

Report on Examination
of
American Fidelity
Life Insurance Company
Pensacola, Florida
as of
December 31, 2014



**FLORIDA OFFICE OF
INSURANCE REGULATION**

David Altmaier, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

Dear Sir:

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, 2014. Our report on the examination follows.

Florida Office of Insurance Regulation
March 1, 2016

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SCOPE OF EXAMINATION

We have completed a financial condition examination of American Fidelity Life Insurance Company (the "Company"), a multi-state insurer domiciled in Florida. Our examination covered the period of January 1, 2010 through December 31, 2014. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2009.

We conducted our examination in accordance with the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform our examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as required by Section 642.319, Florida Statutes (F.S.) and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g.

subjective conclusions, proprietary information, etc.) are not included within the examination report but are separately communicated to other regulators and/or the company.

SUMMARY OF SIGNIFICANT FINDINGS

The Company's audit committee was not independent from the Company in accordance with Section 624.424(8)(c), F.S. This finding is discussed in more detail on page 3 *Corporate Records*. The Company did not notify the Office of changes amongst principal officers and directors within 45 days in accordance with Section 628.261, F.S. Additionally, the Company was not in compliance with SSAP No. 25 *Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* with regard to not meeting the arm's length transactions standard related to service fees charged to affiliates and terms of settlement within a Federal Income Tax agreement with affiliates. This finding is discussed in more detail on page 10 *Accounts and Records*.

Recommendations relating to these and other reported findings of the examination are summarized beginning on page 17.

COMPANY HISTORY

The Company was incorporated in Florida on September 5, 1956 and licensed by the Office as an insurer on September 13, 1956. It was authorized by the State of Florida to operate as an accident health, life, credit life, and group life and annuities insurer in accordance with Section 624.401, F.S.

Dividends and Capital Contributions

The Company distributed shareholder dividends in the amounts of \$3,063,000, \$2,000,000, \$2,000,000, \$1,891,000, and \$2,954,653 in years 2010 through 2014, respectively. The Company did not receive capital contributions during the period examined.

CORPORATE RECORDS

We reviewed the minutes of meetings held by the Company's shareholders and Board of Directors, and by its Executive and Finance committee. The Board's approval of Company transactions, including the authorization of its investments as required by Section 625.304, F.S., was recorded in the minutes of its meetings.

The Company's Audit Committee was not independent, did not maintain formal Audit Committee meeting minutes and there was no evidence in the Board of Director's meeting minutes of the Audit Committee's discussion of the audit results with the Board all violations of Section 624.424(8)(c), F.S. The Company's Audit Committee was composed of three members; an independent board member, an officer of the Company and a non-independent board member.

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

<u>Name</u>	<u>Title</u>
Jack B. Yancey	President
Carolyn B. Harrison	Treasurer, Secretary, Senior Vice President
Rita E. Enderson	Senior Vice President of Underwriting
Thomas M. Hull	Consulting Actuary

Board of Directors

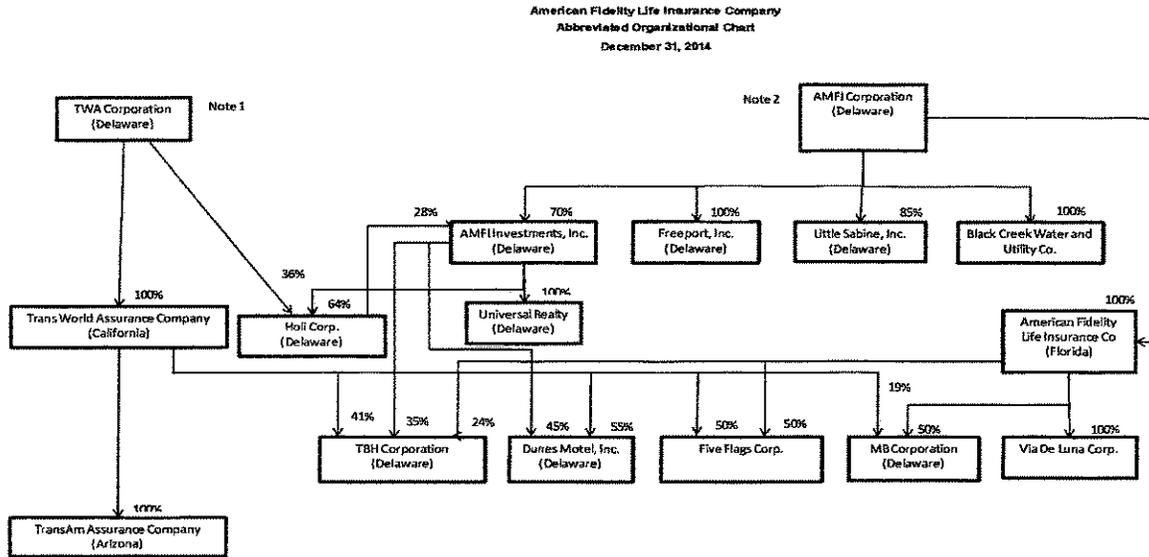
<u>Name</u>	<u>Location</u>
Rita E. Enderson	Pensacola, FL
Carolyn B. Harrison	Cantonment, FL
Marilyn W. Hess	Pensacola, FL
Thomas E. Mitchell	Bay Minette, AL
Jack B. Yancey	Pensacola, FL

Committees of the Board

<u>Executive & Finance Committee</u>	<u>Audit Committee</u>
Carolyn B. Harrison	Marilyn W. Hess
Marilyn W. Hess	Thomas E. Mitchell
	Jack B. Yancey

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida on March 30, 2016.

An abbreviated organizational chart reflecting a holding company system is shown below:



Note 1: TWA Corporation ownership by affiliated entities (rounded)
 8% American Fidelity Life Ins. Co.
 2% Five Flags Corporation
 2% TBH Corporation
 2% TransAm Assurance
 2% AMFI Corporation

Note 2: AMFI Corporation ownership by affiliated entities (rounded)
 20% Trans World Assurance Company
 5% TBH Corp.
 5% Dunes Motel, Inc.
 3% Little Sabine, Inc.
 1% Universal Realty
 1% AMFI Investments Corp.
 1% Five Flags Corp.
 1% MB Corp.
 1% TransAm Assurance Company

Policy Issuance Agreements

The Company provided underwriting, policy preparation, policyholder service, premium billing and payment upon receipt, bookkeeping, claims, and other accounting functions to Trans World Assurance Company, an affiliated entity. The agreement was entered into on October 1, 2012 and superseded a previous agreement dated March 1, 1997. Fees for services provided by the Company were \$5 for each paying policy in-force per year and fees were due on the last day of each quarter.

The Company provided underwriting, policyholder service, premium billing and payment upon receipt, claims, and other accounting functions to Trans Am Assurance Company, an affiliated entity. The agreement was entered into on December 16, 2010 and superseded a previous agreement dated November 27, 1985. Fees for the services provided by the Company were \$5 for each paying policy in-force per year and fees were due on the last day of each quarter.

Federal Income Tax Agreement

The Company entered into a Federal Income Tax agreement with its parent, AMFI Corporation, on April 20, 1987 to file a consolidated federal income tax return with AMFI Corporation and other affiliated entities in the AMFI Corporation group. The agreement provided for the allocation of consolidated income tax liability among members of the group based on separate taxable income.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage of \$1,000,000 with a deductible of \$50,000, which adequately provided for the suggested minimum amount of coverage for the Company, as recommended by the NAIC, of \$900,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered health, life, and dental plans to eligible employees. It did not provide a pension plan or post-retirement plan.

TERRITORY AND PLAN OF OPERATION

The Company marketed ordinary life, universal life, group life, and annuities through licensed agents. It was authorized to transact insurance in all U.S. states except New York and Vermont. It was also authorized in the District of Columbia, Guam, Japan, South Korea, and the Philippines. The Company marketed its products through a general agent system of licensed and appointed agents.

COMPANY GROWTH

The Company reported the following for years 2010 through 2014:

(In millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Premiums	\$ 13.5	\$ 13.1	\$ 11.6	\$ 11.1	\$ 10.6
Total revenues	\$ 30.4	\$ 31.1	\$ 29.3	\$ 28.4	\$ 26.8
Net income (loss)	\$ 3.3	\$ 2.9	\$ 6.0	\$ 4.1	\$ (2.3)
Stockholder dividends	\$ 3.1	\$ 2.0	\$ 2.0	\$ 1.9	\$ 3.0
Admitted assets	\$ 460.7	\$ 455.9	\$ 450.5	\$ 445.7	\$ 433.1
Liabilities	\$ 390.0	\$ 385.6	\$ 380.5	\$ 373.9	\$ 365.0
Capital and surplus	\$ 70.7	\$ 70.3	\$ 70.0	\$ 71.8	\$ 68.1

REINSURANCE

The Company assumed and ceded reinsurance pursuant to multiple agreements, effective December 19, 1963, August 1, 1986 and September 1, 2009, with Trans World Assurance Company, an affiliate, on a coinsurance basis. Effective February 8, 1966, the Company entered into a reinsurance agreement with Prudential Insurance Company of America, the administrator of the Servicemen's Group Life Insurance program, the Company was assessed a percentage of the risks assumed under the group policy.

ACCOUNTS AND RECORDS

The examination was unable to determine the Company's compliance with the NAIC's Insurance Holding Company System Regulatory Act; whether or not AMFI Corporation and TWA Corporation had an ultimate controlling person or group of persons; and the total percentage of common ownership between AMFI Corporation and TWA Corporation. The Company cited confidentiality as a basis for not providing pertinent information to assist the examiners in determining the ultimate controlling person or group of persons in direct violation of Section 624.82(3), F.S.

The Company maintained an IT service and Third Party Administrative (TPA) Services Agreements with an unaffiliated provider. Affiliated companies, Trans World and Trans Am, were parties to the IT services and TPA agreement. The Company did not provide evidence to support the allocation/direct charge of service fees paid by affiliates were in compliance with SSAP No. 25 arm's length transaction standards.

The Company, as of December 31, 2014, had not submitted a written anti-fraud policy to the Division of Insurance Fraud in accordance with Section 626.9891(2) F.S. During the examination, the Company filed its written anti-fraud plan with the Division of Insurance Fraud, resolving the finding and no additional recommendations were included in the report herein.

The Company, as of December 31, 2014, did not maintain a formal written anti-money laundering ("AML") plan. Subsequent to the examination period, the Company executed a formal AML plan. Upon review of the AML plan no evidence of the following anti-money laundering plan components were identified: a formal risk assessment performed in order to base internal controls on; independent testing of the program; the Company's Board was charged with the responsibilities of compliance with the AML program as opposed to an individual officer; and the duties of the Board or person designated to assure day-to-day compliance were vague.

The Company maintained Policy Issuance agreements with affiliated entities Trans World Assurance Company ("Trans World") and Trans Am Assurance Company ("Trans Am"). The \$5 service fee to be paid by Trans World and Trans Am to the Company for policy issuance and maintenance services was on a per policy per year basis. The agreements indicated that such fee shall be based on historical cost study averages, unless current analysis justifies its modification. It was noted the \$5 service fee had not changed since 1985 and it was unknown by the Company

when the last cost study was performed. Based on a review of similar industry service fees, it was determined the \$5 per policy per year service fee was unreasonable and did not meet the arm's length transaction standards set forth by SSAP No. 25.

The Company maintained a Federal Income Tax ("FIT") agreement with its parent AMFI Corporation ("Parent") and other affiliated entities to file a consolidated tax return. The agreement did not contain the following terms; the agreement did not address how tax service fees were to be paid by the parties; an external CPA firm provided tax services to the Company and its affiliates under the agreement; the agreement did not include a settlement provision with a specified due date; and fees for such services were not allocated to the various entities receiving the benefit of said services and were paid directly by the Company, and as a result was not in compliance with SSAP No. 25.

The Company did not disclose Five Flags Bank, Inc., a bank holding company, and Five Flags Bank Inc.'s affiliated banks; the Warrington Bank, Bank of the South, and Bank of Pensacola ("Banks"), and associated transactions as affiliates on the holding company registration statement per Section 628.801 F.S. Five Flags Bank, Inc. met the definition of an affiliate per Section 624.10, F.S., and SSAP No. 25 based on the following: the Company and affiliates in the AMFI Corporation group owned 14.8% of Five Flags Bank, Inc.; and the Banks, the Company and its affiliates shared common board members. Additionally, a relative of the Company's founder, member of the Company's and its affiliated boards, was a Director/Vice President of the Warrington Bank. The Company is a participating lender in three (3) mortgage loans with Trans World and the various Banks. Finally, the common stock in Five Flags Bank, Inc. was incorrectly classified on the Annual Statement's Schedule D as a non-affiliated common stock.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with other jurisdictions as required:

Holder	Description	Par Value	Market Value
Florida	U.S. Treasury Notes	\$ 1,550,000	\$ 1,702,766
Total Florida deposits		1,550,000	1,702,766
Georgia	U.S. Treasury Note	60,000	65,798
New Mexico	U.S. Treasury Note	100,000	110,118
North Carolina	U.S. Treasury Note	500,000	548,320
Virginia	U.S. Treasury Note	80,000	88,094
Guam	Certificate of Deposit	50,160	50,160
Japan	Certificate of Deposit	101,794	101,794
Korea	Certificate of Deposit	21,114	21,114
Total deposits		\$ 2,463,068	\$ 2,688,164

American Fidelity Life Insurance Company
Admitted Assets
December 31, 2014

Admitted Assets	As Reported	Examination Adjustments	Per Examination
Bonds	\$320,827,458	\$ -	\$320,827,458
Common stocks	26,069,098	-	26,069,098
Mortgage Loans, First liens	38,492,241	-	38,492,241
Properties held for the production of income	11,229,655	-	11,229,655
Properties held for sale	16,698,784	-	16,698,784
Cash, cash equivalents and short-term investments	8,260,623	-	8,260,623
Contract loans	4,330,461	-	4,330,461
Other invested assets	410,000	-	410,000
	<hr/> 426,318,320	-	426,318,320
Investment income due and accrued	5,177,924	-	5,177,924
Uncollected premiums and agents' balances	50,085	-	50,085
Deferred premium and agents' balances	1,524,897	-	1,524,897
Amounts recoverable from reinsurers	21,174	-	21,174
Aggregate write-ins for other than invested assets	21,121	-	21,121
Total admitted assets	<hr/> \$433,113,521	\$ -	\$433,113,521 <hr/>

American Fidelity Life Insurance Company
Liabilities, Capital and Surplus
December 31, 2014

Liabilities	As Reported	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$107,009,379	\$ -	\$107,009,379
Liability for deposit-type contracts	242,748,278	-	242,748,278
Contract claims - life	1,484,408	-	1,484,408
Dividends not yet apportioned for payment	61,177	-	61,177
Premiums and annuity considerations received in advance	6,935	-	6,935
Interest maintenance reserve	208,247	-	208,247
Commissions to agents due or accrued	20,243	-	20,243
General expenses due or accrued	59,020	-	59,020
Taxes, licenses and fees due or accrued	70,199	-	70,199
Net deferred tax liability	1,796,085	-	1,796,085
Amounts withheld or retained	2,765,009	-	2,765,009
Remittances and items not allocated	3,757,429	-	3,757,429
Asset valuation reserve	4,981,338	-	4,981,338
Aggregate write-ins for liabilities	124	-	124
Total liabilities	364,967,871	-	364,967,871
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	63,156,280	-	63,156,280
Total capital and surplus	68,145,650	-	68,145,650
Total liabilities, capital and surplus	\$433,113,521	\$ -	\$433,113,521

American Fidelity Life Insurance Company
Summary of Operations
(As Reported By The Company)
Year Ended December 31, 2014

Premiums and annuity considerations for life and accident and health contracts	\$ 10,573,042
Net investment income	16,206,353
Amortization of interest maintenance reserve	55,529
Commissions and expense allowances on reinsurance ceded	5,385
Aggregate write-ins for miscellaneous income	1,517
Total revenues	26,841,826
<hr/>	
Death benefits	5,784,582
Annuity benefits	2,667,715
Surrender benefits and withdrawals for life contracts	2,417,720
Group conversion	(597)
Interest and adjustments on contract or deposit-type contract funds	9,420,777
Increase (decrease) in aggregate reserves for life and accident and health contracts	(946,646)
	19,343,551
<hr/>	
Commissions on premiums, annuity considerations and deposit-type contract funds	472,369
Commissions and expense allowances on reinsurance assumed	997
General insurance expenses	4,193,886
Insurance taxes, licenses and fees	432,399
Increase (decrease) in loading on deferred and uncollect premiums	(161,559)
	24,281,643
<hr/>	
Income before income taxes and net realized capital gains	2,560,183
Dividends to Policyholders	55,488
Federal and foreign income taxes	192,000
Net realized capital gains (losses)	(4,624,936)
Net income (loss)	\$ (2,312,241)

American Fidelity Life Insurance Company
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2014

Capital and surplus - December 31, 2009	\$ 71,488,811
Net income (loss)	3,310,771
Change in net unrealized capital gains (losses)	599,299
Change in net deferred income tax	(230,124)
Change in nonadmitted assets	506,931
Change in asset valuation reserve	(1,922,138)
Dividends to stockholders	(3,063,000)
<hr/>	
Capital and surplus - December 31, 2010	70,690,550
Net income (loss)	2,875,819
Change in net unrealized capital gains (losses)	(1,589,478)
Change in net deferred income tax	(254,203)
Change in nonadmitted assets	266,951
Change in asset valuation reserve	277,607
Dividends to stockholders	(2,000,000)
<hr/>	
Capital and surplus - December 31, 2011	70,267,246
Net income (loss)	5,979,705
Change in net unrealized capital gains (losses)	329,020
Change in unrealized foreign exchange capital gain (loss)	40,453
Change in net deferred income tax	(294,001)
Change in nonadmitted assets	298,106
Change in asset valuation reserve	(1,092,972)
Dividends to stockholders	(2,000,000)
Aggregate write-ins for gains and losses in surplus	(3,555,784)
<hr/>	
Capital and surplus - December 31, 2012	69,971,773
Net income (loss)	4,124,184
Change in net unrealized capital gains (losses)	2,461,804
Change in unrealized foreign exchange capital gain (loss)	(24,786)
Change in net deferred income tax	(486,969)
Change in nonadmitted assets	2,058
Change in reserve on account of change in valuation basis	(1,004,481)
Change in asset valuation reserve	(1,392,566)
Dividends to stockholders	(1,891,000)
Aggregate write-ins for gains and losses in surplus	83,917
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Capital and surplus - December 31, 2013	71,843,934
Net income (loss)	(2,312,241)
Change in net unrealized capital gains (losses)	(346,651)
Change in unrealized foreign exchange capital gain (loss)	(13,873)
Change in net deferred income tax	(85,047)
Change in nonadmitted assets	(738,537)
Change in asset valuation reserve	2,048,738
Dividends to stockholders	(2,954,653)
Aggregate write-ins for gains and losses in surplus	703,980
<hr/>	
	68,145,650
Examination adjustments	-
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Capital and surplus - December 31, 2014	\$ 68,145,650

American Fidelity Life Insurance Company
Comparative Analysis of Changes in Capital and Surplus
December 31, 2014

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

Capital and surplus, December 31, 2014 - as reported		\$ 68,145,650
	As	Per
	Reported	Examination
		Increase (Decrease) In Capital & Surplus
Total admitted assets	\$433,113,521	\$433,113,521
Total liabilities	\$364,967,871	\$364,967,871
Net change in capital and surplus		-
Capital and surplus, December 31, 2014 - per examination		\$ 68,145,650

SUMMARY OF RECOMMENDATIONS

As reported on page 3, the Company did not maintain an independent audit committee or maintain formal evidence or meeting minutes of the Board's review of the financial statement audit, audit findings, and discussions with the audit committee in accordance with Section 624.424(8)(c), F.S. **We recommend the Company maintain formal meeting minutes of the audit committee and of the Board's review of the financial statement audit in accordance with Section 624.424(8)(c), F.S.**

As reported on page 2, the Company did not notify the Office of changes amongst principal officers and directors within 45 days in accordance with Section 628.261, F.S. **We recommend the Company report any changes amongst principal officers and directors within 45 days in accordance with Section 628.261, F.S.**

As reported on page 9, the Company did not maintain a formal anti-money laundering plan. Subsequent to the examination period, the Company executed a formal AML plan; however, no formal evidence of aforementioned plan components was identified. **We recommend the Company perform independent testing of the program, designate which members of the Board or which officer is responsible for the program and clearly state the officer's duties of the program. We recommend the Company clearly document how often training, risk assessments, and independent testing of the program will be performed, who is responsible for such tasks, and procedures for performing such tasks.**

As reported on page 9, the Company's per policy fee for policy issuance and maintenance services provided to Trans World and Trans Am was determined unreasonable and did not meet the arm's length transaction standards set forth by SSAP No. 25. Additionally, the agreements

were vague regarding whether the \$5 policy fee was to be paid \$5 per policy, per quarter or \$5 per policy, per year. **We recommend the Company perform a costs analysis to ensure the service fee is fair and reasonable. Additionally, we recommend the Company amend the Policy Issuance agreements to clearly state the administrative service fee shall be charged on a per policy per year basis and is to be paid quarterly.**

As reported on page 10, the Company's FIT agreement was not in compliance with SSAP No. 25. **We recommend the Company amend its FIT agreement to reflect how tax service fees are to be paid by entities subject to the FIT agreement and to amend the agreement to include a settlement provision in compliance with SSAP No. 25. Additionally, we recommend the Company investigate other expenses, including time of employees, that may be expensed in providing services to other entities in the group and ensure the expenses are being allocated accordingly.**

As reported on page 10, the Company did not disclose Five Flags Bank, Inc., the Banks, and related transactions as an affiliate and affiliated transactions on the holding company registration statements per Section 628.801, F.S. **We recommend the Company disclose Five Flags Bank Inc., aforementioned Banks, and related transactions on the Company's holding company registration statement. Additionally, we recommend Five Flags Bank Inc. common stock be classified as affiliated common stock on the Annual Statement's Schedule D.**

SUBSEQUENT EVENT

Subsequent to the examination period, the Company invested in a 51% ownership share in a new affiliated entity, TTN, Inc., which is co-owned with other affiliates of the Company. TTN Inc. was incorporated in the State of Delaware and filed with the State of Florida on January 7, 2015. TTN Inc. shares common board members and officers with the Company.

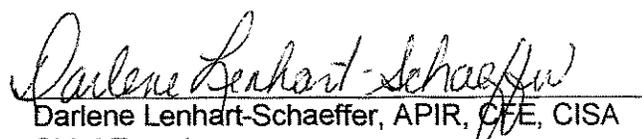
CONCLUSION

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 consistent with the insurance laws of the State of Florida.

At December 31, 2014, the Company's capital and surplus was \$68,145,650 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, the following individuals participated in the examination: Luke Stavenau, Financial Specialist; Kerry Krantz, Actuary; Thomas Ciavarella, Actuary, and Carr, Riggs and Ingram, LLC.

Respectfully submitted,


Darlene Lenhart-Schaeffer, APIR, CFE, CISA
Chief Examiner
Florida Office of Insurance Regulation