

BEFORE THE INSURANCE COMMISSIONER  
FOR THE STATE OF ARKANSAS

IN THE MATTER OF  
CAPITOL LIFE AND ACCIDENT  
INSURANCE COMPANY

AID NO. 2006- 044

**ADOPTION ORDER**

Now on this day the matter of the Report of Examination as of December 31, 2005, of Capitol Life and Accident Insurance Company ("Company"), a domestic stock insurer of Little Rock, Arkansas, NAIC No. 90840, is taken under consideration by Julie Benafield Bowman, Insurance Commissioner for the State of Arkansas ("Commissioner"), as presented by Associate Counsel Nina Samuel Carter and the Finance Division of the Arkansas Insurance Department ("Department"). From the facts, matters, and law before her, the Commissioner finds as follows:

**FINDINGS OF FACT**

1. That the Commissioner has jurisdiction over the Company and the subject matter involved herein.
2. That the Company is an Arkansas domiciled stock insurer authorized to transact Life and Accident and Health insurance in the State of Arkansas.
3. That pursuant to Ark. Code Ann. §§23-61-201, et seq., the Commissioner authorized and directed the Department to conduct a regular examination of the affairs, transactions, accounts, records and assets of the Company as of December 31, 2005.
4. That said examination was commenced by the Department on June 19, 2006, and completed on July 17, 2006.
5. That the verified Report of Examination was filed with the Department on August 23, 2006, was forwarded to the Company via certified mail on August 23, 2006, and was received by the Company on August 25, 2006.
6. That the Report of Examination contains the following comments or discrepancies regarding the Company's operation:

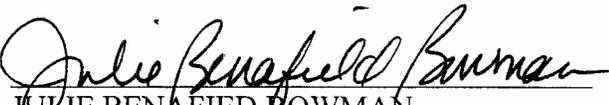
- a. The Company's 2001 annual stockholders and board of directors' meeting minutes were provided for review; however, no other annual stockholders or board of directors' meeting minutes for the examination period or subsequent periods were provided for review;
  - b. As of December 31, 2005, the Company did not have a fidelity bond or any other fidelity coverage for its officers or employees whose duties require this coverage. The NAIC recommended fidelity coverage for a Company of this size is \$75,000; and
  - c. The contract actuary's review of accident and health policy and contract claims revealed that there appeared to be several claims that were incurred in 2005 and paid in 2006; the accident and health contract claims liability was understated by approximately \$3,700 for those claims. Since the amount is not material, no adjustment is proposed.
7. That the Company made no response or rebuttal to the Examiner's comments on the draft Report of Examination.

THEREFORE, pursuant to the provisions of Ark. Code Ann. Section 23-61-205, the Commissioner hereby orders:

1. That the Examination Report as filed with the Department is hereby adopted;
2. That the Department shall forward a copy of this Order and the adopted Examination Report to the Company via certified mail;
3. That the Company shall make the following systems changes or improvements to address the violations or items noted in the examination:
  - a. It is recommended that the Company provide all annual stockholders, board of directors, and committee meeting minutes for the examiners review during future examination engagements;
  - b. It is recommended that the Company secure fidelity coverage, which meets the minimum amount suggested by the National Association of Insurance Commissioners for its officers and any other company employees whose duties require this coverage;

- c. It is recommended that the Company monitor paid and ongoing claims at year-end to determine the necessity for a liability;
4. That within twenty (20) days of its receipt of this Order and the adopted Examination Report, the Company shall file with the Department affidavits executed by each of its Directors stating under oath that they have received a copy of this Order and the adopted Examination Report; and
5. That the adopted Examination Report will be open for public inspection upon the expiration of thirty (30) days from the Company's receipt of this Order.

**IT IS SO ORDERED** this 10<sup>th</sup> day of OCTOBER, 2006.

  
JULIE BENAFIED BOWMAN  
INSURANCE COMMISSIONER  
STATE OF ARKANSAS