

JUN 18 2020

FILED

CERTIFICATION

June 18, 2020

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

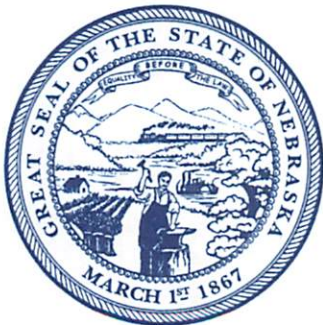
SURETY LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

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

SURETY LIFE INSURANCE COMPANY

13520 California Street, Suite 290

Omaha, Nebraska 68154

dated as of December 31, 2018, verified under oath by the examiner-in-charge on
May 8, 2020 and received by the company on May 27, 2020, has been adopted
with modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 8th day of June 2020.

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

SURETY LIFE INSURANCE COMPANY

as of

December 31, 2018



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Lee's Summit, Missouri
May 4, 2020

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:

SURETY LIFE INSURANCE COMPANY

which has its Statutory Home Office located at:

**13520 California Street, Suite 290
Omaha, Nebraska 68154**

with its Principal Executive Office located at:

**310 NE Mulberry Street
Lee's Summit, Missouri 64086**

(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, 2013 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2018, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

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.

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. 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 BKD, LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2018. 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, originally named Commercial Travelers Insurance Company, was organized on March 14, 1936, as a mutual benefit assessment association under the laws of the State of Utah and received a Certificate of Authority on March 31, 1936.

In 1943 and 1944, the Company acquired, through reinsurance agreements, the assets and liabilities of the following Utah mutual benefit associations; Guaranty Indemnity Association, National Life and Casualty, and Surety Mutual Life Insurance Company.

Conversion of the Company from a mutual benefit assessment association to a stock life insurance company was accomplished by a vote of the policyholders at a special meeting held on October 30, 1950. The Company's name was changed to Surety Life Insurance Company on March 1, 1957. Legal Reserve Life Insurance Company of California was merged into the Company on November 2, 1965.

In December 1976, Dean Witter Reynolds Organization, Inc. (DWR Organization) of San Francisco, California, acquired the Company. During 1981, DWR Organization contributed the Company's stock to Dean Witter Reynolds Insurance Holdings, Inc., a Delaware corporation.

The Company became a member of the Sears, Roebuck and Company holding company system on December 29, 1981 with the merger of Sears, Roebuck and Company and DWR Organization. The outstanding stock of the Company was ultimately transferred to Allstate Life Insurance Company (ALIC), a subsidiary of Sears, Roebuck and Company, on January 1, 1984.

Effective December 31, 1987, the Company entered into a reinsurance treaty with ALIC whereby ALIC assumed 100% of the Company's policyholder related liabilities, excluding certain single premium deferred annuity policies issued from 1979 through 1987.

Effective September 1, 1997, the Company re-domesticated to the State of Nebraska, relocating its home office from Salt Lake City, Utah to its sister company, Lincoln Benefit Life Company's facility located in Lincoln, Nebraska.

Effective August 1, 2012, Government Employee Health Association, Inc. (GEHA), acquired control of the Company through GEHA's wholly-owned subsidiary, GEHA Holdings, Inc. (GHI), a Missouri corporation. As a result of the acquisition, the Company is a wholly-owned, direct subsidiary of GHI and a wholly-owned indirect subsidiary of GEHA. The Company cedes all in-force business to ALIC who also administers this business for the Company. The in-force business has been in run-off since 1999.

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 2018 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

Government Employees Health Association, Inc.
GEHA Holdings, Inc.
PPO USA Inc.
Surety Life Insurance Company

Shareholder

Article IV of the Company's Articles of Incorporation states that, "the aggregate number of shares which the Corporation shall have authority to issue is three million (3,000,000) shares of common stock having a par value of one dollar (\$1.00) per share." At the exam date, Company records indicated that 2,500,000 shares were issued and outstanding in the name of

GHI. The Company's parent, GHI, made a \$4,300,000 capital contribution in 2014, and a \$10,000,000 capital contribution to the Company in 2015. The GHI Annual Shareholder and Directors Meeting was conducted May 17, 2018 at the GEHA home office.

Board of Directors

Article I, Section 1, of the Company's By-Laws states that, "the property, business and affairs of the Company shall be managed and controlled by a Board of Directors composed of not less than five nor more than twenty-one members. The number of Directors may be fixed or changed from time to time, within the minimum and maximum, by the Board without further amendment to these By-Laws. The Directors shall be elected at each annual meeting of the Shareholders of the Company for a term of one year." Section 10 states that, "an annual meeting of the Board shall be held each year immediately after the adjournment of the annual meeting of the Shareholders. Other meetings of the Board may be held at such time as the Board may determine or when called by the Chairman of the Board or by a majority of the Board."

The following persons were serving as Directors at December 31, 2018:

| <u>Name and Residence</u> | <u>Principal Occupation</u> |
|---|---|
| Cecil D. Bykerk Omaha, Nebraska | President, CDBykerk Consulting LLC |
| Laura J. Cook Gardner, Kansas | Retired, Former Special Agent for U.S. Food and Drug Administration, Criminal Investigations Unit |
| Thomas L. Handley Overland Park, Kansas | Retired, Former Vice President, Lewis & Ellis, Inc. |
| Shannon J. Horgan Minneapolis, Minnesota | President, Surety Life Insurance Company |
| Michael P. Horton Olathe, Kansas | Retired, Former Vice President, Kansas City Life Insurance Company |
| Joseph Witkowski Liberty, Missouri | Retired, Former Vice President, Corporate Services, Government Employees Health Association, Inc. |

Officers

Article II, Section 1, of the By-Laws states that, “the general Officers of the Company shall consist of a Chairman of the Board, President, two or more Vice Presidents, a Secretary, a Treasurer, and a Controller, who shall be elected annually by the Board at the stated annual meeting held upon adjournment of the annual shareholders’ meeting, and if not elected at such meeting, such Officers may be elected at any meeting of the Board held thereafter. Such Officers shall be elected by a majority of the Directors, and shall hold office for one year and until their respective successors are elected and qualified, subject to removal at will by the Board.” Section 1 also states that, “any two of the aforesaid offices may be filled by the same person, with the exception of the offices of President and Vice President, or President and Secretary.”

The following is a listing of Officers elected and serving the Company at December 31, 2018:

| <u>Name</u> | <u>Office</u> |
|--------------------|----------------------|
| Shannon J. Horgan | President |
| Joe Witkowski | Secretary |
| Angela D. Johnson | Assistant Treasurer |
| Lynn M. Ballantyne | Assistant Secretary |

It is recommended that the Company document the election of a Chairman of the Board, two or more Vice Presidents, a Treasurer, and a Controller, to comply with the existing By-Laws, or amend the By-Laws to reflect the current arrangement utilized by the Company.

Committees

Article I, Section 8 of the By-Laws states that, “the Board shall have the power to appoint committees, including but not limited to an Executive Committee, and to grant them powers not inconsistent with the laws of Nebraska, the Articles of Incorporation of the Company, or these

By-Laws.” The Board does not have an Executive Committee but it does have an Audit and Investment Committee.

The following persons were serving on the Audit and Investment Committee at December 31, 2018:

Thomas L. Handley, Chairman Laura J. Cook Joseph Witkowski

TRANSACTIONS WITH AFFILIATES

Services Agreement

The Company entered into a service agreement with GEHA for administrative services such as general corporate services, underwriting, policyholder, and regulatory affairs services, financial services, and other services. GEHA will also provide employees, bank accounts, tradenames and trademarks, and facilities. The term of the agreement began on August 1, 2012, and will automatically renew each year. The Company will pay GEHA a service fee that is based on actual cost without profit factor being built into the cost. Indirect or shared expenses will be allocated in accordance with a method of cost allocation in conformity with SSAP No. 70 and will be mutually agreeable to the parties. GEHA will provide the Company a statement of expenses incurred no later than the twentieth calendar day of the month following the end of the month in which the services were provided. The balance will be settled within thirty calendar days after the receipt of the statement. Any late payments will be subject to an interest rate of 1.5% per month until fully paid.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states, with the exception of New York. The Company is also licensed in the District of Columbia, Guam, and the U.S. Virgin Islands.

Effective August 31, 1999, the Company discontinued the sale of new business. The Company previously sold universal life, single premium deferred annuities, flexible premium deferred annuities, and ordinary life and term policies. The Company cedes all premiums to ALIC, which continues to administer all in-force business in run-off.

REINSURANCE

Ceded

In 2012, the Company entered into an Amended and Restated Coinsurance Agreement with ALIC. The Amended and Restated Coinsurance Agreement replaces and supercedes the Coinsurance Agreement which was entered into on December 31, 2001. In the agreement, the Company is to cede one-hundred percent of the reinsured liabilities, under all policies, to ALIC. The policies include life insurance, accident and health insurance, annuity, and supplemental benefit policies, contracts, and certificates. The reinsured liabilities are the sum of benefits payable by the Company with respect to the policies; commissions and other sales compensation payable by the Company with respect to the policies; net reinsurance premiums payable by the Company to another reinsurer with respect to the policies, and guaranty fund and similar charges and premium taxes payable by the Company relating to premiums and fees received with respect to the policies. Statements will be sent quarterly to ALIC and payments will be made within 30 days after receipt.

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:

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Bonds | \$10,482,343 | \$ 9,004,277 | \$ 7,527,841 | \$ 6,888,637 | \$11,876,785 |
| Admitted assets | 16,941,100 | 23,247,500 | 19,738,471 | 19,081,489 | 19,651,380 |
| Total liabilities | 713,004 | 1,460,980 | 756,080 | 535,719 | 1,470,168 |
| Capital and surplus | 16,228,096 | 21,786,520 | 18,982,391 | 18,545,769 | 18,181,213 |
| Net investment income | 468,896 | 719,508 | 460,752 | 274,287 | 321,074 |
| Net income | (823,119) | (4,398,534) | (2,690,147) | (417,862) | (368,582) |

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, 2018. 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, 2018

| <u>Assets</u> | <u>Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> |
|--|----------------------|---------------------------------------|---|
| Bonds | \$11,876,785 | | \$11,876,785 |
| Real estate | 2,340,508 | | 2,340,508 |
| Cash | 1,432,834 | | 1,432,834 |
| Cash equivalents | <u>2,531,214</u> | | <u>2,531,214</u> |
| Subtotal, cash and invested assets | \$18,181,341 | | \$18,181,341 |
| Investment income due and accrued | 109,436 | | 109,436 |
| Other amounts receivable under reinsurance | 1,358,767 | | 1,358,767 |
| Electronic data processing equipment | 1,836 | | 1,836 |
| Furniture and equipment | <u>78,686</u> | <u>\$78,686</u> | <u>78,686</u> |
| Totals | <u>\$19,730,066</u> | <u>\$78,686</u> | <u>\$19,651,380</u> |

Liabilities, Surplus, and Other Funds

| | |
|--|---------------------|
| Interest maintenance reserve | \$ 99,058 |
| Federal income taxes | 1,011,328 |
| Asset valuation reserve | 110,219 |
| Payable to parent and affiliates | 243,151 |
| Lessee deposits | <u>6,412</u> |
| Total liabilities | \$ 1,470,168 |
| Common capital stock | \$ 2,500,000 |
| Gross paid in and contributed surplus | 14,300,000 |
| Unassigned funds | <u>1,381,213</u> |
| Total capital and surplus | \$18,181,213 |
| Total liabilities, capital and surplus | <u>\$19,651,381</u> |

SUMMARY OF OPERATIONS – 2018

| | |
|---|---------------------|
| Net investment income | \$ 321,074 |
| Amortization of interest maintenance reserve | 50,625 |
| Commissions and expense allowances on reinsurance ceded | <u>580,336</u> |
| Total income | <u>\$ 952,034</u> |
| Commissions on premiums and annuity considerations | \$ 580,336 |
| General insurance expenses | 734,307 |
| Insurance taxes, licenses and fees | <u>117,346</u> |
| Total expenses | <u>\$1,431,989</u> |
| Net gain from operations before federal income taxes | \$ (479,955) |
| Federal income taxes incurred | <u>(111,373)</u> |
| Net income | <u>\$ (368,582)</u> |

CAPITAL AND SURPLUS ACCOUNT

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Capital and surplus, beginning | \$12,756,834 | \$16,228,094 | \$21,786,516 | \$18,982,391 | \$18,545,770 |
| Net income | (823,119) | (4,398,534) | (2,690,147) | (417,862) | (368,582) |
| Change in nonadmitted assets | | (580) | (86,778) | (16,829) | 25,500 |
| Change in asset valuation reserve | (5,621) | (42,425) | (27,204) | (1,931) | (21,475) |
| Surplus paid in | <u>4,300,000</u> | <u>10,000,000</u> | _____ | _____ | _____ |
| Net change in capital and surplus for the year | 3,471,260 | 5,558,461 | (2,804,128) | (436,622) | (364,556) |
| Capital and surplus ending | <u>\$16,228,094</u> | <u>\$21,786,516</u> | <u>\$18,982,391</u> | <u>\$18,545,770</u> | <u>\$18,181,214</u> |

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$1,381,213, as reported in the Company's 2018 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

No recommendations were made as a result of the previous examination.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Intercompany Settlement

The exam team reviewed the Services Agreement between the Company and its ultimate parent, GEHA, effective August 1, 2012. Article 4.2 of the Services Agreement states that, “GEHA shall provide each company a statement of expenses incurred no later than the twentieth (20th) calendar day of the month following the end of the month in which services were provided. Each company must settle these intercompany balances within (30) calendar days following such company’s receipt of such statement.” The exam team noted that settlements currently occur on a quarterly basis. It is recommended that the Company settle intercompany balances in compliance with the existing Services Agreement.

SUBSEQUENT EVENT

STOP LOSS AGREEMENT

In conjunction with its indirect parent, GEHA, the Company submitted and received approval on a stop loss policy form in Missouri in 2019. Effective January 1, 2020, the Company issued an aggregate stop loss policy to GEHA.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Compliance with By-Laws – It is recommended that the Company document the election of a Chairman of the Board, two or more Vice Presidents, a Treasurer, and a Controller, in order to comply with the existing By-Laws, or amend the By-Laws to reflect the current arrangement utilized by the Company.

Intercompany Settlement – It is recommended that the Company settle intercompany balances in compliance with the existing Services Agreement.

ACKNOWLEDGMENT

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

In addition to the undersigned, Skyler Lawyer, CFE, and John Wiatr, Financial Examiners; Linda Scholl, CFE, CISA, APIR, Financial Examiner and Information Systems Specialist; and Derek Wallman, Actuarial Specialist; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Isaak Russell". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

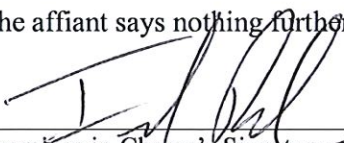
State of Nebraska,

County of Lancaster,

Isaak Russell, being duly sworn, states as follows:

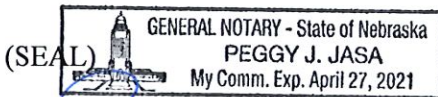
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Surety Life Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Surety Life 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 Isaak Russell on this 8th day of MAY, 2020.





Notary Public

My commission expires 4-27-2021 [date].