

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Capital Reserve Life Insurance Company as of December 31,  
2008

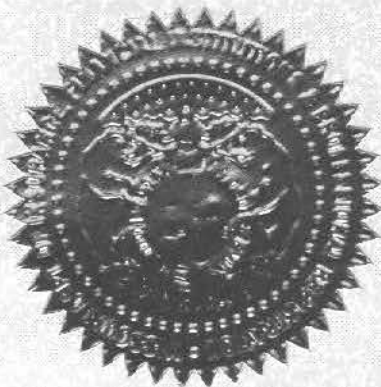
### ORDER

After full consideration and review of the report of the financial examination of Capital Reserve Life Insurance Company for the period ended December 31, 2008, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER, 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) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) 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 20<sup>th</sup> day of May, 2010.

John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration



REPORT OF  
ASSOCIATION FINANCIAL EXAMINATION OF  
CAPITAL RESERVE LIFE INSURANCE COMPANY

AS OF  
DECEMBER 31, 2008

**FILED**  
MAY 30 2010  
DIRECTOR OF INSURANCE &  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND  
PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI

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Kansas City, Missouri  
April 6, 2010

Honorable Alfred W. Gross, Commissioner  
Virginia Bureau of Insurance  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Mary J. Hudson, Director  
Ohio Department of Insurance  
Midwestern Zone Secretary, NAIC

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65102-0690

Lady and Gentlemen:

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

**Capital Reserve Life Insurance Company**

hereinafter referred to as such, as Capital Reserve, or as the Company. Its administrative office is located at 5300 South 360 West, Salt Lake City, Utah 84123, telephone number (801) 264-1060. This examination began on June 15, 2009 and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

We have performed our full scope association financial examination of Capital Reserve Life Insurance Company. The last full scope examination was completed as of June 30, 2005. A limited scope examination was completed for the period June 30, 2005 through March 31, 2007 and focused on the Company's operating performance, business plan, and legal actions brought by and against the Company. No testing of Annual Statement account balances was performed in connection with the prior limited scope examination. This full scope examination covers the period of July 1, 2005 through December 31, 2008 and also includes the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Both the current and prior examinations were conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.



This examination was conducted concurrently with the examination of the Company's direct parent, Security National Life Insurance Company (Security National) by the Utah Insurance Department (UID) and the Company's affiliate Southern Security Life Insurance Company by the Mississippi Insurance Department.

### **Procedures**

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (Handbook), except where practices, procedures, and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registrations (DIFP) and statutes of the State of Missouri prevail. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risk within the Company, and evaluating system controls and procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Key activities for Capital Reserve included: Investments, Life Reserving, Life Premiums, and Related Parties.

The examiners relied upon information and workpapers provided by the Company's independent auditor, Larson & Rosenberger, of Salt Lake City, Utah, for its audit covering the period from January 1, 2008 through December 31, 2008. Such reliance included substantive procedures performed on investments.

The examiners also relied upon information supplied by the UID in conjunction with its examination of Security National Life Insurance Company. This information included, but was not limited to assessment of corporate governance, fraud procedures, and control testing for key activities.

### **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.

### **SUBSEQUENT EVENTS**

Effective December 31, 2009, Security National exercised its right to recapture all previously reinsured liabilities under a 2007 Reinsurance Assumption Agreement with Capital Reserve. As a result of the recapture, Security National is primarily liable for the liabilities on Capital Reserve's insurance contracts and annuities. The assets transferred by the Company to Security

National pursuant to such recapture have a fair market value of \$4,895,000 which is equal to the assumed liabilities.

The purpose of Security National exercising its right to recapture was so that the \$4,895,000 in statutory assets and liabilities of the Company could be transferred to Security National by December 31, 2009 in accordance with the terms of a plan of liquidation between the Company and Security National. On December 4, 2009, the Company and Security National entered into an Agreement and Plan of Complete Liquidation to liquidate the Company into Security National.

In addition, the Company entered into an Assignment dated December 31, 2009 with Security National to assign and transfer to Security National all of the assets and liabilities that remained following the recapture, except for Capital Reserve's corporate charter, insurance licenses, and \$1,681,000 in statutory capital and surplus, which will allow Capital Reserve to preserve its corporate existence in Missouri. During 2010, Security National plans either to sell the corporate charter, licenses, and capital and surplus of Capital Reserve to an unrelated business entity or to dissolve Capital Reserve in accordance with Missouri law.

## HISTORY

### General

The Company was originally incorporated under the Mutual Assessment laws of Missouri on February 24, 1922 as the Capital Mutual Association. In January 1949, the Company was reincorporated as a Stipulated Premium Life Insurance Company and changed to its current name, Capital Reserve Life Insurance Company. Effective December 7, 1955, the Company became a Joint Stock, Legal Reserve Life Insurance Company qualified to do business under the provisions of Sections 376.010 to 376.670 RSMo and, in 1971 Peoples National Life Insurance Company was merged into the Company. Effective December 17, 2007, Security National Life Insurance Company completed a stock purchase transaction with the Company and its shareholders to purchase all of the outstanding shares of common stock of Capital Reserve from its shareholders.

### Dividends

The dividends paid by the Company during the examination period were as follows:

<u>Years</u>	<u>Cash</u>	<u>Stock</u>
2005	53,460	-
2006	-	-
2007	1,775,262	-
2008	-	-
<b>Total</b>	<u><u>\$ 1,828,722</u></u>	<u><u>\$ -</u></u>

The dividends paid in 2007 were issued to Security National Life Insurance Company. The dividends paid in 2005 were issued to the Company's prior stockholders.

### **Capital Contributions**

The Company did not receive or make any capital contributions during the period under examination.

### **Acquisitions, Mergers, and Major Corporate Events**

Effective December 17, 2007, Security National purchased all of the outstanding shares of Capital Reserve's common stock. Immediately subsequent to the stock purchase, Security National and Capital Reserve entered into a reinsurance agreement whereby Security National agreed to reinsure 100% of Capital Reserve's in-force policies as of December 17, 2007 and any new policies issued after December 31, 2007. During 2008, Capital Reserve assumed a small number of policies it previously ceded to Security National and as of December 31, 2009, Security National exercised its right to recapture this business.

On December 4, 2009, the Company and Security National entered into an Agreement and Plan of Complete Liquidation to liquidate the Company into Security National. In addition, the Company entered into an Assignment dated December 31, 2009 with Security National to assign and transfer to Security National all of the assets and liabilities that remained following the recapture, except for Capital Reserve's corporate charter, insurance licenses, and \$1,681,000 in statutory capital and surplus, which will allow Capital Reserve to preserve its corporate existence in Missouri. During 2010, Security National plans either to sell the corporate charter, licenses, and capital and surplus of Capital Reserve to an unrelated business entity or to dissolve Capital Reserve in accordance with Missouri law.

## **CORPORATE RECORDS**

The Company's Articles of Incorporation and Bylaws were reviewed. There were no amendments to either the Articles of Incorporation or the Bylaws during the period under examination.

The minutes of the Company's Board of Director's meeting were reviewed for proper approval of corporate transactions. In general, the minutes appeared to properly reflect and approve the Company's major transactions and events for the period under examination.



## MANAGEMENT AND CONTROL

### **Board of Directors**

The Company's Articles of Incorporation and Bylaws require a minimum of nine directors to be elected to the Board of Directors. The Board of Directors elected and serving as of December 31, 2008 were as follows:

<b><u>Name and Address</u></b>	<b><u>Business Affiliation</u></b>
Jack L. Beckstead Jr. Alpine, Utah	President, Security National Mortgage Company
Charles L. Crittenden Ogden, Utah	Director, Security National Life Insurance Company
Robert G. Hunter Sandy, Utah	Medical Doctor
Howard C. Moody Sandy, Utah	Real Estate Broker, Consultant, and Owner of Moody & Associates
Jason G. Overbaugh Draper, Utah	Vice President of Marketing, Security National Life Insurance Company
George R. Quist Sr. Salt Lake City, Utah	Chairman of the Board and CEO, Security National Financial Corporation
Scott M. Quist Sandy, Utah	President, Security National Financial Corporation
Jeffery R. Stephens Sandy, Utah	Secretary and General Counsel, Security National Life Insurance Company
Norman G. Wilbur Frisco, Texas	Executive Director, Dallas Area Habitat for Humanity

**Officers**

The officers of the Company elected and serving as of December 31, 2008 were as follows:

<b><u>Name</u></b>	<b><u>Title</u></b>
Scott M. Quist	President
Stephen M. Sill	Treasurer
Jeffery R. Stephens	Secretary
Faye A. Blackett	Vice President of Policy Service
Christie Q. Overbaugh	Vice President of Underwriting
John W. Van Valkenburg	Vice President of Actuarial Services
Diana C. Olson	Vice President, Controller
Jason G. Overbaugh	Vice President of Marketing

**Committees**

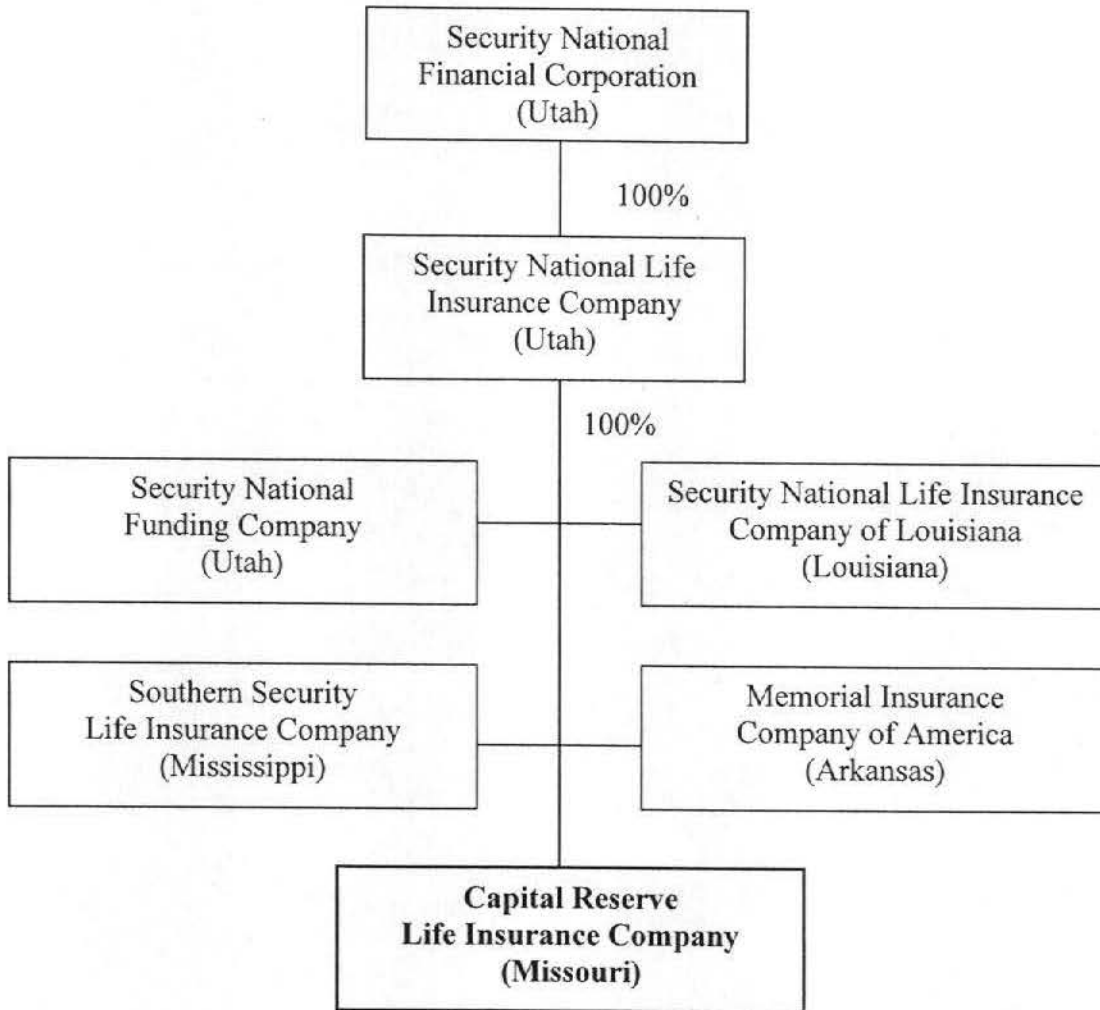
The Company does not have any committees.

**Holding Company, Subsidiaries and Affiliates**

Capital Reserve Life Insurance Company is a wholly owned subsidiary of Security National Life Insurance Company, a Utah domiciled life insurance company. Security National is wholly owned by Security National Financial Corporation, which is the ultimate controlling person within the holding company system as defined by Section 382.010 RSMo (Definitions).

**Organizational Chart**

The following organizational chart depicts the holding company system of Capital Reserve Life Insurance Company as of December 31, 2008:



### **Intercompany Transactions**

The Company has the following agreement with its parent, Security National Life Insurance Company. The terms of the agreement are outlined below.

**1. Type:** Allocation Agreement

**Parties:** Security National Life Insurance Company

**Effective:** December 20, 2007

**Terms:** Capital Reserve agrees to compensate Security National for any administrative and financial services provided under the agreement including accounting services, financial reports and statements, actuarial, policyholder services, underwriting, data processing, legal, building maintenance, marketing advisory services, and investment services. Costs are to be allocated on a pro-rata basis and compliant with SSAP No. 25 & SSAP No. 70.

The Company also has reinsurance agreements with its parent, Security National Life Insurance Company. These agreements are discussed in further detail in the Reinsurance section of this report.

### **FIDELITY BOND AND OTHER INSURANCE**

Security National Financial Corporation, the ultimate parent, of Capital Reserve, is the named insured on a fidelity bond providing crime and fidelity coverage with a liability limit of \$1,000,000 and a \$150,000 deductible. This level of coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

Capital Reserve has no employees of its own. All services are provided to the company in accordance with a Cost Allocation Agreement that is explained in greater detail in the Intercompany Transactions section of this report.

### **TERRITORY AND PLAN OF OPERATION**

Capital Reserve is licensed by the DIFP under Chapter 376 RSMo (Life, Health and Accident Insurance) to write life and accident and health insurance. The Company was also licensed in Iowa and Kansas as of December 31, 2008.

The Company is no longer writing new business and on December 4, 2009, the Company and Security National entered into an Agreement and Plan of Complete Liquidation to liquidate the Company into Security National.

### GROWTH OF COMPANY AND LOSS EXPERIENCE

The Company has experienced a steady decline in net premiums written and benefit and loss payments during the examination period as a result of the Company's reinsurance agreements with Security National and the Company's planned liquidation during 2010.

Year	Net Premiums Written	Benefit and Loss Payments	Surplus as Regards to Policyholders	Premiums to Policyholders Surplus	Paid to Net Written Premiums
2005	\$5,187,352	\$1,688,292	\$1,478,999	3.51	0.33
2006	,359,667	2,331,540	1,960,470	2.22	0.53
2007	,421,284	2,669,802	1,500,000	2.28	0.78
2008	121,751	30,743	1,657,155	0.07	0.25

### REINSURANCE

#### General

The Company's reinsurance and premium activity on a direct written, assumed and ceded basis for 2005 through 2008 is detailed below:

	2008	2007	2006	2005
Direct Business	\$ 1,829,639	\$ 3,530,642	\$ 4,361,811	\$ 5,190,825
Reinsurance Assumed	121,751	-	-	-
Reinsured Ceded	(1,829,639)	(109,358)	(2,144)	(3,473)
Net Premiums	<u>\$ 121,751</u>	<u>\$ 3,421,284</u>	<u>\$ 4,359,667</u>	<u>\$ 5,187,352</u>

#### Assumed

The Company is party to a Reinsurance Assumption Agreement with its parent, Security National Life Insurance Company, whereby Capital Reserve agrees to reinsure a small block of business that it previously ceded to Security National during 2007. Security National retained the right to recapture this business and this right was executed as of December 31, 2009, thereby effectively terminating this agreement.



**Ceded**

Effective December 17, 2007, the Company entered into a reinsurance agreement with its parent, Security National Life Insurance Company, whereby Security National agreed to reinsure 100% of the Company's policies in-force as of December 17, 2007 and 100% of any new policies issued by Capital Reserve subsequent to effective date of the Agreement.

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 agreement.

**ACCOUNTS AND RECORDS****Auditor**

The financial statements of Capital Reserve for the years ended 2005 and 2006 were audited by the CPA firm Seaver & Forck, CPAs of Jefferson City, Missouri. The financial statements of the Company for the years ended 2007 and 2008 were audited by the CPA firm Larson & Rosenberger, Salt Lake City, Utah.

**Actuary**

Loss reserves of the Company were reviewed and certified for the years ending 2005 and 2006 by Terry M. Long, FSA, MAAA of the firm of Lewis & Ellis, Inc. Loss reserves of the Company were reviewed and certified for the years ending 2007 and 2008 by Mark W. Birdsall, FSA, MAAA, who is employed by Security National.

**STATUTORY DEPOSITS****Deposits with the State of Missouri**

The funds on deposit with the DIFP as of December 31, 2008, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities). The funds on deposit as of December 31, 2008 were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
US Treasury Note	\$ 650,000	\$ 741,611	\$ 645,942

**Deposits with Other States**

The Company has no funds on deposit with other states.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of Capital Reserve for the period ending December 31, 2008. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements Items." 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 activity.

**Assets**

	<u>Assets</u>	<u>Non- Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 1,195,942	\$ -	\$ 1,195,942
Cash, Cash Equivalents and Short-Term Investments	4,423,968	-	4,423,968
Aggregate Write-Ins for Invested Assets	356,117	54,852	301,265
Investment Income Due and Accrued	13,202	-	13,202
Premiums and Considerations			
Uncollected Premiums and Agents' Balances in the Course of Collection	3,598	-	3,598
Deferred Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due	98,580	-	98,580
Other Amounts Receivable Under			
Reinsurance Contracts	307,493	-	307,493
Electronic Data Processing Equipment and Software	2,131	-	2,131
Furniture and Equipment	17,053	17,053	-
<b>TOTAL ASSETS</b>	<b>\$ 6,418,085</b>	<b>\$ 71,905</b>	<b>\$ 6,346,180</b>

**Liabilities, Surplus and Other Funds**

Aggregate Reserve for Life Contracts	\$ 4,639,019
Contract Claims - Life	5,000
Premiums and Annuity Considerations for Life and Accident and Health	
Contracts Received in Advance	23,356
Asset Valuation Reserve	1,650
Payable to Parent, Subsidiaries, and Affiliates	20,000
<b>TOTAL LIABILITIES</b>	<b>4,689,025</b>
Common Capital Stock	715,600
Unassigned Funds (Surplus)	941,555
<b>Total Capital and Surplus</b>	<b>1,657,155</b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>\$ 6,346,180</b>

### Summary of Operations

Premium and Annuity Considerations	\$ 121,751
Net Investment Income	91,987
Commissions and Expense Allowances on Reinsurance Ceded	61,445
Miscellaneous Income from Reinsurance	4,689,357
Miscellaneous Income	10,454
<b>TOTAL</b>	<b>4,974,994</b>
Death Benefits	23,563
Surrender Benefits and Withdrawals for Life Contracts	7,180
Increase in Aggregate Reserves for Life and Accident & Health Contracts	4,639,019
Commissions on Premiums, Annuity Considerations and Deposit-Type Funds	63,850
General Insurance Expenses	40,986
Increase in Loading on Deferred and Uncollected Premiums	39,305
Miscellaneous Deductions for Reinsurance	114,611
<b>TOTAL</b>	<b>4,928,514</b>
<b>NET GAIN FROM OPERATIONS</b>	<b>46,480</b>
Federal Income Taxes Incurred	37,254
<b>NET INCOME</b>	<b>\$ 9,227</b>

### Capital and Surplus Account

Capital and Surplus, December 31, 2007	\$ 1,500,000
Net Income	9,227
Change in Nonadmitted Assets	147,928
<b>Net Change in Capital and Surplus</b>	<b>157,155</b>
<b>CAPITAL AND SURPLUS, DECEMBER 31, 2008</b>	<b>\$ 1,657,155</b>

**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 Capital Reserve Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shannon Schmoeger, CFE, examiner for the Missouri Department of Insurance, Financial Institutions and Professional Registration, also participated in this examination.

**VERIFICATION**

State of Missouri )  
  )  
County of Jackson )

I, Leslie A. Nehring, 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 the 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.

  
Leslie A. Nehring, CPA, CFE  
Examiner-In-Charge  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration

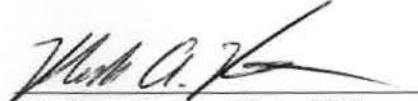
Sworn to and subscribed before me this 8<sup>th</sup> day of April, 2010.

My commission expires: 5-14-2012 Sheila R. Biscoe  
Notary Public



## 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.



Mark A. Nance, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial  
Institutions and Professional Registration