

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

**TIER ONE 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

**Tier One 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**

**TIER ONE INSURANCE COMPANY**

**as of**

**December 31, 2019**



## TABLE OF CONTENTS

<b><u>Item</u></b>	<b><u>Page</u></b>
Salutation .....	1
Introduction.....	1
Scope of Examination.....	2
Description of Company.....	4
History.....	4
Management and Control.....	5
Holding Company.....	5
Shareholder .....	6
Board of Directors.....	7
Officers .....	8
Committees .....	9
Transactions with Affiliates.....	10
Service Agreements .....	10
Intercompany Tax Allocation Agreement .....	10
Territory and Plan of Operation.....	10
Reinsurance.....	11
Body of Report.....	11
Growth .....	11
Financial Statements .....	11
Examination Changes in Financial Statements.....	13
Compliance with Previous Recommendation.....	13
Commentary on Current Examination Findings.....	14
Custodial Agreement .....	14
Summary of Comments and Recommendations.....	14
Acknowledgment .....	15

Lincoln, Nebraska  
January 4, 2021

Honorable Bruce R. Ramge  
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:

**TIER ONE 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

**1932 Wynnton Road  
Columbus, Georgia 31999-0001**

(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, 2017 by the State of Oklahoma. 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 Continental American Insurance Company (CAIC).

### **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. 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.

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**

On June 11, 1981, the Company was formed under the laws of the State of Delaware as Fidelity Life Insurance Company (FLIC). On June 30, 1995, the Company redomesticated to the State of Pennsylvania. The Company again redomesticated from Pennsylvania to Oklahoma effective May 12, 2008, and changed the name of the Company from FLIC to HealthMarkets Insurance Company (HMIC), where it operated as a shell. HMIC began offering stand-alone Medicare prescription drug plans as a plan sponsor under the Medicare Part D effective January 1, 2013. In 2014, management began working on divestiture in the Medicare prescription drug plans and all members were non-renewed after 2014. As of January 1, 2015, the Company was again a shell.

On June 22, 2016 HealthMarkets, LLC which owned HMIC, entered into a stock purchase agreement with Aflac Incorporated (Aflac Inc.), a Georgia corporation, for the sale of all of its equity interest in the Company. The transaction was approved by the Oklahoma Department of Insurance on December 14, 2016. The transaction was completed on January 3, 2017 with an effective date of January 1, 2017. On January 4, 2017, the name of HMIC was changed to Tier One Insurance Company.



On January 4, 2019, Aflac Inc. requested the redomestication of the Company from Oklahoma to Nebraska in an effort to consolidate operations to one regulator creating efficiencies and reducing compliance cost. The Nebraska Department of Insurance approved this request on March 11, 2019.

## **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 300,000 shares of voting common stock of \$10.00 par value per share." The Company has 300,000 shares of common stock issued and outstanding. All outstanding common 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. During the exam period, the Company received capital contributions of \$77.5 million and \$800,000 from Aflac Inc. in 2019 and 2018, respectively.

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 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 on or before the 30<sup>th</sup> day of June in each and every calendar year.”

### **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 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 continues to state that, “each Director elected shall hold office until the next succeeding annual meeting of the 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

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
June P. Howard Columbus, Georgia	Senior Vice President, Financial Service and Chief Accounting Officer, Aflac Incorporated
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
Audrey B. Tillman Columbus, Georgia	Executive Vice President; General Counsel, Aflac Incorporated
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." Section 4.1 of the By-Laws also states that, "the Board may, in its discretion, leave any of the above offices vacant for any length of time." Section 4.3 of the By-Laws states that, "unless otherwise provided by resolution of the Board of Directors, the principal officers shall serve until their successors shall have been chosen and qualified, or until their death, resignation or removal as provided by these By-Laws."

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

<b><u>Name</u></b>	<b><u>Office</u></b>
Daniel P. Amos	Chairman of the Board of Directors and Chief Executive Officer
Teresa L. White	President
Frederick J. Crawford	Executive Vice President, Chief Financial Officer
Virgil R. Miller	Executive Vice President, Chief Operating Officer
Max K. Broden	Senior Vice President, Treasurer
June P. Howard	Senior Vice President, Chief Accounting Officer
Jamie Lee	Senior Vice President, Chief Service Officer
Thomas L. McDaniel, Jr.	Senior Vice President, Chief Compliance Officer
J. Matthew Loudermilk	Vice President, Corporate Secretary
Jeramy Tipton	Vice President
Eric Kirsch	Global Chief Investment Officer
Teresa McTague	US Chief Investment Officer
Bradley Dyslin	Global Head of Credit

### **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 March 11, 2019, the Company entered into a 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.

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.

### **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.

As of December 31, 2019, the Company has not started writing insurance policies.

## **REINSURANCE**

There were no reinsurance treaties in effect for the Company at the time of acquisition or noted through the course of the examination.

## **BODY OF REPORT**

### **GROWTH**

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

	<b><u>2018</u></b>	<b><u>2019</u></b>
Bonds	\$ 8,287,187	\$ 9,041,703
Admitted assets	10,041,296	14,709,908
Total liabilities	20,246	2,601,666
Capital and surplus	10,021,050	12,108,242
Net investment income	171,446	305,912
Net income	56,843	(1,876,556)

### **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	\$ 9,041,703		\$ 9,041,703
Cash and cash equivalents	<u>78,542,815</u>	<u>\$73,534,980</u>	<u>5,007,835</u>
Subtotal, cash and invested assets	\$87,584,518	\$73,534,980	\$14,049,538
Investment income due and accrued	62,779		62,779
Federal income tax recoverable	597,591		597,591
Guaranty funds receivable	<u>56,077</u>	<u>56,077</u>	
Total assets	<u>\$88,300,965</u>	<u>\$73,591,057</u>	<u>\$14,709,908</u>
 <b><u>Liabilities, Surplus, and Other Funds</u></b>			
Interest maintenance reserve			\$ 112,696
General expenses due or accrued			2,307,713
Taxes, licenses and fees due or accrued			553
Net deferred tax liability			2,395
Payable for securities			2,904
Other liabilities			175,146
Unclaimed property			<u>260</u>
Total liabilities			\$ 2,601,666
Common capital stock			3,000,000
Gross paid in and contributed surplus			96,581,766
Unassigned funds (surplus)			<u>(87,473,524)</u>
Total capital and surplus			<u>\$ 12,108,242</u>
Total liabilities, capital and surplus			<u>\$ 14,709,908</u>



### **SUMMARY OF OPERATIONS – 2019**

Net investment income	\$ 305,912
Amortization of interest maintenance reserve	<u>6,433</u>
Total income	\$ 312,345
General insurance expenses	2,485,674
Insurance taxes, licenses and fees, excluding federal income taxes	<u>262,822</u>
Total expenses	<u>\$ 2,748,497</u>
Net gain from operations before federal income taxes and net realized capital gains	(2,436,152)
Federal income taxes incurred	(560,286)
Net realized capital losses	<u>(691)</u>
Net income	<u><u>\$(1,876,556)</u></u>

### **CAPITAL AND SURPLUS ACCOUNT**

	<b><u>2018</u></b>	<b><u>2019</u></b>
Capital and surplus, beginning	<u>\$ 9,181,603</u>	<u>\$10,021,050</u>
Net income	\$ 56,843	\$(1,876,556)
Change in net deferred income tax	38,148	(1,273)
Change in nonadmitted assets	(55,544)	(73,534,980)
Surplus adjustment – paid in	<u>800,000</u>	<u>77,500,000</u>
Net change for the year	<u>\$ 839,447</u>	<u>\$ 2,087,191</u>
Capital and surplus, ending	<u><u>\$10,021,050</u></u>	<u><u>\$12,108,242</u></u>

### **EXAMINATION CHANGES IN FINANCIAL STATEMENTS**

Unassigned funds (surplus) in the amount of \$(87,473,524), 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 RECOMMENDATION**

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

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Custodial Agreement**

As of the examination date, the Company utilized Frost National Bank (FNB) to provide custodial services. The exam team determined that the custodial agreement with FNB contained most, but not all required provisions of Nebraska Rules and Regulations Title 210 Chapter 81. This was a result of the custodial agreement being executed in 2007 when the Company operated as Fidelity Life Insurance Company under the laws of Pennsylvania. When the Company redomesticated to Nebraska in 2019, the custodial agreement was not amended to comply with Nebraska Rules and Regulations. Although the custodial agreement does not contain all required provisions, the Company believes that the custodial arrangement included the necessary controls that the regulation was designed to ensure. Also, the Company entered into a custodial agreement with The Bank of New York Mellon, dated December 30, 2019. The agreement with FNB was terminated December 31, 2020. As a result, the Company is also in the process of developing a checklist for newly acquired or redomesticated insurance companies to ensure that all custodial agreements will contain the required provisions going forward.

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

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

## 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,

A handwritten signature in blue ink, appearing to read "Isaak Russell", written over a horizontal line.

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

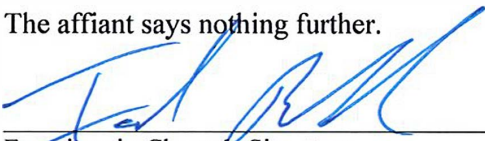
State of Nebraska,

County of Lancaster,

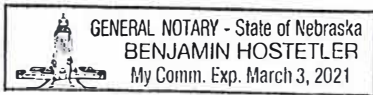
Isaak Russell, being duly sworn, states as follows:

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].