STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

ORDER

After full consideration and review of the report of the financial examination of Fidelity Security Life Insurance Company for the period ended December 31, 2016, 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 Insurance, Financial Institutions and Professional Registration 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, corporate records, management and control, territory and plan of operation, reinsurance, financial statements, financial statement changes resulting from examination, comments on financial statement items, and summary recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Fidelity Security Life Insurance Company as of December 31, 2016 be and is hereby ADOPTED as filed and for Fidelity Security 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 18th day of June, 2018.

Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE

FINANCIAL EXAMINATION OF

Fidelity Security Life Insurance Company

AS OF

DECEMBER 31, 2016

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Kansas City, MO
May 30, 2018

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

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

Fidelity Security Life Insurance Company

hereinafter referred to as such, as FSL, or as the Company. Its main administrative office is located at 3130 Broadway Boulevard, Kansas City, Missouri 64111. The fieldwork for this examination began on November 6, 2017, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) has performed a full-scope financial examination of Fidelity Security Life Insurance Company. The last examination of the Company by the DIFP covered the period of January 1, 2009 through December 31, 2012. The current examination covers the period of January 1, 2013 through December 31, 2016, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

This examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (*Handbook*), except where practices, procedures, and applicable regulations of the DIFP and 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. This 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 FSL included investments, reinsurance, premiums and underwriting, claims handling and reserving, related party, 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 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 separately communicated to other regulators and/or the Company.

Reliance Upon Others

The examination relied heavily upon information provided by the Company and its management. Where the examiners have deemed appropriate, this information has been tested or verified with external sources. The examiners also relied upon information supplied by the Company's independent auditor, RSM US LLP of Omaha, Nebraska for its audit covering the period from January 1, 2016 through December 31, 2016. Information relied upon included journal entry testing, fraud risk analysis, and certain substantive testing procedures for investments.

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

Fidelity Security Life Insurance Company was incorporated on January 17, 1969, by Forrest and Dottye Jones. The Company was issued a Certificate of Authority on June 12, 1969, and commenced business on July 1, 1969, as a stock life insurance company, in accordance with the provisions of Chapter 376, Revised Statutes of Missouri (RSMo), as a Life, Health, and Accident insurer. In 1994, Forrest and Dottye Jones transferred their shares of FSL's stock to their son and current President, Richard F. Jones (Dick Jones). From 1994 to 2016, Dick Jones (and his wife, Sandy) held a majority of FSL's stock. However, on September 30, 2016, Dick and Sandy Jones sold a majority of their shares of FSL's stock and its insurance-related affiliates to the beneficial ownership of their three sons- Richard Jones, Jr., Bradford Jones, and Bryson Jones- through generation-skipping trusts (GST). Each of the trusts purchased equal shares of FSL and related affiliate stock. The sale of stock was financed through promissory notes, secured by a pledge of the shares being purchased. Following the sale of stock, Dick Jones retained 7,700 shares of FSL's stock, of which he immediately gifted 6,700 total shares to be split equally by the three trusts. This transfer of control was approved by the DIFP on August 22, 2016. See the *Holding Company, Subsidiaries, and Affiliates* section of this report for additional details on ownership and control.

Dividends

FSL declared and paid preferred stock dividends for each year of the examination period, including the subsequent year period of 2017. These dividends were determined to be ordinary.

There were no common stock dividends paid from 2013 through 2016. However, as part of the terms of the transfer of ownership discussed above, in 2017 FSL declared and paid $4,515,012 in dividends to common stockholders. These dividends were also determined to be ordinary. According to the Form A Statement filed with and approved by the DIFP as part of the change in control, these common stock dividends will be used to pay the interest on the promissory notes used to finance the sale of stock. The 2017 dividend was sufficient to pay interest for a partial year in 2016 and a full year in 2017. Annual common stock dividends related to this interest payment are anticipated to be approximately $3,040,000 for the next 20 years.

Capital Stock and Contributions

There were no capital or surplus contributions during the examination period.

Mergers and Acquisitions

Other than the transfer of control discussed under the *General* subsection above, there were no major corporate events during the examination period.

CORPORATE RECORDS

FSL's Articles of Incorporation and Bylaws were reviewed for the period under examination. There was one amendment to the Articles of Incorporation during the examination period. This amendment of Article V was approved by Shareholders on April 26, 2016, and specified that the number of Directors of the Corporation shall be determined by the Bylaws rather than the Articles of Incorporation.

There were two amendments to the Bylaws during the examination period. The first was effective as of February 10, 2015, and made changes to two articles: 1) The date of the annual Shareholders' meeting as outlined in Article I was changed from early May to late April; and 2) Article XII on the indemnification of officers was updated to include the terminology "defend, indemnify, and hold harmless." The second, filed in coordination with the amendment to the Articles of Incorporation outlined above, changed the number of Directors from a set number of ten to a range of no less than nine but no more than 21.

The minutes of the Board of Directors,' Investment committee, Audit committee, and Shareholders' meetings were reviewed for proper oversight of corporate transactions. In general, the minutes appear to properly reflect the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors elected by the Shareholders on an annual basis. As noted above, the Company's Bylaws specify that the Board of Directors shall consist of at least nine members, but not more than twenty-one members. Members of the Board of Directors appointed and serving as of December 31, 2016, were as follows:

Name	Address	Principal Occupation and Business Affiliation
Richard F. Jones*	Shawnee Mission, KS	Chairman, President/Treasurer, FSL
David J. Smith*	Olathe, KS	Retired Senior Vice President, FSL
Michael E. Hall*	Incline Village, NV	Retired Senior Vice President, FSL
Jeffrey B. Hanes	Mission Hills, KS	Former CEO, Carter-Waters Corporation
George J. Bereska*	Carbondale, CO	President, Benefits Brokerage Consultants, Inc. and Former Vice President, FSL
Larry G. Vogt*	Lake Mary, FL	Former President/CEO, Uniformed Services Benefit Association, Inc.
Dave G. Ruf, Jr.*	Leawood, KS	Owner, Phoenix Home Healthcare
Richard L. Andrews	Buckeye, AZ	Former Dean, University of Missouri- Columbia
Alan E. Zink*	Columbus, OH	Former Chairman, USI Affinity
Peter J. deSilva	Creve Coeur, MO	President, Scottrade
William R. Hobbs*	Leawood, KS	Retired Vice President and Controller, FSL

*Denotes Directors holding shares of common capital stock

Committees

The Bylaws allow for the appointment of an Executive Committee and other committees as determined appropriate by the Board of Directors. The appointed committees and the members serving as of December 31, 2016, were as follows:

Executive Committee	Investment Committee	Audit Committee
Richard F. Jones	Richard F. Jones	William R. Hobbs*
David J. Smith	David G. Ruf, Jr.	Jeffrey B. Hanes
George J. Bereska	Larry G. Vogt	Alan E. Zink
	Michael E. Hall	George Bereska

* Denotes Committee Chairman. Executive and Investment Committees do not appoint a Chairman.

Officers

Pursuant to the Company's Bylaws, the Officers of the Company shall consist of a President, one or more Vice Presidents, a Secretary, an Assistant Secretary, a Treasurer, and such other officers as may be elected by the Board of Directors. The Officers elected and serving in that capacity as of December 31, 2016, were as follows:

Officer	Position
Richard F. Jones	President and Treasurer
Bradford R. Jones	Vice President and Secretary
Martha E. Madden	Vice President and General Counsel
Leroy M. McCarty	Vice President
Richard F Jones, Jr.	Vice President
Bryson L. Jones	Vice President
Roy E. Moore	Vice President
Peter A. Lindquist[#]	Vice President

[#]Replaced William R. Hobbs, who retired effective June 15, 2016. Mr. Lindquist was appointed Assistant Secretary on April 25, 2017.

The Company also lists Actuarial Resources Corporation as an Officer on the Jurat page, with the position of Actuary. The Company's Appointed Actuary during the examination period was James M. Merwald from Actuarial Resources Corporation.

Holding Company, Subsidiaries, and Affiliates

FSL is a member of an Insurance Holding Company System as defined by Chapter 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement (Form B) was filed by FSL for each year of the examination period. According to the 2016 Form B filing and as noted in the organizational chart, the holding company system also includes the following entities:

Fidelity Security Life Insurance Company of New York (FSLNY) is a New York domiciled insurance company, licensed in New York to transact the business of life, accident and health insurance.

Forrest T. Jones & Company, Inc. (FTJ) is a Missouri corporation, licensed as a third-party administrator and insurance agency. FTJ owns 7.1% of the outstanding shares of FSL.

Forrest T. Jones Consulting Company (FTJCC) is a Missouri corporation, licensed as a third-party administrator and insurance agency.

National Pension & Group Consultants, Inc. (NPGC) is a District of Columbia corporation, qualified and licensed by Financial Industry Regulatory Authority, Inc. (FINRA) to sell insurance and annuities.

Fidelity Security Assurance Company, LTD (FSAC) is organized under the laws of the Cayman Islands and acts principally as an alien reinsurer.

Prior to the transfer of ownership of FSL in 2016, American Service Life Insurance Company (ASL), an Arkansas domiciled life, accident, and health insurer wholly-owned by Dick Jones, was considered to be an affiliate of FSL and part of the Fidelity Security Group holding company system, along with the companies listed above. ASL's stock was not included in the FSL stock transaction described in the *Company History* section and remains wholly-owned by Dick Jones.

Until the transfer of ownership in 2016, Dick Jones, an individual, was considered the ultimate controlling person of Fidelity Security Life Insurance Company and its affiliated companies listed above. As noted earlier in this report, stock ownership of the Company is equally split between trusts established in each of the Jones' sons' names. Steven Krueger, a tax and real estate lawyer for the Jones family, serves as co-chair with each son for his respective trust. By virtue of the trust arrangement and majority of shares owned, the three Jones sons- Richard, Jr., Bradford, and Bryson- along with Steven Krueger, are deemed to be the ultimate controlling persons of FSL and the related affiliate companies.

The ownership of the outstanding shares of FSL as of December 31, 2016 are summarized in Table 1 below:

Table 1 – FSL Ownership

Name of Shareholder	Number of Shares Owned	Percentage of Total
Richard Jones, Jr.^	286,814 ⅓*	31.0%
Bradford Jones^	286,814 ⅓*	31.0%
Bryson Jones^	286,814 ⅓*	31.0%
Various Individuals/Trusts	39,015	4.2%
ASL	25,000	2.7%
Dick Jones	1,000	0.1%
Total Number of Shares Outstanding	**925,458**	**100.0%**

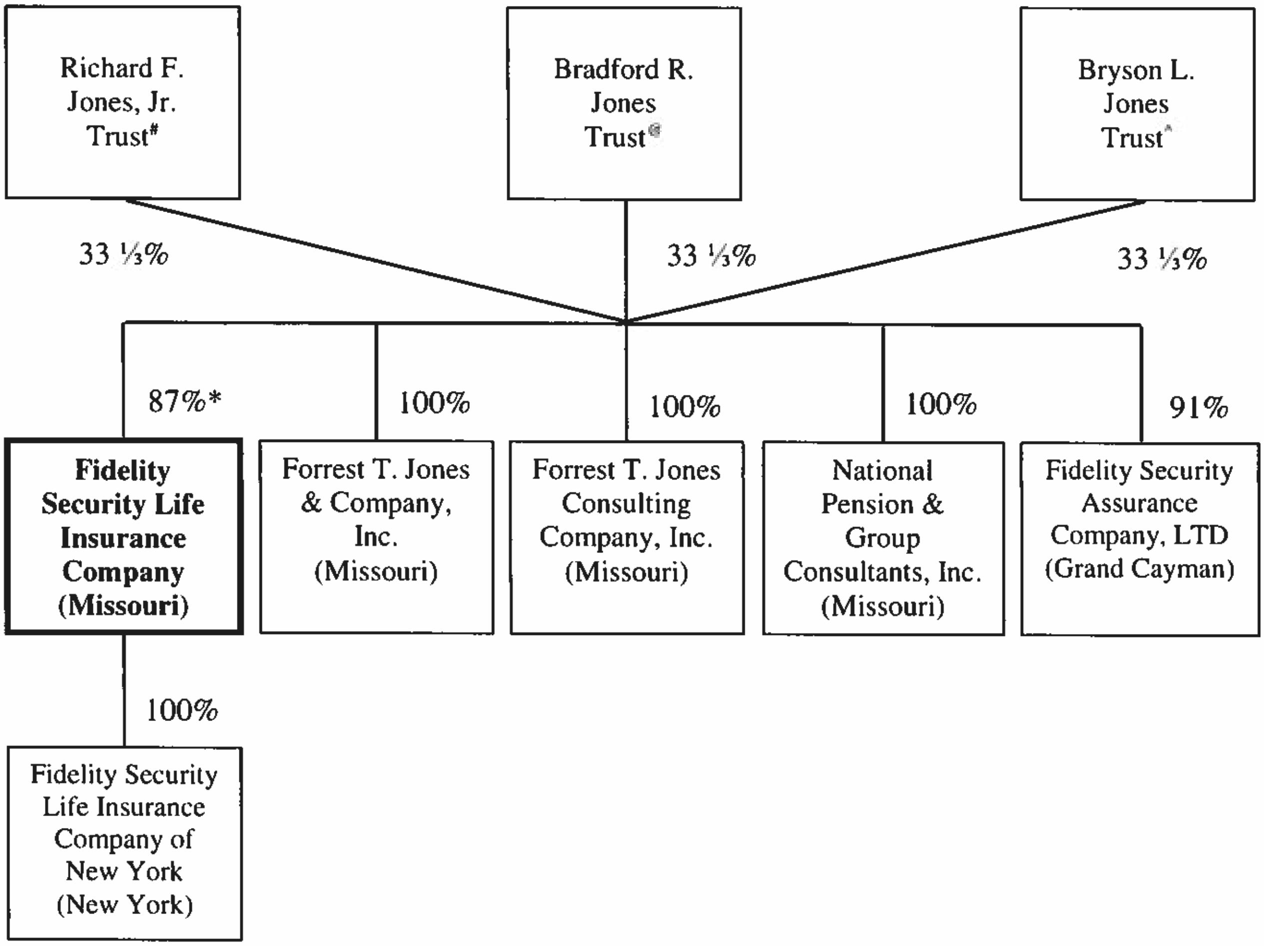
^Through various trusts established for the benefit of each son. The GST trusts described under the transfer of ownership summary each own 268,291 ⅓* shares of FSL's stock.

*Includes 21,783 ⅓ shares of FSL's stock owned by FTJ. Given that FTJ is 100% owned by the GST trusts, FTJ's shares of FSL are also controlled by the trusts and were included in the number of shares owned and in the calculation of the percentage of total shares owned.

In addition to FTJ, the trusts share 100% ownership of FSL affiliated companies FTJCC and NPGC, and majority ownership (91%) of FSAC. See organizational chart below.

Organizational Chart

The organizational chart on the following page illustrates the holding company system of FSL and its affiliates as of December 31, 2016:



#Richard F. Jones, Jr. and Steven C. Krueger, Trustees of Richard and Sandra Jones Family GST f/b/o Richard F. Jones, Jr.
@Bradford R. Jones and Steven C. Krueger, Trustees of Richard and Sandra Jones Family GST f/b/o Bradford R. Jones
^ Bryson L. Jones and Steven C. Krueger, Trustees of Richard and Sandra Jones Family GST f/b/o Bryson L. Jones
*Includes the GST trust's ownership of FTJ's shares of FSL's stock

Intercompany Transactions

The Company has several material intercompany agreements with various affiliated parties, including Forrest T. Jones & Company, Inc., National Pension & Group Consultants, Inc., and Fidelity Security Life Insurance Company of New York.

Forrest T. Jones & Company, Inc.

FSL is party to three material agreements with affiliate FTJ, which are summarized as follows:

- **Managing General Agent (MGA) Contract** – Effective since December 1, 2009, under the MGA contract FTJ performs certain administrative services for FSL, including, but not limited to: soliciting insurance business, delivering policies, billing and collecting premiums, paying commission fees to agents and brokers, and underwriting risks. FTJ is compensated through agreed upon commissions and administrative fees, which are calculated as a percentage of premium volume.

- **Cost Allocation Agreement –** Under this agreement, effective since August 1, 1994, FSL pays to FTJ allocated amounts for various common expenses. Salary, payroll taxes, and employee benefit allocation amounts are derived from a time study completed by each employee. Rent, utilities, and building maintenance expenses are allocated based upon the building square footage dedicated to each entity's operations. Expenses incurred solely for the benefit of one entity are paid by that entity directly to the vendor.
- **Affiliation Agreement –** This agreement has been in effect since May 15, 1999, and includes both FTJ and affiliate NPGC. Under this agreement, FTJ is authorized to solicit applications for FSL's Premium Variable annuity product, which is distributed and underwritten by NPGC. FSL and NPGC have a separate distribution and underwriting agreement which is discussed under the "National Pension and Group Consultants, Inc." subsection below. Under the agreement, NPGC was to receive commissions of 3% of purchase payments, plus an annual commission of 0.25% of the contract values. NPGC no longer solicits FSL variable annuity, but trail commissions due to NPGC are paid by FSL.

In 2016, FSL incurred approximately $21.3 million in expenses related to the three above agreements.

National Pension & Group Consultants, Inc.

In addition to the Affiliation Agreement discussed above, FSL is party to one other material agreement with NPGC, a **Distribution and Principal Underwriting Agreement.** Under this agreement, which has been in effect since May 15, 1999, FSL appoints NPGC as the exclusive agent for the distribution of FSL's Separate Accounts (variable annuity) contracts. NPGC will also act as the principal underwriter.

FSL did not incur any fees related to this agreement during the examination period.

Fidelity Security Life Insurance Company of New York

FSL maintains four material agreements with its direct subsidiary, FSLNY, which are summarized as follows:

- **Letter of Guaranty-** Effective January 31, 2012, under the terms of this agreement, FSL will contribute, or will cause to be contributed, cash or equivalents to FSLNY, for any quarter in which FSLNY's Best's Capital Adequacy Ratio (BCAR) falls below 150.
- **Investment Services Agreement-** Under the terms of this agreement, which was effective January 1, 2012, FSL agrees to provide investment advice and services to FSLNY for an annual fee. The cost of the investment services is determined by an allocated time study completed by each employee.
- **Tax Allocation Agreement-** Under the terms of this agreement, effective January 1, 2012, FSL and FSLNY agree to file a consolidated federal income tax return. FSLNY shall compute a separate tax return liability, equal to the amount it would have incurred on a stand-alone basis, and should pay this amount to FSL for its share of the federal income tax liability.

- **Escrow Agreement-** Under this agreement, also effective as of January 1, 2012, an escrow account was established at United Missouri Bank to hold, until due, any federal income tax payments made by FSLNY to FSL under the terms of the tax allocation agreement outlined above.

In addition to the above agreements, FSL and FSLNY have three Group Health Reinsurance Agreements. See the *Reinsurance* section of this report for additional detail.

TERRITORY AND PLAN OF OPERATION

Fidelity Security Life Insurance Company is licensed by the DIFP under Chapter 376 RSMo (Life, Health and Accident Insurance) to conduct business in the following types of insurance: life, accident and health, and variable contracts. As of the date of this report, the Company is licensed to transact the business of insurance in the District of Columbia and all states except New York, where it is licensed as a reinsurer.

The Company's insurance products are managed through six strategic business units: Specialty Benefits, Joint Venture, Asset Accumulation, Special Markets, Stop-Loss/Self-Funded, and Life Solutions. The Company has developed initiatives to grow through existing marketing relationships, expanding the producer network, and developing new products. The Company's accident and health (A&H) line of business continues to generate the majority of earnings and represents approximately 96% of total gross premium volume. This was an increase over the prior examination where the A&H line accounted for 82% of total gross premium volume.

The Specialty Benefits business unit (SB) principally markets prescription drug, vision, and dental coverages. SB relationships typically involve the collaboration of brokers, pharmacy benefit managers, vision service plans, and reinsurers. Eyemed Vision Care, LLC (Eyemed), a leading managed vision care organization, currently offers vision care plans on both a group and individual basis and accounted for approximately 85% of SB's total gross premium. Largely due to the Eyemed contract, the SB unit is the largest business unit in terms of gross premium volume. However, the Company cedes a significant portion of the SB business, including 100% of the business associated with the Eyemed contract. As a result, the SB unit only accounted for 14% of net premiums written in 2016, as shown in Table 2 on the following page.

The Joint Ventures (JV) business unit utilizes a collaborative business model to allow for the consideration of unique products that may be unavailable through other means. After the SB unit, the JV unit accounted for the next highest total gross premium volume at 12% in 2016. However, the Company retains significantly more of the JV business, as this unit accounted for 29% of total net premium in 2016. See Table 2 on the following page.

The Asset Accumulation business unit (AA) principally markets retirement plans to not-for-profit niche markets, such as education and government entities, as well as other not-for-profit organizations. The primary products offered by the AA unit include fixed annuity products, single premium deferred annuities, and flexible premium group annuity contracts in the individual retirement and deferred compensation marketplace. The Special Markets business unit principally markets term life, supplemental health, accidental death and dismemberment, hospital indemnity, and cancer coverages. The Stop-Loss/Self-Funded business unit provides medical stop-loss coverages on both a specific and aggregate basis which is largely reinsured. The Life Solutions business unit was created in 2015 and offers individual/voluntary life products. These four strategic business units collectively accounted for 17% of the Company's total gross premium volume and 57% of net premium volume. The Life Solutions business unit accounted for less than 1% of both gross premium volume and net premium volume. See Table 2 below.

Table 2 – Premium Volume by Strategic Business Unit

		2016		
Strategic Business Unit	**Total Gross Premium Volume**	**% of Total Gross Premium**	**Total Net Premium Volume**	**% of Total Net Premium**
Specialty Benefits	$ 641,845,804	74%	$ 16,974,626	14%
Joint Venture	107,468,473	12%	35,064,572	29%
Asset Accumulation	17,594,857	2%	17,471,411	14%
Special Markets	25,080,377	3%	23,080,959	19%
Stop-Loss/Self-Funded	81,034,095	9%	29,314,594	24%
Life Solutions	795,816	<1%	83,110	<1%
Totals	**$ 873,819,422**	**100%**	**$ 121,989,272**	**100%**

The Company utilizes a variety of distribution channels to market its products on a nationwide basis. These distribution channels primarily involve individual sales representatives, brokers, managing general agents, and third party administrators. As of December 31, 2016, the Company had over twenty-thousand appointed producers, generally affiliated with a managing general agent or third-party administrator.

REINSURANCE

General

The Company's premium activity on a direct, assumed, and ceded basis for the period under the examination is detailed in Table 3 below.

Table 3 – Premium Activity

Premium Type	**2013**	**2014**	**2015**	**2016**
Direct Premiums Written	$ 699,292,790	$ 743,101,318	$ 761,734,703	$ 834,028,860
Reinsurance Assumed				
Affiliated	3,081,205	8,552,725	13,217,561	15,364,731
Non-Affiliated	31,541,371	13,419,000	19,225,088	24,044,211
Reinsurance Ceded				
Affiliated*	388,075	385,778	429,487	-
Non-Affiliated	624,372,995	560,057,828	373,354,757	751,830,150
Net Premiums Written	**$ 109,154,296**	**$ 204,629,438**	**$ 420,393,108**	**$ 121,607,652**

*After the transfer of ownership in 2016, American Service Life Insurance Company, an Arkansas domestic insurer, was no longer considered an affiliated entity. Therefore, no premiums were ceded to affiliated companies in 2016.

Assumed

The Company assumed life business from three active writers during the examination period. Nearly all of the assumed life business was under a quota-share agreement with non-affiliated New York Life Insurance Company, whereby FSL assumed 37.5% of premiums and associated risk for various Ordinary Life group policies. This agreement accounted for over 99% of the assumed in-force business for life policies for each year under examination. FSL also assumed an immaterial amount of life business from Missouri-domiciled Lewer Life Insurance Company.

FSL also assumed approximately $38.4 million of group A&H business from various companies during the examination period, including its affiliate, FSLNY. Under the terms of three quota share agreements, FSL assumed approximately $15.4 million in A&H premiums from FSLNY, which accounted for 40% of total A&H premiums assumed in 2016. A majority of the remaining A&H premiums assumed in 2016 were from Union Labor Life Insurance Company under a specific and aggregate medical stop loss quota share agreement. Under this agreement, FSL assumed just over $16.3 million in premiums, or approximately 43% of total assumed A&H premiums in 2016.

Ceded

In 2016, the Company ceded approximately 26% or $8.5 million of its gross life and annuity premiums. These amounts were consistent with previous years during the examination period. FSL reinsures its life business on both a quota share and yearly renewable term basis with various highly rated reinsurers. The maximum amount of insurance the Company retains on any one life is $250,000. FSL only reported approximately $141 thousand in recoverables on paid losses and $477 thousand in recoverables on unpaid losses for life and annuity contracts as of December 31, 2016. A majority (80%) of the paid loss recoverable balances were attributed to Thor Reinsurance Company of Nevis, LTD, while the majority (86%) of the unpaid loss balances were recoverable from Hannover Life Reassurance Company of America through its numerous reinsurance agreements.

Compared to life and annuity business, the Company retains significantly less of its gross accident and health business on a percentage basis. In 2016, FSL ceded approximately 88%, or $743.4 million of its $840.4 million in gross A&H premiums. While a majority of FSL's A&H programs are reinsured through quota share reinsurance agreements, the Company does have some coverages on an excess of loss and/or yearly renewable term basis. There were no authorized reinsurers with an A.M. Best rating of lower than B++, other than a Missouri domiciled captive that is fully collateralized.

FSL reported recoverable balances of $78 thousand on paid losses and $63.5 million on unpaid losses on A&H programs for 2016. Table 4 on the following page provides a summary of the most significant A&H recoverable balances on unpaid losses contrasted with premiums ceded, by reinsurer. These four reinsurers represented 80% of all unpaid loss recoverable balances in 2016. There were no reinsurance recoverable balances on paid losses or reserve credits taken under agreements with the reinsurers listed on Table 4.

Table 4 – Recoverables on Unpaid Losses, A&H Business

2016

Reinsurer	Recoverable on Unpaid Losses*	Ceded Premiums*
Eyemed Insurance Company	$ 26,304,924	$ 543,115,802
Union Labor Life Insurance Company	11,009,566	13,980,641
PartnerRe America Insurance Company	5,405,894	11,166,170
Axis Insurance Company	7,759,637	37,386,668

*Totals are for all reinsurance contracts under each respective reinsurer.

The Company participates in several fronting arrangements with unauthorized reinsurers. Under these arrangements, FSL issues policies to specific applicants and then reinsures all or substantially all of the risks on the business to another entity for a fee or a portion of the profits. The most significant of these arrangements is the vision program with Eyemed Insurance Company. As noted in Table 4 above, as of year-end 2016, FSL reported a recoverable on unpaid losses of $26.3 million due from Eyemed. This recoverable balance accounted for 41% of all balances recoverable on unpaid losses for 2016.

As with the Company's other reinsurance agreements, the Company is contingently liable for losses ceded to others, including those falling under the definition of fronting arrangements. This contingent liability would become an actual liability in the event the assuming reinsurer fails to perform its obligations under the reinsurance or fronting agreement. FSL holds a letter of credit and trust funds from Eyemed equal to the amount of the year-end recoverable balance, which helps protect against the risk of default.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of Fidelity Security Life Insurance Company for the period ending December 31, 2016. The accompanying comments on financial statement items reflect any examination adjustments to the amounts reported in the annual statement 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.

Assets

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 754,326,972	$ -	$ 754,326,972
Preferred stocks	5,751,689	-	5,751,689
Common stocks	17,219,913	-	17,219,913
Mortgage loans – First liens	3,443,818	-	3,443,818
Cash, cash equivalents and short-term investments	45,127,910	-	45,127,910
Contract loans	7,611,655	-	7,611,655
Other invested assets	10,230,150	-	10,230,150
Receivables for securities	10,000	-	10,000
Investment income due and accrued	6,882,547	-	6,882,547
Uncollected premiums and agents' balances in course of collection	11,135,930	60,742	11,075,188
Deferred premiums	772,474	-	772,474
Amounts recoverable from reinsurers	219,636	-	219,636
Other amounts receivable under reinsurance contracts	2,002,634	-	2,002,634
Net deferred tax asset	4,644,700	993,641	3,651,059
Guaranty funds receivable or on deposit	1,103,382	-	1,103,382
Electronic data processing equipment and software	3,680,772	3,680,772	-
Furniture and equipment	63,249	63,249	-
Aggregate write-ins for other than Invested Assets	93,473	-	93,473
Total assets excluding separate accounts	$ 874,320,903	$ 4,798,403	$ 869,522,500
From separate accounts	5,602,953	-	5,602,953
TOTAL ASSETS	**$ 879,923,856**	**$ 4,798,403**	**$ 875,125,453**

Liabilities, Surplus and Other Funds

Aggregate reserve for life contracts	$ 511,932,803
Aggregate reserve for accident and health contracts	9,564,655
Liability for deposit-type contracts	6,727,351
Contract claims – Life	1,732,105
Contract claims – Accident and health	22,857,733
Premiums and annuity considerations received in advance	189,413
Provision for experience rating refunds	196,992
Other amounts payable on reinsurance	7,798,401
Interest Maintenance Reserve	3,349,389
Commissions to agents due or accrued	56,273
General expenses due or accrued	1,214,392
Transfers to separate accounts due or accrued	(4,488)
Taxes, licenses and fees due or accrued	3,650,464
Current federal and foreign income taxes	2,203,866
Amounts held for agents' account	11,102,608
Remittances and items not allocated	15,601,974
Borrowed money	68,571,636
Asset Valuation Reserve	6,579,265
Funds held under reinsurance treaties with unauthorized and certified reinsurers	6,114,530
Payable to parent, subsidiaries and affiliates	1,649,332
Payable for securities	35,154
Aggregate write-ins for liabilities	1,552,222
Total liabilities excluding separate accounts	$ 682,676,069
From separate accounts statement	5,602,953
TOTAL LIABILITIES	**$ 688,279,022**
Common capital stock	2,500,000
Preferred capital stock	3,000,000
Gross paid in and contributed surplus	1,650,349
Unassigned funds (surplus)	186,104,318
Less treasury stock	6,408,237
Capital and surplus	$ 186,846,430
TOTAL LIABILITIES, CAPITAL, AND SURPLUS	**$ 875,125,452**

Statement of Income

Premium and annuity considerations for life and A&H contracts	$ 121,607,653
Considerations for supplementary contracts with life contingencies	381,619
Net investment income	33,006,051
Amortization of Interest Maintenance Reserve	1,858,203
Commissions and expense allowances on reinsurance ceded	148,224,192
Income from fees associated with separate accounts	82,946
Aggregate write-ins for miscellaneous income	(1,238)
Total revenues	$ 305,159,425
Death benefits	7,305,594
Annuity benefits	26,402,594
Disability benefits and benefits under A&H contracts	62,372,501
Surrender benefits and withdrawals for life contracts	1,693,715
Interest and adjustments on contract or deposit-type contract funds	350,062
Payments on supplementary contracts with life contingencies	2,226,549
Increase in aggregate reserves for life and A&H contracts	4,375,376
Total benefit payments	$ 104,726,390
Commissions on premiums, annuity considerations and deposit-type contract funds	112,512,852
Commissions and expense allowances on reinsurance assumed	6,787,430
General insurance expenses	20,748,611
Insurance taxes, licenses and fees	28,382,604
Increase in loading on deferred and uncollected premiums	5,011
Net transfers to or (from) separate accounts net of reinsurance	(178,101)
Total benefit payments and expenses	$ 272,984,798
Net gain from operations after dividends to policyholders and before federal income taxes	$ 32,174,627
Federal and foreign income taxes incurred	13,641,911
Net realized capital gains (losses)	(1,060,685)
NET INCOME	**$ 17,472,031**

Capital and Surplus Account

Capital and surplus, December 31, 2015	$ 169,000,326
Net income	17,472,031
Change in net unrealized capital gains and (losses)	1,884,680
Change in net deferred income tax	(486,184)
Change in non-admitted assets	712,331
Change in Asset Valuation Reserve	(868,510)
Change in treasury stock	(664,440)
Paid in surplus adjustment	28,696
Dividends to stockholders	(232,500)
Net change in capital and surplus	$ 17,846,105
CAPITAL AND SURPLUS, DECEMBER 31, 2016	**$ 186,846,431**

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

SUMMARY OF RECOMMENDATIONS

None

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Fidelity Security Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Laura Church, CFE and EIC for the DIFP, Lisa Li, CFE, Emily Pennington, AFE, and Ronald Musopole, examiners for the DIFP, participated in this examination. Kimberly Dobbs, CFE, AES, Information System Examiner for the DIFP performed a review of the information system environment. Jill Humes, FSA, MAAA, of Lewis & Ellis, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
County of Jackson)

I, Sara McNeely, 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 Fidelity Security 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.

Sara McNeely, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 29th day of May, 2018.

My commission expires: 04/14/2020

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12464070

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 DIFP and statutes of the State of Missouri prevailed.

Levi N. Nwasoria, CPA, CFE
Audit Manager
Missouri Department of Insurance, Financial Institutions and Professional Registration