80,696 of annuity premiums. The President and members of the Society also solicited membership applications.

The Society writes traditional life insurance plans such as special whole life, interest sensitive policies, and annuity plans. The maximum amount insured is \$50,000 per life. Annuities are limited to \$5,000 per year per member.

The underwriting, accounting, claims, and administrative functions are all performed at the Society's home office.

GROWTH OF SOCIETY

The Society reported a significant decrease in premiums during the examination period and the subsequent year as follows:

Year	Direct Premiums Written	Net Premiums Written	Surplus
2006 *	\$173,012	\$144,522	\$ 262,271
2005	241,915	224,101	1,824,406
2004	254,959	228,234	1,948,334
2003	252,039	242,401	2,022,177

* As reported by the Society

The Society's membership base has been decreasing and premium and annuity considerations have dropped from year-to-year. The Society's expenses have slightly decreased according to the Society's 2006 reporting, but the expenses have outpaced income for all years during the examination period.

REINSURANCE

Assumed

The Society did not assume any reinsurance during the period under examination.

Ceded

At December 31, 2005, the Society ceded life, disability waivers of premium benefits, and accidental death benefits according to two automatic reinsurance agreements with Optimum Re Insurance Company (Optimum Re), an admitted insurer in California. The Society's maximum limits of retention were as follows:

<u>Life</u>	<u>Disability Waiver of Premium Benefit</u>	<u>Accidental Death Benefits</u>
\$25,000	Same as life	\$ 0

The Society's maximum limits of automatic reinsurance with Optimum Re were as follows:

<u>Life</u>	<u>Disability Waiver of Premium Benefit</u>	<u>Accidental Death Benefit</u>
\$100,000	Same as life	\$300,000

Amounts not eligible on an automatic basis may be submitted for reinsurance on a facultative basis.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Summary of Operations and Surplus Account for the Year Ended December 31, 2005

Reconciliation of Surplus from December 31, 2002 through December 31, 2005

Statement of Financial Condition
as of December 31, 2005

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$8,263,028	\$	\$8,263,028	
Preferred stocks	125,300		125,300	
Common stocks	158,171		158,171	
Real estate:				
Properties occupied by the Society	66,374		66,374	
Certificate loans and liens	8,860		8,860	
Cash and short-term investments	424,434		424,434	
Life insurance premiums and annuity considerations deferred and uncollected	1,108		1,108	
Investment income due and accrued	141,186		141,186	
Other assets nonadmitted	<u>14,164</u>	<u>14,164</u>	<u> </u>	
Total assets	<u>\$9,202,625</u>	<u>\$ 14,164</u>	<u>\$9,188,461</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life certificates and contracts			\$6,891,843	(1)
Liability for deposit-type contracts			270,749	
Certificates and contract claims: Life			31,302	
Premiums and annuity considerations received in advance			35,754	
Interest maintenance reserve			4,156	
General expenses due and accrued			44,479	
Taxes, licenses and fees			3,000	
Amounts withheld or retained by society			2,190	
Asset valuation reserve			<u>80,582</u>	
Total liabilities			7,364,055	
Fraternal funds		\$ 173,845		
Unassigned funds		<u>1,650,561</u>		
Total surplus and other funds			<u>1,824,406</u>	
Total liabilities, surplus and other funds			<u>\$9,188,461</u>	

Summary of Operations and Surplus Account
for the Year Ended December 31, 2005

Summary of Operations

Premiums and annuity considerations	\$ 224,101
Net investment income	490,970
Amortization of interest maintenance reserve	119,338
Aggregate write-ins for miscellaneous income	<u>17,008</u>
Total	<u>851,417</u>
Deduct:	
Death benefits	90,791
Matured endowments	13,129
Annuity and old age	81,252
Surrender benefits	55,995
Interest on certificate or contract funds	58,432
Increase in aggregate reserve for life and accident and health certificates and contracts	102,360
Commissions on premiums and annuity considerations	1,727
General insurance expenses and fraternal expenses	420,811
Aggregate write-ins for deductions	11,624
Insurance taxes, licenses and fees	<u>17,907</u>
Total	<u>854,028</u>
Net loss	<u>\$ (2,611)</u>

Surplus Account

Surplus, December 31, 2004	<u>\$1,948,334</u>
Net loss	(2,611)
Change in net unrealized capital losses	(109,062)
Change in nonadmitted assets and related items	(6,972)
Change in asset valuation reserve	<u>(5,283)</u>
Net change in surplus for the year	<u>(123,928)</u>
Surplus, December 31, 2005	<u>\$1,824,406</u>

Reconciliation of Surplus
from December 31, 2002 through December 31, 2005

Surplus, December 31, 2002, per Examination			\$2,060,618
	<u>Gain in</u>	<u>Loss in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net loss	\$	\$197,954	
Change in net unrealized foreign exchange capital gain	13,133		
Change in nonadmitted assets and related items		21,186	
Change in asset valuation reserve		17,031	
Aggregate write-ins	<u> </u>	<u>13,174</u>	
Total gains and losses in surplus	<u>\$13,133</u>	<u>\$249,345</u>	
Decrease in surplus for the period under examination			<u>(236,212)</u>
Surplus, December 31, 2005, per Examination			<u>\$1,824,406</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Certificates and Contracts

The Society's reserve trends were reviewed by a California Department of Insurance life actuary and found to be consistent and reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Management and Control – Conflict of Interest (Page 4): It was recommended that the Society start implementing procedures that require each director and key officers to complete a conflict of interest statement annually. The Society has complied with this recommendation.

Accounts and Records – Electronic Files: It was recommended that the Society store its backup electronic data files in a fire proof safe. It was also recommended that the Society rotate several recent generations of backup file to an offsite location that is physically secure and not subject to theft and unauthorized access. The Society has complied with this recommendation.

Comments on Financial Statements Items – Cash and Short-Term Investments: The Society had not reconciled its main operating account for a long time. It was recommended that it start reconciling this account on a monthly basis immediately. The Society has complied with this recommendation.

Comments on Financial Statements Items – Certificates and Contract Claims-Life: The Society did not pay interest on death claims that were paid 30 days or longer after the date of death. This violated California Insurance Code Section 10172.5. The Society has implemented procedures to comply since January, 2004. Based on recommendation from the California Department of Insurance, it agreed to review all the death claims paid from February 1, 2001 through January 1, 2004 and pay back the interest to the beneficiaries in compliance with the above code section. The Society has complied with this recommendation.

ACKNOWLEDGMENT

The cooperation and assistance extended by the Society's officers and employees is acknowledged.

Respectfully submitted,

Jennifer Edie, AFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California