

MAR 05 2021

FILED

# CERTIFICATION

March 5, 2021

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

**CONTINENTAL AMERICAN INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2019**

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



*Bruce R. Ramage*

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

**Continental American Insurance Company**

**1932 Wynnton Road**

**Columbus, GA 31999-0001**

dated as of December 31, 2019, verified under oath by the examiner-in-charge on January 6, 2021 and received by the company on February 18, 2021, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 4<sup>th</sup> day of March 2021.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a horizontal line.

Justin C. Schrader, CFE  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**CONTINENTAL AMERICAN INSURANCE COMPANY**

**as of**

**December 31, 2019**



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Lincoln, Nebraska  
January 4, 2021

Honorable Bruce R. Range  
Director of Insurance  
Nebraska Department of Insurance  
1135 M Street, Suite 300  
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

**CONTINENTAL AMERICAN INSURANCE COMPANY**

which has its Statutory Home Office located at

**10306 Regency Parkway Drive  
Omaha, Nebraska 68114-3743**

with its Principal Executive Office located at

**1600 Williams Street  
Columbia, South Carolina 29201**

(hereinafter also referred to as the “Company”) and the report of such examination is respectfully presented herein.

**INTRODUCTION**

The Company was last examined as of December 31, 2015 by the State of South Carolina. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2019, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska and New York participated in this examination and assisted in the preparation of this report.

The same examination staff conducted concurrent financial condition examinations of the Company's affiliates American Family Life Assurance Company of Columbus (Aflac-Columbus), American Family Life Assurance Company of New York (Aflac-NY), and Tier One Insurance Company (TOIC).

### **SCOPE OF EXAMINATION**

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the Nebraska Department of Insurance as the coordinating state and the New York Department of Financial Services. The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where

the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Shareholder, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, and approval of investment transactions were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination

process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by KPMG LLP, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2019. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

## **DESCRIPTION OF COMPANY**

### **HISTORY**

The Company was incorporated November 25, 1968, and commenced business on January 3, 1969 under the name Carolina Continental Insurance Company. The Company began as a standalone, and its initial plan of operation was to write voluntary workplace supplemental health products on a group basis. As operations progressed, the Company changed its name to Continental American Insurance Company.

Effective September 31, 2009, Aflac Incorporated (Aflac Inc.) acquired the Company from its previous owners, the Goodall family. Another subsidiary of Aflac Inc., Aflac-Columbus, had an established presence in the voluntary workplace market, but its products are marketed on an individual basis. Aflac Inc. wanted to enter the group business and determined that the Company's culture fit its existing culture.



Effective December 31, 2016, the Company redomesticated from South Carolina to Nebraska. The redomestication was completed pursuant to written consent of the Company's Board of Directors and with the approval of the South Carolina Department of Insurance. In connection with the redomestication, the Company filed a Restated Articles of Incorporation effectively becoming a Nebraska corporation.

## **MANAGEMENT AND CONTROL**

### **Holding Company**

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the "Ultimate Controlling Person", as reported in the 2019 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Aflac Incorporated
  - Aflac Asset Management LLC
    - Aflac Asset Management Japan Ltd.
  - Aflac Benefits Advisors, Inc.
  - Aflac Corporate Ventures LLC
    - Aflac InfoSec Services LLC
    - Aflac Innovation Partners G.K.
    - Aflac Ventures LLC
      - Lapetus Solutions, Inc.
      - Medical Note, Inc.
      - Picwell, Inc.
      - Sensely Corporation
      - Wellthie, Inc.
    - Aflac Ventures Labs LLC
    - Aflac Ventures Seed Fund LLC
    - Empoweredbenefits, LLC
    - Empowered.Insure LLC
  - Aflac Holdings LLC
    - Aflac Life Insurance Japan Ltd.
      - Aflac Heartful Services Company, Ltd.\*
      - Aflac Insurance Services Company, Ltd.
      - Aflac Payment Services Co., Ltd.
      - Apollo AF Loan Trust
      - Global Investment Fund I

Global Alternatives Private Equity Sub-Trust A\*\*  
Octagon Delaware Trust  
Tsusan Co., Ltd.  
Aflac Information Technology, Inc.  
Simple Technology, LLC  
Aflac International, Inc.  
Aflac Northern Ireland, Ltd.  
American Family Life Assurance Company of Columbus  
American Family Life Assurance Company of New York  
Argus Holdings, LLC  
Argus Dental & Vision, Inc.  
Communicorp, Inc.  
Continental American Insurance Company  
Continental American Group, LLC  
Tier One Insurance Company

*\*80% owned by Aflac Life Insurance Japan Ltd., 10% owned by Aflac Insurance Services Co., Ltd., and 10% owned by Aflac Payment Services Co., Ltd.*

*\*\* 90% owned by Aflac Life Insurance Japan Ltd., and 10% owned by American Life Assurance Company of Columbus*

### **Shareholder**

Article III of the Company's Articles of Incorporation states that, "the aggregate number of shares which this Corporation shall have authority to issue is 200,000 shares of voting common stock of \$25.00 par value per share; and 10,000 shares of preferred stock of \$100.00 par value per share." The Company has 100,000 shares of common stock issued and outstanding, and 3,000 shares of preferred stock issued and outstanding. All outstanding common and preferred shares of the Company are owned by the parent holding company, Aflac Inc., whose shares are publicly traded on the New York Stock Exchange. As such, the holding company system is required to be SOX compliant. No dividends were declared to the parent company during the exam period.

Section 2.1 of the Company's By-Laws states that, "meetings of shareholders may be held at any place within or without the State of Nebraska as set forth in the notice thereof or, in the event of a meeting held pursuant to waiver of notice, as set forth in the waiver, or if no place

is so specified, at the principal office of the Corporation.” Section 2.2 of the Company’s By-Laws goes on to state, “the annual meeting of the shareholders shall be held for the purpose of electing Directors and transacting any and all business that may properly come before the meeting (i) on the third Tuesday in June of each year unless that day is a legal holiday, and in that event on the next succeeding business day, or (ii) at such other date and time as shall be determined by the Board of Directors provided that such date is no more than 30 days prior or 30 days subsequent to the third Tuesday in June of each year.”

### **Surplus Note**

On August 14, 2017, the Board of Directors of the Company approved the issuance of a \$50 million surplus note to Aflac-Columbus, in exchange for cash of the principal balance owed on the note. The terms of the surplus note call for annual simple interest payments at a per annum of 2.75% subject to the approval of the Director of Insurance for the State of Nebraska. The surplus note is five years in duration and is scheduled to mature on September 1, 2022.

### **Board of Directors**

Section 3.1 of the Company’s By-Laws states that, “the property, affairs and business of the Corporation shall be managed by or under the direction of its Board of Directors, which may exercise all powers of the Corporation and do all lawful acts and things which are not by law, by the Articles of Incorporation or by these By-Laws directed or required to be exercised or done by the Shareholders.”

Section 3.2 of the Company’s By-Laws states that, “the number of Directors which shall constitute the whole Board shall be not less than five (5) or more than twenty-five (25), at least one of which must be a resident of the State of Nebraska.” Section 3.2 goes on to state, “each Director elected shall hold office until the next succeeding annual meeting of Shareholders and

thereafter until his successor is elected and qualified or until his earlier resignation, removal from office, disqualification, retirement or death.”

The following persons were serving as Directors at December 31, 2019:

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
Daniel P. Amos Columbus, Georgia	Chairman of the Board and Chief Executive Officer, Aflac Incorporated
Frederick J. Crawford Columbus, Georgia	President and Chief Operating Officer, Aflac Incorporated
Lawrence F. Harr* Omaha, Nebraska	Partner, Lamson, Dugan and Murray
Thomas J. Kenny Columbus, Georgia	Former Partner and Co-Head of Global Fixed Income, Goldman Sachs Asset Management
Karole F. Lloyd Columbus, Georgia	CPA and retired Managing Partner, Ernst & Young, LLP
Teresa L. White Columbus, Georgia	President, Aflac U.S.

*\*Mr. Francis J. Barrett, a Nebraska resident and Counsel to Lamson, Dugan and Murray was serving on the Board when he passed away October 13, 2019. Mr. Harr is a Nebraska resident and was appointed on November 12, 2019 to serve the remainder of Mr. Barrett’s term.*

### **Officers**

Section 4.1 of the Company’s By-Laws states that, “the Officers of the Corporation, who shall be chosen by the Board of Directors, are as follows: Chief Executive Officer, Chairman of the Board of Directors; Vice Chairman of the Board of Directors, President, First Executive Vice President, Executive Vice President, Secretary, Assistant Secretary, Treasurer, and Assistant Treasurer.”

The following is a listing of Officers elected and serving the Company at December 31, 2019:

<u>Name</u>	<u>Office</u>
Daniel P. Amos	Chairman of the Board of Directors
Teresa L. White	President
Virgil R. Miller	President of Aflac Group Insurance
Frederick J. Crawford	Executive Vice President, Chief Financial Officer
Eric M. Kirsch	Executive Vice President, Global Chief Investment Officer
Audrey B. Tillman	Executive Vice President, General Counsel
Richard L. Williams, Jr.	Executive Vice President, Chief Distribution Officer
Steven K. Beaver	Senior Vice President, Aflac U.S. Finance
Max K. Broden	Senior Vice President, Treasurer
Richard L. Gilbert	Senior Vice President, Chief Digital Information Officer
Jamie A. Lee	Senior Vice President, Chief Service Officer of Aflac U.S.
Thomas L. McDaniel, Jr.	Senior Vice President, Chief Compliance Officer
Matthew Owenby	Senior Vice President, Chief Human Resources Officer
Albert A. Riggieri	Senior Vice President, Chief Risk Officer
Robert R. Ruff	Senior Vice President, Growth Solutions
Stephanie L. Shields	Senior Vice President, Broker Sales
Teresa McTague	Managing Director, Chief Investment Officer
Jeffrey Arrington	Vice President, Claims PIC
Tyler Bennett	Vice President, Digital Service Solutions Experience
Nicholas G. Bettin	Vice President, Corporate Finance; Assistant Treasurer
Michael Bruder	Vice President, Financial Regulatory Reporting
Brian Day	Vice President, National Sales Training and Recruiting
Brent Goode	Vice President, Broker Solutions
Kevin Gordon	Vice President, Premier Administrative Solutions
James J. Hennessy	Vice President, Aflac Group Operations and Presale Functions
Eunice Holmes	Vice President, Enterprise Enrollment
J. Matthew Loudermilk	Vice President, Corporate Secretary
Mark C. Massey	Vice President, Actuarial Valuation, and Appointed Actuary
Robert P. Moran	Vice President, Actuarial Pricing and Financial Services
Brenda Mullins	Vice President, Chief People Officer
Robert Rinaldi	Vice President, Financial Regulatory Reporting, Controller
David B. Arial	Second Vice President, Actuary
James T. Faile, Jr.	Second Vice President, Premier Broker Relationship
Rhonda F. Russell	Second Vice President, Group Underwriting

<u>Name</u>	<u>Office</u>
Catherine H. Coppedge	Counsel, Assistant Secretary
Jenette Mathai	Assistant Secretary

### Committees

Section 3.11 of the Company’s By-Laws states that, “the Board of Directors may, by the greater of (a) a majority of all the Directors in office when the action taken or (b) the number of Directors required by the Articles of Incorporation or By-Laws to take action under Neb. Rev. Stat. §21-2093, designate from among its members one or more committees, each committee to consist of two or more Directors.”

The following persons were serving on the Executive Committee at December 31, 2019:

Daniel P. Amos, Chairman	Frederick J. Crawford
Karole F. Lloyd	

The following persons were serving on the Finance and Investment Committee at December 31, 2019:

Thomas J. Kenny, Chairman	Frederick J. Crawford
Karole F. Lloyd	

Aflac Inc. has a number of committees that assist in fulfilling the oversight responsibilities of the holding company and its insurance subsidiaries, including but not limited to an Audit and Risk Committee.

## TRANSACTIONS WITH AFFILIATES

### Service Agreements

Effective December 7, 2016 the Company entered into a Master Intercompany Services and Facilities Agreement with Aflac-Columbus, whereby both companies are able to provide personnel services and managerial expertise. The management fee, paid by the recipient, is an expense-based allocation that includes a small intercompany profit charge.

Effective December 7, 2016, the Company entered into a Master Intercompany Services and Facilities Agreement with Aflac Benefits Advisors, Inc., whereby both companies are able to provide personnel services and managerial expertise. The management fee, paid by the recipient, is an expense-based allocation that includes a small intercompany profit charge.

Effective December 7, 2016, the Company entered into Master Intercompany Services and Facilities Agreement with Aflac Corporate Ventures LLC, whereby both companies are able to provide personnel services and managerial expertise. The management fee, paid by the recipient, is an expense-based allocation that includes a small intercompany profit charge.

Effective December 7, 2016, the Company entered into Master Intercompany Services and Facilities Agreement with Aflac-NY, whereby both companies are able to provide personnel services and managerial expertise. The management fee, paid by the recipient, is an expense-based allocation that includes a small intercompany profit charge.

Effective April 1, 2018, the Company entered into Master Intercompany Services and Facilities Agreement with Aflac Inc., whereby both parties are able to provide personnel services and managerial expertise. The management fee, paid by the recipient, is an expense-based allocation that includes a small intercompany profit charge. The management fees amounted to \$11,349,156 and \$6,241,022 for 2019 and 2018, respectively.

Effective October 15, 2019, the Company entered into a Master Intercompany Services and Facilities Agreement with Aflac Northern Ireland (formerly NIO Innovative Technologies Ltd.) whereby both parties are able to provide personnel services and managerial expertise. The management fee, paid by the recipient, is an expense-based allocation that includes a small intercompany profit charge.

### **Investment Advisory Agreement**

On January 1, 2018, the Company entered into an Investment Advisory Agreement with Aflac Asset Management LLC (AAM). AAM will provide investment management services to the Company and is responsible to comply with the Company's investment objectives, policies, guidelines and restrictions, as well as applicable law and related regulations. In return, the Company will pay an investment management fee equal to the actual cost incurred by AAM plus 5% of such actual costs. Service fees incurred were \$472,459 and \$304,627 for the years ended December 31, 2019 and 2018, respectively.

### **Intercompany Tax Allocation Agreement**

On January 1, 2019, the Company entered into a tax allocation agreement with its parent company and other eligible members of the consolidated federal income tax return of Aflac Inc. The agreement permits Aflac Inc. to file consolidated tax returns with the Company and other Aflac Inc. subsidiaries. Allocation is based upon separate return calculations, and the settlement of current income taxes, payables or refundable, is completed when Aflac Inc. makes payment to, or receives funds from, the Internal Revenue Service.

### **TERRITORY AND PLAN OF OPERATION**

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in the District of Columbia and all states except New York.

Prior to its acquisition by Aflac Inc., the Company wrote exclusively through independent brokers, consistent with traditional marketing of group business. Subsequent to the acquisition, the field force of independent agents of Aflac-Columbus began producing business on behalf of the Company. This led to increased levels of premium writings. During the prior exam period, first-year commissions paid on the new business contributed to higher expense



ratios. Further, home office acquisition expenses related to administration of the new business resulted in even higher expense ratios. A new policy administration system that is expected to increase operation efficiencies and reduce administrative expenses is being implemented.

## **REINSURANCE**

### **Assumed**

Prior to November 30, 2018, the Company assumed reinsurance from Swiss Reinsurance of Switzerland (Swiss Re), originally effective December 31, 2014, and Munich Reinsurance (Munich Re), originally effective April 1, 2015. On November 30, 2018, the Company entered into a two separate novation agreements with Swiss Re and Munich Re, to novate, assign, and transfer the existing assumed blocks of business to Aflac-Columbus. As a result of these agreements, the Company transferred \$110.2 million in reserves and assets to Aflac-Columbus in exchange for \$10 million of commission income.

### **Ceded**

On September 24, 2012, the Company executed a modified coinsurance (Modco) quota share treaty with Aflac-Columbus. The treaty was retroactive to January 1, 2012. The terms of the treaty called for the Company to cede 50% of new and existing sales as they relate to its accident and critical illness products only. The treaty also outlined that the Company would cede 50% of all paid claims, paid commissions, and changes in reserves on the above mentioned sales. For the period ending December 31, 2019, the Company ceded approximately \$218.7 million in earned premiums, while paying approximately \$91.6 million in incurred claims, \$60.3 million in incurred commissions, and \$66.7 million in operating expenses. Under the provisions of a modified coinsurance agreement, the Company maintains a segregated portfolio of securities that

support the ceded policy liabilities. Net investment income in the amount of approximately \$3.8 million was credited to Aflac-Columbus in 2019.

Effective September 1, 2016, the Company executed a coinsurance quota share treaty with RGA Reinsurance Company (RGA). The Company retains 50% of each policy, for specific group life plans, up to a maximum of \$150,000 per life.

Effective December 31, 2017, the Company executed a coinsurance quota share treaty with Aflac Reinsurance Company (ARC). On April 1, 2018, ARC was part of a statutory merger and is now Aflac-Columbus. The terms of the agreement call for the Company to cede 85% of the premiums assessed and 100% of the claims incurred on existing block of whole life group business. For the periods December 31, 2019 and 2018, the Company ceded \$11,815 and \$10,686 in earned premium, respectively. Review of this agreement noted that the agreement did not contain an entire agreement clause as required by Nebraska Rules and Regulations Title 210, Chapter 57. It is recommended that the Company amend this agreement to include an entire agreement clause.

### **General**

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

## **BODY OF REPORT**

### **GROWTH**

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
Bonds	\$410,544,749	\$463,540,696	\$404,290,416	\$454,230,156
Admitted assets	607,026,336	673,270,901	665,078,572	674,274,245
Aggregate reserves – Life	40,805,909	44,059,234	50,179,115	54,212,446
Aggregate reserves – A&H	128,302,193	199,608,172	168,153,887	178,155,421
Total liabilities	432,670,787	519,905,883	507,735,548	546,507,015
Capital and surplus	174,355,549	153,365,018	157,343,024	127,767,230
Premiums	536,052,346	524,652,631	587,577,643	434,496,131
Net investment income	14,360,678	17,241,303	20,503,164	18,846,182
Disability benefits	170,445,859	187,815,863	201,715,836	190,900,591
Net income	46,755,302	(21,679,311)	5,868,243	(16,298,994)

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

**FINANCIAL STATEMENT**  
**December 31, 2019**

<b><u>Assets</u></b>	<b><u>Assets</u></b>	<b><u>Assets Not Admitted</u></b>	<b><u>Net Admitted Assets</u></b>
Bonds	\$454,230,156		\$454,230,156
Common stocks	1,249		1,249
Cash and cash equivalents	48,311,774		48,311,774
Contract loans	<u>4,722,627</u>		<u>4,722,627</u>
Subtotal, cash and invested assets	<u>\$507,265,807</u>		<u>\$507,265,807</u>
Investment income due and accrued	4,737,628		4,737,628
Premiums in the course of collection	86,900,628	\$ 8,734,500	78,166,128
Deferred premiums	440,610		440,610
Amounts recoverable from reinsurers	26,566,316		26,566,316
Other amounts receivable under reinsurance contracts	31,760,114		31,760,114
Current federal income tax recoverable	7,294,149		7,294,149
Net deferred tax asset	18,860,008	18,860,008	
Guaranty funds receivable	3,166,498		3,166,498
Electronic data processing equipment	1,788,695		1,788,695
Furniture and equipment	4,459,361	4,459,361	
Receivables from parent and affiliates	13,088,300		13,088,300
Health care receivable	19,333,240	19,333,240	
Leasehold improvements	4,502,924	4,502,924	
Interest maintenance reserve	1,185,149	1,185,149	
Prepaid expenses	1,053,655	1,053,655	
Other assets	<u>238,501</u>	<u>238,501</u>	
Total Assets	<u>\$732,641,583</u>	<u>\$58,367,338</u>	<u>\$674,274,245</u>

## **Liabilities, Surplus, and Other Funds**

Aggregate reserve for life contracts	\$ 54,212,446
Aggregate reserve for accident and health contracts	178,155,421
Liability for deposit-type contracts	187,048
Contract claims - life	2,258,394
Contract claims - accident and health	110,174,000
Premiums received in advance	708,316
Other amounts payable on reinsurance	56,439,082
Commissions to agents due or accrued	26,187,264
Commissions payable on reinsurance assumed	62
General expenses due or accrued	40,321,096
Taxes, licenses and fees, excluding federal income taxes	12,966,129
Amounts withheld or retained as agent or trustee	54,830
Remittances and items not allocated	47,577,317
Asset valuation reserve	901,485
Payable to parent and affiliates	13,990,392
Other liabilities	2,320,866
Unclaimed funds liability	131,751
Pension liability	<u>(78,888)</u>
Total liabilities	\$546,507,015
Common capital stock	2,500,000
Preferred capital stock	300,000
Surplus notes	50,000,000
Gross paid in and contributed surplus	82,437,395
Affordable care act fee special surplus	19,390
Unassigned funds (surplus)	<u>(7,489,555)</u>
Total capital and surplus	<u>\$127,767,230</u>
Total liabilities, capital and surplus	<u>\$674,274,245</u>

## SUMMARY OF OPERATIONS – 2019

Premiums for life and accident and health contracts	\$434,496,131
Net investment income	18,846,182
Amortization of interest maintenance reserve	(329,679)
Commissions on reinsurance ceded	131,136,081
Reserve adjustments on reinsurance ceded	9,785,915
Administrative fees on reinsurance assumed	944,238
Other miscellaneous	304,506
Investment income modco	<u>(3,843,010)</u>
Total income	\$591,340,364
Death benefits	4,571,354
Disability benefits under accident and health contracts	190,900,591
Surrender benefits and withdrawals for life contracts	1,063,471
Interest and adjustments on contract or deposit-type contract funds	1,722
Increase in aggregate reserves for life and accident and health contracts	<u>14,034,865</u>
Total losses	\$210,572,003
Commissions on premiums and deposit-type contract funds	174,271,448
Commissions on reinsurance assumed	1,666,707
General insurance expenses	201,409,753
Insurance taxes, licenses and fees, excluding federal income taxes	<u>21,639,879</u>
Total losses and expenses	\$609,559,790
Net gain from operations before federal income taxes and net realized capital gains	(18,219,426)
Federal income taxes incurred	(4,693,369)
Net realized capital losses	<u>(2,772,937)</u>
Net income	<u><u>\$(16,298,994)</u></u>

## CAPITAL AND SURPLUS ACCOUNT

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Capital and surplus, beginning	\$137,959,839	\$174,355,549	\$153,365,018	\$157,343,024
Net income	\$ 46,755,302	\$ (21,679,311)	\$ 5,868,243	\$ (16,298,994)
Change in net unrealized capital gains	222	(101)	(125)	270
Change in net unrealized foreign exchange capital gains	(4,042,537)	3,170,194	685,421	
Change in net deferred income tax	4,457,181	(9,734,588)	(1,576,824)	1,888,140
Change in nonadmitted assets	(4,569,421)	11,154,649	(127,465)	(16,826,654)
Change in asset valuation reserve	(584,871)	(601,208)	(514,159)	1,837,669
Change in surplus as a result of reinsurance	(5,663,093)	(3,338,136)	(353,461)	
Pension adjustment	<u>42,927</u>	<u>37,970</u>	<u>(3,624)</u>	<u>(176,225)</u>
Net change for the year	<u>\$ 36,395,710</u>	<u>\$ (20,990,531)</u>	<u>\$ 3,978,006</u>	<u>\$ (29,575,794)</u>
Capital and surplus, ending	<u>\$174,355,549</u>	<u>\$153,365,018</u>	<u>\$157,343,024</u>	<u>\$127,767,230</u>

## EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$(7,489,555), as reported in the Company's 2019 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

## COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

**Net Level Reserves Should Be Used for Assumed Treaties** – A strict interpretation of Regulation 69-7.IV.4.d. (of the South Carolina Insurance Code) appears to restrict the use of FPT reserving to the first two years from “the date of issue of a contract” where “contract” is assumed to be the underlying, original contract in the assumed block. Under this interpretation, an adjustment of between \$33 million and \$41 million would be required if Net Level reserves were in place at December 31, 2015. However, the Company is redomesticating to Nebraska and has disclosed this approach to the Nebraska Department of Insurance (NDOI). The response from the NDOI was non-disapproval.

Therefore, no examination adjustment is proposed for this item for the purposes of this examination.

**Action:** This recommendation is no longer applicable as the Company redomesticated to Nebraska.

### **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

There are no additional comments or recommendations that have been made as a result of this examination.

### **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

The following comments and recommendations have been made as a result of this examination:

**Reinsurance Agreement** - It is recommended that the existing reinsurance agreement between the Company and Aflac-Columbus be amended to contain an entire agreement clause as required by Nebraska Rules and Regulations Title 210, Chapter 57.

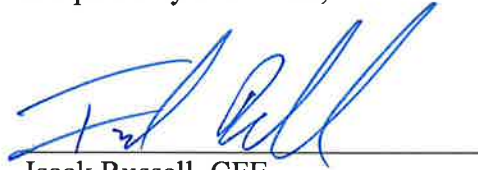


## ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Linda Scholl, CFE, CISA, APIR, Daniel Rousseau, AFE, and John Wiatr, Financial Examiners; Gary Evans, CISA, AES, CFE, Information Systems Specialist; and Rhonda Ahrens, FSA, MAAA, Chief Actuary and Derek Wallman, ASA, Actuarial Specialist; all with the Nebraska Department of Insurance and Financial Examiners contracted by the New York Department of Financial Services; participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Isaak Russell, CFE  
Supervisory Examiner  
Department of Insurance  
State of Nebraska

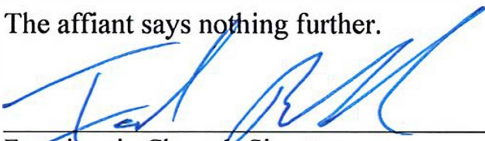
State of Nebraska,

County of Lancaster,

Isaak Russell, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of American Family Life Assurance Company of Columbus, Continental American Insurance Company, and Tier One Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of American Family Life Assurance Company of Columbus, Continental American Insurance Company, and Tier One Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

  
\_\_\_\_\_  
Examiner-in-Charge's Signature

Subscribed and sworn before me by ISAIAK RUSSELL on this 6<sup>th</sup> day of JANUARY, 20 21.



(SEAL)

  
\_\_\_\_\_  
Notary Public

My commission expires 3-3-21 [date].