

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

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

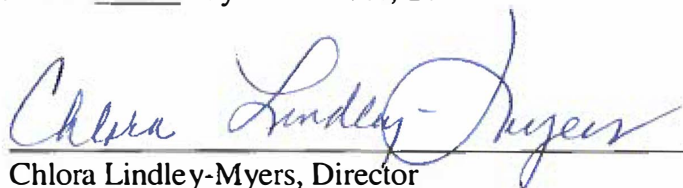
ORDER

After full consideration and review of the report of the financial examination of American Financial Security Life Insurance Company for the period ended December 31, 2020, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, 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, history, corporate records, management and control, territory and plan of operations, accounts and records, financial statements, comments on the financial statements, subsequent events and summary of recommendations.

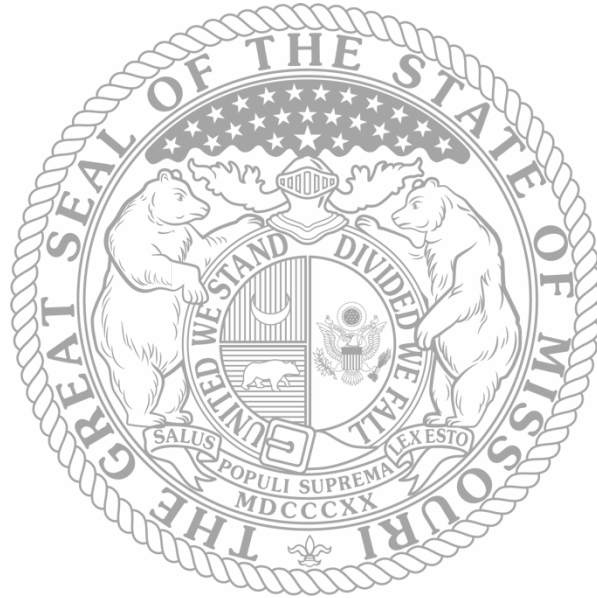
Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of American Financial Security Life Insurance Company as of December 31, 2020 be and is hereby ADOPTED as filed and for American Financial Security Life Insurance Company to take the following action or 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 Comments on the Financial Statement and/or Summary of Recommendations section of such report; and (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 12th day of October, 2022.





Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

AMERICAN FINANCIAL SECURITY LIFE INSURANCE COMPANY

AS OF
DECEMBER 31, 2020

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
PERIOD COVERED.....	1
PROCEDURES.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
COMPANY HISTORY	2
GENERAL.....	2
MERGERS, ACQUISITIONS, AND MAJOR CORPORATE EVENTS	2
DIVIDENDS AND CAPITAL CONTRIBUTIONS	2
SURPLUS NOTES.....	3
MANAGEMENT AND CONTROL	3
BOARD OF DIRECTORS	3
SENIOR OFFICERS	4
PRINCIPAL COMMITTEES	4
CORPORATE RECORDS.....	4
HOLDING COMPANY, SUBSIDIARIES, AND AFFILIATES.....	4
ORGANIZATIONAL CHART	5
INTERCOMPANY TRANSACTIONS	6
TERRITORY AND PLAN OF OPERATION	7
GROWTH OF COMPANY AND LOSS EXPERIENCE	8
REINSURANCE	8
GENERAL.....	8
ASSUMED REINSURANCE	8
CEDED REINSURANCE.....	9
ACCOUNTS AND RECORDS	9
INDEPENDENT AUDITOR	9

ACTUARIAL OPINION	10
CONSULTING ACTUARY	10
INFORMATION SYSTEMS	10
FINANCIAL STATEMENTS.....	10
ASSETS.....	11
LIABILITIES, SURPLUS AND OTHER FUNDS.....	12
SUMMARY OF OPERATIONS.....	13
RECONCILIATION OF CAPITAL AND SURPLUS	13
COMMENTS ON FINANCIAL STATEMENT ITEMS	14
FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION	15
SUMMARY OF RECOMMENDATIONS.....	15
SUBSEQUENT EVENTS.....	15
ACKNOWLEDGMENT	17
VERIFICATION.....	17
SUPERVISION	18

Jefferson City, MO
September 14, 2022

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

American Financial Security Life Insurance Company (NAIC #69337)

hereinafter referred to as such, as AFSLIC, or as the Company. Its administrative office is located at 150 East Palmetto Park Road, Suite 450, Boca Raton, Florida, 33432, telephone number (561) 756-8130. The fieldwork for this examination began on March 1, 2021, 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 American Financial Security Life Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2015 through December 31, 2017. The current examination covers the period of January 1, 2018 through December 31, 2020, 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 AFSLIC included Investments, Related Party, Reinsurance, Reserves/Claims Handling, and Underwriting. 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

In the previous AFSLIC examination report there was a significant finding related to AFSLIC's history of reporting errors on quarterly and annual statements filed with the NAIC and the Department. The current examination also identified significant errors in the financial statement filings for each year under examination. These errors were the result of the Company not following NAIC Annual Statement instructions and the incorrect application of the *Statements of Statutory Accounting Principles (SSAP)*, particularly *SSAP Number 4--Assets and Nonadmitted Assets* and *SSAP Number 25--Affiliates and Other Related Parties*. Several of the reporting errors are summarized in the Comments on Financial Statement Items section of this examination report. The errors were considered material in the aggregate and resulted in examination adjustments that resulted in a net decrease to surplus of \$3.58 million as of December 31, 2020. See the Financial Statement Changes Resulting from Financial Examination section of this report for additional details.

Additionally, on at least five occasions during the examination period, AFSLIC failed to comply with Section 382.195.1 RSMo (Prohibited transactions, exceptions) by inappropriately engaging in transactions with its direct parent, American Financial Security Holding, Inc. (AFSH). These issues of non-compliance are summarized in the Comments on the Financial Statement Items section of this report and the Intercompany Transactions portion of this report.

COMPANY HISTORY

General

The Company commenced business on July 23, 1957, under the name of Survivor's Benefit Insurance Company. On December 1, 1981, the Company's name was changed to Penn Diversified Insurance and Annuity Company, and on May 17, 1989, the name was changed to its current name of American Financial Security Life Insurance Company. The Company was placed in court-ordered rehabilitation on March 30, 1993, where it remained until the order was terminated and the Company was placed into administrative supervision on November 22, 2005.

The Company was purchased out of administrative supervision on November 20, 2005 by ACA Assurance and was subsequently sold in 2008 to AFSH, a Delaware-domiciled holding company jointly owned by Carol J. and Michael Sonnenberg. The Company currently operates as a stock life insurance company under Chapter 376 RSMo. (Life, Health and Accident Insurance).

Mergers, Acquisitions, and Major Corporate Events

There were no mergers, acquisitions, or other major corporate events during the examination period.

Dividends and Capital Contributions

The Company did not report any dividends on its financial statements during the examination period. However, in February 2019 and November 2020, AFSLIC made cash transfers to AFSH in the amounts of \$475,000 and \$180,000, respectively. See additional details regarding these transactions under the Intercompany Transactions and Comments on Financial Statement Items sections of this report.

The Company received two capital contributions from AFSH during the examination period, as summarized in the table below:

Year	Amount
2018	\$ 1,000,000
2019	3,500,000
2020	-
Total	\$ 4,500,000

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 stockholder. The Company's Bylaws specify that the number of Directors shall not be less than nine, nor more than ten. The Board of Directors elected and serving as of December 31, 2020, were as follows:

Name and Address

Michael Sonnenberg
New York, New York

Michael Camilleri
Boca Raton, Florida

John Maloney
Boca Raton, Florida

James Pickens
Maumelle, Arkansas

Eric Serna
Santa Fe, New Mexico

Melinda Green
Deltona, Florida

Carol Sonnenberg
New York, New York

A. Robert Del Giacco
Coral Springs, Florida

Jordon Ross
Boca Raton, Florida

Principal Occupation and Business Affiliation

Treasurer, AFSLIC and President and Co-Owner,
American Financial Security Holdings, Inc.

President and Chief Executive Officer, AFSLIC

Chief Financial Officer, AFSLIC

Attorney/President, Mike Pickens Law Firm

President, Global Financial Strategies, LLC

Secretary, AFSLIC and Self-Employed Paralegal

Co-Owner American Financial Security Holdings, Inc.

Broker/Owner, Cornerstone Realty Consultants, LLC

Business Consultant and Investor, ICIC, Inc.

Senior Officers

The officers elected and serving, as of December 31, 2020, were as follows:

<u>Name</u>	<u>Office</u>
Michael Camilleri	President and Chief Executive Officer
Michael Sonnenberg	Treasurer
John Maloney	Chief Financial Officer
Melinda Green	Secretary

Principal Committees

The Company’s Bylaws grant the Board of Directors authority to establish one or more committees. As of December 31, 2020, the Board of Directors had only established one committee, the Audit Committee.

Corporate Records

The Company’s Articles of Incorporation and Bylaws were reviewed. There were no revisions to either document during the examination period. The minutes of the Board of Directors, Shareholders, and Audit Committee were reviewed for the period under examination.

Holding Company, Subsidiaries, and Affiliates

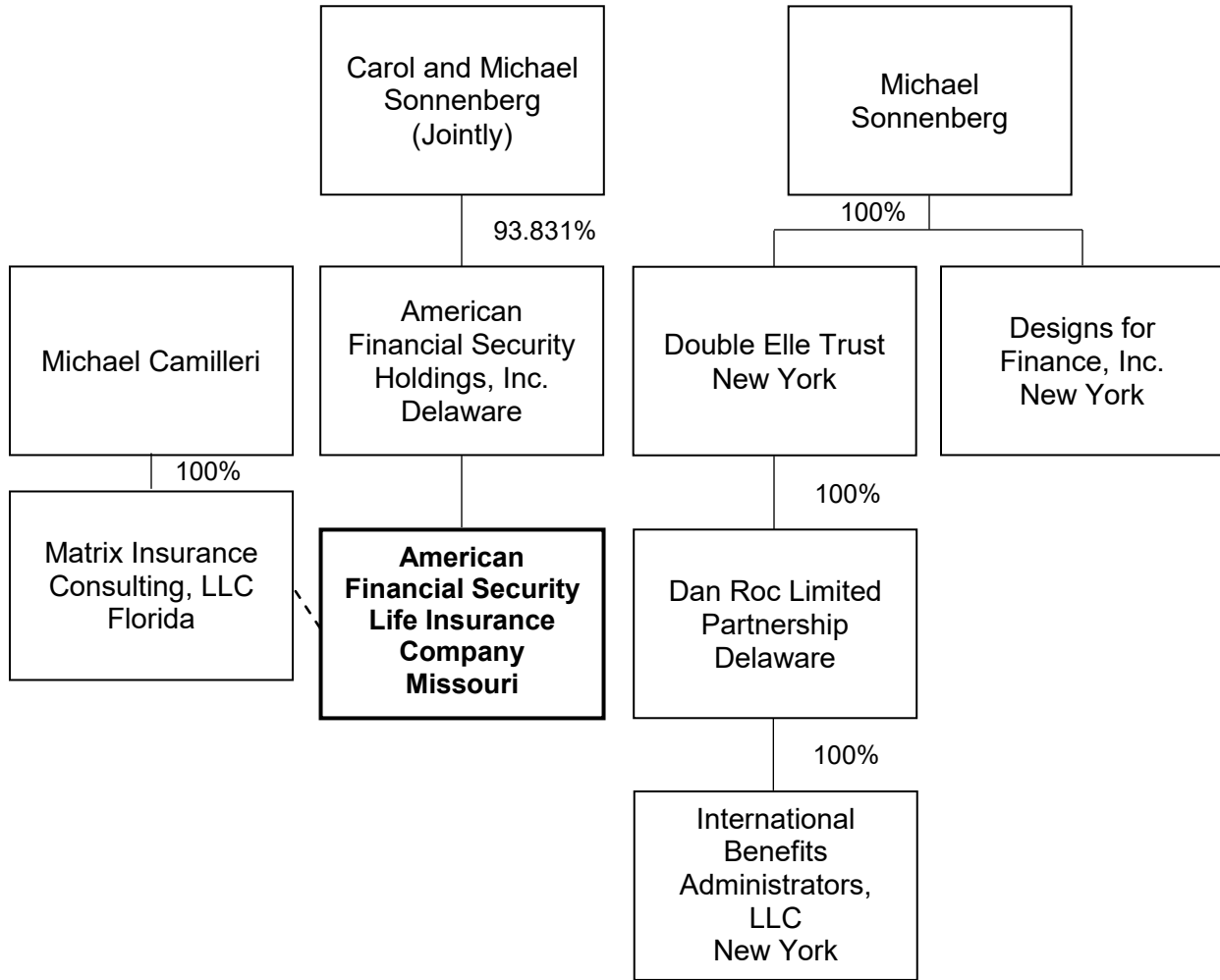
AFSLIC is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). As reported by the Company, the ultimate controlling person(s) of AFSLIC are Michael and Carol Sonnenberg, through their 93.831% ownership of AFSLIC’s direct parent, AFSH.

AFSLIC is affiliated with International Benefits Administrators, LLC (IBA) of Garden City, New York, by way of common ownership. IBA is a third-party administrator that performs claims processing services for AFSLIC pursuant to a written agreement between the two entities. Michael and Carol Sonnenberg also own various other non-insurance company entities that do not have direct associations with AFSLIC.

By way of common management, the Company is also affiliated with Matrix Insurance Consulting, LLC (Matrix Consulting) of Boca Raton, Florida. Matrix Consulting is 100% owned by Michael Camilleri, who also serves as the President, Chief Executive Officer, and Director of AFSLIC. Matrix Consulting has provided management and administrative services for AFSLIC from 2008 until the contract was terminated effective December 31, 2021.

Organizational Chart

The following organizational chart, as provided by the Company, depicts the applicable portion of the holding company group as of December 31, 2020. The chart depicted below does not include several non-insurer companies that are owned or controlled by the ultimate controlling persons.



According to Schedule Y, Part 1 of AFSLIC’s 2020 Annual Statement and the organizational chart submitted with AFSLIC’s 2020 Form B, Michael and Carol Sonnenberg own 93.831% of American Financial Security Holdings, Inc. However, per a compilation prepared by a Certified Public Accountant (CPA) for the Sonnenbergs, Carol Sonnenberg is the sole owner of the 93.831% interest in AFSH. After reviewing all available information, the examination team concluded that Michael and Carol Sonnenberg share the 93.831% ownership interest in AFSH.

Seth Fortgang of Lawrence, New York, and Steven A. Horowitz, of West Hills, New York are co-trustees of Double Elle Trust, whose only asset is a 99% ownership interest in Danroc Limited Partnership. Carol Sonnenberg is the only beneficiary of Double Elle Trust. Danroc Limited Partnership is an investment company that holds a 100% ownership interest in International Benefits Administrators, LLC (IBA), a third party administrator and claims management servicing company. IBA provides claims administration for AFSLIC. Designs for Finance, Inc. is a financial management company owned by Michael Sonnenberg. Michael Camilleri, AFSLIC’s President, Chief Executive Officer, and Director owns 100% of Matrix Insurance Consulting, LLC (Matrix),

an insurance consulting and management company.

Intercompany Transactions

The following agreements represent significant contracts executed with affiliated entities that were in effect as of December 31, 2020. A brief description of these agreements are as follows:

Management Agreement: In 2008, AFSLIC and Matrix Consulting entered into a Management Agreement under which AFSLIC agreed to pay Matrix Consulting a monthly fee in exchange for Matrix Consulting's management and oversight of AFSLIC's day-to-day operations. This Management Agreement was terminated effective December 31, 2021.

Claims Services Agreement: Effective May 6, 2010, IBA agreed to provide claims administration services for policies issued by AFSLIC. These administration services include, but are not limited to, the adjustment, management, handling, oversight, and payment of claims.

In addition, AFSLIC engaged in the following intercompany transactions between January 1, 2018, and December 31, 2020:

Management Agreement: On its 2019 Form B, AFSLIC reported that its parent, American Financial Security Holdings, Inc., was providing administrative, financial, management and marketing services to AFSLIC. AFSLIC had not obtained prior approval for this transaction from the Department as required by Section 382.195.1 RSMo (Prohibited transactions, exceptions).

Loan: In accordance with a promissory note signed by Mr. Sonnenberg for AFSLIC's parent, AFSH, on December 1, 2020, AFSLIC loaned \$1.3 million to AFSH without obtaining prior approval from the Department as required by Section 382.195.1 RSMo (Prohibited transactions, exceptions) and Section 376.295.1, RSMo (Additional prohibited acts – Authorized actions).

Transfers: During the examination period, AFSLIC made two cash transfers totaling \$655,000, to AFSH, without obtaining prior approval from the Department as required by Section 382.195.1 RSMo (Prohibited transactions, exceptions). In the alternative, the transfers were dividends AFSLIC paid without complying with Section 382.120, RSMo (Information to be kept current, when changes reported) or they were loans that AFSLIC made without complying with Section 376.295, RSMo (Additional prohibited acts – Authorized actions).

Cost-sharing: In April 2019, AFSLIC opened a new regional office in New York, New York. At least two of the individuals occupying space in this office spend at least part of their time working for entities other than AFSLIC, including AFSH and affiliate Designs for Finance, Inc. AFSLIC entered into an arrangement with these affiliates (and possibly other entities) whereby AFSLIC would be responsible for the entirety of the lease payments and other expenses associated with the operations of the New York office and none of these fees or expenses would be allocated to the other entities sharing the office. AFSLIC entered into this arrangement with its affiliates without obtaining prior approval from the Department as required by Section 382.195.1 RSMo (Prohibited transactions, exceptions).

TERRITORY AND PLAN OF OPERATION

AFSLIC is licensed by the state of Missouri to write the business of life, accident and health, and annuity insurance. In addition to Missouri, the Company is also licensed to write business in thirty-three other states.

The Company's main lines of direct business are short term medical (STM) and limited medical (LM). The majority of the STM and LM business is under program management with Xchange Benefits, LLC (Xchange Benefits) for administration, marketing, and solicitation of sales. Xchange Benefits, as the Program Manager, additionally appoints and contracts with sub-producers as agents of the Company. Major sub-producers during the examination period included, but were not limited to, The National Congress of Employers (NCE), Benefytt Technologies, Inc., Group Plan Administrators, and Adroit Health Group, LLC. Associations, such as NCE, obtain group policies from AFSLIC and market them to their members. Individual policies are then sold to the association members through contracted producers and sub-producers. The Company contracts with affiliated third-party administrator, IBA, to process its claims and perform other claims handling functions.

In addition to the STM and LM business, AFSLIC is a direct writer of a small amount of accidental death and dismemberment (ADD) and term life insurance policies, which are primarily marketed to association members under a group policy structure.

During the examination period, the Company also had significant assumption participation in a quota share stop loss reinsurance program with United States Fire Insurance Company. Xchange Benefits was the reinsurance intermediary for this program, which was terminated in 2020.

In addition to a proceeding discussed in the Subsequent Events section of this report, the Company was subject to regulatory actions and forfeitures or penalties during, and subsequent to the examination period. In July 2020, AFSLIC agreed to, among other things, forfeit \$61,000 to resolve allegations made by the Division of Insurance Market Regulation of the Department concerning marketing and sales violations, misrepresentation of insurance products, and the use of unapproved forms. The Department also ordered the Company to cease writing new policies until the forms were approved by the Department. Regulators from Virginia and South Dakota uncovered similar violations. In March 2021, AFSLIC agreed to, among other things, pay a monetary penalty of \$15,000 to resolve allegations made by the South Dakota Division of Insurance concerning unfair insurance practices, the use of a disapproved association, sale of policies by an unlicensed agent, and failures to respond and pay assessments. AFSLIC paid \$183,600 and confirmed that restitution was made to consumers of \$537,935.51 in connection with violations alleged by the Virginia State Corporation Commission Bureau of Insurance in June 2021. Violations alleged by Virginia included the use of unapproved rates and forms, the use of unapproved agents and associations to market policies, and deceptive advertising. Also during 2021, AFSLIC was fined a combined \$30,000 by regulators from Arizona and Wisconsin for failing to respond to regulator requests, and AFSLIC paid \$16,500 as part of the resolution of allegations by the Virginia State Corporation Commission Bureau of Insurance that AFSLIC failed to provide convenient access to files, books, and records during an examination. The Wisconsin Office of the Commissioner of Insurance also ordered the Company to cease and desist the writing of new and renewal policies in Wisconsin.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The Company experienced rapid growth in 2018 and 2019 due to increased sales of STM and LM policies through the Xchange Benefits programs. Losses increased significantly in 2019 due in large part to negative experience in the stop loss assumption program, leading to termination of the program in 2020, as noted above.

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

(\$000s omitted)

Year	Net Premiums	Change in Net Premiums	Benefits and Losses	Capital and Surplus	Ratio of Net Premiums to Surplus	Net Income (Loss)
2018	\$ 17,859	103.0%	\$ 9,931	\$ 8,156	2.2	\$ 962
2019	33,364	86.9%	18,800	10,386	3.2	(1,291)
2020	31,266	-6.3%	8,750	13,256	2.4	2,637

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	2018	2019	2020
Direct Premiums Written	\$ 9,495	\$ 29,980	\$ 33,752
Reinsurance Assumed:			
Non-Affiliates	8,911	5,192	1,116
Reinsurance Ceded:			
Non-Affiliates	546	1,808	3,602
Net Premiums	\$ 17,859	\$ 33,364	\$ 31,266

Assumed Reinsurance

Effective February 1, 2013, AFSLIC entered into a 70% quota share stop loss reinsurance agreement with United States Fire Insurance Company (US Fire) for policies up to a maximum gross liability of \$1,000,000 per person per policy year. AFSLIC's quota share increased to 75% in 2017, and decreased to 30% in 2019. This agreement was terminated January 1, 2020.

Effective March 1, 2015, AFSLIC entered into an Interests and Liabilities Agreement with LifeShield National Insurance Company (LifeShield) under which AFSLIC assumed a 50% quota share of accidental death and dismemberment policies issued by LifeShield. The agreement was amended effective June 1, 2015 to add a 50% quota share of short-term medical policies, and amended again effective March 1, 2016 to add a 50% quota share of guaranteed issue and simplified issue term life policies. Gross liability for each policy is up to \$100,000 in coverage. AFSLIC also assumed a 50% share of extra contractual obligations, up to an aggregate maximum of \$10,000,000 per contract year. According to the 2020 Management's Discussion and Analysis (MD&A) filed by AFSLIC, the ADD policies were discontinued in 2017, but resumed in late 2018. The MD&A also states that LifeShield chose to participate in STM renewals only in 2017. The term life portion of the agreement was terminated effective August 1, 2020 and is in run-off.

Effective November 1, 2020, AFSLIC entered into a Short Term Medical Quota Share Reinsurance agreement with Standard Life and Casualty Insurance Company (Standard Life). Under the terms of the agreement, AFSLIC assumes a 50% quota share of policies written with a maximum limit of \$1,000,000 per covered person, per agreement year. AFSLIC's extra contractual obligations are subject to a 50% share of a maximum of \$1,000,000 per covered person, per agreement year, up to an aggregate maximum of \$5,000,000 per agreement year.

Ceded Reinsurance

Effective March 1, 2015, AFSLIC entered into an Interests and Liabilities Agreement with Lifeshield under which Lifeshield assumes a 50% quota share of accidental death and dismemberment policies issued by AFSLIC. The agreement was amended effective June 1, 2015 to add a 50% quota share of short-term medical policies. LifeShield's gross liability for all policies is up to \$100,000 in coverage. Lifeshield also assumes a 50% share of extra contractual obligations, up to an aggregate maximum of \$10,000,000 per contract year. As noted above, the ADD policies were discontinued in 2017, but resumed in late 2018. The MD&A also states that LifeShield chose to participate in STM renewals only in 2017.

Effective July 1, 2018, AFSLIC entered into a Short Term Medical Excess of Loss Reinsurance Agreement with US Fire. AFSLIC's STM policies are offered with various policy limits (\$250,000, \$500,000, or \$1,000,000). Under the terms of this agreement, AFSLIC retains the first \$125,000 for all policy limits and US Fire is responsible for the remainder, up to the policy limit.

Effective April 1, 2020, and for policies written through September 30, 2020, AFSLIC entered into a Short Term Medical Quota Share Reinsurance Agreement with Standard Life. Under the terms of the agreement, AFSLIC cedes 80% of its program-managed STM policies, with maximum limits of \$1,000,000 per covered person, per agreement period. Extra contractual obligations are subject to the same shares and limits, up to an aggregate maximum of \$5,000,000 per agreement period.

Effective October 1, 2018, AFSLIC entered into a Limited Benefit Medical Quota Share Reinsurance Agreement with US Fire. Under the terms of this agreement, AFSLIC cedes to US Fire 15% of its program-managed LM policies and related gross liability.

Effective October 1, 2020, AFSLIC entered into a Short Term Medical Quota Share Reinsurance Agreement with Federal Life Insurance Company. Under the terms of the agreement, AFSLIC cedes 80% of its program-managed STM policies, with maximum limits of \$1,000,000 per covered person, per agreement period. Effective January 1, 2021, the ceding percentage decreased to 45%. Extra contractual obligations are subject to the same respective shares and limits up to an aggregate maximum of \$5,000,000 per agreement period.

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 CPA firm, MarksNelson, LLC in Kansas City, Missouri performed the statutory audit of the Company for all years under examination. Reliance was placed upon the CPA workpapers as deemed appropriate.

Actuarial Opinion

The Company's actuarial opinion regarding reserves and other actuarial items was issued by Mark Haarer, FSA, MAAA, for all years in the examination period. Mr. Haarer is employed by Mark Haarer Consulting, LLC in Elkhart, Indiana.

Consulting Actuary

Pursuant to a contract with the Department, Rex Durlington, FSA, MAAA, of Hause Actuarial Solutions, reviewed the underlying actuarial assumptions and methodologies used by AFSLIC to determine the adequacy of reserves and other actuarial items. Mr. Durlington determined that the Company made a reasonable provision for the reserves and other actuarial items that were reported in the statutory financial statements, as of December 31, 2020.

Information Systems

In conjunction with this examination, Kim Dobbs, 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 AFSLIC for the period ending December 31, 2020. 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 section. 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, 2020

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 10,945,924	\$ -	\$ 10,945,924
Stocks:			
Common Stocks	1,649,972	-	1,649,972
Cash, Cash Equivalents, and Short- Term Investments	9,060,445	-	9,060,445
Investment Income Due and Accrued Premiums and Considerations:	73,732	-	73,732
Uncollected Premiums and Agents' Balances in the Course of Collection	2,678,769	-	2,678,769
Deferred Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due	6,908	-	6,908
Reinsurance:			
Funds Held by or Deposited with Reinsured Companies	2,606,555	-	2,606,555
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	4,431	-	4,431
Net Deferred Tax Asset	52,628	-	52,628
Receivables from Parent, Subsidiaries, and Affiliates	1,300,000	-	1,300,000
Aggregate Write-Ins for Other-Than- Invested Assets	787,939	-	787,939
TOTAL ASSETS	\$ 29,167,303	\$ -	\$ 29,167,303

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2020

Aggregate Reserve for Life Contracts	\$ 3,738
Aggregate Reserve for Accident and Health Contracts	593,607
Liability for Deposit-Type Contracts	2,521,329
Contract Claims:	
Life	397,254
Accident and Health	8,612,769
Commissions to Agents Due or Accrued	2,352,793
General Expenses Due or Accrued	387,491
Taxes, Licenses, and Fees Due or Accrued, Excluding Federal Income	
Taxes	322,535
Current Federal and Foreign Income Taxes	382,771
Net Deferred Tax Liability	62,046
Miscellaneous Liabilities:	
Asset Valuation Reserve	47,911
Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers	225,354
Aggregate Write-Ins for Liabilities	1,995
TOTAL LIABILITIES	\$ 15,911,593
Common Capital Stock	1,500,000
Gross Paid In and Contributed Surplus	12,403,307
Unassigned Funds (Surplus)	(647,597)
TOTAL CAPITAL AND SURPLUS	\$ 13,255,710
TOTAL LIABILITIES AND SURPLUS	\$ 29,167,303

SUMMARY OF OPERATIONS

For the Year Ended December 31, 2020

Premiums and Annuity Considerations for Life and Accident and Health Contracts	\$ 31,266,086
Net Investment Income	265,077
Commissions and Expense Allowances on Reinsurance Ceded	1,225,675
Miscellaneous Income:	
Aggregate Write-Ins for Miscellaneous Income	86,899
Total Revenue	\$ 32,843,737
Death Benefits	575,440
Disability Benefits and Benefits Under Accident and Health Contracts	8,174,346
Commissions on Premiums, Annuity Considerations, and Deposit-Type Contract Funds	15,767,242
Commissions and Expense Allowances on Reinsurance Assumed	299,602
General Insurance Expenses	3,948,408
Insurance Taxes, License, and Fees, Excluding Federal Income Taxes	1,500,664
Total Underwriting Deductions	\$ 30,265,702
Net Gain (Loss) From Operations Before Dividends to Policyholders and Federal Income Taxes	\$ 2,578,035
Federal and Foreign Income Taxes Incurred	382,771
Net Realized Capital Gains (Losses)	441,472
NET INCOME (LOSS)	\$ 2,636,736

RECONCILIATION OF CAPITAL AND SURPLUS

Changes from January 1, 2018 to December 31, 2020

(\$000's omitted)

	2018	2019	2020
Capital and Surplus, Beginning of Year	\$ 6,178	\$ 8,156	\$ 10,386
Net Income (Loss)	962	(1,291)	2,637
Change in Net Unrealized Capital Gains(Losses) less capital gains tax			300
Change in Net Deferred Income Tax	27	271	(316)
Change in Nonadmitted Assets	(6)	(241)	247
Change in Asset Valuation Reserve	(5)	(9)	2
Surplus Adjustments:			
Paid In	1,000	3,500	-
Net Change in Capital and Surplus	\$ 1,978	\$ 2,230	\$ 2,870
Capital and Surplus, End of Year	\$ 8,156	\$ 10,386	\$ 13,256

resulted in an additional reduction in assets and an increase in expenses, which would also reduce capital and surplus, as summarized in the Financial Statement Changes section below. The remainder of the Health Insurance Company of America – Deposit balance (\$132,929) also should have been non-admitted because the *Accounting Practices and Procedures Manual* did not specifically identify a deposit for a pending acquisition as an admitted asset.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

Reported Surplus at December 31, 2020			\$	13,255,710
		Increase		Decrease
Assets Line 2.2 (Note 1 above)	\$	-	\$	1,495,452
Assets Line 23 (Note 2 above)		-		1,300,000
Assets Line 25 (Note 3 above)		-		787,939
Net Increase (Decrease) to Surplus			\$	(3,583,391)
Adjusted Surplus at December 31, 2020			\$	9,672,319

SUMMARY OF RECOMMENDATIONS

Financial Reporting Errors Pages 2, 4-5, 14-15
 The examination team noted numerous reporting errors in AFSLIC’s financial statements and supporting schedules/exhibits, as well as several discrepancies between information reported on the financial statements and other regulatory filings, such as the Insurance Holding Company System Annual Registration Statements (Form B) and Summary of Changes to Registration (Form C). The Company should ensure that transactions are accounted for in accordance with Statutory Accounting Principles, applicable statutes and regulations, and Annual Statement Instructions. The Company should also ensure that information presented in the annual statement is consistent with information reported in other regulatory filings.

Intercompany and Related Party Transactions Pages 2, 6, 14-15
 As described in the Intercompany Transactions section of this report, on at least five occasions AFSLIC engaged in inappropriate transactions with affiliates by not obtaining approval from the Department prior to engaging in the transaction in accordance with Section 382.195.1 RSMo (Prohibited transactions, exceptions) and (on at least one occasion) Section 376.295.1, RSMo (Additional prohibited acts – Authorized actions). The Company should ensure it complies with all statutes and regulations regarding intercompany and related party transactions, including but not limited to, obtaining prior approval from the Department for these transactions.

SUBSEQUENT EVENTS

Several significant events and/or transactions occurred subsequent to the examination period, as follows:

- On January 19, 2021, AFSLIC received a payment of \$1.3 million from AFSH, which represented repayment of the principal balance of the promissory note entered into on December 1, 2020, discussed above in the Intercompany Transactions and Comments on Financial Statement Items sections of this report.
- Effective April 1, 2021, AFSLIC agreed to increase the fees AFSLIC paid to Matrix Consulting under the Management Agreement, without obtaining from the Director prior approval of the amendment to the Management Agreement as required by Section 382.195.1 RSMo (Prohibited transactions, exceptions). AFSLIC and Matrix Consulting terminated the Management Agreement effective December 31, 2021.

- In 2021, AFSH returned funds to AFSLIC in the amount of \$360,000 that AFSH had received under the Management Agreement that was not approved by the Department.
- AFSLIC amended its 2021 Annual Statement, whereby the Health Insurance Company of America Deposit (Write-in Asset) and Millennium Partners investment (Other Invested Assets) were non-admitted. These amendments resulted in a net decrease to surplus of \$1,985,859.
- In April of 2022, AFSLIC received from AFSH funds that included \$655,000, the amount that AFSLIC had transferred to AFSH in connection with the Health Insurance Company of America – Deposit discussed above in the Intercompany Transactions and Comments on Financial Statement Items sections of this report.
- In April of 2022, the Division of Insurance Company Regulation of the Department initiated an administrative proceeding against AFSLIC by filing a Verified Statement of Charges alleging violations of several laws and regulations, including violations arising out of intercompany transactions discussed in this report. The Division and AFSLIC resolved the proceeding after agreeing to corrective actions ordered to be taken by AFSLIC.
- In June of 2022, AFSH also purchased the Millennium Partners investment from AFSLIC for \$1,758,000.
- As a result of the above-noted subsequent corrective actions, as well as other financial activity, the Company reported surplus of \$14,661,264 as of June 30, 2022.

Additionally, the COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

ACKNOWLEDGMENT

In addition to the undersigned, Kimberly Dobbs, CFE, AES, CISA, and Emily Pennington, CFE, examiners for the Missouri Department of Commerce and Insurance, also participated in this examination.

VERIFICATION

State of Missouri)
)
County of Jackson) ss

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 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.



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

Sworn to and subscribed before me this 27th day of September, 2022.

My commission expires: 7/22/2023 M. Ridenhour
Notary Public



M. RIDENHOUR
My Commission Expires
July 22, 2023
Platte County
Commission #19603483



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.



Sara McNeely, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance