

EXAMINATION REPORT
OF
INDEPENDENCE LIFE AND ANNUITY COMPANY
AS OF
DECEMBER 31, 2018

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
INDEPENDENCE LIFE AND ANNUITY COMPANY
AS OF
DECEMBER 31, 2018

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.


Trinidad Navarro
Insurance Commissioner

Dated this 28 day of May, 2020

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April 15, 2020

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street
Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 19.025, dated May 31, 2019, an examination has been made of the affairs, financial condition and management of

Independence Life and Annuity Company

hereinafter referred to as the Company and incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the administrative office of the Company located at One Sun Life Executive Park, Wellesley Hills, MA. 02481. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The previous regulatory examination of the Company covered the two-year period from January 1, 2013 through December 31, 2014. This examination covered the four-year period from January 1, 2015 through December 31, 2018, and encompasses a general review of transactions during the period, the Company's business policies and practices,

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as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2018. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of the multi-state coordinated examination of the Sun Life Insurance Company of Canada Group (SLF-US or Group) of regulated United States life insurance companies as of December 31, 2018. Michigan is the Lead State for the Group. The Company is a direct subsidiary of Sun Life of Canada (U.S.) Holdings, Inc. (Life Holdco). The examination was conducted concurrently with that of the Company's affiliates. The Companies in the Group and their State of domicile are summarized as follows:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Independence Life and Annuity Company	64602	DE
Sun Life Assurance Company of Canada (U.S.)	80802	MI
Sun Life and Health Insurance Company	80926	MI
Professional Insurance Company	68047	TX
Sun Life Financial (U.S.) Reinsurance Company II	15325	DE
Sun Life Financial (U.S.) Reinsurance Company	13051	VT
United Dental Care of Arizona, Inc.	47708	AZ
United Dental Care of Michigan, Inc.	11111	MI
United Dental Care of Missouri, Inc.	47044	MO
United Dental Care of New Mexico, Inc.	47042	NM
UDC Ohio, Inc.	52022	OH
United Dental Care of Texas, Inc.	95142	TX
United Dental Care of Utah, Inc.	95450	UT

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current

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and prospective risks of the Company, 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 Company 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 Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm Deloitte and Touche LLP (Deloitte). Certain auditor work papers of the 2018 Deloitte audit of the Group have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in the financial statements as a result of this examination.

COMPANY HISTORY

Effective December 28, 1989, the Company domesticated in Michigan. On October 1, 1993, Crown America Holding Company sold all of its shares of the Company to the Keyport Life Insurance Company (Keyport Life). On December 29, 1993, the Company re-domesticated to the State of Rhode Island.

Effective January 10, 1994, the name of the Company was changed to Keyport America Life Insurance Company. Subsequently, effective July 13, 1995, the name of the Company was changed to Independence Life and Annuity Company.

Effective after the close of business on October 31, 2001, all of the outstanding shares of Keyport Life and its affiliates, including the Company, were acquired by Life Holdco, a holding company incorporated in the State of Delaware. Life Holdco is a member of the Sun Life Financial Group Insurance Holding Company System.

On December 31, 2003, the Company became a wholly-owned subsidiary of Sun Life Assurance Company of Canada (US) (SLUS) when its parent, Keyport Life, merged with and into SLUS. SLUS was a wholly-owned subsidiary of Life Holdco.

On December 10, 2012, the Company re-domesticated to the State of Delaware. On January 1, 2013 all of the issued and outstanding shares of the Company were distributed to Life Holdco. The Company is a direct wholly-owned subsidiary of Life Holdco and an indirect wholly-owned subsidiary of Sun Life Financial Inc. (SLF), a reporting Company under the Securities Exchange Act of 1934.

Capitalization

The Certificate of Incorporation provides that the authorized capital stock of the Company shall be 2,500,500 shares, issued and outstanding of 2,500,350 of \$1.00 par value

Independence Life and Annuity Company

common stock of \$2,500,350. As December 31, 2018, the Gross Paid-In and Contributed Surplus totaled \$197,719,680.

Dividends

In 2016, after receiving regulatory approval, the Company paid an extraordinary dividend to Life Holdco of \$75 million. In 2017, after receiving regulatory approval, the Company paid an extraordinary dividend to Life Holdco of \$25 million.

MANAGEMENT AND CONTROL

Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's certificate of incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board of Directors (Board).

Directors shall be elected annually by the sole shareholder and the number of directors is currently fixed at not less than three members. Each Director shall hold office until his or her successor is elected and qualified. Directors are not required to be shareholders or residents of Delaware to qualify.

The Board, duly elected in accordance with its bylaws and serving at December 31, 2018, is as follows:

<u>Individual</u>	<u>Principal Business Affiliation</u>
Alexander Bogdanov	Vice President, Individual Insurance Sun Life Financial US Operations
Scott M. Davis	Senior Vice President and General Counsel Sun Life Financial US Operations
Neil L. Haynes	Senior Vice President and Chief Financial Officer Sun Life Financial US Operations

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Officers

In accordance with its bylaws, officers serving the Company shall include a President, a Secretary and a Treasurer. The Board may also appoint a Chairman, one or more Vice Presidents, and such other officers as are from time to time desired. Any number of offices may be held by the same person, unless the certificate of incorporation or the bylaws otherwise provide. The senior officers duly appointed in accordance with the bylaws and serving at December 31, 2018, are as follows:

<u>Individual</u>	<u>Office</u>
Alexander Bogdanov	President
Randolph B. Brown	Chief Investment Officer
Neil L. Haynes	Senior Vice President and Chief Financial Officer and Treasurer
Scott M. Davis	Senior Vice President and General Counsel
Donna J. Nelson-Duey	Vice President & Chief Information Officer, Information Technology
Meredith A. Lilley	Vice President and Chief Actuary
Edmund F. Milano	Vice President, Marketing
Colleen Kallas	Assistant Vice President and Senior Counsel and Secretary
Julia E. O'Neill	Vice President and Chief Risk Officer

Corporate Records

The recorded minutes of the shareholders, the Board, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, and approval of investment transactions in accordance with 18 *Del. C.* §1304 “Authorization, Record of Investments”.

Inspection of Company files indicated that an ethics statement/conflict of interest statement was completed by all directors and employees for the examination period.

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In addition, a review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919 “Change of Directors, Officers; Notices”.

Insurance Holding Company System

The Company is a member of an Insurance Holding Company System as defined under 18 *Del. C.* §5001 “Definitions” of the Delaware Insurance Code. The Company is a wholly-owned subsidiary of Life Holdco.

The following abbreviated presentation of the holding company system reflects the identities and interrelationships between the Company and other members of the holding company system as of December 31, 2018:

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<u>Company</u>	<u>Domicile</u>
Sun Life Financial Inc.	Canada
Sun Life Global Investments Inc.	Canada
Sun Life 2007-1 Financing Corp.	Canada
Sun Life Assurance Company of Canada - U.S. Operations Holdings, Inc.	Delaware
Sun Life Financial (U.S.) Holdings, Inc.	Delaware
Sun Life Financial (U.S.) Investments LLC	Delaware
Sun Life of Canada (U.S.) Holdings, Inc.	Delaware
Independence Life and Annuity Company	Delaware
Sun Life Financial Reinsurance Company II	Delaware

Note that all relationships above represent 100% ownership.

Agreements with Affiliates

Tax Allocation Agreement

Effective December 31, 2003, amended and restated September 1, 2017 and most recently amended October 1, 2018, the Company entered into a Tax Allocation Agreement with Life Holdco and currently 30 of its direct and indirect subsidiaries. Allocation is based upon separate return calculations with current credit (benefit) given for losses and tax attributes that are utilized by the consolidated group. Intercompany tax balances are settled on a quarterly basis, with a final true-up after filing of the federal income tax return, as prescribed by the terms of the tax sharing agreement.

Administrative Agreement

On December 17, 2013, the Company entered into administrative agreement with its affiliate, Sun Life Assurance Company of Canada (SLOC), to provide general administrative services to the Company. The services provided to the company include personnel, facilities,

Independence Life and Annuity Company

actuarial services, legal services, and other services which are all reimbursed by the Company on a cost reimbursement basis. Prior to this agreement these services were provided under an agreement with SLUS.

Investment Management Agreement

Effective October 1, 2001 and as amended on December 1, 2006, the Company entered into an Investment Advisory Agreement with Sun Capital Advisers, LLC (now known as Sun Life Capital Management (U.S.) LLC) (Sun Capital) under which Sun Capital acts as investment manager for certain of the Company's portfolios. Sun Capital is a Delaware investment advisor and a wholly-owned indirect subsidiary of SLF.

Principal Underwriting Agreement

Effective July 1, 2018, the Company entered into a principal underwriting agreement with Sun Life Institutional Distributors (U.S.) LLC (SLID), whereby SLID provides underwriting and distribution services in connection with certain single premium variable life policies (Variable Life Separate Account) issued by the Company. Prior to this agreement these services were provided under an agreement with Sun Life Financial Distributors, Inc.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2018, the Company was licensed to transact multiple lines of insurance business in 49 states and the District of Columbia. There were no changes in licensed jurisdictions during the examination period.

Plan of Operations

The Company is authorized as a stock insurer to transact the business of life insurance, including annuities, variable annuities, and variable life as defined in 18 *Del. C.* §902 "Life

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insurance defined” and 18 *Del. C.* §903 “Health insurance defined.” The business of the Company includes variable life insurance products and fixed annuities.

Prior to the examination period, the business of the Company included variable life insurance products and fixed annuities. The Company is in run-off and no new business has been written during the exam period. The number of the Company’s policyholders has gradually decreased to 504 as of December 31, 2018, down from 670 policyholders as of December 31, 2014.

The Company reports Separate Accounts representing assets and reserves for variable life insurance. The Separate Account assets are in various investments, such as mutual funds, and are accessible by the contract owners. The investment risk for this business is borne by the contract owners. The primary cash flow risks to the Company under the life segments relate to the adequacy of mortality and expense charges.

REINSURANCE

The Company reported the following distribution of premiums written for 2018:

	<u>Premiums</u>
Direct	\$ -
Reinsurance assumed from affiliates	(1,629,534)
Reinsurance assumed from non-affiliates	-
Total gross (direct and assumed)	<u>\$ (1,629,534)</u>
Reinsurance ceded to affiliates	\$ 1,629,534
Reinsurance ceded to non-affiliates	\$ 412,987
Total ceded	<u>\$ 2,042,521</u>
Net premiums written	<u><u>\$ 412,987</u></u>

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Assumed Reinsurance

Effective November 30, 2013, the Company entered into a reinsurance agreement with SLOC, an affiliate. Under the agreement SLOC ceded to the Company 100% of the risks associated with certain universal life policies issued by SLOC between January 1, 2000 and February 28, 2006 on a 100% funds withheld coinsurance basis. Simultaneously with this agreement the Company entered into a retrocession agreement with Sun Life Financial (U.S.) Reinsurance Company II (SLDE), which is described in more detail below.

Effective December 31, 2014, SLOC recaptured essentially all of the single life business ceded under an external reinsurance agreement. A significant portion of the business recaptured by SLOC was ceded to the Company and then retroceded by the Company to SLDE, pursuant to the reinsurance and retrocession agreements noted above. The Company retroceded 100% of the business assumed from SLOC to SLDE, resulting in no net impact to the Company.

Ceded Reinsurance

Effective November 30, 2013, the Company entered into a retrocession agreement with SLDE, a direct subsidiary. SLDE was incorporated on December 28, 2012 in the State of Delaware and authorized as a special purpose financial captive insurance company. The Company retroceded to SLDE 100% of the liabilities assumed pursuant to the SLOC reinsurance agreement noted above.

The Company has one other reinsurance agreement in place. A closed block of Individual Variable Life Insurance, issued by the company between 1985 and 1988 is reinsured with Swiss Re Life & Health America, Inc. under a treaty effective October 1, 1993. The Company retains 50% of the amount issued on each policy, but not exceeding \$50,000 per life.

Independence Life and Annuity Company

Reinsurance limits the maximum life insurance claim on any one life to \$50,000. The 2014 ceded premium was \$412,987

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets and Liabilities as of December 31, 2018
- Statement of Income for the year ended December 31, 2018
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2013 to December 31, 2018

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**INDEPENDENCE LIFE AND ANNUITY COMPANY
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2018**

	<u>Ledger Assets</u>	Nonadmitted <u>Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$ 163,705,360		\$ 163,705,360	
Cash	605,557		605,557	
Cash equivalents	1,297,036		1,297,036	
Short-Term Investments	8,962,161		8,962,161	
Contract Loans	11,292,401		11,292,401	
Other Invested Assets	2,184,993		2,184,993	
Subtotals, cash and invested assets	<u>\$ 188,047,508</u>		<u>\$ 188,047,508</u>	
Investment income due and accrued	1,294,912		1,294,912	
Amounts recoverable from reinsurers	18,527		18,527	
Funds held by or deposited with reinsured companies	2,915,016,935		2,915,016,935	1
Other amounts receivable under reinsurance contracts	29,616,942		29,616,942	
Net deferred tax asset	812,762	559,941	252,821	
From separate accounts, segregated accounts and protected cell accounts	35,610,834		35,610,834	
Total Assets	<u><u>\$ 3,170,418,420</u></u>	<u><u>\$ 559,941</u></u>	<u><u>\$ 3,169,858,479</u></u>	

**INDEPENDENCE LIFE AND ANNUITY COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2018**

	<u>2018</u>	<u>Note</u>
Aggregate reserve for life contracts	\$ 19,310,431	2
Liability for deposit-type contracts	68,898	
Contract claims:		
Life	612,035	2
Contract liabilities not included elsewhere:		
Other amounts payable on reinsurance	28,724,711	
Interest maintenance reserve	3,224,122	
Commissions and expense allowances on reinsurance assumed	932,402	
Current federal and foreign income taxes	290,883	
Remittances and items not allallocated	3,000	
Miscellaneous liabilities:		
Asset valuation reserve	598,513	
Payable to parent, subsidiaries and affiliates	69,625	
Funds held under coinsurance	2,915,016,935	1
Aggregate write-in for liabilities	<u>26</u>	
Total liabilities, excluding Separate Accounts business	\$ 2,968,851,581	
From Separate Account statement	<u>35,610,834</u>	
Total liabilities	\$ 3,004,462,415	
Common capital stock	\$ 2,500,350	
Gross paid in and contributed surplus	197,719,680	
Unassigned funds (surplus)	<u>(34,823,966)</u>	
Surplus	<u>\$ 162,895,714</u>	
Total common capital stock and surplus	<u>\$ 165,396,064</u>	
Totals of liabilities & capital and surplus	<u><u>\$ 3,169,858,479</u></u>	

**INDEPENDENCE LIFE AND ANNUITY COMPANY
STATEMENT OF OPERATIONS
AS OF DECEMBER 31, 2018**

	2018
Premium and annuity considerations for life and accident and health contracts	\$ (412,987)
Net investment income	5,930,575
Amortization of interest maintenance reserve	394,874
Commissions and expense allowances on reinsurance ceded	3,678,329
Miscellaneous income:	
Income from fees associated with investment management, administration and contract guarantees from separate accounts	1,012,393
Aggregate write-ins for miscellaneous income	90,339,063
Totals	<u>\$ 100,942,247</u>
Death benefits	\$ 4,152,598
Surrender benefits and withdrawals for life contracts	1,149,218
Interest and adjustments on contract or deposit-type contract funds	34,367
Payments on supplementary contracts with life contingencies	31,222
Increase in aggregate reserves for life and accident and health contracts	(1,136,541)
Totals	<u>\$ 4,230,864</u>
Commissions and expense allowances on reinsurance assumed	3,678,329
General insurance expenses	728,111
Insurance taxes, licenses and fees, excluding federal income taxes	213,905
Net transfers to and (from) Separate Accounts net of reinsurance	(3,128,962)
Aggregate write-ins for deductions	90,238,304
Totals	<u>\$ 95,960,551</u>
Net gain from operations before dividends to policyholders and federal income taxes	\$ 4,981,696
Dividend paid to policyholders	-
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 4,981,696
Federal and foreign income taxes incurred	830,027
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses).	\$ 4,151,669
Net realized capital gains and (losses)	<u>(8,565)</u>
Net Income	<u><u>\$ 4,143,104</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
For the Period from the Prior Examination
As of December 31, 2014, to December 31, 2018

	Special Surplus Funds	Common Stock	Gross Paid in and Contributed	Unassigned Funds	Total
Balance as of January 1, 2015		\$ 2,500,350.00	\$ 297,719,681.00	\$ (173,721,370.00)	\$ 126,498,661.00
Net Change in Capital and Surplus 2015				52,800,000 (1)	52,800,000
Net Change in Capital and Surplus 2016				78,516,927 (1)	78,516,927
Surplus Paid in 2016			(75,000,000) (2)		(75,000,000)
Net Change in Capital and Surplus 2017				3,487,167 (1)	3,487,167
Surplus Paid in 2017			(25,000,000) (2)		(25,000,000)
Net Change in Capital and Surplus 2018				4,093,309 (1)	4,093,309
Balance as of December 31, 2018	-	\$ 2,500,350.00	\$ 197,719,681.00	\$ (34,823,967.00)	\$ 165,396,064.00

1 - Defined as net income, change in unrealized capital gains, change in deferred income tax, change in non-admitted and change in AVR.

2 - In 2016, after receiving regulatory approval, the Company paid an extraordinary dividend to Life Holdco of \$75 million.

In 2017, after receiving regulatory approval, the Company paid an extraordinary dividend to Life Holdco of \$25 million.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes made to the Financial Statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Funds held under coinsurance	\$2,915,016,935
Funds held by or deposited with reinsured companies	\$2,915,016,935

Under terms of the reinsurance and retrocessional agreements, the Company recorded a receivable from SLOC and a retrocession funds withheld payable in an amount equal to the funds withheld coinsurance reserve on the effective date. The retrocessional funds withheld account balance will be adjusted to equal the receivable from SLOC as the funds withheld account is increased or decreased.

Independence Life and Annuity Company

Note 2:

Aggregate reserve for life contracts	\$ 19,310,431
Liability for deposit-type contracts	\$ 68,898
Contract claims: Life	\$ 612,035
Separate Account-Aggregate reserve for life and annuity contracts	\$ 35,610,834

As of December 31, 2018, the Company held General Account (GA) and Separate Account Reserves (SA) reserves primarily for variable life insurance. GA reserves were primarily held for smaller blocks of life contracts and supplementary contracts.

An actuarial examination was performed by INS Consultants, Inc. (INS) on the amounts captioned above. The INS actuarial examination included a review of the Company's asset adequacy analysis as outlined in the Actuarial Opinion Memorandum as prepared by Company's Appointed Actuary.

INS concluded that the balance sheet appeared to be fairly stated. This opinion was accepted for the purposes of this examination.

SUBSEQUENT EVENTS

In June 2019, the Company filed a revised Plan of Operation with the Department to indicate its intention to begin issuing new medical stop loss policies beginning in late 2019 or early 2020.

The Company received a capital contribution in the amount of \$180 million from its sole shareholder, Life Holdco, on December 23, 2019. On the same day, the Company contributed \$180 million to its direct subsidiary, SLDE.

Effective January 1, 2019, the Company became a party to the Citibank Global Investment Custodial Agreement which SLOC has been a party to since July 20, 1994.

Independence Life and Annuity Company

During March of 2020, the United States experienced a pandemic related to the COVID-19 virus. At the date of this report, the Company has not been able to quantify the effects of this pandemic on its current or future financial statements. At the date of this report, the Company was fully operational and was providing services to its policyholders.

In June 2019, Donna J. Nelson-Duey, Vice President & Chief Information Officer, Information Technology retired and was replaced by Paula Bartgis.

SUMMARY of RECOMMENDATIONS

There were no recommendations as a result of this examination.

Independence Life and Annuity Company

The assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, Examination Resources, LLC, the Company's outside audit firm, Deloitte and Touche LLP, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Patrick White, CFE
Examiner In-Charge
State of Delaware



Anthony Cardone, CFE, CPA
Supervising Examiner
State of Delaware

Independence Life and Annuity Company

I, Patrick White, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 19.025.


Patrick White, CFE