

# 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 for the period ended December 31, 2013

### 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, 2013, 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 Capital Reserve Life Insurance Company as of December 31, 2013 be and is hereby ADOPTED as filed and for Capital Reserve 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 26<sup>th</sup> day of March, 2015.



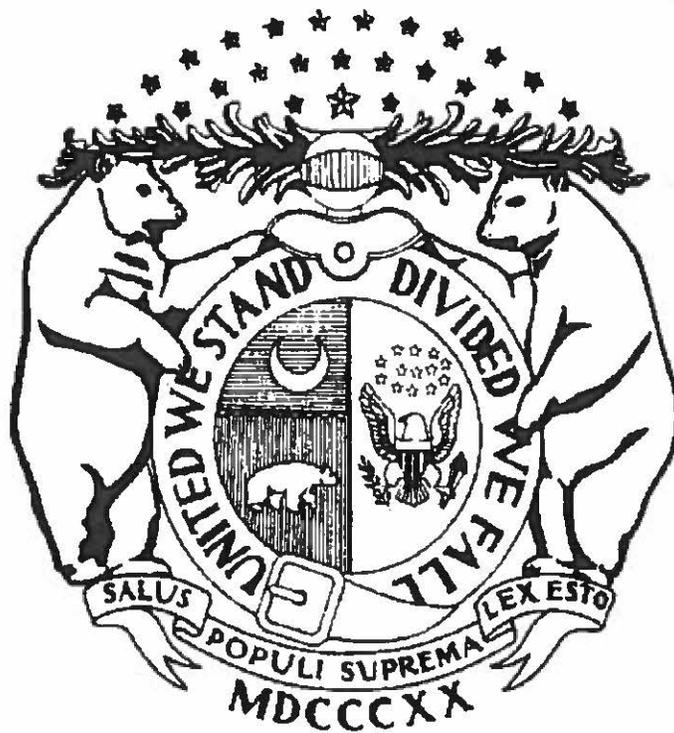
A blue ink signature of John M. Huff, Director.

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

**REPORT OF THE  
ASSOCIATION FINANCIAL EXAMINATION OF  
CAPITAL RESERVE LIFE INSURANCE  
COMPANY**

**AS OF  
DECEMBER 31, 2013**

**FILED**  
APR 6 2015  
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  
February 20, 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

**Capital Reserve Life Insurance Company**

hereinafter referred to as such, as Capital Reserve, or as the Company. Its administrative office is located at 2900 South 70<sup>th</sup> Street, Lincoln, Nebraska, 68506, telephone number (402) 489-8266. This examination began on February 10, 2014 and was concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full scope financial examination of Capital Reserve Life Insurance Company was made as of December 31, 2008, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope financial examination covered the period from January 1, 2009, through December 31, 2013. The examination of Capital Reserve was conducted in conjunction with a coordinated multi-state examination of the Midwest Holding Group led by the Arizona Department of Insurance (Arizona DOI) for the year ending December 31, 2012. The companies within the Midwest Holding Group included in the coordinated examination were the direct parent of Capital Reserve, American Life and Security Corporation (American Life) (an Arizona domestic) and First Wyoming Life Insurance Company (a Wyoming domestic).

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 (DIFP) and statutes of the State of Missouri prevailed. 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, inherent risks within the Company, system controls and procedures used to mitigate those risks. The examination also included assessing the principals used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to Missouri domestic state regulations.

## **SUMMARY OF SIGNIFICANT FINDINGS**

Capital Reserve has no net premium income and only nominal investment income due to its status as a shell company. Under the current terms of its administrative service agreements and its reinsurance agreements, it does not appear the Company can operate without sustaining a net loss. As a result, the Company will require continuous capital contributions to meet minimum statutory surplus.

The Company is a party to a reinsurance agreement with its prior owner Security National Life Insurance Company (Security National). Subsequent to the sale of Capital Reserve to America Life, Security National dissolved the trust account associated with Exhibit 1 of the ceded reinsurance agreement. Capital Reserve management indicated that they were unaware that the trust account had been dissolved until it came to their attention as part of the examination process.

The Company purchased 42,000 shares of affiliated common stock from Great Plains Financial Corporation in February of 2013. The Company reported the full \$72,000 paid for the stock in its December 31, 2013 Annual Statement rather than its share of the December 31, 2013 year end equity of Great Plains Financial Corporation which was computed as \$50,776.

## **SUBSEQUENT EVENTS**

The Company received a capital contribution of \$100,000 from its parent, American Life, on March 31, 2014.

## HISTORY

### General

The Company was originally incorporated under the Mutual Assessment laws of the State 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 its name to Capital Reserve Life Insurance Company. Effective December 7, 1955, the Company became a joint stock, legal reserve life insurance company under the provisions of Sections 376.010 to 376.670 RSMo. Peoples National Life Insurance Company was merged into the Company in 1971.

Effective December 17, 2007, Security National Life Insurance Company purchased all outstanding shares of the Company's common stock from its shareholders. Effective May 11, 2010, American Life purchased all of the outstanding shares of the Company's common stock from Security National. American Life is a wholly owned subsidiary of Midwest Holding Inc., the ultimate controlling entity of Capital Reserve.

### Capital Stock

The Company is authorized to issue 4,000 shares of common capital stock with a par value of \$200. As of December 31, 2013, 3,564 authorized shares were issued and outstanding for a common capital stock account balance of \$712,800. All the issued and outstanding shares were owned by American Life, the immediate parent of the Company.

### Dividends

No dividends were declared or paid during the examination period.

### Acquisitions, Mergers and Major Corporate Events

Effective December 31, 2009, Security National exercised its right to recapture all previously reinsured liabilities under a 2008 reinsurance assumption agreement with Capital Reserve. As a result of the recapture, Security National is primarily liable for the liabilities on all Capital Reserve's insurance contracts and annuities. The assets transferred by the Company to Security National pursuant to such recapture had a fair market value equal to the assumed liabilities.

Additionally, Security National entered into an agreement dated December 31, 2009 with the Company to assign and transfer to Security National all of the assets and liabilities that remained following the recapture, except for the Company's corporate charter, insurance licenses, and \$1,681,000 in statutory capital and surplus, which allowed the Company to preserve its corporate existence in Missouri.

Effective May 11, 2010, American Life completed a stock purchase transaction with Security National to purchase all of the outstanding shares of common stock of Capital Reserve.

## MANAGEMENT AND CONTROL

### **Board of Directors**

The management of the Company is vested in a Board of Directors that are appointed by the shareholders. The Company's Bylaws specify the total number of directors shall be nine. The directors serving at December 31, 2013, were as follows:

<b>Name</b>	<b>Address</b>	<b>Business Affiliation</b>
James M. Ballard	Raymond, Nebraska	Owner, James Arthur Vineyards
Todd C. Boeve*	Lincoln, Nebraska	VP/Secretary, Midwest Holding Inc.
Jack S. Theeler	Mitchell, South Dakota	Partner, Morgan Theeler, LLC
Leslie R. Meyer*	Greeley, Colorado	President, First Wyoming Life Insurance Company
Travis R. Meyer*	Bennett, Nebraska	Director/Vice Chairman, Midwest Holding Inc.
John R. Perkins*	Cheyenne, Wyoming	COO, First Wyoming Life Insurance Company
Milton G. Tenopir*	Lincoln, Nebraska	Retired
Mark A. Oliver*	Lincoln, Nebraska	Director/CEO, Midwest Holding Inc.
Joel H. Mathis	Dallas, Texas	Independent Consultant/Retired

\* Directors holding officer positions with other insurers within the holding company system.

### **Committees**

Pursuant to the Bylaws, the Board of Directors may provide for such committees as it deems necessary. The only committee established and appointed by the Directors as of December 31, 2013 was an Audit Committee consisting of the following individuals: John R. Perkins, Milton G. Tenopir, and Mark A. Oliver.

### **Officers**

Pursuant to its Bylaws, the officers of the Company shall consist of a President, one or more Vice Presidents, a Treasurer, a Secretary, and such other officers as the Board of Directors may deem appropriate. Officers serving as of December 31, 2013, were as follows:

<b><u>Officer</u></b>	<b><u>Position with the Company</u></b>
Mark A. Oliver	CEO/Treasurer
Travis R. Meyer	Vice President/Secretary
Todd C. Boeve	Vice President/Assistant Secretary

### **Conflict of Interest**

The Company requires all officers, directors, and key employees to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period with no significant conflict disclosures noted.

### **Corporate Records**

A review was made of the Articles of Incorporation and Bylaws of the Company for the period under examination. On May 26, 2010, the stockholders approved an amendment to the Articles of Incorporation to establish 237 East High Street, Jefferson City, Missouri, as the Company's statutory home office. No amendments were made to the Bylaws during the examination period.

The minutes of the Board of Directors' and Shareholders meetings were reviewed for proper approval of corporate transactions. The minutes and records of the Company appear to properly reflect the corporate transactions and events for the period under examination.

## **AFFILIATED COMPANIES**

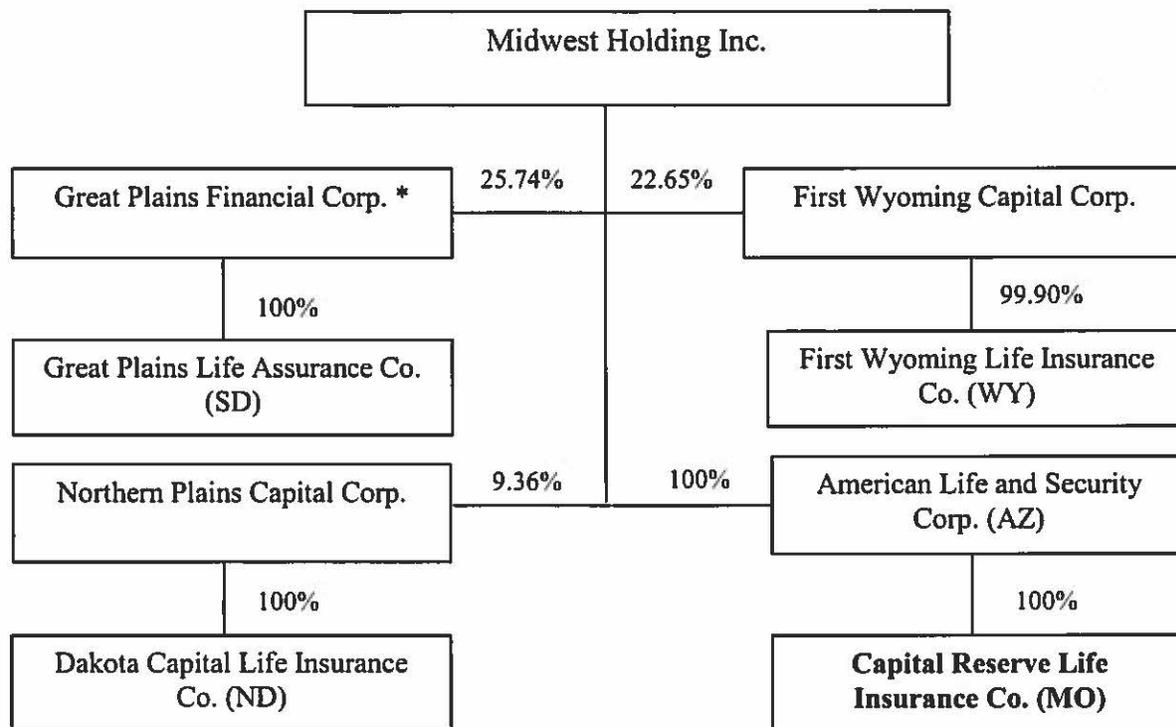
### **Holding Company, Subsidiaries and Affiliates**

Capital Reserve is a member of an Insurance Holding Company System pursuant to Section 382.010 RSMo (Definitions). Capital Reserve is a wholly owned subsidiary of American Life and Security Corporation, an Arizona domiciled life insurance company. American Life is in turn a wholly owned subsidiary of Midwest Holding Inc., which is the ultimate controlling entity within the holding company system.

The holding company system identified in the Company-provided organization chart includes a total of fifteen legal entities. Included among the entities are five U.S. domiciled insurance companies. Midwest Holding is owned by 5,534 or more individuals of whom none appears to exercise control or is deemed to exercise control. Midwest Holding Inc. is subject to SEC reporting but its shares are not currently listed on any public stock exchange.

### **Organizational Chart**

The following abbreviated organizational chart depicts the holding company system of Capital Reserve as of December 31, 2013:



\* Capital Reserve also owns 40,000 shares of common stock in Great Plains Financial Corp. This investment represents a .99% ownership interest in Great Plains Financial Corp.

Note: Ownership percentages above do not reflect stock of unaffiliated third parties.

**Intercompany Transactions**

The Company had the following agreements with related parties as of December 31, 2013.

1. **Type:** Cost Sharing Agreement
- Affiliate:** American Life
- Effective:** October 21, 2010
- Terms:** Capital Reserve agrees to compensate American Life for office space, tangible office equipment, administrative, management, and financial services. Other services including accounting services, preparation of state and federal income tax returns, payroll tax returns, actuarial support and other administrative tasks may also be requested by the Company. Costs are to be allocated on a pro-rata basis compliant with SSAP No. 25 & SSAP No. 70.

- 2. Type:** Administrative Service Agreement
- Affiliate:** Midwest Holding Inc.
- Effective:** February 1, 2012
- Terms:** Capital Reserve agrees to compensate Midwest Holding Inc. for administrative services including underwriting, actuarial services, issuing and cancelling policies, product development, billing, collection and accounting of premiums and fees, claims handling, regulatory affairs, and agent relations. Costs are to be allocated on a pro-rata basis compliant with SSAP No. 25 & SSAP No. 70.

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

The Company is the named insured along with all other subsidiaries of Midwest Holding Inc. on a Fidelity Bond with a single loss limit of \$250,000 and a \$50,000 deductible. This level of coverage is in compliance with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

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

The Company has no direct employees. All services are provided to the Company in accordance with the Cost Sharing Agreement and Administrative Services Agreement described in the Intercompany Transactions section of this report.

### **STATUTORY DEPOSITS**

The funds on deposit with the DIFP as of December 31, 2013, as reflected below, were sufficient in par and fair value to meet the deposit requirement for the State of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities).

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Bonds	\$625,000	\$655,663	\$641,954

The Company does not have funds on deposit with any other state.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed by the DIFP under Chapter 376 RSMo (Life, Health and Accident Insurance) to write life, accident, and health insurance. The Company is also licensed in the State of Kansas.

The Company is no longer writing new business and effective December 17, 2007, Security National agreed to reinsure 100% of the Company's policies in-force and 100% of any new policies issued subsequently by the Company. The Company is actively seeking third parties to purchase the corporate charter and has initiated a study to determine the feasibility of merging with an affiliate.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

The Company's growth and loss experience for 2009 through 2013 is summarized in the following schedule:

	2013	2012	2011	2010	2009
Direct Premiums Written	\$ 286,028	\$ 364,069	\$ 453,799	\$ 640,412	\$ 972,311
Net Premiums Written	-	-	-	-	273,100
Net Income (Loss)	(115,884)	(66,813)	(122,327)	(89,279)	16,512
Total Admitted Assets	1,283,300	1,412,291	1,206,355	1,584,780	1,681,249
Total Liabilities	23,554	16,114	20,928	37,915	10,436
Total Capital & Surplus	1,259,746	1,396,147	1,206,355	1,584,780	1,681,249

The Company has experienced a steady decline in direct premiums written during the examination period due to the continued run off of the book of business ceded to Security National. The Company's capital and surplus has also steadily declined during the examination period, from \$1,691,686 in 2009 to \$1,259,746 in 2013.

The decline in capital and surplus is due to the Company sustaining net losses for each of the years subsequent to its purchase by American Life. As the Company receives no ceding commissions under the reinsurance agreement with Security National, the Company has no source of income other than investment returns which are limited due to the Company's small amount of investment holdings. The Company compensates its direct parent, American Life, and its ultimate parent, Midwest Holding, for various administrative services under the intercompany agreements described in the Intercompany Transactions section of this report. Although the extent of administrative services provided to Capital Reserve by these entities is limited given that all premium and claims related activities for the Company are performed by Security National under the reinsurance agreement, it appears the administrative services cost will continue to exceed investment income for the foreseeable future.

## REINSURANCE

### General

The Company's reinsurance and premium activity on a direct written, assumed, and ceded basis for 2009 through 2013 is summarized in the following schedule:

	2013	2012	2011	2010	2009
Direct Business	\$ 286,028	\$ 364,069	\$ 453,799	\$ 640,412	\$ 972,311
Reinsurance Assumed	-	-	-	-	273,100
Reinsurance Ceded	(286,028)	(364,069)	(453,799)	(640,412)	(972,311)
Net Premiums	-	-	-	-	273,100

### Assumed

The Company was party to a reinsurance assumption agreement with its former parent, Security National, whereby the Company agreed to reinsure a block of business that was previously ceded to Security National. Security National executed its right to recapture this business as of December 31, 2009, whereby Security National became primarily liable for the liabilities on the block of business, effectively terminating the agreement. The Company did not assume any business from other insurers during the period under examination.

### Ceded

The Company is party to a reinsurance agreement with Security National effective December 17, 2007, whereby Security National agreed to reinsure 100% of the Company's policies in-force as of the effective date and 100% of any new policies issued by the Company subsequent to the effective date of the agreement.

Under the provisions of the reinsurance agreement, a trust agreement was entered into by Capital Reserve and Security National whereby a trust account was established with Zions Bancorporation acting as trustee. The amounts deposited into the trust account equaled the statutory reserves subject to the reinsurance agreement and were to secure the payments to be made pursuant to the terms of the reinsurance agreement.

Subsequent to the Company's acquisition by American Life, Security National dissolved the trust account. Capital Reserve management indicated that they were unaware that the trust account had been dissolved until it came to their attention as part of the examination process. The trust account was reestablished under a revised trust agreement entered into by the parties effective June 1, 2014.

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

### Independent Auditor

The Company's financial statements were audited by the CPA firm, Larson & Rosenberger LLP, of Salt Lake City, Utah for the year ending December 31, 2009. The Company's financial statements were audited by the CPA firm, McGladrey LLP (FKA McGladrey & Pullen LLP), of Omaha, Nebraska for the years ending December 31, 2010 through 2013.

### Appointed Actuary

Life, accident and health policy and claim reserves were reviewed and certified by Mark W. Birdsall, FSA, MAAA of Security National Life Insurance Company of Salt Lake City, Utah for the year ending December 31, 2009. Life, accident and health policy and claim reserves were reviewed and certified by Julie A. Hunsinger, FSA, MAAA of Investors Heritage Life Insurance Company of Frankfort, Kentucky for the year ending December 31, 2010. Life, accident and health policy and claim reserves were reviewed and certified by R. Eric Newberg ASA, MAAA of Miller & Newberg, Inc. of Overland Park, Kansas for the years ending December 31, 2011 through 2013.

## FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Capital Reserve for the period ending December 31, 2013. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statement 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 Annual Statement item.

## ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 1,146,723	\$ -	\$ 1,146,723
Common Stocks (Note 1)	50,776	-	50,776
Cash and Short-term Investments	73,538	-	73,538
Investment Income Due and Accrued	12,263	-	12,263
Aggregate Write-ins - Other Assets	10,837	10,837	-
<b>Total Assets</b>	<b>\$ 1,294,137</b>	<b>\$ 10,837</b>	<b>\$ 1,283,300</b>

## LIABILITIES, SURPLUS AND OTHER FUNDS

General Expenses Due or Accrued	\$ 18,238
Asset Valuation Reserve	5,316
<b>Total Liabilities</b>	<b>\$ 23,554</b>
Common Capital Stock	\$ 712,800
Unassigned Funds (Surplus)	546,946
<b>Total Capital and Surplus</b>	<b>\$ 1,259,746</b>
<b>Total Liabilities and Suplus</b>	<b>\$ 1,283,300</b>

## STATEMENT OF REVENUE AND EXPENSES

Net Investment Income	\$ 28,992
Amortization of Interest Maintenance Reserve	(1,191)
Commissions and Expense Allowances on Reinsurance Ceded	8,972
<b>Total Revenue</b>	<b><u>\$ 36,773</u></b>
Commissions on Premiums, Annuity Considerations and Deposit-Type Contract Funds	\$ 8,972
General Insurance Expenses	123,362
Insurance taxes, Licenses and Fees, Excluding Federal Income Taxes	15,564
<b>Total</b>	<b><u>\$ 147,898</u></b>
<b>Net Gain (Loss) From Operations</b>	<b>\$ (111,125)</b>
Net Realized Capital Gains (Losses) less Capital Gains Tax	(4,759)
<b>Net Income or (Loss)</b>	<b><u>\$ (115,884)</u></b>

## CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus, December 31, 2012	\$ 1,396,147
Net Income or (Loss)	(115,884)
Change in Net Unrelaized Capital Gains (Losses) Less Capital Gains Tax	(3,537)
Change in Nonadmitted Assets	4,173
Change in Asset Valuation Reserve	71
Examination Change	(21,224)
<b>Total Capital and Surplus</b>	<b><u>\$ 1,259,746</u></b>

## FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

### Capital and Surplus Per Company:

Common capital stock	\$ 712,800	
Unassigned Funds (surplus)	<u>568,170</u>	
<b>Total Capital and Surplus</b>		<b>\$ 1,280,970</b>

	<u>Increase In Surplus</u>	<u>Decrease In Surplus</u>
Assets		
Common Stocks Note 1	\$ 21,224	
<b>Net Change</b>		<u><b>(21,224)</b></u>
<b>Capital and Surplus Per Examination:</b>		<u><u><b>\$ 1,259,746</b></u></u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

**Note 1: Common Stock** **\$50,776**

Investments in Common Stocks were decreased by \$21,224. The investment in common stocks consists of the Company's investment in an affiliated entity, Great Plains Financial Corporation (Great Plains). Capital Reserve purchased 40,000 shares of common stock in Great Plains in February of 2013 for a purchase price of \$72,000. Capital Reserve reported the full amount paid for the common stock in the December 31, 2013 financial statements. The amount was decreased to \$50,776 to correspond to Capital Reserve's share of Great Plains' 2013 year-end equity balance.

It was also noted that the Company failed to file the purchase of the common stock in affiliate for prior approval with the Missouri DIFP as a related party transaction pursuant to RSMo 382.195 (Prohibited transactions, exceptions).

## SUMMARY OF RECOMMENDATIONS

### Growth and Loss Experience (Page 8)

Management should develop a business strategy to return the Company to a profitable status or to a status where the Company can at least break-even. Given its minimal operational activities the Company should look for ways to decrease the amounts paid under the intercompany administration agreements or discontinue making payments under these agreements until such

time as the Company is able to establish a business plan under which its limited sources of income can support its operations.

**Ceded Reinsurance (Page 9)**

The Company should establish controls and procedures to ensure that the reinsurance trust account with Security National is properly maintained. These controls and procedures should include obtaining monthly or quarterly statements from Zions Bancorporation.

**Common Stock (Page 13)**

The Company should ensure that the investment in common stock of Great Plains Financial Corporation is reported at an amount equal to Capital Reserves' share of Great Plains' year-end equity in accordance with reporting for investments in affiliates. In addition, the Company should ensure that it complies with the provisions of RSMo 382.195 regarding obtaining prior approval of related party transactions including the purchase of common stock in a related party entity.

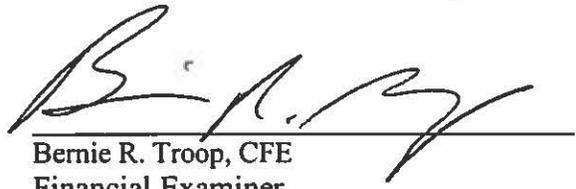
**ACKNOWLEDGMENT**

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, Scott Rennick, CFE, examiner for the DIFP participated in this examination.

**VERIFICATION**

State of Missouri )  
 )  
County of Jackson )

I, Bernie R. Troop, 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.



Bernie R. Troop, CFE  
Financial Examiner  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration

Sworn to and subscribed before me this 23<sup>rd</sup> day of February 2015.

My commission expires: 01/07/2018 Tammy Morales  
Notary Public



TAMMY MORALES  
My Commission Expires  
January 7, 2018  
Clay County  
Commission #14451088



## 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 Nance, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial  
Institutions and Professional Registration



March 23, 2015

Leslie Nehring, CPA, CFE  
Missouri Department of Insurance  
301 West High Street, Room %30  
PO Box 690  
Jefferson City, MO 65102

Re: Examination Report on Capital Reserve Life Insurance Company as of December 31, 2013.

Dear Ms. Nehring,

I have received the above-referenced draft report and provide the following comments. In accordance with your instructions, no distribution of the draft report has been made at this time. I hereby request that these comments be included with the public report.

In order to facilitate your review, I will make my comments under the heading of the report that they apply to.

#### **Reinsurance (Ceded)**

Management discovered that Security National had liquidated the Trust Account at Zion Bank during the examination as noted in the report. We immediately notified Security National that they were in breach of the Agreement and required that the assets be placed back into the trust account immediately. Furthermore, we required an amendment to the Trust Agreement that would prohibit such unilateral action in the future. All assets placed back into the trust were reviewed by the Company prior to acceptance to insure suitability. Monthly statements from Zion are now reviewed for compliance with the Trust Agreement as well as adequacy to meet the underlying reserves.

#### **Common Stock**

Shares of Great Plains Financial Corp. were acquired from a 3<sup>rd</sup> party during 2013. The shares have since been converted to Midwest Holding Inc. shares due to the merger of Great Plains Financial Corp. into Midwest during 2014. Midwest shares have been submitted to the NAIC SVO office for valuation. Additionally, such shares have been valued in accordance with applicable SSAP guidance in years subsequent.

As noted in the report, a Form D was not filed at the time of acquisition because the Company failed to realize that the transaction met the materiality test. Subsequently a Form D was filed with the Missouri Department.

### **Growth and Loss Experience**

The Company is keenly aware of the difficulty in maintaining an operating profit position given the fact that all of the in-force business was ceded prior to current management's acquisition. Furthermore, the low interest rate environment offers little assistance from an investment standpoint. The Company's parent has consistently provided additional surplus as needed to maintain the Company's compliance with applicable requirements. Management continues to look for additional economies of scale to preserve the Company's surplus position. The Company has agreed to produce no new business until such time as there is additional surplus to support the writing of such. Additionally, the Company's parent has granted an option to a third party to acquire all of the outstanding shares of the Company (pursuant to approval by Missouri).

On behalf of Capital Reserve, I would like to acknowledge the work of the Examiners involved and express our appreciation for the manner in which the examination was conducted. We appreciate the opportunity to provide comments.

Sincerely,



Mark A. Oliver, FLMI  
Chief Executive Officer.