

REPORT OF EXAMINATION
OF THE
TRANS WORLD ASSURANCE COMPANY
AS OF
DECEMBER 31, 2006

Participating State
and Zone:

California

Filed March 28, 2008

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San Francisco, California
January 18, 2008

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Kent Michie
Secretary, Zone IV-Western
Commissioner of Insurance
Department of Insurance, State of Utah
Salt Lake City, Utah

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

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

TRANS WORLD ASSURANCE COMPANY

(hereinafter also referred to as the Company) at its statutory home office located at 885 South El Camino Real, San Mateo, California 94402.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2006. The examination was made pursuant to the National Association of Insurance Commissioners' (NAIC) plan of examination. The examination included a review of the Company's practices and procedures, an examination of

management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; loss experience; business in force by states; loss experience; and sales and advertising.

COMPANY HISTORY

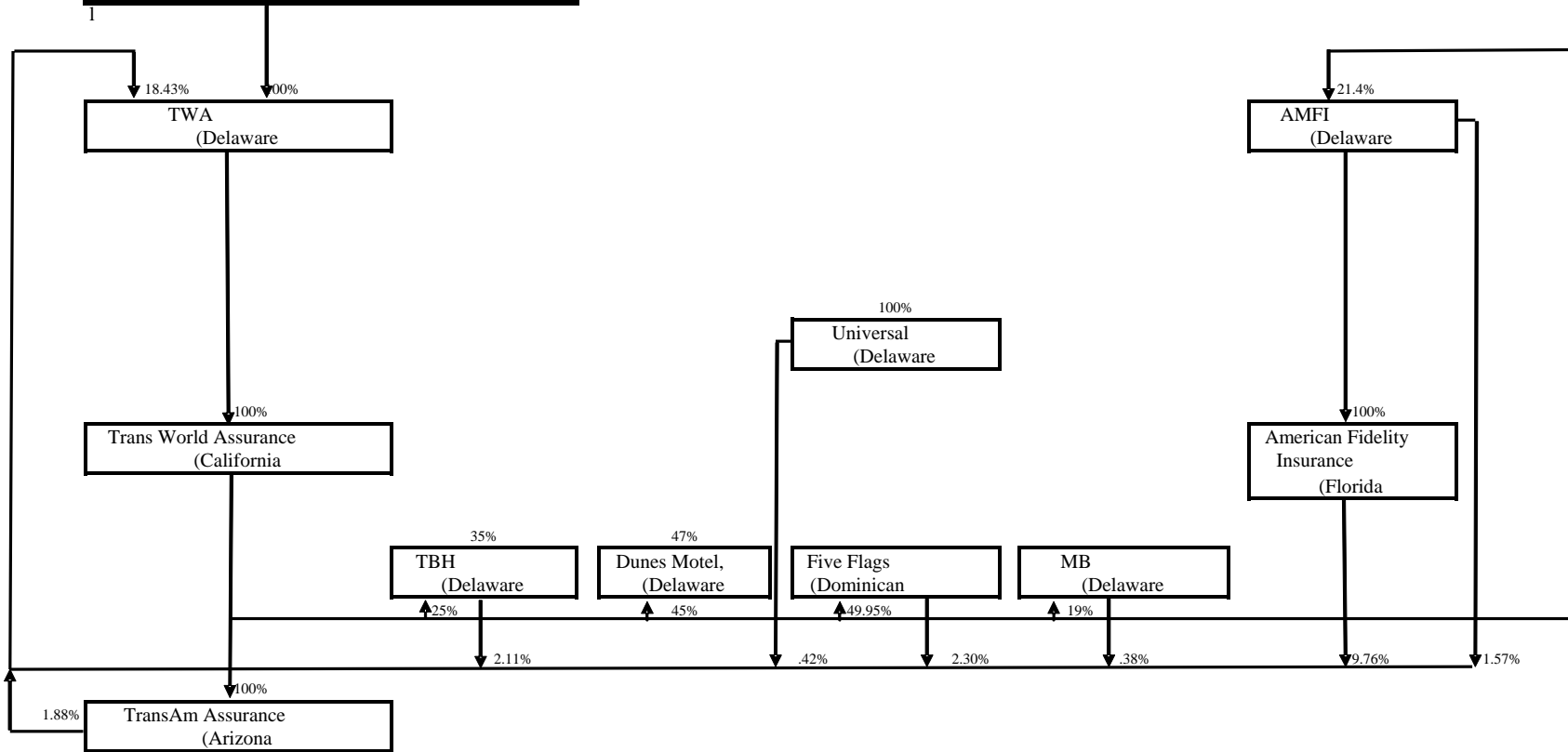
The Company paid cash dividends during the examination period of \$500,000 in 2003; \$450,000 in 2004; \$1,510,800 in 2005 and \$280,000 in 2006.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which TWA Corporation, a Delaware insurance holding corporation, is the ultimate controlling entity. Parties owning 10% or more of TWA Corporation include: stock registered in street names 43%; treasury stock 11%; affiliates 18%; Company officers and directors 14%, and 111 shareholders 14%. The Company has a wholly-owned Arizona life insurance subsidiary, TransAm Assurance Company, and substantial investments in other affiliates. Charles P. Woodbury founded the Company, as well as the following Florida companies which are affiliated with the Company through common ownership or management: American Fidelity Life Insurance Company, Bank of the South, First Navy Bank, and The Warrington Bank. It can be seen from the following organizational chart that both the Company and American Fidelity Life Insurance Company (AFLIC) are invested in each other through extensive inter-company ownership. At December 31, 2006, AFLIC owned 9.76% of TWA Corporation with a reported value of \$6.3 million. Likewise, the Company owned 20.5% of

AFLIC's parent holding company, AMFI Corporation with a reported value of \$18.6 million. The following organization chart depicts the Company's relationship within its holding company system and that of AFLIC:

Ownership of TWA	
Stock Registered in Street	43
Treasury Stock	11%
Affiliates (7 total)	18%
Company officers and	14
Remaining 111	14
Shareholders	100



Management of the Company is vested in a six-member board of directors. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Earl Bartlett San Mateo, California	Chairman of the Board Trans World Assurance Company
Marilyn Woodbury Hess Pensacola, Florida	Chairman of the Board American Fidelity Life Insurance Company
Charles B. Royals San Mateo, California	President Trans World Assurance Company
Nancy E. Woodbury Royals Tucson, Arizona	Secretary Trans World Assurance Company
Barbara J. Woodbury La Jolla, California	Vice President Trans World Assurance Company
William P. Woodbury Pensacola, Florida	Vice President First Navy Bank

Principal Officers

<u>Name</u>	<u>Title</u>
Charles B. Royals	President
Mary A. Vrooman	Treasurer
Nancy E. Woodbury Royals	Secretary
Barbara J. Woodbury	Vice President

Management Agreements

Service Agreement with American Fidelity Life Insurance Company: The Company's only employees are Charles B. Royals, President, and Barbara J. Woodbury, Vice President. The remaining workforce, including the Company's Treasurer and two office staff, are provided by

Manpower, Inc. and Landrum, both of which are temporary employment agencies. All other functions are provided by American Fidelity Life Insurance Company including policy issuance, claims administration, accounting, investments, premium and financial report processing. In return, the Company pays a \$5 fee per in-force policy. The Company justified the fee of \$5 per policy through a cost study. The service agreement was not filed with the California Department of Insurance (CDI) prior to its effective date, January 1, 1997, as required by California Insurance Code Section 1215.5(b)4. The Company filed the agreement with the CDI in September 2007, and is working with the CDI to obtain approval.

Service Agreement with TWA Corporation (TWAC): Under this agreement, the Company performs various administrative services for TWAC, such as providing facilities and employee services. TWAC paid the Company \$350 for this service in 2006. The amount seemed reasonable based on the hours recorded.

Consolidated Federal Income Tax Agreement: The Company is a party to a federal income tax agreement with TWAC and is included in TWAC's consolidated federal income tax return. Under the terms of the agreement, the Company prepares a separate tax return and makes payments of any tax liability incurred to TWAC. The agreement was approved by the CDI as of December 31, 2004. According to the agreement, any overpayments by the Company are to be refunded by TWAC within 90 days of filing the final return. This has not been done, which is contrary to Statements of Statutory Accounting Principle (SSAP) No. 25. This practice has been criticized in each of the last three examination reports. It is again recommended that the Company adhere to the terms of its consolidated federal income tax return agreement and SSAP No. 25.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company was licensed to write life insurance in the Territory of Guam; the District of Columbia; and all states except New Hampshire, New York and Vermont. In addition, the Company is authorized by the Department of Defense to sell life insurance to members of the armed forces on U.S. and overseas bases, and by Japan and Korea to sell life insurance to U.S. citizens living and working for the U.S. Government in those countries.

The Company writes ordinary life and individual annuities. Direct premiums written in 2006 were \$13,784,167. The three largest states for direct premium writings are California (21.4%), Texas (13.2%), and Florida (5.1%). The Company markets its products through a network of 40 general agents and 360 individual agents.

Prospective Military Sales

Insurance sales to military personnel have been the Company's primary source of its new business. These sales have historically accounted for 60% to 70% of all sales. To ensure states satisfy the federal mandates of the Military Personnel Financial Services Protection Act, the Department of Defense has been working with the National Association of Insurance Commissioners (NAIC) to establish new guidelines for such sales. In turn, the NAIC has directed the states to adopt regulations that support this effort. The proposed regulations for California and other states could have a material effect upon the manner in which the Company operates. The Company feels that the proposed regulations will have minimal impact on its operations as it believes that it is exempt from much of the regulation.

REINSURANCE

Assumed

The Company assumes a small amount of reinsurance from its subsidiary, TransAm Assurance Company and is a participant in the Servicemen's Group Life Insurance Program.

Ceded

The Company cedes to TransAm Assurance Company on a 50% coinsurance basis, the Annual Renewal Term Rider and Guaranteed Insurability Option Riders of policies with limits of risk less than or equal to \$50,000 with the insured's last name beginning with A-L.

Coinsurance

The Company and American Fidelity Life Insurance Company (AFLIC) are parties to three coinsurance agreements under which certain life policies and riders issued by the parties are automatically coinsured on a fifty-fifty basis in excess of each Company's retention. Two agreements cover ordinary life, limited pay life or endowment policies. The Company's retention under these treaties is \$35,000 through December 31, 1997. A separate treaty covers Annual Renewable Term and Guaranteed Insurability Option riders. Retention under this treaty is \$50,000 through December 31, 1997. Effective January 1, 1998, the retention was increased to \$75,000 prospectively on all three contracts.

ACCOUNTS AND RECORDS

Information System Controls

A review was made of the general information systems controls in use by the Company and its data processing service provider, Bank Data, Inc. As a result of the review, the weaknesses noted were: the use of a back-up facility in the same general location as the Company, which may suffer from the same area-wide disaster; and, the failure to use only offsite backup files and items to test its disaster recovery plan at its alternate processing site. The weaknesses noted were presented to the Company along with recommendations to strengthen its controls. The Company stated that on November 14, 2007 it successfully used only offsite backup files and items to test its disaster recovery plan at its alternate processing facility. It is recommended that the Company continue to evaluate the recommendations and make appropriate changes.

Annual Statement Reporting

The Company did not distribute the fees it pays to a servicing organization to the expense classification as if it had been borne directly by the Company as prescribed by the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions. Furthermore, certain expenses were consolidated with inaccurate descriptions. It is recommended that the Company comply with NAIC Annual Statement Instructions.

The Company has booked the adjustment to the prior year's federal income tax provision as a direct credit to the surplus account rather than include the adjustment in the current year's operation. This is contrary to Statements of Statutory Accounting Principles (SSAP) No. 3. It is recommended that the Company comply with SSAP No. 3.

Annual Statement/Holding Company Act Disclosures

Inadequate disclosures were noted as follows for the Annual Statement, Notes to Financial Statements (Notes), or the Insurance Holding Company System Annual Registration Statement, Form B (Form B):

1. An organizational chart clearly presenting the identities of and interrelationships among all affiliated persons within the insurance holding company system was not provided with the Form B. The chart or listing should show the percentage of each class of voting securities of each affiliate that is owned, directly or indirectly, by another affiliate. A more detailed chart should be shown in the Annual Statement, Schedule Y.
2. The disclosures in the Notes to the Financial Statements for compliance with Statements of Statutory Accounting Principles No. 10 require the Company to disclose all the parties in the consolidated federal income tax return and terms of the agreement. The Company was not fully compliant in that it did not disclose that the consolidated return included its subsidiary, TransAm Assurance Company.

The Company stated that it will make the appropriate disclosures in the future.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Summary of Operations and Capital and Surplus Account for the Year Ended
December 31, 2006

Reconciliation of Capital and Surplus from December 31, 2002 through
December 31, 2006

Statement of Financial Condition
as of December 31, 2006

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Non Admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$252,221,771	\$	\$252,221,771	
Common stocks	40,026,784		40,026,784	(1)
Mortgage loans on real estate: First liens	8,537,720		8,537,720	
Real estate:				
Properties held for the production of income	8,047,802		8,047,802	
Properties held for sale	151,502		151,502	
Cash and short-term investments	7,030,674		7,030,674	(2)
Contract loans	1,090,599		1,090,599	
Investment income due and accrued	3,358,836		3,358,836	
Premiums and considerations:				
Uncollected premiums and agent's balances in the course of collection	99,499		99,499	
Deferred Premiums, agents' balances and installments booked but deferred and not yet due	3,335,906		3,335,906	
Electronic data processing equipment and software	1,211	1,211		
Furniture and equipment	26,962	26,962		
Health care and other amounts receivable	<u>3,641,275</u>	<u>3,641,275</u>		
 Total assets	 <u>\$327,570,541</u>	 <u>\$ 3,669,448</u>	 <u>\$323,901,093</u>	
 <u>Liabilities, Capital and Surplus</u>				
Aggregate reserve for life contracts			\$ 58,545,606	
Liability for deposit-type contracts			187,437,681	(3)
Contract claims: Life			967,736	
Provision for policyholders' dividends not yet apportioned			8,704	
Premiums and annuity considerations received in advance			24,063	
Commissions to agents due or accrued			59,483	
General expenses due or accrued			34,212	
Taxes, licenses and fees due or accrued			62,229	
Net deferred tax liability			2,184,118	
Amounts withheld or retained by company as agent or trustee			397,037	
Remittances and items not allocated			1,716,011	
Asset valuation reserve			5,870,936	
Aggregate write-ins for liabilities			<u>102</u>	
 Total liabilities			 257,307,918	
Common capital stock		\$ 2,500,002		
Gross paid-in and contributed surplus		500,000		
Unassigned funds (surplus)		<u>63,593,173</u>		
 Total capital and surplus			 <u>66,593,175</u>	
 Total liabilities, capital and surplus			 <u>\$323,901,093</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2006

Summary of Operations

Premiums and annuity considerations for life contracts	\$ 16,255,457
Net investment income	11,437,085
Commissions and expense allowances on reinsurance ceded	5,442
Miscellaneous Income: Charges and fees for deposit type contracts	<u>582,499</u>
 Total	 <u>28,280,483</u>
 Death benefits	 3,270,598
Annuity benefits	322,355
Surrender benefits and withdrawals for life contracts	1,109,726
Group conversions	(1,863)
Interest and adjustments on contracts or deposit-type contract funds	11,341,852
Increase in aggregate reserves for life contracts	<u>1,514,250</u>
 Total	 17,556,918
 Commissions on premiums, annuity considerations, and deposit type contract funds	 5,930,863
Commissions and expense allowances on reinsurance assumed	11,302
General insurance expenses	2,195,270
Insurance taxes, licenses and fees	586,145
Increase in loading on deferred and uncollected premiums	<u>204,400</u>
 Total	 <u>26,484,898</u>
 Net gain from operations before dividends to policyholders and federal income tax	 1,795,585
Dividends to policyholders	8,520
Federal and foreign income taxes incurred	521,308
Net realized capital loss	<u>(361,561)</u>
 Net income	 <u>\$ 904,196</u>

Capital and Surplus Account

Capital and surplus, December 31, 2005	\$ 64,753,871
 Net income	 \$ 904,196
Change in net unrealized capital gains	2,128,504
Change in net deferred income tax	(470,713)
Change in non admitted assets and related items	(78,939)
Change in asset valuation reserve	(436,394)
Dividends to stockholders	(280,000)
Aggregate write-ins for gains in surplus	<u>72,650</u>
 Change in capital and surplus for the year	 <u>1,839,304</u>
 Capital and surplus, December 31, 2006	 <u>\$ 66,593,175</u>

Reconciliation of Capital and Surplus
from December 31, 2002 through December 31, 2006

Capital and surplus, December 31, 2002, per Examination			\$ 52,783,382
	<u>Gain in</u>	<u>Loss in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$ 10,509,527	\$	
Net unrealized capital gains	7,054,869		
Change in net deferred income tax		2,128,125	
Change in non admitted assets	217,526		
Change in asset valuation reserve	1,024,506		
Surplus adjustments: Paid in	500,000		
Dividends to stockholders		2,740,800	
Aggregate write-ins for losses in surplus	<u> </u>	<u>627,710</u>	
Total gains and losses	<u>\$ 19,306,428</u>	<u>\$ 5,496,635</u>	
Increase in capital and surplus			<u>13,809,793</u>
Capital and surplus, December 31, 2006, per Examination			<u>\$ 66,593,175</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Common Stocks

The Company's practice is to use prior year financials for reporting its Subsidiary, Controlled, and Affiliated Entities (SCA) valuations to the Securities Valuation Office (SVO). Statements of Statutory Accounting Principles (SSAP) No. 88 states that the Company should use current financial information to value common stock and to make audit adjustments as soon as they are available. It is recommended that the Company adhere to SSAP No. 88 with respect to the valuation of its investments in SCA.

The decrease to reflect 2006 equity values in the Company's SCA stock was calculated to be \$268,687; however, examination adjustments were not made as the amount was not material.

(2) Cash and Short-Term Investments

This asset of \$7,030,674 included \$5,698,474 deposited with two Florida banks, Bank of the South and First Navy Bank. Both banks and the Company share a common director, William P. Woodbury, and were founded by Charles P. Woodbury. It is recommended that the Company comply with California Insurance Code Section 1104.1 by maintaining all monies in excess of legal requirements and reasonable business needs in California.

(3) Aggregate Reserve for Life Contracts and Liability for Deposit-Type Contracts

Pursuant to CIC Section 733(g), a consulting actuary was retained on behalf of the California Department of Insurance (CDI) to perform an actuarial review of the aggregate reserve for life contracts and the liability for deposit-type contracts as reported in the Company's 2006 Annual Statement. Based on the consultant's and CDI's review of the Company's 2006 asset adequacy analysis, the CDI has concluded that additional reserves of \$2 million should have been established as of December 31, 2006. Due to subsequent management action taken by the Company to lower

the crediting interest rate, such adjustment may not carry over to the year-end 2007 valuation and therefore no examination adjustment was made.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control - Management Agreements (Page 5): It is recommended that the Company adhere to the terms of the consolidated federal income tax return agreement and Statements of Statutory Accounting Principles (SSAP) No. 25.

Accounts and Records – Information System Controls (Page 8): It is recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls.

Accounts and Records - Annual Statement Reporting (Page 9): It is recommended that the Company adhere to the National Association of Insurance Commissioners Annual Statement Instructions with respect to the distribution of fees paid to servicing organizations to the proper expense classifications. It is recommended that the Company comply with SSAP No. 3 with respect to the accounting of its federal income tax provision.

Comments on Financial Statement Items – Common Stocks (Page 14): It is recommended that the Company adhere to Statements of Statutory Accounting Principles No. 88 with respect to the valuation and reporting of its investments in subsidiary, controlled, and affiliated entities.

Comments on Financial Statement Items – Cash and Short-Term Investments (Page 14): It is recommended that the Company comply with California Insurance Code (CIC) Section 1104.1 by maintaining all monies in excess of legal requirements and reasonable business needs in California.

Previous Report of Examination

Corporate Records (Page 6): It was recommended that the Company implement procedures to ensure future compliance with California Insurance Code (CIC) Sections 735, 1200 and 1201. The Company is in compliance with this recommendation.

Comments on Financial Statement Items – Real Estate (Page 16): It was recommended that the Company file a certificate of exemption under CIC Section 1101(b)(3) with the California Department of Insurance, which it had agreed to do. In addition, the Company should remove the tenant as a beneficiary of any insurance policies concerning the property. The Company has complied with this recommendation.

Comments on Financial Statement Items – Cash and Short-term Investments (Page 17): It was recommended that the Company comply with CIC Section 1104.1 by maintaining all monies in excess of legal requirements and reasonable business needs in California. The Company has not complied with this recommendation. A similar recommendation is being made for this examination.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Wayne Leiran, CFE
Examiner-In-Charge
Contract Examiner
Department of Insurance
State of California