

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of American Financial Security Life Insurance Company as of
September 30, 2007


ORDER

After full consideration and review of the report of the financial examination of American Financial Security Life Insurance Company for the period ended September 30, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Kip Stetzler, Acting 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 American Financial 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) 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 January 23, 2009.

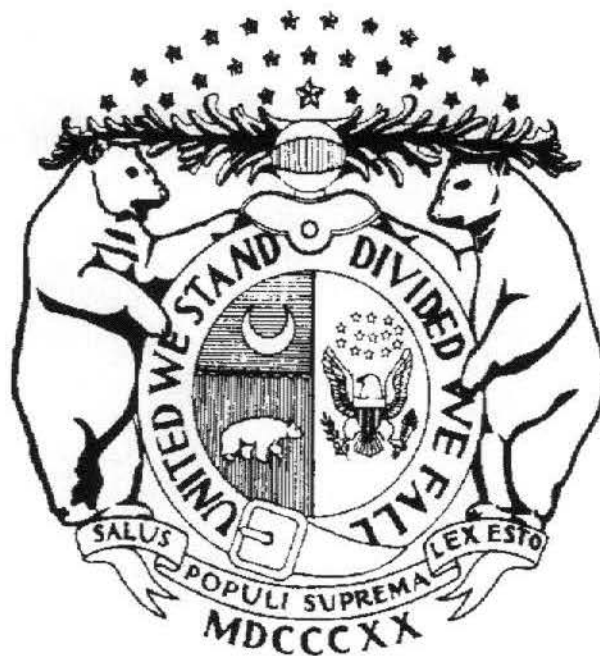



Kip Stetzler, Acting Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
**AMERICAN FINANCIAL SECURITY LIFE
INSURANCE COMPANY**

AS OF
SEPTEMBER 30, 2007

FILED
FEB 02 2009
DIRECTOR OF INSURANCE &
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



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

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
PERIOD COVERED.....	1
PROCEDURES.....	2
COMMENTS – PREVIOUS EXAMINATION	2
HISTORY	2
GENERAL.....	2
CAPITAL STOCK	3
DIVIDENDS	3
MANAGEMENT	3
COMMITTEES.....	4
OFFICERS.....	4
CONFLICT OF INTEREST	4
CORPORATE RECORDS.....	4
ACQUISITIONS, MERGERS AND MAJOR CORPORATE EVENTS	4
SURPLUS DEBENTURES.....	4
AFFILIATED COMPANIES.....	5
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES	5
ORGANIZATIONAL CHART	5
INTERCOMPANY AGREEMENTS.....	5
FIDELITY BOND AND OTHER INSURANCE.....	5
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	6
STATUTORY DEPOSITS	6
DEPOSITS WITH THE STATE OF MISSOURI.....	6

DEPOSITS WITH OTHER STATES.....	6
INSURANCE PRODUCTS AND RELATED PRACTICES.....	6
TERRITORY AND PLAN OF OPERATION	6
POLICY FORMS & UNDERWRITING; ADVERTISING & SALES; TREATMENT OF POLICYHOLDERS.....	7
REINSURANCE.....	7
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS	7
ASSETS.....	8
LIABILITIES, SURPLUS AND OTHER FUNDS	8
SUMMARY OF OPERATIONS	9
NOTES TO THE FINANCIAL STATEMENT.....	10
EXAMINATION CHANGES.....	10
GENERAL COMMENTS AND/OR RECOMMENDATIONS	10
SUBSEQUENT EVENTS.....	10
ACKNOWLEDGMENT.....	11
VERIFICATION.....	11
SUPERVISION.....	12

Jefferson City, Missouri
December 12, 2008

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

Honorable Merle D. Scheiber, Director
South Dakota Department of Revenue & Regulation
Secretary, Midwestern Zone, NAIC

Honorable Linda R. Bohrer, Acting Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Ladies 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

American Financial Security Life Insurance Company

hereinafter referred to as such, as American Financial, or as the Company. Its administrative office is located at 10308 Metcalf Avenue, Overland Park, Kansas 66212, telephone number 816-571-2241. This examination began on November 10, 2008 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of American Financial was made as of June 30, 1993 and was 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.

The Company was placed in court ordered rehabilitation on March 30, 1993, where it remained until that order was terminated when the Company was placed in administrative supervision on November 6, 2002.

The current full scope association financial examination covered the period from November 6, 2002 through September 30, 2007 and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (MODIFP) and statutes of the State of Missouri prevailed.

COMMENTS – PREVIOUS EXAMINATION

The previous financial examination of American Financial is not meaningful due to ownership, management and operational changes occurring since that examination.

HISTORY

General

American Financial was incorporated and commenced business on July 23, 1957 under the name of Survivor's Benefit Insurance Company. On December 1, 1981 the name was changed to Penn Diversified Insurance and Annuity Company, and on May 17, 1989 changed to its current name of American Financial Security Life Insurance Company. The Company operated as a stock life and health insurer under the insurance laws of Chapter 376 RSMo (Life, Health and Accident Insurance).

On March 30, 1993, the Circuit Court of Cole County, State of Missouri, entered an Order of Rehabilitation for the Company pursuant to which it was placed into rehabilitation. Pursuant to an Order of Administrative Supervision dated November 6, 2002, the Missouri Department of Insurance terminated the rehabilitation order and placed the Company on administrative supervision. On November 20, 2005, ACA Assurance purchased 100% of the Company's stock.

Capital Stock

As of September 30, 2007 American Financial was owned 100% by ACA Holdings, Inc., a New Hampshire Corporation; and ultimately controlled by ACA Assurance, a New Hampshire fraternal organization. The Company had 2,000 shares authorized and 2,000 shares issued with a par value of \$650 each as of that date.

Dividends

The MODIFP granted approval to the Company to pay ACA Assurance an extraordinary dividend in the amount of \$500,000 on July 11, 2007. The distribution was a return of paid-in-capital recognizing that a reduction of required capital and surplus was reasonable considering the Company’s liabilities and state of discontinued operations.

Management

The management of the Company as of September 30, 2007 was vested in a Board of Directors that were appointed by the sole shareholder, ACA Holding’s Inc. The Company’s Bylaws specify that the number of directors shall be nine. The Board of Directors appointed and serving, as of September 30, 2007, was as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Pauline Lally Lakeville, MA	President and Director American Financial Security Life Insurance Co.
John Milnes Toronto, Canada	Secretary and Director American Financial Security Life Insurance Co.
Andre Bellemare Quebec, Canada	Office Administrator (retired) Government of Quebec
Jean Maurice Bergeron Quebec, Canada	Director and Principal (retired) C.S. Du Chemin du Roy
Normand Morneault Bristol, CT	Owner Norm’s Painting
Normand Stevenson Quebec, Canada	Manager/Administrator Gaz Metropolitan
Andre L. Letourneau Harwinton, CT	Sales/President West Hartford Stairs and Cabinets, Inc.
Marcel Dupuis Bedford, NH	M.D. (retired) Shelter Insurance Companies
Daniel LaPointe Van Buren, ME	Director of Development Town of Van Buren

Committees

The Bylaws state that the Board of Directors may from time to time designate committees by resolution. There were no active committees during the examination period.

Officers

The officers elected by the Board of Directors and serving, as of September 30, 2007, were as follows:

Pauline Lally	President
John Milnes	Secretary

Conflict of Interest

The Company's policy on, or compliance with, conflicts of interest was not reviewed during the examination period. Subsequent to the examination date the Company was purchased by new owners. See the "Subsequent Events" section for details.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. There were no amendments or changes to the Articles of Incorporation or the Bylaws during the period under examination.

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions, mergers, or other major corporate events during the examination period. Subsequent to the examination date the Company was purchased by new owners. See the "Subsequent Events" section for details.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by the Company on behalf of itself for the years 2006 and 2007.

Organizational Chart

The following table depicts American Financial's ownership and holding company system, as of September 30, 2007:

<u>Company</u>	<u>Parent or Controlling Entity</u>	<u>Ownership</u>
ACA Assurance (Fraternal)	Members	100%
ACA Holdings, Inc.	ACA Assurance	100%
American Financial Security Life Insurance Company	ACA Holdings, Inc.	100%
ACA Bon Voyage	ACA Holdings, Inc.	100%
ACA, Inc.	ACA Holdings, Inc.	100%
ACA Property Holdings, Inc.	ACA Holdings, Inc.	100%

Intercompany Agreements

The Company received certain services from affiliate, ACA Assurance under a "Shared Services Agreement" approved by the MODIFP on December 9, 2005. ACA's monthly charge for these services was suspended effective August 31, 2006; and eventually terminated effective June 8, 2007 due to lack of operational activities. Amounts paid under the agreement were \$306,287 and \$23,915 in 2006 & 2007 respectively.

FIDELITY BOND AND OTHER INSURANCE

The fidelity bond and other insurance as of September 30, 2007 were not reviewed as a part of this examination. Subsequent to the examination date the Company was purchased by new owners. See the "Subsequent Events" section for details.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

American Financial did not have any direct employees or agents during the period under examination.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the MODIFP as of September 30, 2007 were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Securities Deposit). The funds on deposit as of September 30, 2007 were cash equivalents with a fair value of \$600,850.

Deposits with Other States

The Company also had funds on deposit with four other states. The fair value of those funds on deposit as of September 30, 2007 was \$418,620.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

American Financial is licensed as a life and accident and health insurer by the MODIFP under Chapter 376 RSMo (Life, Health and Accident Insurance). The Company is licensed for business in Missouri and 27 other states, as follows:

Arizona	Georgia	Kentucky	Oregon	Virginia
Arkansas	Indiana	Mississippi	Pennsylvania	West Virginia
California	Kansas	Montana	Rhode Island	Wisconsin
Colorado	Maine	Nebraska	South Dakota	
Connecticut	Maryland	New Mexico	Texas	
Delaware	Minnesota	North Dakota	Utah	

Written premiums in five states (Arizona, Kansas, Minnesota, Missouri, and Oklahoma) accounted for 100% of the total direct written premiums (Life) in 2007 of \$17,601.

Policy Forms & Underwriting; Advertising & Sales; Treatment of Policyholders

The MODIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. The market conduct section has not made an examination of the Company.

REINSURANCE

The Company neither assumed nor ceded any business during the examination period.

ACCOUNTS AND RECORDS

The Company received exemptions from compliance with the requirement to file annual audited financial statements for the years ended 2005, 2006, and 2007.

The reserves for life contracts and claims were reviewed and certified by Roger K. Annin, FCAS, MAAA, for the years ending December 31, 2006 and December 31, 2005. Mr. Annin is employed by the firm of Lewis & Ellis, Inc. The reserves for life contracts and claims were subsequently reviewed and certified by Leon L. Langlitz, FCAS, MAAA, for the year ending December 31, 2007. Mr. Langlitz is employed by the firm of Lewis & Ellis, Inc.

FINANCIAL STATEMENTS

The following financial statements present the financial condition of American Financial for the nine months ending September 30, 2007. (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
Cash and Short-Term Investments	\$2,106,361	\$0	\$2,106,361
Other Invested Assets	0	0	0
Investment Income Due and Accrued	1,421	0	1,421
Deferred Premiums, Agents' Balances and Installments Booked But Deferred and Not Yet Due	6,589	0	6,589
Electronic Data Processing Equipment	820	820	0
TOTAL ASSETS	<u>\$2,115,191</u>	<u>\$820</u>	<u>\$2,114,371</u>

Liabilities, Surplus and Other Funds

Aggregate Reserves for Life Contracts	\$ 7,693
Life Contract Claims	19,513
Interest Maintenance Reserves	2,668
General Expenses Due or Accrued	1,755
Taxes, Licenses and Fees	<u>3,878</u>
TOTAL LIABILITIES	\$35,507
Common Capital Stock	1,300,000
Gross Paid-In and Contributed Surplus	3,229,940
Unassigned Funds (Surplus)	<u>(2,451,077)</u>
Surplus as Regards Policyholders	<u>\$2,078,863</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$2,114,370</u>

Summary of Operations

Premium Considerations	\$10,313
Net Investment Income	86,180
Amortization of Interest Maintenance Reserve	(256)
Totals	\$96,236
Increase in aggregate reserves for life contracts	260
General Insurance Expenses	61,171
Insurance Taxes, Licenses and Fees	14,809
Aggregate Write-in for Insurance Dept. Penalties	100
Totals	<u>\$76,340</u>
Net gain from operations before realized capital gains	\$19,896
Net realized capital gains or (losses)	(96)
Net Income	<u>\$19,800</u>
 CAPITAL AND SURPLUS ACCOUNT:	
Capital and Surplus, December 31, 2006	\$2,559,543
Net Income	\$19,800
Change in Non-Admitted Assets	(479)
Surplus Adjustment to Paid-in-Capital	(500,000)
Net Change in Capital and Surplus	<u>\$(480,679)</u>
 Capital and Surplus as of September 30, 2007	 <u>\$2,078,863</u>

NOTES TO THE FINANCIAL STATEMENT

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

Sale of Company

The MODIFP approved the proposed acquisition of control of American Financial Security Life Insurance Company by American Financial Security Holdings, Inc. (AFSH) on July 21, 2008. As a condition of the approval, the Company is required to maintain the ratio of its annual gross written premium to policyholders' surplus at no more than five to one (5:1) for each of the years ending December 31, 2008, 2009, 2010, 2011, and 2012, unless the MODIFP approves otherwise.

Carol J. and Michael Sonnenberg jointly own 100% of AFSH and are considered the ultimate controlling persons. The parent company has filed policies and forms with the MODIFP to begin writing limited benefit group health insurance coverages.

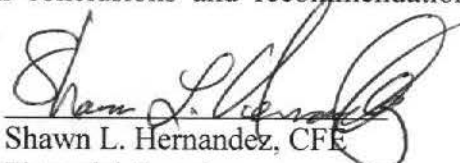
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of American Financial Security Life Insurance Company during the course of this examination is hereby acknowledged and appreciated.

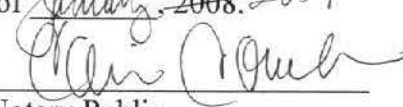
VERIFICATION

State of Missouri)
County of Cole)

I, Shawn L. Hernandez, 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 American Financial 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.


Shawn L. Hernandez, CFE
Financial Examiner
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 8th day of January, ~~2008~~ 2009

My commission expires: August 8, 2010 
Notary Public



CARRIE L. COUCH
My Commission Expires
August 8, 2010
Moniteau County
Commission #06429682

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.



Vicki L. Denton, CFE
Audit Manager, Kansas City
Missouri Department of Insurance, Financial
Institutions and Professional Registration