

JUN 15 2024

FILED

CERTIFICATION

June 15, 2024

I, Eric Dunning, 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

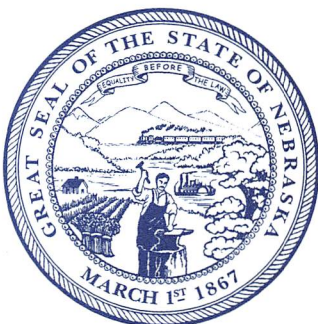
SURETY LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2022

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.



A handwritten signature in blue ink, appearing to read "Eric Dunning", is written over a horizontal line.

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

SURETY LIFE INSURANCE COMPANY

310 NE MULBERRY STREET

LEE'S SUMMIT, MO 64086

dated as of December 31, 2022, verified under oath by the examiner-in-charge on
May 16, 2023, and received by the company on May 21, 2024, has been adopted
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 4th day of June 2024.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read "L. Crawford", written in a cursive style.

Lindsay Crawford, CFE
Chief Financial Regulator

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

SURETY LIFE INSURANCE COMPANY

as of

December 31, 2022

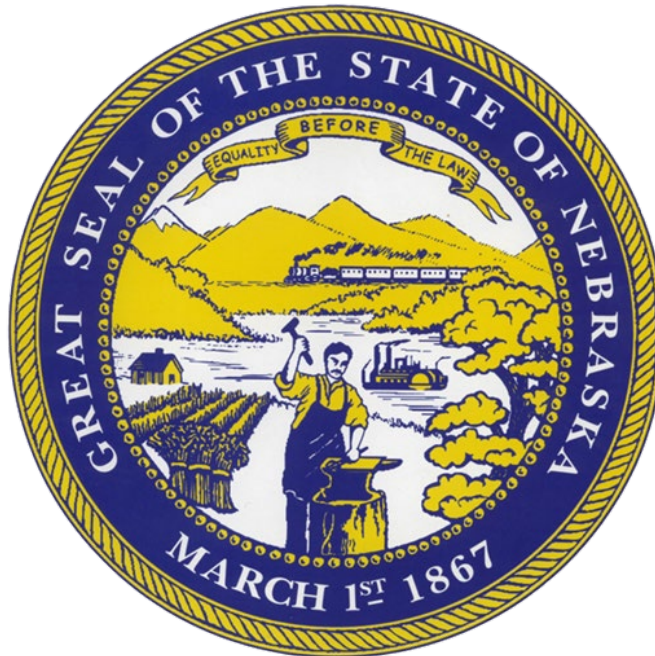


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Lincoln, Nebraska
April 4, 2024

Honorable Eric Dunning
Director of Insurance
Nebraska Department of Insurance
1526 K Street, Suite 200
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 State of Nebraska last examined the Company as of December 31, 2018. The current financial condition examination covers the intervening period to, and includes the close of business on December 31, 2022 and 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

The 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 Nebraska Department of Insurance made a general review 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 program was ascertained and noted and has 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 FORVIS, LLP, the Company's external auditor, during their audit of the Company's accounts for the years ended December 31, 2021 and 2022. 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 Employees 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 Everlake Life Insurance Company ("Everlake" formally known as 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 2022 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.
 Surety Life Insurance Company
 GEHA Solutions, Inc. (formerly known as PPO USA Inc.)

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 \$10,000,000 capital contribution to the Company in 2019. Article III, Section 1 of the Company's By-Laws states that, "the annual meeting of the Shareholders shall be held in a place, date and hour determined by the Chairman of the Board." Section 2 of Article III further states that, "written notice of every meeting of the Shareholders shall be given to each Shareholder entitled to vote at the meeting at least 10 days before such meeting."

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 of Article I 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 as of December 31, 2022:

Name and Residence

Principal Occupation

Richard E. Bierman
Lees Summit, Missouri

President, Surety Life Insurance Company

Cecil D. Bykerk
Omaha, Nebraska

President, CDBykerk Consulting LLC

<u>Name and Residence</u>	<u>Principal Occupation</u>
Laura J. Cook Gardner, Kansas	Retired, Former Special Agent for U.S. Food and Drug Administration, Criminal Investigations Unit
Michael P. Horton Olathe, Kansas	Retired, Former Vice President, Kansas City Life Insurance Company
M. James Van Dyke Kansas City, Missouri	Retired, Former Partner FORVIS, LLP
Joseph Witkowski Liberty, Missouri	Retired, Former Vice President, Corporate Services, Government Employees Health Association, Inc.

Officers

Article II, Section 1, of the Company’s 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, 2022:

<u>Name</u>	<u>Office</u>
Richard Bierman	President and Chairman of the Board
Joseph Witkowski	Secretary
Joseph Stasi	Treasurer
Angela Johnson	Controller
John Patrick	Vice President
Shannon Reynolds	Vice President

Name
Jeanie Botkin

Office
Assistant Secretary

Committees

Article I, Section 8 of the Company’s 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 following persons were serving on the Audit and Investment Committee as of December 31, 2022:

Joseph Witkowski, Chairman Laura J. Cook M. James VanDyke

TRANSACTIONS WITH AFFILIATES

Intercompany Services Agreement

The Company entered into an Intercompany Service Agreement (ISA) with its ultimate parent GEHA, and affiliates GHI and GEHA Solutions, Inc (GSI), for administrative services such as general corporate services, underwriting, policyholder, and regulatory affairs services, financial services, and other services. GEHA provides bank accounts, tradenames and trademarks, facilities, and most of the employees performing services for the Company. In addition to the GEHA employees, GHI also provides employees. The term of the original agreement began on August 1, 2012. The current restated agreement became effective June 1, 2022.

The Company pays the rendering company, a service fee calculated on either a net cost plus basis or market rate basis in conformity with SSAP No. 70 and as may be mutually agreeable to the parties. The rendering company provides 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 is settled within thirty calendar days after the receipt of the statement.

Intercompany Services Agreement – Indemnity Benefit Plan

Effective June 1, 2022 the Company entered into an Indemnity Benefit Plan Intercompany Services Agreement with its ultimate parent GEHA. The addition of this agreement allows GEHA to provide services relating to the GEHA's Indemnity Benefit Plan Contract with the U.S. Office of Personnel Management. Services mimic those provided in the Intercompany Services Agreement.

Tax Allocation Agreement

Effective August 1, 2012, the Company entered into a federal income tax allocation agreement with GSI and its parent company, GHI.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states. 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 nearly all eligible premiums to Everlake, which continues to administer nearly all in-force business in run-off.

REINSURANCE

Assumed

Effective January 1, 2020 the Company entered into an aggregate stop loss agreement with GEHA. The agreement has been renewed each subsequent year. The policy covers two

health plan options within GEHA and the Company's Indemnity Benefit Plan contract with the U.S Office of Personnel Management.

Ceded

In 2012, the Company entered into an Amended and Restated Coinsurance Agreement with Everlake. The Amended and Restated Coinsurance Agreement replaces and supersedes 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 Everlake. 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 Everlake 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>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Bonds	\$24,577,937	\$24,818,005	\$21,804,307	\$22,152,779
Common stock		1,003,349	6,507,126	5,365,097
Admitted assets	28,965,383	29,220,972	29,461,830	29,754,821
Current federal and foreign income taxes	830,534	1,179,103	1,423,319	1,396,971
Total liabilities	1,343,565	1,995,426	2,108,439	3,549,588
Capital and surplus	27,621,819	27,225,545	27,353,390	26,205,233
Premium income		569,702	443,497	1,106,550
Commissions and expense allowance on reinsurance ceded	557,209	527,590	495,552	495,938
General insurance expenses	982,975	1,398,037	931,433	1,180,533
Net income	(640,653)	(626,905)	280,479	135,550

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 ended December 31, 2022. 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 capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2022

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$22,152,779		\$22,152,779
Common stock	5,365,097		5,365,097
Cash, cash equivalents, and short-term investments	<u>(459,942)</u>		<u>(459,942)</u>
Subtotal, cash and invested assets	\$27,057,934		\$27,057,934
Investment income due and accrued	119,498		119,498
Uncollected premiums and agents' balances in course of collection	247		247
Other amounts receivables under reinsurance contracts	2,330,501		2,330,501
Guaranty funds receivable or on deposit	245,152		245,152
Policy suspense	41,586	41,586	
Other receivables	12,891	11,403	1,488
Prepaid expenses	<u>10,257</u>	<u>10,257</u>	<u> </u>
Totals	<u>\$29,818,067</u>	<u>\$63,246</u>	<u>\$29,754,821</u>
 <u>Liabilities, Surplus, and Other Funds</u>			
Accident and health contract claims			270,000
Interest maintenance reserve			140,580
Commissions to agents due or accrued			31,742
General expenses due or accrued			205,356
Taxes, licenses and fees			252,514
Current federal and foreign income taxes			1,396,971
Amounts withheld or retained as agent or trustee			5,219
Asset valuation reserve			53,080
Payable to parent, subsidiaries and affiliates			114,286
Unclaimed property			<u>1,079,841</u>
Total liabilities			<u>\$ 3,549,588</u>
Common capital stock			\$ 2,500,000
Gross paid in and contributed surplus			24,300,000
Unassigned funds (surplus)			<u>(594,767)</u>
Total capital and surplus			<u>\$26,205,233</u>
Totals			<u>\$29,754,821</u>

SUMMARY OF OPERATIONS – 2022

Premiums	\$1,106,550
Net investment income	483,469
Amortization of interest maintenance reserve	101,650
Commissions and expense allowances on reinsurance ceded	495,938
Loss on asset disposal	<u>(103)</u>
Total	\$2,187,504
Disability benefits and benefits under accident and health contracts	<u>\$ 80,000</u>
Total	<u>\$ 80,000</u>
Commissions on premiums	\$ 495,938
General insurance expenses	1,180,533
Insurance taxes, licenses and fees	<u>164,673</u>
Total	\$1,921,144
Net gain from operations before federal income taxes	\$ 266,360
Federal income taxes incurred	37,323
Net realized capital gains (losses)	<u>(93,486)</u>
Net income	<u>\$ 135,550</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Capital and surplus, beginning	\$18,181,214	\$27,621,820	\$27,225,545	\$27,353,390
Net income	\$ (640,653)	\$ (626,905)	\$ 280,479	\$ 135,550
Change in net unrealized capital gains	94,470	236,450	(298,323)	(1,229,629)
Change in nonadmitted assets	18,796	21,799	38,091	(63,246)
Change in asset valuation reserve	(32,007)	(27,618)	107,597	9,168
Paid in surplus	<u>10,000,000</u>	_____	_____	_____
Net change for the year	<u>\$ 9,440,606</u>	<u>\$ (396,274)</u>	<u>\$ 127,844</u>	<u>\$ (1,148,157)</u>
Capital and surplus, ending	<u>\$27,621,820</u>	<u>\$27,225,546</u>	<u>\$27,353,389</u>	<u>\$26,205,233</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$(594,767), as reported in the Company's 2022 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:

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.

Actions: The Company has complied with this recommendation.

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

Actions: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Conflict of Interest Statements

The Board of Directors did not complete annual conflict of interest statements for all years under exam. It is recommended that the Company have the Board of Directors and Officers complete a conflict of interest statement on an annual basis.

Custodial Agreement

The Custodial agreement with the Commerce Trust does not contain all provisions required under Nebraska Administrative Code (NAC) Title 210 Chapter 81. It is recommended that the Company amend its existing custodial agreement to comply with NAC Title 210 Chapter 81.

Board Review of Investments

The Board of Directors, or committee of the Board of Directors did not formally, on a quarterly basis, receive and review a summary report on the insurer's investment portfolio, investment activities, and investment practices engaged in under delegated authority, in order to determine whether the investment activity of the insurer was consistent with its written plan. Therefore, the company is not in compliance with Section 44-5105(3) of the Nebraska Insurance Statutes. It is recommended that the Company comply with Neb. Rev. Stat. §44-5105(3) and ensure that the Board of Directors or a committee of the Board of Directors, on no less than a quarterly basis, receive and review a summary report of the Company's investment portfolio, activities, and practices, in order to verify the investment activity is consistent with its written investment plan.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Conflict of Interest Statements – It is recommended that the Company have the Board of Directors and Officers complete a conflict of interest statement on an annual basis.

Custodial Agreement - It is recommended that the Company amend its existing custodial agreement to comply with NAC Title 210 Chapter 81.

Investment Approval– It is recommended that the Company comply with Neb. Rev. Stat. §44-5105(3) and ensure that the Board of Directors or a committee of the Board of Directors, on no less than a quarterly basis, receive and review a summary report of the Company’s investment portfolio, activities, and practices, in order to verify the investment activity is consistent with its written investment plan.

ACKNOWLEDGMENT

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

In addition to the undersigned, Santosh Ghimire, CFE and Alexis Anderson, AFE, Financial Examiners; Gary Evans, CFE, CISA, Information Systems Specialist; and Joshua Wearne, and Michael Muldoon, MAAA, ASA, FCA, Actuarial Specialists; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Skyler Lawyer, CFE
Supervisory Examiner
Department of Insurance
State of Nebraska

State of Nebraska,
County of Lancaster,

Skyler Lawyer, being duly sworn, states as follows:

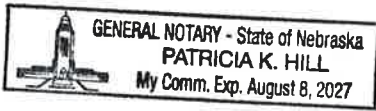
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Surety Life Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and 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 Skyler Lawyer on this 16 day of May, 2024.

(SEAL)




Notary Public

My commission expires 8-8-27 [date].