

CERTIFICATION

June 26, 2015

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, 2013

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.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

JUN 26 2015

FILED



Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

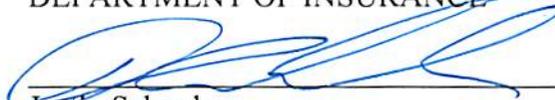
Take notice that the proposed report of the financial examination of

SURETY LIFE INSURANCE COMPANY

dated as of December 31, 2013, verified under oath by the examiner-in-charge on June 4, 2015, and received by the company on June 4, 2015, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 15 day of June, 2015.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE



Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

SURETY LIFE INSURANCE COMPANY

as of

December 31, 2013



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Lee's Summit, Missouri
May 22, 2015

Honorable Bruce R. Ramage
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
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

**12925 West Dodge Road
Omaha, NE 68154**

with its Principal Executive Office located at

**201 NE Mulberry Street
Lee's Summit, MO 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, 2008 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2013, 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.

The examination leveraged off of financial examination work of Allstate Insurance Company (AIC) and certain subsidiaries including Allstate Life Insurance Company (ALIC) lead by the State of Illinois that pertained to the business fronted by the Company. Due to the nature of the Company's operational structure, the examination workpapers of AIC and ALIC, as prepared and maintained by the State of Illinois, were relied upon and are an important integral aspect of this examination.

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, approval of investment transactions and authorizations of salaries 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 BKD, LLP, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2013. 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 22, 1965.

In December of 1976, Dean Witter Reynolds Organization, Inc. of San Francisco, California, acquired the Company. During 1981, Dean Witter Reynolds Organization, Inc. contributed the Surety Life 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 Dean Witter

Reynolds Organization. The outstanding stock of the Company was ultimately transferred to 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.

On August 1, 2012, the Company was sold by ALIC to Government Employee Health Association (GEHA) which is located in Lee's Summit, Missouri. The Company cedes all in-force business to ALIC who also administers all in-force business. 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 2013 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, "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 part 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 GEHA Holdings, Inc. The Company paid a dividend of \$1,200,000 in 2010.

Article III of the Company's By-Laws states, "the annual meeting of the shareholders shall be held at a place, date and hour determined by the Chairman of the Board."

Board of Directors

Article I, Section 1, of the By-Laws states, "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 amendments 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, "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, 2013:

Name and Residence

Laura J. Cook
Gardner, Kansas

Eileen M. Hutchinson
Lee's Summit, Missouri

Principal Occupation

Retired; Former Special Agent for U.S. Food and
Drug Administration, Criminal Investigations Unit

Vice President, Chief Financial Officer, GEHA

Name and Residence

Principal Occupation

Larry D. McEnroe
Lee's Summit, Missouri

Vice President Legal, General Counsel, GEHA

Donald P. Svehla
Lincoln, Nebraska

Retired; Former Carrier Technician for
U.S. Postal Service

Joseph Witkowski
Liberty, Missouri

Retired; Former GEHA Vice President -
Corporate Services

At the April 22, 2014 Annual Shareholder meeting of the Company, Jeffrey Seeman was elected as Chairman of the Board and Julie Browne was elected as a Director.

Article I, Section 7 of the By-Laws states, "the Board may authorize payment of compensation to Directors for their services as Directors, and fix the amount thereof." Board members that are employees of GEHA do not get any additional compensation for being on the Board. Board members that are non-GEHA employees are paid \$1,000 for each Board meeting they attend and \$300 for each Committee meeting they attend. In addition, they are reimbursed for travel and lodging expenses.

Officers

Article II of the By-Laws states, "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." The By-Laws also state, "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, 2013:

| <u>Name and Residence</u> | <u>Office</u> |
|---------------------------|--|
| Eileen M. Hutchinson | President, Chairman of the Board |
| Larry D. McEnroe | Vice President, General Counsel, Secretary |
| Angela D. Johnson | Treasurer, Controller |

At the October 22, 2013 Board of Director's meeting, Cindy Butler resigned from the Board of Directors, as Secretary, and as Vice President, Operations of the Company. Larry McEnroe filled her place as a Director and Secretary. The second Vice President office was not refilled until April 22, 2014 Board of Director's meeting. During that meeting, the following appointments were made: Jeffrey Seeman, President and Chairman of the Board; Eileen Hutchinson, Vice President, Chief Financial Officer and Treasurer; Larry Dean McEnroe, Vice President, General Counsel and Secretary; Julie Christine Browne, Vice President and Assistant Secretary; and Angela Dian Johnson, Controller and Assistant Treasurer.

Committees

Article I, Section 8 of the By-Laws state, "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 they do have an Audit and Investment Committee.

The following persons were serving on the Audit and Investment Committee at December 31, 2013:

Laura J. Cook
Joe Witkowski

Eileen M. Hutchinson

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 with thirty calendar days after receipt of the statement. Any late payments will be subject to an interest rate of 1.5% per month until fully paid.

Tax Sharing Agreement

The Company entered into a Tax Sharing Agreement with GEHA Holdings, Inc. and PPO USA Inc. in which the parties will consolidate income tax returns beginning January 1, 2012 and thereafter. The taxes shall be calculated using the separate return liability allocation method and the additional amount allocation complimentary method. The Company will pay GEHA Holdings, Inc. an amount no greater than its tax as computed on a separate return basis. GEHA Holdings, Inc. will pay an amount equal to the reduction in tax of the group that is caused by using the loss of the loss party of the agreement. The compensation for any party to the

agreement providing services to another party of the agreement shall be based on actual cost without a profit factor built into the cost.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is authorized to transact the business of life, annuity, and accident and health insurance in the District of Columbia, Guam, U.S. Virgin Islands and all states except New York.

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

The contract reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. The contract 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>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Bonds | \$10,388,506 | \$10,133,417 | \$11,601,073 | \$12,912,366 | \$13,202,990 |
| Admitted assets | 13,302,947 | 12,526,919 | 12,992,531 | 13,830,267 | 13,885,569 |
| Total liabilities | 643,125 | 617,958 | 601,745 | 1,246,044 | 1,128,734 |
| Capital and surplus | 12,659,822 | 11,908,962 | 12,390,786 | 12,584,224 | 12,756,835 |
| Net investment income | 682,706 | 664,892 | 687,451 | 616,748 | 520,553 |
| Net income | 428,066 | 455,799 | 449,056 | 198,412 | 176,666 |
| Life insurance in-force (in thousands) | 7,533,232 | 7,013,493 | 6,536,390 | 6,106,186 | 5,700,098 |

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2013 and its transactions during the year 2013 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2013

Assets

| | <u>Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> |
|--|----------------------------|-----------------------------------|-----------------------------------|
| Bonds | \$13,202,990 | | \$13,202,990 |
| Cash and short-term investments | <u>(1,429,882)</u> | | <u>(1,429,882)</u> |
| Subtotal, cash and invested assets | \$11,773,108 | | \$11,773,108 |
| Investment income due and accrued | 124,233 | | 124,233 |
| Other amounts receivable under reinsurance contracts | 1,922,706 | | 1,922,706 |
| Current federal income tax recoverable | <u>65,522</u> | | <u>65,522</u> |
| Totals | <u>\$13,885,569</u> | | <u>\$13,885,569</u> |

Liabilities, Surplus, and Other Funds

| | |
|--|----------------------------|
| Interest maintenance reserve | \$ 478,901 |
| Asset valuation reserve | 11,524 |
| Payable to parent, subsidiaries and affiliates | <u>638,309</u> |
| Total liabilities | <u>\$ 1,128,734</u> |
| Common capital stock | \$ 2,500,000 |
| Unassigned funds (surplus) | <u>10,256,835</u> |
| Total capital and surplus | <u>\$12,756,835</u> |
| Totals | <u>\$13,885,569</u> |

SUMMARY OF OPERATIONS – 2013

| | |
|--|-------------------|
| Net investment income | \$ 520,553 |
| Amortization of interest maintenance reserve | 134,972 |
| Commissions and expense allowances on reinsurance ceded | <u>721,964</u> |
| Totals | \$1,377,489 |
| Losses | <u>\$ 0</u> |
| Totals | \$ 0 |
| Commissions on premiums, annuity considerations, and deposit type contract funds | \$ 721,965 |
| General insurance expenses | 372,464 |
| Insurance taxes, licenses and fees, excluding federal income taxes | <u>108,988</u> |
| Totals | \$1,203,417 |
| Net gain from operations before federal income taxes | \$ 174,072 |
| Federal income taxes incurred | <u>(2,594)</u> |
| Net income | <u>\$ 176,666</u> |

CAPITAL AND SURPLUS ACCOUNT

| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|-----------------------------------|-----------------------------|---------------------|-----------------------------|-----------------------------|-----------------------------|
| Capital and surplus, beginning | <u>\$12,204,508</u> | <u>\$12,659,822</u> | <u>\$11,908,962</u> | <u>\$12,390,786</u> | <u>\$12,584,223</u> |
| Net income | \$ 428,066 | \$ 455,799 | \$ 449,056 | \$ 198,412 | \$ 176,666 |
| Change in net deferred income tax | 30,101 | (5,260) | 30,380 | | |
| Change in asset valuation reserve | (2,853) | (1,400) | 2,389 | (4,975) | (4,055) |
| Dividends to stockholders | <u> </u> | <u>(1,200,000)</u> | <u> </u> | <u> </u> | <u> </u> |
| Net change for the year | <u>\$ 455,314</u> | <u>\$ (750,861)</u> | <u>\$ 481,825</u> | <u>\$ 193,437</u> | <u>\$ 172,611</u> |
| Capital and surplus, ending | <u>\$12,659,822</u> | <u>\$11,908,962</u> | <u>\$12,390,786</u> | <u>\$12,584,223</u> | <u>\$12,756,835</u> |

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$10,256,835, as reported in the Company's 2013 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

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

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no findings warranting comment as a result of this examination.

ACKNOWLEDGEMENT

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

In addition to the undersigned, Erin Garvin, CFE, and Kim Hurst, CFE, Financial Examiners; Gary Evans, CFE, CISA, MAAA, Information Systems Specialist; and Rhonda Ahrens, FSA, MAAA, Life & Health Actuarial Examiner; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Andrea Johnson, CFE
Examiner-in-Charge
Nebraska Department of Insurance

State of Nebraska,

County of Lancaster,

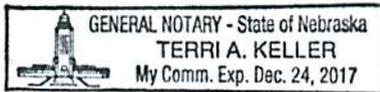
Andrea D. Johnson, being duly sworn, states as follows:

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.

Andrea D. Johnson
Examiner-in-Charge's Signature

Subscribed and sworn before me by Andrea Johnson on this 4th day of June, 2015.



(SEAL)
TERRI A. KELLER
Notary Public

My commission expires Dec 24 2017 [date].