

Report on Examination
of
American Fidelity
Life Insurance Company

Pensacola, Florida

as of

December 31, 2009

By The
Florida Office of Insurance Regulation

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street
Tallahassee, Florida 32399-0305

Sharon P. Clark, Commissioner
Kentucky Department of Insurance
Secretary, NAIC Southeastern Zone
P.O. Box 517
Frankfort, Kentucky 40602-0517

Joseph Torti, III, Superintendent
Rhode Island Division of Insurance
Chair, NAIC Financial Condition (E) Committee
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920

Dear Commissioners McCarty and Clark and Superintendent Torti:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of American Fidelity Life Insurance Company as of December 31, 2009. Our report on the examination follows.

Florida Office of Insurance Regulation
March 10, 2011

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2009 of American Fidelity Life Insurance Company (the "Company"), a multi-state insurer domiciled in Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2004.

This examination covered the period of January 1, 2007 through December 31, 2009. We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The Company's main administrative office was located in Pensacola, Florida, where this examination was conducted.

COMPANY HISTORY

The Company was incorporated in Florida and commenced business on September 5, 1956. It was licensed by the Office as an insurer on September 13, 1956.

The Company was authorized by the State of Florida to operate as an insurer in accordance with Section 624.401, Florida Statutes (F.S.), in the following lines:

- Life
- Group life and annuities
- Credit life
- Accident and health

Dividends and Capital Contributions

The Company distributed shareholder dividends in the amounts of \$1,443,000, \$1,420,000 and \$2,000,000 in 2007, 2008 and 2009, respectively. It did not receive capital contributions during the examination period.

CORPORATE RECORDS

The minutes of the meetings of the shareholder, Board of Directors, Executive and Finance Committee, and Audit Committee were reviewed for the period examined. The minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 625.304, F.S.

MANAGEMENT AND CONTROL

The Company was wholly owned by AMFI Corporation. Its senior officers, directors, and members of its Audit and Executive and Finance Committees were as shown below.

Senior Officers

Name	Title
Ruben E. Mauch	President
Jack B. Yancey	Senior Vice President & Secretary
Carolyn B. Harrison	Senior Vice President & Treasurer
Leonard B. Southerland	Senior Vice President

Board of Directors

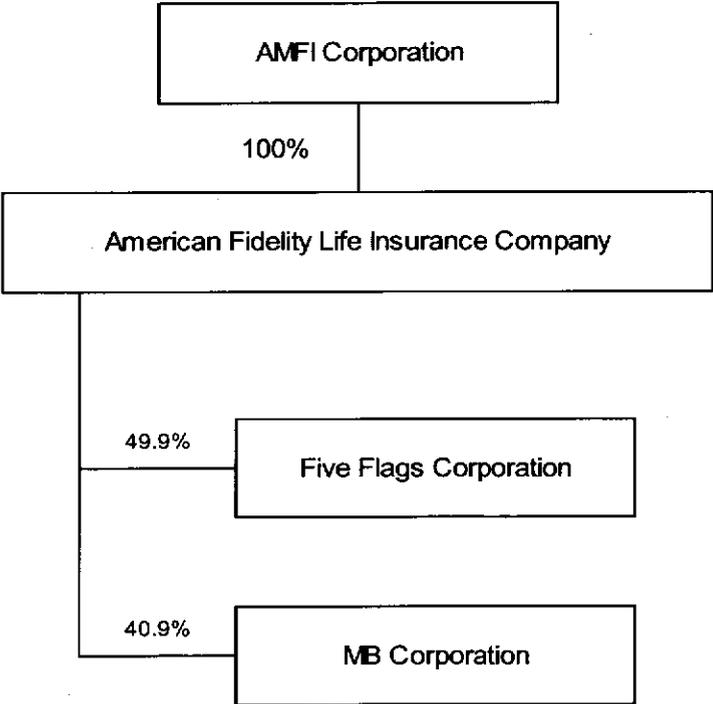
Name	Location
Carolyn B. Harrison	Cantonment, Florida
Marilyn W. Hess	Pensacola, Florida
Ruben E. Mauch	Pensacola, Florida
Robert W. Richardson	Pensacola, Florida
Leonard B. Southerland	Pensacola, Florida
Jack B. Yancey	Pensacola, Florida

Audit Committee	Executive & Finance Committee
Marilyn W. Hess	Carolyn B. Harrison
Robert W. Richardson	Marilyn W. Hess
Jack B. Yancey	Ruben E. Mauch

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code (F.A.C.). Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 690-143.046, F.A.C., on January 7, 2011.

An abbreviated organizational chart reflecting the holding company system is shown below.

**American Fidelity Life Insurance Company
Abbreviated Organizational Chart
December 31, 2009**



The Company provided underwriting, policy preparation, premium billing, bookkeeping, claims handling and accounting services to Trans World Assurance Company (Trans World), an affiliate, pursuant to an October 1, 2007 agreement. Fees for the services were \$5 for each paying Trans World policy in force.

The Company was included in the consolidated federal income tax return of AMFI Corporation in accordance with an April 20, 1987 agreement. The agreement provided for the allocation of consolidated income tax liability among members of the group based on separate taxable income.

The Company provided policy preparation, premium billing and accounting services to Transam Assurance Company, an affiliate, pursuant to an agreement effective November 27, 1985. Fees for the services were \$5 for each paying Transam Assurance Company policy in force. The agreement did not specify a due date for payment of amounts owed under the agreement, as required by Statement of Statutory Accounting Principles Nos. 25 and 96. However, the agreement was revised on December 10, 2010, and the due date was added.

The Company leased offices on a monthly basis from Universal Realty Investments, Inc., an affiliate, pursuant to a November 7, 1988 agreement. In addition, it leased a warehouse from AMFI Investments Corp., an affiliate, pursuant to a January 2, 2001 agreement.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage of \$1,000,000 with a deductible of \$15,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided to eligible employees fringe benefits including group medical and life insurance.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact insurance in all U.S. states except New Jersey, New York and Vermont. It was also authorized in the District of Columbia, Guam, Japan, South Korea, and the Philippine Islands. In addition, the Company was approved by the U.S. Department of Defense to solicit life insurance sales on U.S. installations in the U.S. European and Pacific Commands.

COMPANY GROWTH

The Company reported the following for years 2007, 2008 and 2009:

(In millions)	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net premiums	\$ 15.9	\$ 14.6	\$ 14.3
Total revenues	\$ 36.1	\$ 32.6	\$ 31.2
Net income (loss)	\$ 1.9	\$ 1.2	\$ (0.9)
Capital and surplus	\$ 77.1	\$ 73.2	\$ 71.5

REINSURANCE

Assumed

The Company entered into a coinsurance agreement with Trans World on December 4, 1963. Under the terms of the agreement, reinsurance was assumed on a 50-50 basis and covered ordinary life, limited payment life and endowment policies issued by Trans World. The limit of insurance accepted under the agreement was \$75,000.

On August 1, 1986, the Company entered into a yearly renewable term reinsurance agreement with Trans World. Under the terms of the agreement, the Company assumed on a 50-50 basis annual renewable term and 'guaranteed insurability option rider' coverage. The limit of insurance accepted under the agreement was \$75,000.

The Company entered into a yearly renewable term reinsurance agreement with Trans World on September 1, 2009. Under the terms of the agreement, the Company assumed all universal life policies with initial specified death benefits equal to or greater than \$75,000. The Company's amount reinsured was 50% of the net amount at risk, and its share of the net amount at risk for any policy did not exceed \$75,000.

The Company participated in the Servicemembers' Group Life Insurance program administered by Prudential Insurance Company of America. The Company was assessed a percentage of the risks assumed under the group policy.

Ceded

The Company entered into a coinsurance agreement with Trans World on December 4, 1963. Under the terms of the agreement, the Company ceded coverage to Trans World on a 50-50

basis. The types of policies that could be reinsured under the agreement were ordinary life, limited payment life and endowment policies. The Company's retention limit under the agreement was \$75,000.

On August 1, 1986, the Company entered into a yearly renewable term agreement with Trans World. Under the terms of the agreement, the Company ceded on a 50-50 basis coverage on the annual renewable term and guaranteed insurability option rider coverage. The Company's retention limit under the agreement was \$75,000.

ACCOUNTS AND RECORDS

On December 28, 2009, the Company agreed to pay to the Office a penalty of \$25,000 and related costs of \$50,000 in settlement of matters relating to allegations by the Office that the Company had violated certain provisions of Rule 69O-142.200, F.A.C. The rule applies to the solicitation or sale of life insurance and annuity products by insurers to active duty service members of the U.S. Armed Forces. The purpose of the rule is to set forth standards to protect the service members from dishonest and predatory insurance sales practices by declaring certain identified practices to be false, misleading, deceptive or unfair. The matters were resolved without the Company admitting any violation of the rule.

STATUTORY DEPOSITS

The following securities were deposited by the Company as required:

Holder	Description	Par Value	Market Value
Florida	U.S. Treasury notes	\$ 1,550,000	\$ 1,683,130
Georgia	U.S. Treasury note	60,000	66,018
Guam	Cash	50,000	50,000
Japan	Cash	100,000	100,000
Korea	Cash	21,061	21,061
New Mexico	U.S. Treasury note	100,000	106,620
North Carolina	U.S. Treasury note	500,000	550,150
Virginia	U.S. Treasury note	80,000	85,296
Total deposits		\$ 2,461,061	\$ 2,662,275

American Fidelity Life Insurance Company
Assets
December 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 370,255,203	\$ -	\$ 370,255,203
Common stocks	14,999,333	-	14,999,333
First liens - mortgage loans on real estate	32,092,892	-	32,092,892
Properties held for the production of income	11,807,526	-	11,807,526
Properties held for sale	14,859,634	-	14,859,634
Cash, cash equivalents and short-term investments	2,301,401	-	2,301,401
Contract loans	5,862,524	-	5,862,524
Other invested assets	510,000	-	510,000
	452,688,513	-	452,688,513
Investment income due and accrued	5,446,560	-	5,446,560
Uncollected premiums and agents' balances	84,493	-	84,493
Deferred premiums and agents' balances	2,641,644	-	2,641,644
Amounts recoverable from reinsurers	10,750	-	10,750
Aggregate write-ins for other than invested assets	35,150	-	35,150
Total assets	\$ 460,907,110	\$ -	\$ 460,907,110

American Fidelity Life Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2009

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$ 110,981,873	\$ -	\$ 110,981,873
Liability for deposit-type contracts	271,689,642	-	271,689,642
Contract claims - life	1,071,179	-	1,071,179
Dividends not yet apportioned	68,481	-	68,481
Premiums received in advance	6,701	-	6,701
Commissions to agents	29,670	-	29,670
General expenses	148,987	-	148,987
Taxes, licenses and fees	54,158	-	54,158
Net deferred tax liability	445,741	-	445,741
Amounts withheld or retained as agent or trustee	898,045	-	898,045
Remittances and items not allocated	1,123,809	-	1,123,809
Asset valuation reserve	2,900,007	-	2,900,007
Aggregate write-ins for liabilities	6	-	6
Total liabilities	389,418,299	-	389,418,299
Capital and Surplus			
Common capital stock	2,500,000	-	2,500,000
Gross paid in and contributed surplus	2,489,370	-	2,489,370
Unassigned funds	66,499,441	-	66,499,441
Total capital and surplus	71,488,811	-	71,488,811
Total liabilities, capital and surplus	\$ 460,907,110	\$ -	\$ 460,907,110

American Fidelity Life Insurance Company
Summary of Operations
(As reported by the Company)
For The Year Ended December 31, 2009

Premiums and annuity considerations	\$ 14,262,738
Net investment income	16,861,294
Commissions and expense allowances on reinsurance ceded	12,098
Aggregate write-ins for miscellaneous income	50,846
Total revenues	31,186,976
Death benefits	4,450,416
Annuity benefits	1,340,290
Surrender benefits and withdrawals for life contracts	2,374,900
Group conversions	4,168
Interest and adjustments on contract or deposit-type contract funds	11,831,535
Increase in aggregate reserves	(41,019)
	19,960,290
Commissions on premiums and annuity considerations	2,972,846
Commissions and expense allowances on reinsurance assumed	6,024
General insurance expenses	5,808,002
Insurance taxes, licenses and fees	566,971
Increase in loading on deferred and uncollected premiums	(268,460)
	29,045,673
Net gain before dividends to policyholders and capital gains or losses	2,141,303
Dividends to policyholders	63,542
Net gain before capital gains or losses	2,077,761
Net realized capital gains or (losses)	(2,956,362)
Net income (loss)	\$ (878,601)

American Fidelity Life Insurance Company
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2009

Capital and surplus - December 31, 2006	\$ 77,547,476
Net income (loss)	1,909,989
Change in net unrealized capital gains or losses	(1,486,794)
Change in net deferred income tax	39,796
Change in nonadmitted assets	(4,733)
Change in asset valuation reserve	542,111
Dividends to stockholder	(1,443,000)
Aggregate write-ins for gains and losses in surplus	(49,454)
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Capital and surplus - December 31, 2007	77,055,391
Net income (loss)	1,153,794
Change in net unrealized capital gains or losses	(4,066,228)
Change in net deferred income tax	278,468
Change in nonadmitted assets	(714,525)
Change in asset valuation reserve	1,033,715
Dividends to stockholder	(1,420,000)
Aggregate write-ins for gains and losses in surplus	(111,247)
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Capital and surplus - December 31, 2008	73,209,368
Net income (loss)	(878,601)
Change in net unrealized capital gains or losses	2,452,311
Change in net deferred income tax	(286,014)
Change in nonadmitted assets	(233,572)
Change in asset valuation reserve	(952,719)
Dividends to stockholder	(2,000,000)
Aggregate write-ins for gains and losses in surplus	178,038
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	71,488,811
Examination adjustments	-
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Capital and surplus - December 31, 2009	\$ 71,488,811
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American Fidelity Life Insurance Company
Comparative Analysis of Changes in Capital and Surplus
December 31, 2009

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus	
Capital and surplus, December 31, 2009 - per annual statement				\$ 71,488,811
Total assets	\$ 460,907,110	\$ 460,907,110	\$ -	
Total liabilities	\$ 389,418,299	\$ 389,418,299	\$ -	
Net change in capital and surplus			-	
Capital and surplus, December 31, 2009 - per examination				\$ 71,488,811

SUBSEQUENT EVENTS

Leonard B. Southerland, a director and senior vice president of the Company, retired on March 12, 2010.

In its 2010 annual statement, the Company reported net income of \$3,310,771, shareholder dividends of \$3,063,000, and capital and surplus of \$70,690,550.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of American Fidelity Life Insurance Company as of December 31, 2009, consistent with the insurance laws of the State of Florida.

The Company's capital and surplus at December 31, 2009 was determined to be \$71,488,811, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus was \$15,408,002.

In addition to the undersigned, the following individuals participated in this examination: Christine N. Afolabi, CPA, Financial Specialist; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Kerry A. Krantz, Actuary; and Michael D. Young, AFE, Financial Examiner/Analyst.

Respectfully submitted,

Walter F. Banas, CIE
Financial Specialist
Florida Office of Insurance Regulation