

REPORT OF EXAMINATION
OF THE
LUSO-AMERICAN LIFE INSURANCE
SOCIETY
AS OF
DECEMBER 31, 2014

Filed on April 27, 2016

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San Francisco, California
March 28, 2016

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

LUSO-AMERICAN LIFE INSURANCE SOCIETY

(hereinafter also referred to as the Society) at its home office located at 7080 Donlon Way, Suite 200, Dublin, California 94568.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Society. The previous examination of the Society was as of June 30, 2010. This examination covered the period from July 1, 2010 through December 31, 2014.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Society's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Society were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Society's financial statements.

This examination report includes findings of fact and general information about the Society and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Society.

SOCIETY HISTORY

Effective July 1, 1957, United National Life Insurance Society was the successor to a three-way merger with the Benevolent Society of California founded in San Francisco in 1868 and the Uniao Portuguesa Continental founded in Oakland in 1917. The successor's name was changed to Luso-American Life Insurance Society in 1993. In 2002, the Society merged with the Portuguese Continental Union of the United States of America, domiciled in Massachusetts, with the Society being the surviving entity. Effective January 1, 2008, the Sociedade Portuguesa Rainha Santa Isabel merged with and into the Society.

MANAGEMENT AND CONTROL

The Supreme and governing body of the Society is composed of delegates as follows: (1) officers and directors of the Society, (2) delegates from the Luso-American Fraternal

Federation, the Portuguese Continental Union, and the Sociedade Portuguesa Rainha Santa Isabel, and (3) others that may be appointed or elected, with the privilege of the floor but no right to vote.

The three intermediate fraternal divisions of the Society are Luso-American Fraternal Federation, the Portuguese Continental Union, and the Sociedade Portuguesa Rainha Santa Isabel. Each division is entitled to send one delegate for each 400-adult benefit members to the triennial meeting of the Society. In addition, there shall be no more than one-third of the number of delegates from each fraternal division elected as alternate delegates. Based on membership as of December 31, 2014, Luso-American Fraternal Federation had 34 delegates, the Portuguese Continental Union had 12 delegates and Sociedade Portuguesa Rainha Santa Isabel had 14 delegates.

The term of office for the directors is six years with approximately one-half of the directors being up for election every three years at the triennial convention. The thirteen members of the board of directors manage the business and affairs of the Society. There were two vacant board member positions as of December 31, 2014.

Following are members of the board and principal officers of the Society serving at December 31, 2014:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Patricia L. Costa Sacramento, California	Teacher Sacramento City Unified School District
Eduardo S. Eusebio Fairfield, California	Retired
Jose M. Machado Hayward, California	Owner and General Contractor J. Machado, Inc.

Name and Location

Principal Business Affiliation

Joseph F. Machado
Merced, California

Marketing Manager
Land 'O Lakes

Aires R. Pavao
Worcester, Massachusetts

Senior Project Manager
Babcock Power

John N. Perdigao
Richmond, California

Retired

Patricia M. Romano
Chelmsford, Massachusetts

Program Manager
Reebok International

Jose A. Soares
Kearny, New Jersey

Real Estate Broker
Century 21 Semiao & Associates

Cecelia M. Souza
Stockton, California

Retired

Anthony G. Sozinho
Tulare, California

Owner
Sozinho Insurance

Joao A. Tavares
Philadelphia, Pennsylvania

President
JAT Construction

Joseph B. Vieira
San Jose, California

Owner
The Vieira Company

Linda M. Vieira
California

Chief Financial Officer and Secretary
Vieira Enterprises

Principal Officers

Name

Title

Aires R. Pavao
Lino M. Amaral

President
Executive Vice President and
Chief Executive Officer

Joseph F. Resendes

Senior Vice President, Secretary, and
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. The Society's operations are conducted at its home office in Dublin, California. It also maintains an office in Lexington, Massachusetts where administrative, fraternal, and sales and marketing functions are performed. The Society is licensed to write life and annuity business in California, Connecticut, Idaho, Massachusetts, Nevada, New Jersey, Pennsylvania, and Rhode Island.

For the year ending December 31, 2014, the Society had nine full time appointed agents and twenty-seven part time appointed agents. Approximately 90% of the Society's direct business was generated in California; 6.4% in Massachusetts and 3.6% in the remaining states.

REINSURANCE

Assumed

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

Ceded

The Society was party to fourteen ceded reinsurance contracts. Thirteen of the contracts were with Optimum RE Insurance Company and one with SCOR Global Life Reinsurance Company of Delaware. The Society has multiple contracts with different retention and maximum limit amounts due to mergers that have occurred through the years.

Line of Business and Type of Contract	Reinsurer's Name	Society's Retention	Reinsurer's Limit
Life and waiver of premium disability	Optimum RE Insurance Company (authorized)	\$20,000 for life and waiver of premium	\$200,000 for life (ages 0-70), \$0 for life (over age 70), \$2,000,000 for waiver of premium (ages 0-44), \$1,000,000 (ages 45-65) and \$0 for waiver of premium (over age 65)
Life, waiver of premium and accidental death	Optimum RE Insurance Company (authorized)	\$40,000 for life and waiver of premium (ages 0-70), \$0 for life and waiver of premium (over age 70), \$0 for accidental death	\$105,000 for life and waiver of premium (ages 0-70), \$0 for life and waiver of premium (over age 70), \$100,000 for accidental death (ages 0-60) and \$0 for accidental death (over age 60)
Life, waiver of premium and accidental death	Optimum RE Insurance Company (authorized)	\$40,000 for life and waiver of premium (ages 0-70), \$0 for life and waiver of premium (over age 70), \$0 for accidental death	\$200,000 for life (ages 0-70), \$0 for life (over age 70), \$2,000,000 for waiver of premium (ages 0-44), \$1,000,000 (ages 45-65), \$0 for waiver of premium (over age 65), \$100,000 for accidental death (ages 0-60) and \$0 for accidental death (over age 60)
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$40,000 (ages 0-70), \$0 (over age 70)	\$200,000 for life (ages 0-70), \$0 for life (over age 70), \$2,000,000 for waiver of premium (ages 0-44), \$1,000,000 (ages 45-65), \$0 for waiver of premium (over age 65)
Life, disability and accidental death	Optimum RE Insurance Company (authorized)	\$25,000 for life and disability, \$0 for accidental death	Risks that do not exceed \$1,000 of the Society's retention will be \$1,000. Risks that are within or don't exceed \$1,250 of the Society's retention will be for the amount of excess. All other risks to be determined by the reinsurer.
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$40,000	1x the Society's retention to a maximum of \$40,000
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$40,000(ages 0-70), \$0 (over age 70)	5x the Society's retention to a maximum of \$200,000 in excess of the Society's maximum retention
Life	Optimum RE Insurance Company (authorized)	\$25,000	\$0
Accidental death	Optimum RE Insurance Company (authorized)	\$0	\$300,000
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$25,000	\$100,000
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$40,000(ages 0-70), \$0 (over age 70)	5x the Society's retention to a maximum of \$200,000 in excess of the Society's maximum retention

Line of Business and Type of Contract	Reinsurer's Name	Society's Retention	Reinsurer's Limit
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$40,000	\$160,000
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$40,000 (ages 0-70), \$0 (over age 70)	5x the Society's retention to a maximum of \$200,000 in excess of the Society's maximum retention
Ordinary life, waiver of premium and accidental death	SCOR Global Life Reinsurance Company of Delaware (authorized)	\$40,000	Face value of the policy

ACCOUNTS AND RECORDS

Information Systems Controls

During the course of the examination, a review was made of the Society's general controls over its information systems. As a result of this review, some findings were noted and were presented to the Society along with recommendations to strengthen its controls. The Society should evaluate the recommendations and make appropriate changes to strengthen its information systems controls.

Annual Statement Reporting

It was noted that the Society did not include all of its reinsurance information in its Annual Statement Schedule S, Part 3, Section 1 for 2013 and 2014. It was also noted that the Society reported that it was licensed in Florida in its Annual Statement Schedule T in 2013 and 2014, when the Society surrendered their license in 2012. It is recommended that the Society review its Annual Statement schedules to ensure accurate reporting.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Society with the California Department of Insurance and present the financial condition of the Society for the period ending December 31, 2014. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2014

Summary of Operations and Surplus Account for the Year Ended
December 31, 2014

Reconciliation of Surplus from June 30, 2010 through December 31, 2014

Statement of Financial Condition
as of December 31, 2014

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 79,652,737	\$	\$ 79,652,737	
Preferred stocks	160,500		160,500	
Common stocks	100,533		100,533	
Mortgage loans on real estate	7,144,304		7,144,304	
Real Estate:				
Properties occupied by the Society	1,586,673		1,586,673	
Properties held for the production of income	2,030,924		2,030,924	
Properties held for sale	285,608		285,608	
Cash and short-term investments	973,980		973,980	
Contract loans	2,895,802		2,895,802	
Investment income due and accrued	1,245,593		1,245,593	
Premiums and agents' balances in course of collection	48,299		48,299	
Premiums, agents' balances and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums)	242,527		242,527	
Electronic data processing equipment and software	32,322	32,322	0	
Furniture and equipment	2,039	2,039	0	
Aggregate write-ins for other than invested assets	<u>20,079</u>	<u>19,714</u>	<u>365</u>	
 Total assets	 <u>\$ 96,421,920</u>	 <u>\$ 54,075</u>	 <u>\$ 96,367,845</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life certificates and contracts			\$ 89,091,068	(1)
Liability for deposit-type contracts			872,666	
Contract claims:				
Life			301,328	(2)
Premiums and annuity considerations for life and accident and health contracts received in advance			45,920	
Contract liabilities not included elsewhere:				
Interest maintenance reserve			741,575	
Commissions to fieldworkers due or accrued-life and annuity contracts			13,465	
General expenses due or accrued			3,746	
Taxes, licenses and fees due or accrued			76,200	
Unearned investment income			77,434	
Amounts withheld or retained by Society as agent or trustee			114,087	
Remittances and items not allocated			27,087	
Miscellaneous liabilities:				
Asset valuation reserve			<u>728,317</u>	
 Total liabilities			 92,092,893	
 Unassigned funds (surplus)		 <u>\$ 4,274,952</u>		
 Total Surplus			 <u>4,274,952</u>	
 Total liabilities, surplus and other funds			 <u>\$ 96,367,845</u>	

Summary of Operations and Surplus Account
for the Year Ended December 31, 2014

Summary of Operations

Underwriting Income

Premiums and annuity considerations	\$ 5,606,254
Net investment income	5,257,981
Amortization of Interest Maintenance Reserve	<u>115,192</u>
Totals	10,979,427

Deductions:

Death benefits	\$ 662,030
Matured endowments	39,545
Annuity benefits	1,649,424
Surrender benefits and withdrawals for life contracts	1,434,329
Interest and adjustments on contract or deposit-type contract funds	29,415
Payments on supplementary contracts with life Contingencies	6,562
Increase in aggregate reserve for life and accident and health contracts	4,510,753
Commissions on premiums, annuity considerations and deposit-type contract funds	158,372
General insurance expenses and fraternal expenses	2,509,391
Insurance taxes, licenses and fees	<u>236,102</u>
Totals	<u>11,235,923</u>
Net loss from operations before realized capital losses	(256,496)
Net realized capital losses	(37,537)
Net loss	<u>\$ (294,033)</u>

Surplus Account

Surplus, December 31, 2013	\$ 4,518,833
Net loss from operations	\$ (294,033)
Change in net unrealized gains	14,329
Change in nonadmitted assets	36,844
Change in asset valuation reserve	988
Aggregate write-ins for losses in surplus	<u>(2,009)</u>
Change in surplus for the year	<u>(243,880)</u>
Surplus, December 31, 2014	<u>\$ 4,274,952</u>

Reconciliation of Surplus
from June 30, 2010 through December 31, 2014

Surplus, June 30, 2010		\$ 6,892,454		
	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;">Gain in Surplus</td> <td style="text-align: center; border-bottom: 1px solid black;">Loss in Surplus</td> </tr> </table>	Gain in Surplus	Loss in Surplus	
Gain in Surplus	Loss in Surplus			
Net loss	\$	\$ 4,668,471		
Change in nonadmitted assets	998,158			
Change in asset valuation reserve	49,922			
Change in net unrealized capital gains	1,577,040			
Aggregate write-ins for losses in surplus		574,151		
Total gains and losses	\$ 2,625,120	\$ 5,242,622		
Net decrease in surplus		2,617,502		
Surplus, December 31, 2014		\$ 4,274,952		

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Certificates and Contracts

A life actuary from the California Department of Insurance performed an actuarial evaluation of the Society's reserves as of December 31, 2014. Based on the evaluation, the Society's reserves were found to be reasonably stated and have been accepted for the purposes of this examination.

(2) Contract Claims

The Society could not provide adequate documentation or information that was complete and accurate for its contract claims. It is recommended that the Society keep adequate documentation to support its contract claims and that they review the data for completeness and accuracy.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Information Systems Controls (Page 7): As a result of the review of the Society's information systems controls, recommendations for improving these controls were presented to the Society. The Society should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems.

Accounts and Records – Annual Statement Reporting (Page 7): It was noted that the Society did not include all of its reinsurance information in its Annual Statement Schedule S, Part 3, Section 1 for 2013 and 2014. It was also noted that the Society inaccurately reported that it was licensed in Florida in its Annual Statement Schedule T

in 2013 and 2014, when the Society surrendered its license in 2012. It is recommended that the Society review its Annual Statement schedules to ensure accurate reporting.

Comments on Financial Statement Items – Contract Claims (Page 11): The Society could not provide adequate documentation or information that was complete and accurate for its contract claims. It is recommended that the Society keep adequate documentation to support its contract claims and that they review the data for completeness and accuracy.

Previous Report of Examination

Accounts and Records (Page 7): It was recommended that the Society carefully calculate and record the interest maintenance reserve and asset valuation reserve accounts in accordance with Statements of Statutory Accounting Principles (SSAP) No. 7. It was also recommended that the Society maintain adequate documentation to support all financial statement accounts. The Society has implemented changes to calculate its interest maintenance reserve and asset valuation reserve, but still has issues with providing adequate documentation to support their financial statement accounts.

Accounts and Records – Information Systems Controls (Page 7): It was recommended that the Society review the recommendations made regarding its information systems and make appropriate changes to strengthen its controls. The Society did not implement the recommended changes to strengthen its controls over information systems due to the fact that a new information system was implemented and the prior recommendations no longer applied. New recommendations to strengthen controls over the current information system have been made for this examination.

Comments on Financial Statement Items – Bonds (Page 12): It was recommended the Society record permanent impairments in accordance with SSAP No. 5. The Society is now in compliance.

Comments on Financial Statement Items – Contract Claims (Page 12): It was recommended that the Society accurately report all of its contract claims payable. The Society has implemented changes to ensure accurate reporting for the prior issues noted and new recommendations have been made for this examination.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Society's officers and employees during the course of this examination.

Respectfully submitted,

____/S/_____

Jennifer Whitehurst, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

____/S/_____

Isabel Spiker, CFE
Senior Insurance Examiner, Supervisor
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