

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

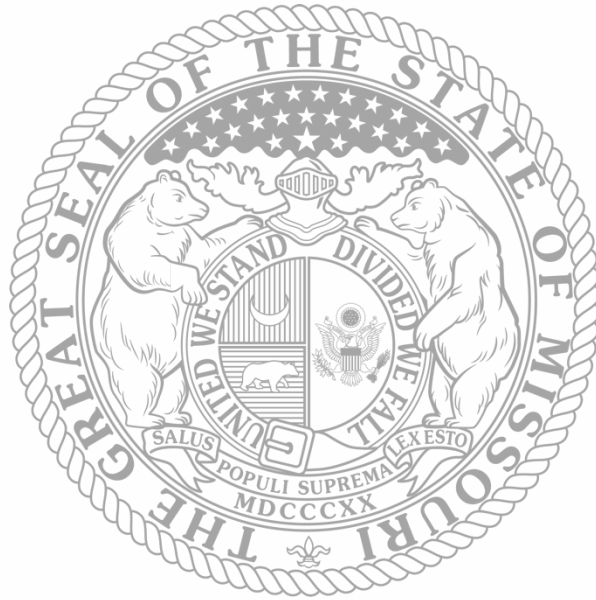
After full consideration and review of the report of the financial examination of Royalty Capital Life Insurance Company for the period ended December 31, 2018 together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Royalty Capital Life Insurance Company as of December 31, 2018 be and is hereby ADOPTED as filed and for Royalty Capital Life Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions:

So ordered, signed and official seal affixed this 6th day of June, 2020.



Chlora Lindley-Myers
Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

ROYALTY CAPITAL LIFE INSURANCE COMPANY

AS OF
DECEMBER 31, 2018

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Kansas City, MO
April 27, 2020

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

Royalty Capital Life Insurance Company (NAIC #61573)

hereinafter referred to as such, as RCLIC, or as the Company. Its administrative office is located at 121 W. Election Rd. Suite 100, Draper, UT 84020, telephone number 801-264-1060. The fieldwork for this examination began on October 22, 2019, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a multi-state financial examination of Royalty Capital Life Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2009 through December 31, 2013. The current examination covers the period of January 1, 2014 through December 31, 2018, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to RCLIC included investments, premium and underwriting, reinsurance, and capital and surplus. The examination also included a review and evaluation of information technology general controls.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

Royalty Capital Life Insurance Company, formerly known as Capital Reserve Life Insurance Company, was originally incorporated on February 24, 1922, and granted a certificate of authority to write insurance in the state of Missouri on the same date. Effective December 7, 1955, the Company became a joint stock, legal reserve life insurance company, and currently maintains a certificate of authority under sections 376.010 to 376.130 RSMo. (Life and Health Insurance Company) for the insurance business of life, annuities and endowments.

Mergers, Acquisitions, and Major Corporate Events

On August 29, 2016, Inspire Capital Corporation (ICC) purchased all of the outstanding shares of the Company's common stock from the Company's then parent, American Life & Security Corporation (ALSC). Effective February 28, 2017, ICC merged with and into Royalty Capital Corporation (RCC), a privately held Illinois stock company, with RCC being the surviving corporation. RCC holds all of the outstanding shares of RCLIC's common stock, and is RCLIC's direct parent.

Dividends and Capital Contributions

RCLIC did not pay any dividends during the examination period.

On May 7, 2015, ALSC made a \$150,000 surplus contribution to RCLIC.

On December 18, 2017, RCC made a \$2,297,600 contribution to RCLIC in the form of a common stock purchase.

Surplus Notes

There were no surplus notes issued or outstanding during the examination period.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that is elected by the shareholders. The Company's bylaws specify that there shall be no less than nine and no more than fifteen members. The Board of Directors elected and serving as of December 31, 2018, were as follows:

Name and Address

Principal Occupation and Business Affiliation

Steven L. Beal
Mount Vernon, IL

Chief Executive Officer and President
National Railway Equipment Company

John G. Eilering
Mount Prospect, IL

President
Mount Prospect State Bank

Corbyn W. Jones
Kansas City, MO

Attorney
McDowell, Rice, Smith, and Buchanan

Theodore T. Lung
Camp Point, IL

Manager
Diversified Crop Insurance Services

Richard H. Straeter
Mount Vernon, IL

Former District Manager
Woolsey Operating Company, LLC

George W. Beck
Mount Vernon, IL

Consultant
Durham School Services

George N. Gaynor
Chicago, IL

Self Employed
Investments Trading

David B. Keller
Columbia, MO

Retired President
The Bank of Missouri

Willard C. McNitt III
Chicago, IL

Principal
Thurston Group

John C. Todd
Mokena, IL

President and Chief Executive Officer
Royalty Capital Life Insurance Company

Matthew P. Breuer
Lake Ozark, MO

President
Ark Enterprises

William S. Lay
Mokena, IL

Secretary and Treasurer
Royalty Capital Life Insurance Company

William J. Howard
Rockford, IL

Attorney
Law Office of William J. Howard, LLC

John M. Otten
Clinton, MO

Manager
Movement Mortgage, LLC

Gregg E. Zahn
Tulsa, OK

President and CEO
First Trinity Financial Corporation

Officers

The senior officers elected and serving, as of December 31, 2018, were as follows:

<u>Name</u>	<u>Office</u>
Gregg E. Zahn	Chairman of the Board
Theodore T. Lung	Vice Chairman of the Board
John C. Todd	President
William S. Lay	Secretary and Treasurer
Michael J. McArthur	Chief Financial Officer

Principal Committees

Pursuant to RCLIC's Bylaws, the Board of Directors may designate one or more committees, each of which shall consist of at least two members. The Company maintained the following Board committees as of December 31, 2018:

Audit Committee

George W. Beck, Co-Chair
Willard C. McNitt III, Co-Chair
John G. Eilering

Compensation Committee

Richard H. Straeter, Chair
George N. Gaynor
Steven L. Beal

Investment Committee

Gregg E. Zahn, Chair
William S. Lay
Willard C. McNitt III
William J. Howard

Nominating and Corporate Governance

William S. Lay, Chair
Matthew P. Breuer
Corbyn W. Jones

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed. The Articles were amended effective November 30, 2017 to increase the number of shares of authorized common stock to 15,000; December 13, 2017 to change the location of the principal office to Mokena, Illinois; and May 14, 2018 to change the name of the Company to Royalty Capital Life Insurance Company. The Bylaws were amended effective February 28, 2017 to set membership of the Board of Directors to not less than nine or more than fifteen, and to provide for the duties of the Chairman of the Board and Vice Chairman of the Board. The minutes of the Board and Shareholder meetings were reviewed for the period under examination.

Holding Company, Subsidiaries, and Affiliates

RCLIC is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). The Company is a wholly-owned subsidiary of Royalty Capital Corporation, a private holding company. Gregg Zahn and John Todd are principals of RCC, both of whom are considered Ultimate Controlling Persons (UCP) of RCLIC through their ownership of ten percent or more of the outstanding shares of RCC. In addition, Mr. Zahn is President, CEO, and Chairman of affiliated companies First Trinity Financial Corporation (FTFC), Trinity Life Insurance Company, and Family Benefit Life Insurance Company, and indirectly controls FTFC's 3.1% ownership of RCC's outstanding shares.

Following is a description of the business operations of the Company's affiliated entities, which have business operations in or related to the insurance industry, as shown in the Organization Chart:

Royalty Capital Corporation – An insurance holding company based in Illinois.

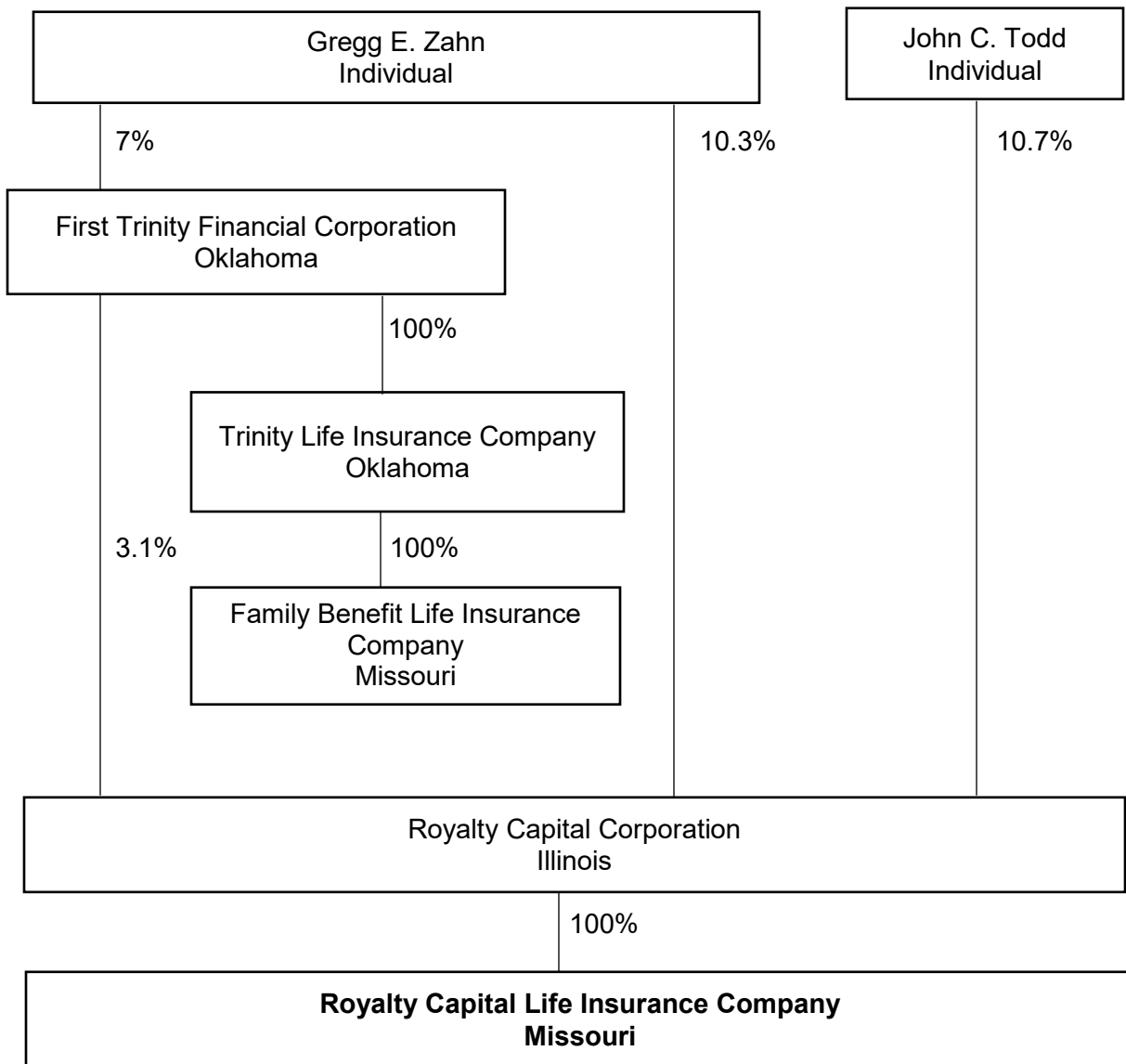
First Trinity Financial Corporation – An insurance holding company based in Oklahoma.

Trinity Life Insurance Company – A life insurance company domiciled in Oklahoma.

Family Benefit Life Insurance Company – A life insurance company domiciled in Missouri.

Organizational Chart

The following organizational chart depicts the applicable portion of the holding company group as of December 31, 2018.



Intercompany Transactions

The following is a brief summary of significant contracts executed with affiliated entities that were in effect as of December 31, 2018.

Cost Sharing Agreement: Effective July 1, 2018, RCC and RCLIC agree to share costs such as personnel, rent, and office expenditures. The cost allocation is based on actual time spent between RCC and RCLIC.

TERRITORY AND PLAN OF OPERATION

The Company is licensed under the provisions of sections 376.010 to 376.670 RSMo. (Life, Health and Accident Insurance) to write life, accident, and health insurance. The Company is also licensed in the states of Kansas and Illinois.

The Company's primary product is Legacy Builder, a modified premium whole life insurance policy with a flexible premium deferred annuity rider, which it began writing in November 2018. The Company did not write any new business during the examination period prior to 2018, ceding its existing run-off life policies to a reinsurer.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The Company did not write any new business during the majority of the examination period, as noted in the Territory and Plan of Operation section. Capital and surplus increased in 2017 and 2018 as the Company's parent contributed additional capital in order to begin writing new business.

The table below summarizes the Company's growth and loss experience for the period under examination:

(\$000s omitted)

Year	Net Premiums Written	Change in Net Premiums	Benefit and Loss Payments	Capital and Surplus	Ratio of Net Premiums to Surplus	Net Income (Loss)
2014	\$ 0	0	\$ 0	\$ 1,333	0.0000	\$ (124)
2015	0	0	0	1,464	0.0000	(78)
2016	0	0	0	1,361	0.0000	(105)
2017	0	0	0	3,626	0.0000	(32)
2018	1	1	0	3,567	0.0003	(44)

REINSURANCE**General**

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2014	2015	2016	2017	2018
Direct Premiums Written	\$ 232	\$ 160	\$ 144	\$ 140	\$ 137
Reinsurance Assumed:					
Affiliates					
Non-Affiliates					
Reinsurance Ceded:					
Affiliates					
Non-Affiliates	232	160	144	140	136
Net Premiums Written	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1

Assumed Reinsurance

The Company did not assume any premiums during the period under examination.

Ceded Reinsurance

The Company is party to a reinsurance agreement with Security National Life Insurance Company (SNLIC), effective December 17, 2007, whereby SNLIC reinsures 100% of the Company's policies in-force as of the effective date and 100% of any new policies issued by the Company through January 20, 2010. The policies reinsured through this agreement are currently in run-off status.

Under provisions of the reinsurance agreement, a trust agreement was entered into by RCLIC and SNLIC, with Zions Bancorporation, of Salt Lake City, Utah, acting as trustee. The amounts deposited into the trust account equal the statutory reserves subject to the reinsurance agreement, securing the payments to be made pursuant to the terms of the reinsurance agreement.

Optimum Re Insurance Company reinsures the Company's new product, Legacy Builder, on a facultative basis, assuming 100% of amounts in excess of the Company's \$50,000 retention, per policy.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm, Kerber, Eck & Braeckel, LLP, of Springfield, Illinois, performed the statutory audit of the Company for the years 2016-2018, and the CPA firm, RSM US LLP, of Omaha, Nebraska performed the audit for the years 2014-2015. Reliance was placed upon the CPA workpapers as deemed appropriate. Such reliance included, but was not limited to, narrative descriptions of processes and controls, and account balance confirmations.

Actuarial Opinion

The Company's actuarial opinion regarding loss reserves, loss adjustment expense reserves, and other actuarial items was issued by R. Eric Newberg, ASA, MAAA, for all years in the examination period. Miller & Newberg, Inc. of Overland Park, Kansas employs R. Eric Newberg.

Information Systems

In conjunction with this examination, Kimberly Dobbs, MBA, CFE, AES, CISA, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Royalty Capital Life Insurance Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

ASSETS

As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 2,532,563	\$ 0	\$ 2,532,563
Cash, Cash Equivalents, and Short- Term Investments	1,025,368	0	1,025,368
Investment Income Due and Accrued	22,907	0	22,907
Aggregate Write-Ins for Other-Than- Invested Assets	12,467	12,467	0
TOTAL ASSETS	\$ 3,593,305	\$ 12,467	\$ 3,580,838

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2018

Aggregate Reserve for Life Contracts	\$ 353
General Expenses Due or Accrued	4,579
Taxes, Licenses, and Fees Due or Accrued, Excluding Federal Income Taxes	807
Remittances and Items Not Allocated	18
Miscellaneous Liabilities:	
Asset Valuation Reserve	8,364
Payable for Securities	22
TOTAL LIABILITIES	\$ 14,143
Common Capital Stock	1,000,000
Gross Paid In and Contributed Surplus	2,385,400
Unassigned Funds (Surplus)	181,295
TOTAL CAPITAL AND SURPLUS	\$ 3,566,695
TOTAL LIABILITIES AND SURPLUS	\$ 3,580,838

SUMMARY OF OPERATIONS

For the Year Ended December 31, 2018

Premiums and Annuity Considerations for Life and Accident and Health Contracts	\$ 1,025
Net Investment Income	90,149
Amortization of Interest Maintenance Reserve	1,172
Commissions and Expense Allowances on Reinsurance Ceded	1,441
Total Revenue	\$ 93,787
Increase in Aggregate Reserves for Life and Accident and Health Contracts	353
Commissions and Expense Allowances on Reinsurance Assumed	2,158
General Insurance Expenses	121,397
Insurance Taxes, License, and Fees, Excluding Federal Income Taxes	12,338
Total Underwriting Deductions	\$ 136,246
Net Gain (Loss) From Operations Before Dividends to Policyholders and Federal Income Taxes	\$ (42,459)
Federal and Foreign Income Taxes Incurred	1,112
NET INCOME (LOSS)	\$ (43,571)

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2014 to December 31, 2018

(\$000's omitted)

	2014	2015	2016	2017	2018
Capital and Surplus, Beginning of Year	\$ 1,265	\$ 1,333	\$ 1,464	\$ 1,361	\$ 3,626
Net Income (Loss)	(124)	(78)	(105)	(32)	(44)
Change in Net Unrealized Capital Gains (Losses)					
Less Capital Gains Tax	173	(173)	0	0	0
Change in Nonadmitted Assets	(206)	233	3	0	(12)
Change in Asset Valuation Reserve	(1)	(1)	(1)	(1)	(4)
Change in Treasury Stock					
Capital Changes:					
Paid In	0	0	0	287	0
Surplus Adjustments:					
Paid In	225	150	0	2,010	0
Net Change in Capital and Surplus	68	131	(103)	2,265	(59)
Capital and Surplus, End of Year	\$ 1,333	\$ 1,464	\$ 1,361	\$ 3,626	\$ 3,567

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

During 2019, one of RCLIC's Ultimate Controlling Persons, Gregg Zahn, filed Forms A, Acquisition of Control, for RCLIC affiliates, Family Benefit Life Insurance Company (FBLIC), a Missouri domestic company, and Trinity Life Insurance Company (TLIC), an Oklahoma domestic company. Both Forms A were approved by the respective states as part of a transaction under which Mr. Zahn would obtain controlling interest in First Trinity Financial Corporation, the current Ultimate Controlling Entity for FBLIC and TLIC. The outcome of the transaction is that all entities controlled by Mr. Zahn will be combined under one holding company group, with Mr. Zahn as the Ultimate Controlling Person.

On February 13, 2020, the Department approved a \$600,000 capital contribution from RCLIC's parent, RCC, to RCLIC.

The Department is monitoring the impact of the COVID-19 global pandemic. This pandemic could have a significant financial and operational impact on all insurers, including the Company. As such, the Department will continue to monitor and communicate with the Company to understand the impact of the COVID-19 global pandemic on the Company's operations and financial condition.


ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Royalty Capital Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Lisa Li, CPA, CFE, and Emily Pennington, CFE, examiners for the Missouri Department of Commerce and Insurance, also participated in this examination.

VERIFICATION


State of Missouri)
) ss
County of Jackson)

I, Laura Church, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of Royalty Capital Life Insurance Company, its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Laura Church, CPA, CFE
Examiner-In-Charge
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 8th day of May, 2020.

My commission expires: 6-10-2022 
Notary Public

DONNA L. RHODUS
Notary Public - Notary Seal
State of Missouri - Platte County
Commission # 18897454
My Commission Expires 6/10/2022

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



Levi Nwasoria, CPA, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance