

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 for the period ended December 31, 2014

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, 2014, 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 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, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

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, 2014 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, if any, mentioned in the Comments on Financial Statement Items and/or Summary of 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 11th day of January, 2016.

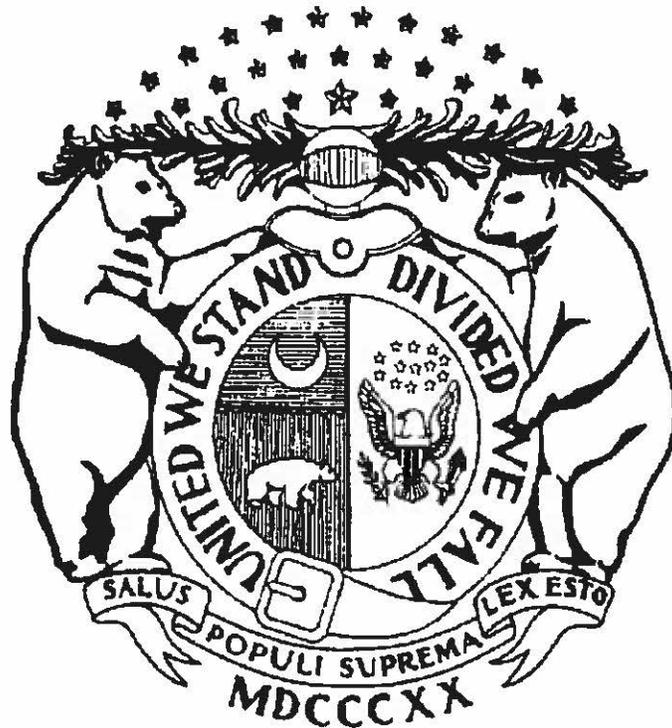


John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

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

**AS OF
DECEMBER 31, 2014**

FILED
JAN 21 2016
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
October 22, 2015

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

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, AFSLIC or as the Company. Its administrative office is located at 55 NE 5th Avenue, Suite 502, Boca Raton, Florida, 33432, telephone number (561) 756-8130. This examination began on January 15, 2015 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 American Financial Security Life Insurance Company. AFSLIC was last examined by the DIFP as of December 31, 2011. The current full scope examination covers the period of January 1, 2012 through December 31, 2014.

This examination also included the material transactions or events occurring subsequent to December 31, 2014.

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. The Handbook further requires that the examination include identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively. All accounts and activities of the Company were considered in accordance with

the risk-focused examination approach. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

This examination did not attest to the fair presentation of the financial statements included herein. If, during the course of this examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements. This examination report includes findings of facts and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (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 upon information provided by the Company and its management. Where deemed appropriate, this information has been tested or verified with external sources. The examination also relied upon information supplied by the Company's independent auditor, MarksNelson, LLC of Kansas City, Missouri for its audits covering the period from January 1, 2014 through December 31, 2014.

SUMMARY OF SIGNIFICANT FINDINGS

Article III of the Company's Bylaws requires a minimum of nine members and a maximum of ten members to serve on the Company's Board of Directors. Also, Missouri Law at Chapter 376.060 (5) (Stock companies – content of charter) requires that the Board of Directors of stock companies shall not be less than nine or more than twenty-one. As of December 31, 2014, only eight members were elected and serving on the Board.

The Company amended Article III of its Bylaws to require that Board members shall have business acumen and experience in the field of insurance. However, the examination noted two Board members whose experience and background does not include such experience, and thus, falls short of the requirement.

SUBSEQUENT EVENTS

Effective January 1, 2015, the Company has determined to discontinue offering the limited medical benefit product, which has been its primary product offering since it resumed insurance operations in 2007. This decision was predicated on the Company's determination that the product was incompatible with the provisions of the Affordable Care Act. In place of the limited medical benefit product, the Company has identified other medical insurance products that now constitute its plan of operation prospectively. See the Territory and Plan of Operation section of this report for additional details on the Company's new business plan and product offering.

COMPANY HISTORY

General

The Company was incorporated on January 25, 1957 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, 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 in administrative supervision on November 6, 2002.

The Company was purchased out of rehabilitation by American Financial Security Holdings, Inc. (AFSH) and became a Missouri domestic pursuant to a Form A Registration Statement that was approved by the DIFP on July 21, 2008. AFSH is a Delaware domiciled holding company that is one hundred percent owned by Carol and Michael Sonnenberg, the ultimate controlling persons. The Company currently operates as a stock life insurance company, in accordance with the provisions of Chapter 376, Revised Statutes of Missouri (RSMo) (Life and Accident Insurance).

Capital Contribution

Cash capital contributions from AFSH in the amounts of \$1,220,000, \$125,000 and \$1,000,000 were received by AFSLIC in 2012, 2013 and 2014, respectively.

Dividends

There were no dividends declared or paid during the period under examination.

Mergers and Acquisitions

The Company was not the subject of an acquisition or merger during the period under examination.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. During this examination period, the Articles of Incorporation were amended and restated effective January 11, 2012. The significant change by this amendment was to Article VI which now stipulates a paid-in capital and minimum surplus of \$3,500,000, consisting of \$1,500,000 of paid-in capital and \$2,000,000 of surplus.

The Bylaws were amended and restated effective September 1, 2013 to prescribe the term of office and qualification of Board members.

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

MANAGEMENT AND CONTROL

Board of Directors

The management of AFSLIC is vested in a Board of Directors that is elected by the shareholder. The Bylaws specify that the number of Board of Directors shall be not less than nine (9) and no more than ten (10). Also, Missouri Law at Chapter 376.060 (5) (Stock companies – content of charter) requires that the Board of Directors of stock companies shall not be less than nine or more than twenty-one. However, as of December 31, 2014, only eight members were elected and serving on the Board. The Board members appointed and serving as of December 31, 2014 were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
Michael H. Sonnenberg	Garden City, NY	Treasurer, AFSLIC
Michael E. Green	Apopka, FL	Automotive Service Technician Mullinax Ford of Apopka
Michael Camilleri	Boca Raton, FL	President and CEO, AFSLIC
Melinda E. Green	Boca Raton, FL	Secretary, AFSLIC and Self-Employed Paralegal
John S. Maloney	Bridgewater, NY	Chief Financial Officer, AFSLIC and Owner of John S. Maloney, P.C.
Eric P. Serna	Santa Fe, NM	President, Global Financial Strategies, LLC
Carol J. Sonnenberg	New York, NY	Owner, American Financial Security Holding, Inc.
James M. Pickens	Little Rock, AR	Attorney/President, Mike Pickens Law Firm

The appropriate qualification of Directors was an issue noted in the prior financial examination of the Company as of December 31, 2011. In response to the comment, the Company amended Article III of its Bylaws to require Directors to have business acumen and experience in the field of insurance. However, the current examination noted two Board members, Michael Green and Melinda Green, who do not appear to have experience or background in the field of insurance.

Committees

Article III, Section II of the amended Bylaws grants the Board of Directors authority to establish one or more Committees. As of December 31, 2014 no Committees have been established.

Officers

The officers elected and serving as of December 31, 2014 were as follows:

Michael H. Sonnenberg	Treasurer
Michael Camilleri	President and Chief Executive Officer
John S. Maloney	Chief Financial Officer
Melinda E. Green	Secretary

Holding Company, Subsidiaries and Affiliates

AFSLIC is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is wholly owned by AFSH, which, in turn is 100% owned by Michael and Carol Sonnenberg, who in combination and individually represent the ultimate controlling person of the Company.

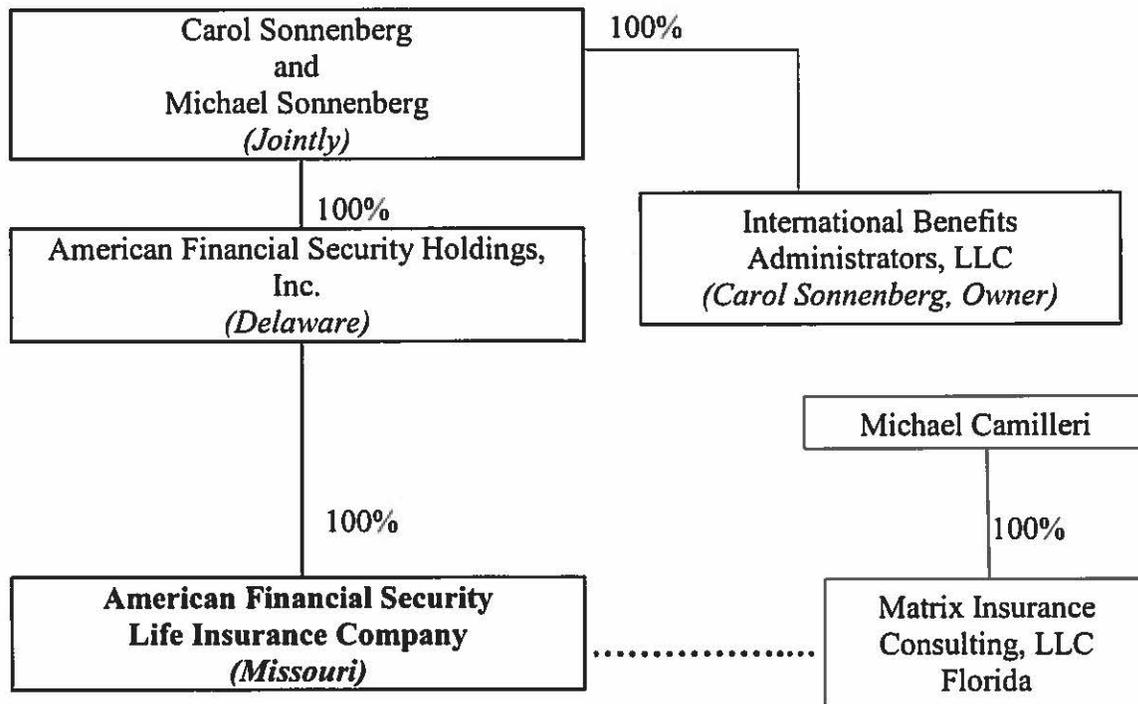
AFSLIC is affiliated with International Benefits Administrators, LLC, (IBA) of Garden City, New York, a third-party administrator that is owned by the ultimate controlling persons. IBA performs claims processing services for the Company pursuant to a written agreement.

The day-to-day management of the Company is contracted to Matrix Insurance Consulting, LLC, (Matrix Insurance Consulting) of Boca Raton, Florida. Matrix Insurance Consulting is owned by Michael Camilleri, who is also the President, CEO and a Director of AFSLIC. On the basis of this common management with AFSLIC, Matrix Insurance Consulting is deemed a related party of the Company.

Insurance Holding Company System Registration Statement was filed by AFSLIC for itself during each of the years under examination.

Organizational Chart

The following organizational chart partially depicts the ownership and holding company structure of AFSLIC, as of December 31, 2014. This partial list is depicted as there are several non-insurer companies that are owned by the ultimate controlling persons:



Intercompany Transactions

AFSLIC has the following agreements with its affiliated companies:

1) Management Agreement

Parties: AFSLIC and AFSH
 Effective: April 15, 2010
 Terms: AFSH agrees to reimburse AFSLIC for all necessary and reasonable costs for (a) general management services, (b) accounting services, and (c) investment advisory services.
 Rate(s): AFSH will pay to AFSLIC the actual allocated cost for such services plus an amount equal to \$3,500 per month to cover the cost of other unallocated services such as various accounting and rate processing services. Invoices should be generated between the 1st and 15th of every month and shall be paid within 75 days of invoicing. According to the Company, this agreement has remained dormant since it was created.

2) Claims Services Agreement

Parties: AFSLIC and IBA
 Effective: May 6, 2010
 Terms: IBA shall provide claims administration services including the adjustment, management, handling, and oversight of claims under policies issued by AFSLIC as fully described in Schedule 1 of the agreement.
 Rate(s): AFSLIC shall pay IBA 7% of gross premium to cover claim services and services and activities that improve health care quality, including but not limited to facilitating access to preferred provider networks and care management. Other allocated loss adjustment expenses noted in Schedule 2 of the agreement are to be charged to an individual claim file. This agreement became operational in June 2011.

3) Commercial Lease Agreement

Parties: AFSLIC and IBA
 Effective: April 1, 2013
 Terms: AFSLIC and IBA entered into a reciprocal lease agreement where each company charges the other \$400 monthly for equivalent space in each entity's respective office.
 Rate(s): \$400 per month per entity.

4) Management/Consulting Contract

Parties: AFSLIC and Matrix Insurance Consulting
 Effective: September 1, 2008 and amended January 1, 2013
 Terms: Matrix Insurance Consulting shall provide management and administrative services for the day-to-day operation of the Company.
 Rate(s): AFSLIC currently pays \$20,000 per month to Matrix Insurance Consulting for the services provided following amendment to the contract that raised the management fee from the original \$15,000 per month.

5) Commercial Lease Agreement

Parties:	AFSLIC and Matrix Insurance Consulting
Effective:	May 4, 2014
Terms:	AFSLIC agrees to lease approximately 866 square feet of commercial real estate to Matrix Insurance Consulting.
Rate(s):	Initial term at approximately \$21.82 per square foot per year or \$18,900 or \$1,575 per month.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2014, AFSLIC was licensed to transact the business of insurance in twenty-three states, an increase of four additional licenses since the last examination. The Company currently has applications for licensure in two additional states.

During the current examination period, the Company's plan of operation focused on marketing its Limited Medical Benefit (LMB) product, utilizing its appointed agents and agencies, and managing employer stop loss policies assumed from another insurer. As a result of continuing changes in the healthcare regulatory environment, the Company determined that LMB may not be consistent with the provisions of the Affordable Care Act. Consequently, effective December 31, 2014, the Company discontinued issuing new LMB policies.

In place of LMB, the Company has developed a new business plan and product offering beginning in 2015. The new business plan and the related plan of operation include, but are not limited, to the following:

- Run-off existing business from the current LMB book of business
- Continuation of the employer stop loss assumed reinsurance program
- Develop and offer ancillary products, to include accidental death and dismemberment (AD&D), critical illness, short-term medical, and accident medical expense products.
- Obtain additional state licenses and ancillary product approvals.
- Enter into partnership with LifeShield National Insurance Company (LifeShield) in 2015. AFSLIC intends to write an AD&D product on its paper if it is licensed in a particular state or on LifeShield's paper if not licensed.
- The new products will be written on an individual and group basis. Target customers are defined as (1) retired employees; (2) self-employed individuals between 40 to 60 years of age and earning between \$40,000 to \$60,000 per year; (3) individuals who work for an employer who does not offer healthcare benefits and find coverage in the marketplace to be unaffordable; (4) individuals who have purchased major medical coverage and want supplemental coverage.

AFSLIC has appointed two General Agents (GAs) to market its products. Call centers are utilized to make contact with potential insureds. In combination, the two GAs have appointed 171 sub-agents and made arrangement with six call centers to market AFSLIC products. The Company has also contracted with an affiliate third-party administrator to process its claims and perform other claims handling functions.

REINSURANCE

General

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

<u>Description</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Direct	\$ 2,495,964	\$ 2,095,487	\$ 314,475
Assumed	1,562,021	440,520	0
Ceded	0	0	0
Net Premiums Written	<u>\$ 4,057,985</u>	<u>\$ 2,536,007</u>	<u>\$ 314,475</u>

Assumed

Beginning February 1, 2013, AFSLIC entered into a quota share stop loss reinsurance agreement with U.S. Fire Insurance Company and The North River Insurance Company (reinsureds), both unrelated parties to AFSLIC. The agreement is for new and renewal business underwritten by the reinsureds, with Xchange Benefits, LLC acting as the broker-intermediary. Under the agreement, AFSLIC accepts a 70% quota share of the reinsureds' gross liability not to exceed \$1 million per person per policy year. AFSLIC also accepts 70% quota share of the reinsureds' gross liability of the Aggregate Medical Excess Loss Policies up to \$1 million in the aggregate on any one policy, per policy year, in excess of the aggregate self-insured retention.

AFSLIC allows a maximum 32.5% ceding commission per agreement year of gross written premium. In the first agreement year, 50% of the net ceded premium will be placed in an interest-bearing claim fund until it reaches \$500,000. If ceded paid claims exceed net ceded premium and the claim fund is exhausted in excess of \$25,000, AFSLIC will be required to reimburse the reinsured for such amounts within five business days.

Ceded

The Company did not cede any business during the period under examination.

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 American Financial Security Life Insurance Company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered 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.

	<u>Assets</u>	Non- Admitted Assets	Net Admitted Assets
Bonds	\$ 3,123,161	\$ 0	\$ 3,123,161
Common Stocks	58,030	0	58,030
Real Estate – Property Occupied by	411,945		411,945
Cash, Cash Equivalents and Short-term Investments	1,987,701	0	1,987,701
Investment Income Due and Accrued	4,391	0	4,391
Premiums and Considerations:			
Uncollected Premiums and Agents' Balances in Course of Collection	193,989	0	193,989
Deferred Premiums and Agents' Balances	9,659	0	9,659
Funds Held by or Deposited with Reinsured	886,836	0	886,836
Net Deferred Tax Assets	6,779	0	6,779
Electronic Data Processing Equipment	240	240	0
Receivable from Parent and Affiliates	37,955	0	37,955
Health Care and Other Amounts Receivable	7,226	0	7,226
TOTAL ASSETS	\$6,727,912	\$ 240	\$6,727,672

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Contracts	\$ 6,472
Aggregate Reserve for Accident and Health Contracts	48,165
Contract Claims: Life	30,714
Contract Claims: Accident and Health	1,183,105
Interest Maintenance Reserve	1,105
General Expenses Due or Accrued	77,237
Taxes, Licenses and Fees	32,005
Asset Valuation Reserve	13,359
TOTAL LIABILITIES	<u>\$1,392,162</u>
Common Capital Stock	1,500,000
Gross paid in and Contributed Surplus	7,903,307
Unassigned Funds (Surplus)	(4,067,797)
TOTAL SURPLUS	<u>\$3,835,510</u>
TOTAL CAPITAL AND SURPLUS	<u>\$5,335,510</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$6,727,672</u>

Statement of Income

Premiums and Annuity Considerations	\$ 4,057,985
Net Investment Income	55,780
Amortization of Interest Maintenance Reserve	1,243
Aggregate Write-ins for Miscellaneous Income	37,875
TOTAL	\$ 4,152,883
Disability Benefits and Benefits Under Accident and Health Contracts	2,276,795
Increase in Aggregate Reserves for Life and Accident and Health	(5,894)
Commissions on Premiums	25,485
Commissions and Expense Allowance on Reinsurance Assumed	468,631
General Insurance Expenses	798,325
Insurance Taxes, Licenses and Fees	439,795
TOTAL	\$4,003,137
Net Income Before Dividends to Policyholders and Federal Income Taxes	\$ 149,746
Federal and Foreign Income Taxes Incurred	0
Net Income or Loss	\$ 149,746

Capital and Surplus Account

Capital and Surplus, December 31, 2013	\$ 4,184,493
Net Income	149,746
Change in Net Deferred Income Tax	6,779
Change in Nonadmitted Assets	141
Paid in Surplus	1,000,000
Change in Asset Valuation Reserve	(5,649)
Net Change in Capital and Surplus	\$1,151,017
Capital and Surplus at December 31, 2014	\$5,335,510

EXAMINATION CHANGES

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Board of Directors (Page 4)

It is recommended the Company appoint an additional member to increase the number of individuals serving on the Board of Directors to the minimum of nine as stipulated by Article III of the Bylaws and also to be in compliance with Missouri Law at Chapter 376.060 (5) (Stock companies – content of charter) which requires that the Board of Directors of stock companies shall not be less than nine or more than twenty-one.

It is recommended the Company follow the letter and intent of the revised Bylaws and appoint only those with the appropriate education and experience to serve on its Board of Directors.

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. In addition to the undersigned, Karen Baldree, CPA, CFE, and Emily Pennington, AFE, Examiners for the Missouri DIFP also participated in this examination. Kimberly Dobbs, CFE, AES, Information System Examiner for the DIFP, performed a review of the information system environment. The actuarial firm of Lewis & Ellis, Actuaries and Consultants, of Overland Park, Kansas also participated as consulting actuaries.

VERIFICATION

State of Missouri)
)
County of)

I, Levi N. Nwasoria, 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.

Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 12th day of November, 2015.

My commission expires: 04-14-2016

Notary Public

[Faint, illegible text]



BEVERLY M. WEBB
My Commission Expires
April 14, 2016
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.



Mark A. Nance, CPA, CFE
Audit Manager
Missouri DIFP