



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

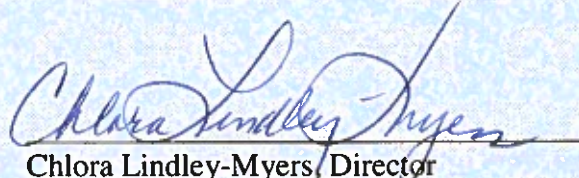
ORDER

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, 2017, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, 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, company history, corporate records, management and control, territory and plan of operations, reinsurance, financial statements, financial statement changes resulting from examination, comments on the financial statements, and general comments and/or 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, 2017 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 Statements and/or General Comments and/or 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 28th day of February, 2019.





Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF
American Financial Security Life Insurance Company
AS OF
DECEMBER 31, 2017**

FILED

MAR 11 2019

**DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION**



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

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
PERIOD COVERED.....	1
PROCEDURES.....	1
RELIANCE UPON OTHERS.....	2
SUMMARY OF SIGNIFICANT FINDINGS	2
COMPANY HISTORY.....	2
GENERAL	2
DIVIDENDS.....	3
CAPITAL STOCK AND CONTRIBUTIONS.....	3
MERGERS AND ACQUISITIONS.....	3
CORPORATE RECORDS.....	3
MANAGEMENT AND CONTROL.....	3
BOARD OF DIRECTORS	3
COMMITTEES.....	4
OFFICERS	4
HOLDING COMPANY, SUBSIDIARIES, AND AFFILIATES	4
ORGANIZATIONAL CHART.....	5
INTERCOMPANY TRANSACTIONS.....	5
TERRITORY AND PLAN OF OPERATION.....	6
REINSURANCE	7
GENERAL	7
ASSUMED.....	7
CEDED.....	8
FINANCIAL STATEMENTS.....	8

ASSETS.....	9
LIABILITIES, SURPLUS AND OTHER FUNDS.....	10
STATEMENT OF INCOME.....	10
CAPITAL AND SURPLUS ACCOUNT.....	11
FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION.....	12
COMMENTS ON FINANCIAL STATEMENT ITEMS.....	12
GENERAL COMMENTS AND/OR RECOMMENDATIONS.....	12
ACKNOWLEDGMENT.....	13
VERIFICATION.....	13
SUPERVISION.....	14

Kansas City, MO
December 31, 2018

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

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

hereinafter referred to as such, as AFSLIC, or as the Company. Its main administrative office is located at 55 NE 5th Avenue, Suite 502, Boca Raton, Florida, 33432. The fieldwork for this examination began on May 1, 2018, 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. The last examination of the Company by the DIFP covered the period of January 1, 2012 through December 31, 2014. The current examination covers the period of January 1, 2015 through December 31, 2017, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

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. This 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, reinsurance, premiums and underwriting, claims handling and reserving, and related party. The examination also included a review and evaluation of information technology general controls.

This examination report includes significant findings of fact 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 separately communicated to other regulators and/or the Company.

Reliance Upon Others

The examination relied heavily upon information provided by the Company and its management. Where the examiners have deemed appropriate, this information has been tested or verified with external sources. The examiners also relied upon information supplied by the Company's independent auditor, MarksNelson, LLC of Kansas City, Missouri for its audit covering the period from January 1, 2017 through December 31, 2017.

SUMMARY OF SIGNIFICANT FINDINGS

AFSLIC has a running history of reporting errors on its quarterly and annual statements that require extensive time by the DIFP staff to correspond with the Company to correct. Generally, these errors originate from the Company not following NAIC's Annual Statement Instructions and Statements of Statutory Accounting Principles in recording and reporting transactions.

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. AFSLIC was released from administrative supervision on November 22, 2005.

The Company was purchased by the current owner, American Financial Security Holdings, Inc. (AFSH) 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 97.81% 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), as a Life, Health, and Accident Insurer.

Dividends

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

Capital Stock and Contributions

The Company did not receive any capital contributions 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. There were no amendments or changes to the Articles of Incorporation or Bylaws during the examination period.

The minutes of the Board of Directors’ meetings and the shareholder’s meetings were reviewed for proper oversight of corporate transactions. In general, the minutes properly reflect 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 shareholders. The Bylaws specify that the number of Board of Directors shall be not less than nine (9) and no more than ten (10). As of December 31, 2017, there were nine directors serving on the Board. The Board members appointed and serving as of December 31, 2017 were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation & Business Affiliation</u>
Michael H. Sonnenberg	Garden City, NY	Treasurer, AFSLIC
Michael Camilleri	Boca Raton, FL	President and Chief Executive Officer, AFSLIC
Melinda E. Green	Deltona, FL	Secretary, AFSLIC and Self-Employed Paralegal
John S. Maloney	Brightwaters, NY	Chief Financial Officer, AFSLIC and Owner, 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

Robert DelGiacco	Tamarac, FL	Broker, Cornerstone Realty Consultants, LLC
Jordon Ross	Boca Raton, FL	Business Consultant and Investor, ICIC, Inc.

Committees

Articles III, Section II of the Bylaws grants the Board of Directors authority to establish one or more committees. As of December 31, 2017, the only established committee of the Board of Directors was the Audit Committee, with the following members serving:

Audit Committee

Jordan Ross, Chair
Michael H. Sonnenberg
John S. Maloney

Officers

The officers elected and serving as of December 31, 2017 were as follows:

<u>Officer</u>	<u>Position</u>
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 97.81% owned by Michael and Carol Sonnenberg, who in combination and individually represent the ultimate controlling person of the Company.

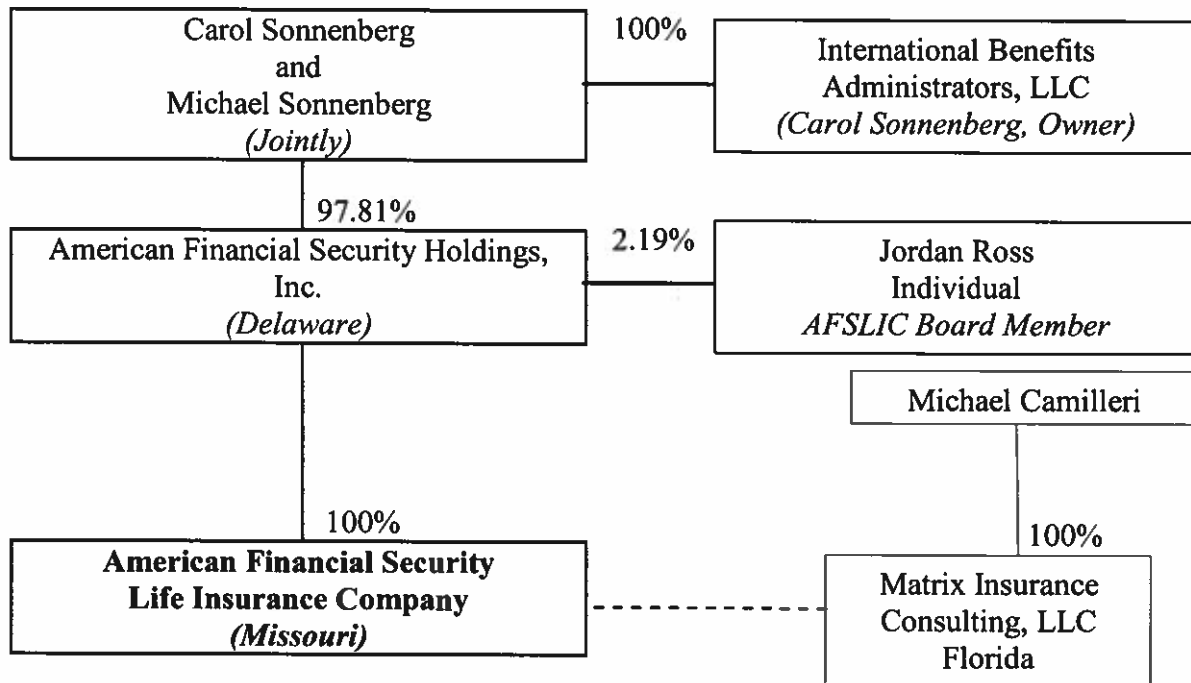
AFSLIC is affiliated with International Benefits Administrators, LLC, (IBA) of Garden City, New York, a third-party administrator that is owned by an ultimate controlling person. IBA performs claims processing services for the Company pursuant to a written agreement.

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.

An 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, 2017. This partial list is depicted as there are several non-insurer companies that are owned by the ultimate controlling persons.



Intercompany Transactions

As of December 31, 2017, AFSLIC had the following agreements with its affiliated companies:

1. Management Agreement

- Parties: AFSLIC and AFSLH
- Effective: April 15, 2010. This agreement was terminated effective July 1, 2018.
- Terms: AFSLH 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): AFSLH 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 and no payments were made pursuant to this agreement during the current examination period.

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. 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 paid \$20,000 per month to Matrix Insurance Consulting for the services as provided for in the 2013 amendment. Effective July 2017, the monthly rate was reduced to \$12,500.

TERRITORY AND PLAN OF OPERATION

AFSLIC is licensed by the DIFP under Chapter 376 RSMo (Life, Health and Accident Insurance) to conduct business in the following types of insurance: life, accident and health, and variable contracts. As of December 31, 2017, AFSLIC was licensed to transact the business of insurance in thirty-three states. The Company currently has applications for licensure in three additional states.

During the current examination period, the Company's plan of operation changed several times.

Beginning in 2013, AFSLIC signed a 70% (increased to 75% in 2017) quota share agreement with United States Fire Insurance Company and the North River Insurance Company (Collectively, U.S. Fire) under which AFSLIC assumes stop loss business written by U.S. Fire. This business continues to account for a majority of AFSLIC's net business.

During 2015, the Company started offering Accidental Death and Dismemberment (AD&D) and short term medical policies. The Company also entered into partnership with LifeShield National Insurance Company (LifeShield) which, through quota share agreements, allowed for 50% of policies written by either company would be ceded to the other company, allowing for a more disbursed geographical operation. The quota share agreements were terminated in 2018 and are in run-off. AFSLIC does continue to write these policies, but retains all business written.

During 2016, AFSLIC signed a third reinsurance agreement with LifeShield under which AFSLIC assumed 50% of guaranteed term life insurance policies written by LifeShield. This business was terminated, and the policies were placed into run-off during 2018.

AFSLIC has agreements with five industry associations to market and sell its products. Call centers are utilized to make contact with potential insureds. In combination, these associations have approximately 8,000 agents, although only a small percentage are actively writing AFSLIC policies on a regular basis.

The Company has also contracted with an affiliated third-party administrator, IBA, 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:

Premium Type	2017	2016	2015
Direct	\$ 2,600,557	\$ 2,523,257	\$ 1,642,946
Assumed	7,147,877	3,840,804	2,575,466
Ceded	(952,230)	(1,250,902)	(186,295)
Net Premiums Written	\$ 9,748,434	\$ 6,364,061	\$ 4,218,412

Assumed

Beginning February 1, 2013, AFSLIC entered into a 70% quota share (increased to 75% in 2017) stop loss reinsurance agreement with U.S. Fire. The agreement is for new and renewal business underwritten by the U.S. Fire, with Xchange Benefits, LLC acting as the broker-intermediary. Under the agreement, AFSLIC accepts a 75% quota share of U.S. Fire's gross liability not to exceed \$1 million per person per policy year. AFSLIC also accepts 75% quota share of U.S. Fire's the 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.

Beginning in 2015, AFSLIC entered into a 50% quota share reinsurance agreement with LifeShield for AD&D, short term medical, and added term life in 2016. Under the terms of the quota share agreement, AFSLIC accepted 50% of the company's gross liability up to \$100,000 in coverage per policy. The contracts with LifeShield were terminated on April 1, 2018.

Ceded

Beginning in 2015, for the short term medical and the AD&D business written by AFSLIC, 50% was ceded to LifeShield on a quota share basis. Under the terms of the quota share agreement, LifeShield accepted 50% of AFSLIC's loss liability up to \$100,000 in coverage per policy. AFSLIC and LifeShield also entered joint stop loss reinsurance agreement with third party reinsurers for amounts in excess of the \$100,000 retention per insured person. The contracts with LifeShield were terminated on April 1, 2018.

The Company is contingently liable for all reinsurance losses ceded to reinsurers. This contingent liability would become an actual liability in the event that an assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

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, 2017. The accompanying comments on financial statement items reflect any examination adjustments to the amounts reported in the annual statement 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.

During the course of this examination, numerous financial reporting errors were noted, which are similar in scope and context to errors reported in the prior examinations and ongoing analysis of the Company. These errors generally originate from AFSLIC not following the applicable NAIC's Annual Statement Instructions and Statements of Statutory Accounting Principles (SSAP) in completing its quarterly and/or annual statement schedules and exhibits. These reporting errors, in addition to representing inaccurate financial information about the Company, also result in extensive amount of time being expended by the DIFP staff to work with the Company to correct. A listing of these errors noted during this examination has been communicated to the Company under separate cover.

	<u>Assets</u>		
	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	\$ 5,166,740	\$ -	\$ 5,166,740
Common stocks	58,238	-	58,238
Real estate properties occupied by the company	540,832	-	540,832
Cash, cash equivalents and short-term investments	1,010,557	-	1,010,557
Investment income due and Accrued	15,056	-	15,056
Uncollected premiums and agents' balances in course of collection	784,834	-	784,834
Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,435	-	5,435
Funds held by or deposited with reinsured companies	1,974,867	-	1,974,867
Net deferred tax asset	8,804	-	8,804
Electronic data processing equipment and software	791	-	791
Healthcare and other amounts receivable	39,425	-	39,425
TOTAL ASSETS	\$ 9,605,579	\$ -	\$ 9,605,579

Liabilities, Surplus and Other Funds

Aggregate reserve for life contracts	\$ 2,941
Aggregate reserve for accident and health contracts	48,264
Contract claims – Life	166,037
Contract claims – Accident and health	2,501,265
General expenses due or accrued	258,687
Taxes, licenses and fees due or accrued	60,621
Asset valuation Reserve	36,574
Funds held under reinsurance treaties with unauthorized and certified reinsurers	353,289
TOTAL LIABILITIES	\$ 3,427,678
Common capital stock	1,500,000
Gross paid in and contributed surplus	7,903,307
Unassigned funds (surplus)	(3,225,406)
Capital and surplus	\$ 6,177,901
TOTAL LIABILITIES, CAPITAL, AND SURPLUS	\$ 9,605,579

Statement of Income

Premium and annuity considerations for life and A&H contracts	\$ 8,796,170
Net investment income	74,965
Commissions and expense allowances on reinsurance ceded	177,466
Aggregate write-ins for miscellaneous income	220,912
Total revenues	\$ 9,269,513
Disability benefits and benefits under A&H contracts	5,300,037
Total benefit payments	\$ 5,300,037
Commissions on premiums, annuity considerations and deposit-type contract funds	329,103
Commissions and expense allowances on reinsurance assumed	1,887,316
General insurance expenses	1,075,255
Insurance taxes, licenses and fees	475,685
Total benefit payments and expenses	\$ 9,067,396
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 202,117
Federal and foreign income taxes incurred	(2,403)
NET INCOME	\$ 199,714

Capital and Surplus Account

Capital and surplus, December 31, 2016	\$ 5,981,946
Net income	199,714
Change in net deferred income tax	2,172
Change in non-admitted assets	38
Change in asset valuation reserve	(6,035)
Aggregate write-ins for gains and losses in surplus	66
Net change in capital and surplus	<u>\$ 195,955</u>
CAPITAL AND SURPLUS, DECEMBER 31, 2017	<u>\$ 6,177,901</u>

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Financial Statements

Page 8

AFSLIC has a running history of reporting errors on its quarterly and annual statements that require extensive time by the DIFP staff to correspond with the Company to correct. Generally, these errors originate from the Company not following NAIC's Annual Statement Instructions and Statements of Statutory Accounting Principles in recording and reporting transactions. It is recommended that AFSLIC ensure that its quarterly and annual statements are reported in accordance with the Annual Statement Instructions and Statements of Statutory Accounting Principles.


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, Bernie Troop, CFE and Emily Pennington, CFE, Examiners for the DIFP, 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 Hause Actuarial Solutions, Inc. also participated as consulting actuaries.

VERIFICATION

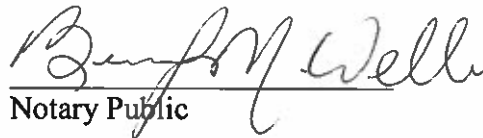
State of Missouri)
County of Jackson)

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 Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 8th day of January, 2019.

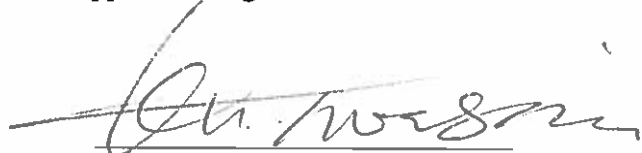
My commission expires: 04-14-2020 
Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12484070

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 DIFP and statutes of the State of Missouri prevailed.



Levi N. Nwasoria, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration