



MISSISSIPPI INSURANCE DEPARTMENT

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MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

MARK HAIRE  
Deputy Commissioner of Insurance

RICKY DAVIS  
State Chief Deputy Fire Marshal

July 5, 2016

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

Mr. Leland Martin, President  
American Federated Life Insurance Company  
406 Liberty Park Court  
Building A, Suite B  
Flowood, MS 39232

**RE: Report of Examination as of December 31, 2014**

Dear Mr. Martin:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY  
COMMISSIONER OF INSURANCE

BY

  
Christina J. Kelsey  
Senior Attorney

MC/CJK/bs  
Encls. Order w/exhibit



## **FINDINGS OF FACT**

### **III.**

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for an examination of American Federated Life Insurance Company and appointed Kim Strong, Examiner-In-Charge, to conduct said examination.

### **IV.**

That on or about May 5, 2016, the draft Report of Examination concerning American Federated Life Insurance Company for the period of January 1, 2011 through December 31, 2014, was submitted to the Department by the Examiner-In-Charge, Kim Strong.

### **V.**

That on or about May 20, 2016, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period to submit any rebuttal to the draft report. The Company responded in a letter on or about June 8, 2016.

## **CONCLUSIONS OF LAW**

### **VI.**

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

**IT IS, THEREFORE, ORDERED**, after reviewing the Report of Examination, the written submission, and all relevant examiner work papers, that the Report of Examination of American Federated Life Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

**IT IS FURTHER ORDERED** that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, American Federated Life Insurance Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

**IT IS FURTHER ORDERED** that American Federated Life Insurance Company take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

**SO ORDERED**, this the 23<sup>rd</sup> day of June 2016.



  
J. MARK HAIRE  
DEPUTY COMMISSIONER OF INSURANCE  
STATE OF MISSISSIPPI

**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 5<sup>th</sup> day of July 2016, to:

**Mr. Leland Martin, President  
American Federated Life Insurance Company  
406 Liberty Park Court  
Building A, Suite B  
Flowood, MS 39232**

  
\_\_\_\_\_  
Christina J. Kelsey  
Senior Attorney

Christina J. Kelsey  
Senior Attorney  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 9853



**MISSISSIPPI INSURANCE DEPARTMENT**

**Report of Examination**

**of**

**AMERICAN FEDERATED LIFE  
INSURANCE COMPANY**

**as of**

**December 31, 2014**

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**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND  
PROCEDURES USED IN AN EXAMINATION**

State of Mississippi,  
County of Madison,

Kimberly Strong, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of American Federated Life Insurance Company as of December 31, 2014.
2. The Mississippi Insurance Department 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 the American Federated Life Insurance Company was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.

Kimberly Strong  
Kimberly Strong, CPA, CFE  
Examiner-in-Charge

Subscribed and sworn before me by Kimberly Strong on this 19<sup>th</sup> day of May, 2014.

(SEAL)   
Elaine H. Manuel  
Notary Public

My commission expires 10/1/2017 [date].



**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**MARK HAIRE**  
Deputy Commissioner of  
Insurance

**MISSISSIPPI INSURANCE DEPARTMENT**

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FAX: (601) 576-2568

April 18, 2016

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building  
501 North West Street  
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted as of December 31, 2014, of the affairs and financial condition of:

**AMERICAN FEDERATED LIFE INSURANCE COMPANY**

406 Liberty Park Court  
Flowood, MS 39232

License #	NAIC Group #	NAIC #	FEETS#	MATS#
8200016	0641	98736	98736-MS-2014-3	MS099-M1

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 *et seq.* and was performed in Flowood, Mississippi, at the statutory home office of the Company. The report of examination is herewith submitted.

## **SCOPE OF EXAMINATION**

We have performed a full scope, risk-focused financial examination of American Federated Life Insurance Company (“Company” or “AFLIC”). The last examination covered the period of January 1, 2008, through December 31, 2010. This examination covers the period January 1, 2011, through December 31, 2014.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the 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 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 separately communicated to other regulators and/or the Company.

## **COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION**

The comment and recommendation included in the previous examination report was addressed by the Company in a manner deemed acceptable by the Mississippi Insurance Department (“MID”).

## **HISTORY OF THE COMPANY**

AFLIC was incorporated in February 1983 as a life, accident and health insurer under the laws of the state of Mississippi with 1,000,000 shares of \$1 par value common stock authorized and 200,000 shares issued. In June 1994 and April 2006, the Company’s board of directors (“Board”) issued an additional 200,000 shares of \$1 par value common stock. In December 2012, the Board declared a common stock dividend of the remaining 400,000 authorized shares.

## **CORPORATE RECORDS**

The minutes of the meetings of the Board, prepared during the period under examination, were reviewed along with the Articles of Incorporation and Bylaws, along with any amendments thereto.

Based on the review of the Board meeting minutes, it is recommended that the minutes of these meetings reflect the following:

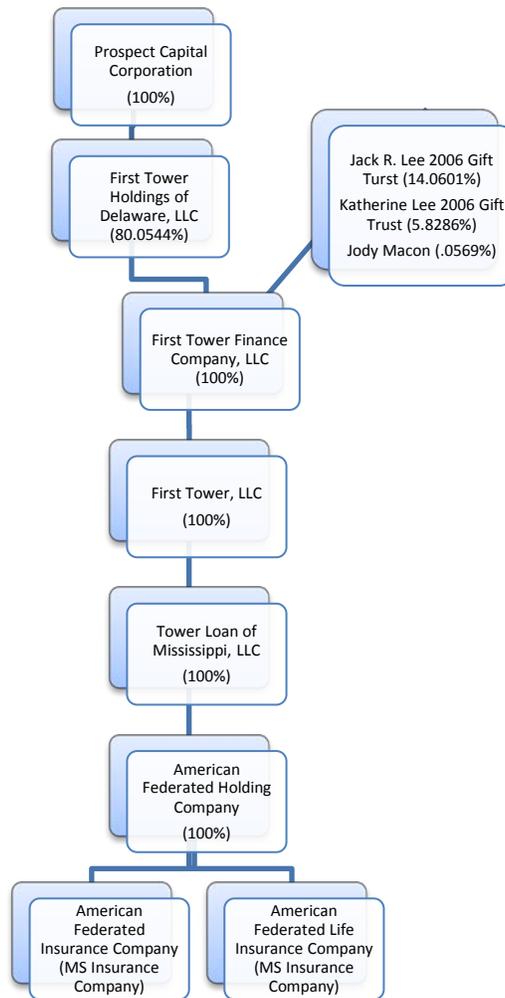
- The minutes of the Board did not provide evidence that the engagement of the actuary had been presented to the Board on an annual basis as required by the NAIC *Annual Statement Instructions*. It is recommended that the Board implement policies and procedures to ensure that the engagement of the actuary is presented to and reviewed by the Board on an annual basis in accordance with NAIC *Annual Statement Instructions*.
- The minutes of the Board did not include that the actuarial opinion and asset adequacy memorandum had been presented to the Board on an annual basis in compliance with NAIC *Annual Statement Instructions*. It is recommended that the Board implement policies and procedures to ensure the actuarial opinion and asset adequacy memorandum are presented to and reviewed by the Board on an annual basis in accordance with NAIC *Annual Statement Instructions*.

## **HOLDING COMPANY STRUCTURE**

The Company is a member of an insurance holding company system as defined in Miss. Code Ann. §83-6-1. Holding Company Registration Statements were filed during the examination period with the MID in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9. The statements and applicable amendments were reviewed, and it appeared that any changes and material transactions by and between the Company and its affiliates were disclosed appropriately.

The following chart depicts the Company's ownership as of December 31, 2014:

## Organizational Chart



### Parent and Affiliated Companies

The organizational chart above denotes the direct line of ownership of the Company. See Schedule Y – Part 1 of the Annual Statement for the complete organizational chart.

**Prospect Capital Corporation (“Prospect” or “Parent”):** On June 15, 2012, Prospect acquired an 80.0544% majority interest in First Tower Finance Company, LLC (f/k/a First Tower Holdings, LLC, f/k/a First Tower Corporation), and its subsidiaries, through its wholly-owned subsidiary, First Tower Holdings of Delaware, LLC.

Prospect is a publically-traded, closed-end investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940. Prospect

invests primarily in first and second-lien senior loans and mezzanine debt and provides capital to middle-market companies and private equity financial sponsors for refinancing, leveraged buyouts, acquisitions, recapitalizations, later-stage growth investments and capital expenditures.

**First Tower Holdings of Delaware, LLC (“FT Delaware”):** FT Delaware is a wholly-owned subsidiary of Prospect. FT Delaware operates as a holding company which owns 80.0544 % of First Tower Finance Company, LLC.

**First Tower Finance Company, LLC (“FT Finance”):** FT Finance is owned 80.0544% by FT Delaware and 19.8887% by the Jack R. Lee and Katherine Lee Gift Trusts. FT Delaware and the Jack R. Lee and Katherine Lee Gift Trusts are Class A (voting) members with one Class B (non-voting) member owning .0569%. FT Finance operates as a holding company which wholly-owns First Tower, LLC.

On June 24, 2014, an amendment form was submitted to the Mississippi Secretary of State’s Office changing the legal name of the limited liability company from First Tower Holdings, LLC to First Tower Finance Company, LLC. It was noted that Schedule Y – Part 1 of the December 31, 2014, Annual Statement still reflected the Company’s previous legal name. It is recommended that the Company include the actual legal name of all affiliated entities, as of the related year end, in the organizational chart on Schedule Y – Part 1 of the Annual Statement.

**First Tower, LLC (“FT”):** FT is wholly-owned by FT Finance and is engaged in consumer lending and related insurance activities through its wholly-owned subsidiaries, Tower Loan of Mississippi, LLC, Tower Loan of Illinois, LLC, First Tower Loan, LLC, Gulfco of Mississippi, LLC, Gulfco of Alabama, LLC, Gulfco of Louisiana, LLC, Tower Loan of Missouri, LLC, and Tower Auto Loan, LLC.

**Tower Loan of Mississippi, LLC (“TL of MS”):** TL of MS is wholly-owned by First Tower and is engaged in consumer lending in the states of Mississippi and Louisiana. TL of MS provides insurance services through its wholly-owned subsidiary, American Federated Holding Company.

**American Federated Holding Company (“AFHC”):** AFHC is wholly-owned by TL of MS and acts as an insurance holding company for two insurance subsidiaries, the Company and American Federated Insurance Company (“AFIC”).

**American Federated Insurance Company (“AFIC”):** AFIC is wholly-owned by AFHC. AFIC provides credit property insurance on consumer loans issued by consumer finance subsidiaries of TL of MS.

### **Related Party Transactions**

Premiums: Premiums are collected for credit life and accident and health insurance at each of the consumer finance branch offices and remitted by TL of MS to the Company on a monthly

basis. At December 31, 2014, the Company reported a receivable from parent, subsidiaries and affiliates in the amount of \$1,656,426 related to premiums owed for December.

Claims: Upon submission of appropriate claim documentation and proof of loss, the Company pays claims to affiliated consumer finance branch offices to be applied to the insured's outstanding loan balances.

Dividends: Prior to June 15, 2012, dividends based on premium income were paid to the Company's then parent company, First Tower Corporation, in lieu of commissions. During the period under examination, the Company paid dividends in the amounts of \$5,019,964 during 2011 and \$1,994,086 during 2012. On June 15, 2012, the Company executed a commission agreement with FT and its subsidiaries as opposed to paying dividends.

#### Administrative Expense Allocation Agreement between AFIC and AFLIC:

The Company was party to an expense allocation agreement amended January 1, 2013. Pursuant to this agreement, certain shared expenses are initially paid out of AFIC and subsequently reimbursed to AFIC by AFLIC. At December 31, 2014, the amounts payable to AFIC pursuant to this agreement was \$31,577. The agreement dictates that payment by AFLIC to AFIC of the monthly expense allocation will occur by the end of the month following the monthly expenses incurred by the Company.

It was noted that the amounts payable pursuant to the Administrative Expense Allocation Agreement between AFIC and AFLIC was reported as General expenses due or accrued on page 3 of the December 31, 2014, Annual Statement. It is recommended that the Company report amounts payable in conjunction with the Administrative Expense Allocation Agreement between AFIC and AFLIC as Payable to parent, subsidiary and affiliates in compliance with NAIC *Annual Statement Instructions*.

#### General and Administrative Expense Allocation Agreement with FT and its Subsidiaries:

Effective June 15, 2012, the Company entered into a General and Administrative Expense Allocation Agreement with FT and each of its wholly-owned subsidiaries. Pursuant to this agreement, FT will prepare monthly a calculation of general and administrative expenses and the pro rata share to be allocated to the Company based on the ratio of the Company's total revenues in any calendar month to the total revenue generated in any calendar month by each of FT's finance company subsidiaries. The Company is required to remit payment within fifteen (15) days after receiving a monthly statement from FT. At December 31, 2014, amounts payable pursuant to this agreement were \$149,311.

It was noted that the amounts payable pursuant to the General and Administrative Allocation Agreement with FT and its subsidiaries was reported as General expenses due or accrued on page 3 of the December 31, 2014, Annual Statement. It is recommended that the Company report amounts payable in conjunction with the General and Administrative Expense Allocation Agreement as Payable to parent, subsidiary and affiliates in compliance with NAIC *Annual*

*Statement Instructions.*

Commission Agreement with FT and its Subsidiaries:

Effective June 15, 2012, the Company entered into a Commission Agreement with FT and each of its wholly-owned finance company subsidiaries. Pursuant to this agreement, once the Company has received all premiums for any given month, the Company shall calculate the commissions due to each of the finance company subsidiaries and shall remit any commissions owed no later than the last day of the month following the month in which the commissions are earned. Commissions paid shall be reasonable and shall be equal to a percentage of the premium of each insurance policy written but shall be no higher than the maximum rate permitted under the applicable state statute. At December 31, 2014, amounts payable pursuant to this agreement were \$689,805.

The consumer finance operating subsidiaries of FT agree to assist the Company to ensure that the proper licenses are maintained for all finance company employees authorized to place insurance policies and that such persons are appropriately appointed in accordance with applicable laws.

It was noted that the amounts payable pursuant to the Commissions Agreement with FT and its subsidiaries were reported as commissions payable on page 3 of the December 31, 2014, Annual Statement. It is recommended that the Company report amounts payable in conjunction with the Commission Agreement with FT and its subsidiaries as Payable to parent, subsidiary and affiliates in compliance with NAIC *Annual Statement Instructions*.

**MANAGEMENT AND CONTROL**

**Board of Directors**

The Articles of Association and Bylaws vest the management and control of the Company's business affairs with the Board. The members of the duly elected Board, along with their place of residence, year appointed as a Director, and principal occupation, at December 31 2014, were as follows:

Name and Residence	Year Elected/Appointed	Principal Occupation
Francis Clark Lee Brandon, Mississippi	1995	Secretary/Treasurer American Federated Insurance Co.
James Leland Martin, Jr. Jackson, Mississippi	2000	President American Federated Insurance Co.
Cheryl Posey Taggart Birmingham, Alabama	2009	Vice President – Director of Accounting American Federated Insurance Co.

**Officers**

The officers duly elected by the Board and holding office at December 31, 2014, are as follows:

Name and Residence	Year Elected/Appointed	Title
James Leland Martin, Jr.	2000	President
Francis Clark Lee	1995	Secretary/Treasurer
Cheryl Posey Taggart	2009	Vice President

### **Conflict of Interest**

The Company had formal procedures whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with the official duties of such persons. The statements were reviewed, and no conflicts or exceptions to the Company's policies were noted.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained a commercial insurance policy for employee theft with a limit of \$500,000. This amount meets the NAIC suggested minimum fidelity coverage for a company of its size. The Company also maintained an insurance program that appeared to provide adequate coverage to protect it from hazards that it may encounter.

The Company had additional types of coverage in-force at December 31, 2014, including, but not limited to, directors and officers, excess liability and excess financial products insurance.

### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company's employees have the opportunity to participate in a qualified defined contribution plan that is sponsored by an affiliate. In addition to pension benefits, an affiliate provides certain health and dental benefits.

### **REINSURANCE**

Effective January 1, 2013, the Company terminated its quota share reinsurance agreement with Munich American Reassurance Company ("MARC"). Under the terms of this agreement, the Company ceded 40% of its credit accident and health in force business to MARC. This agreement contained an experience refund addendum that resulted in favorable adjustment to the reinsurance premiums if certain underwriting results were achieved on the reinsured business during the experience period.

As of the examination date, the Company had a small number of policies written prior to prior to January 1, 2013, that will remain under treaty until expired or refunded.

## **TERRITORY AND PLAN OF OPERATION**

The Company provides credit life and accident and health insurance on consumer loans issued by consumer finance operating subsidiaries of FT. The Company's customer base is comprised of mostly individuals unable to secure loans through conventional lending channels. The loans are fully collateralized and average \$1,800 with an average life of eighteen (18) months (average term at loan issuance is twenty-four (24) months).

The Company markets its products exclusively through the consumer financial branches of the FT. FT owns several consumer finance companies with over two hundred (200) branches throughout Alabama, Louisiana, Illinois, Mississippi and Missouri.

As of December 31, 2014, the Company was authorized to write the following lines of business in the state of Mississippi:

Accident and health  
Credit life, credit accident and health

Life

## **GROWTH OF COMPANY**

The review of the growth of the Company was performed based on balances as reported in the annual statements filed with the MID during the period under examination.

	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Change in surplus	\$ 1,921,891	\$ 1,796,056	\$ (289,508)	\$ 456,274
Ratio of premiums to capital and surplus	1.49 to 1	1.82 to 1	2.10 to 1	1.91 to 1
Ratio of assets to liabilities	1.50 to 1	1.44 to 1	1.37 to 1	1.42 to 1
Ratio of revenues to expenses	1.14 to 1	1.09 to 1	1.25 to 1	2.50 to 1
Cash flows from operations	\$ 4,004,236	\$ 4,187,049	\$ 2,910,056	\$ 6,368,670
Net income (loss)	\$ 1,867,446	\$ 1,310,223	\$ 1,750,218	\$ 5,446,705

## **ACCOUNTS AND RECORDS**

The Company's 2014 trial balance was tied to the financial statements within the statutory annual statement filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm and its Aggregate reserve for life and accident and health contracts and contract claims liabilities were reviewed by an consulting actuary who issued an actuarial opinion for each of the years under examination.

The Company utilized internally developed software, Progress, to manage policies, process claims and prepare certain financial information. FT maintains an IT department that

encompassed a hardware and software technology group, branch application support group and quality assurance group.

The Company was licensed as a single-line insurance company pursuant to Miss. Code Ann. § 83-19-31(a), which required the Company to maintain a minimum capital of \$400,000 and surplus of \$600,000. Pursuant to Miss. Code Ann. § 83-5-55, the Company was required to file an NAIC Life and Health Annual Statement. The Company was also required to file a risk-based capital (RBC) report pursuant to Miss. Code Ann. § 83-5-401 through § 83-5-427.

### **STATUTORY DEPOSITS**

The Company's statutory deposits with the state of Mississippi complied with Miss. Code Ann. §83-19-31(2) and §83-7-21. The following chart displays the Company's deposits at December 31, 2014:

<b>Description of Security</b>	<b>Par Value</b>	<b>Fair Value</b>
Fannie Mae Note	\$ 105,000	\$ 106,303
US Treasury Note	1,405,000	1,414,727
Total	<u>\$ 1,510,000</u>	<u>\$ 1,520,575</u>

## **FINANCIAL STATEMENTS**

### **Introduction**

The financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2014, a Summary of Operations for year ended December 31, 2014, and a Reconciliation of Capital and Surplus for the examination period ended December 31, 2014.

The following financial statements are based on the statutory financial statements filed by the Company with the Mississippi Insurance Department and present the financial condition of the Company for the period ending December 31, 2014.

**Statement of Assets, Liabilities, Surplus and Other Funds  
December 31, 2014**

<b>Assets</b>	
Bonds	\$ 21,565,011
Cash and short-term investments	4,823,607
Investment income due and accrued	216,674
Reinsurance: funds held by or deposited with reinsured companies	950,791
Reinsurance: other amounts receivable under reinsurance contracts	230,674
Net deferred tax asset	550,429
Electronic data processing equipment and software	351
Receivables from parent, subsidiaries and affiliates	1,656,426
<b>Total assets</b>	<b>29,993,963</b>
<b>Liabilities, Capital and Surplus</b>	
Aggregate reserve for life contracts	\$ 8,706,591
Aggregate reserve for accident and health contracts	9,455,533
Contract claims: life	456,750
Contract claims: accident and health	249,123
Interest maintenance reserve	30,058
Commissions payable	689,805
General expenses due or accrued	200,345
Taxes, licenses, fees, and other expenses due or accrued	115,859
Federal income taxes due and accrued	10,248
Asset valuation reserve	77,293
Funds held under coinsurance	10,562
<b>Total liabilities</b>	<b>20,002,167</b>
Common capital stock, \$1 par value; 1,000,000 shares authorized, issued and outstanding	1,000,000
Gross paid in and contributed surplus	300,000
Unassigned funds (surplus)	8,691,796
<b>Total capital and surplus</b>	<b>9,991,796</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 29,993,963</b>

**Summary of Operations**  
**For the Examination Period Ended December 31, 2014**

<b>Revenue</b>	
Premiums and annuity considerations for life and accident and health contracts	\$ 14,844,619
Net investment income	536,057
Amortization of interest maintenance reserve	45,596
Aggregate write-ins for miscellaneous income	9,413
<hr/>	
Total revenues	15,435,685
<hr/>	
<b>Expenses</b>	
Death benefits	\$ 2,502,377
Disability benefits and benefits under accident and health contracts	1,327,767
Increase in aggregate reserves for life and health contracts	1,555,261
Commissions	6,010,608
General insurance expenses	1,846,898
Insurance taxes, licenses and fees, excluding federal income taxes	483,539
Aggregate write-ins for deductions	(181,294)
<hr/>	
Total benefits and expenses	13,545,156
<hr/>	
Federal and foreign income taxes incurred	10,248
<hr/>	
Net realized capital losses	(12,835)
<hr/>	
Net income	\$ 1,867,446
<hr/>	

**Reconciliation of Capital and Surplus  
For the Examination Period Ended December 31, 2014**

	2014	2013	2012	2011
Capital and surplus, December 31, prior year	\$ 8,069,905	\$ 6,273,849	\$ 6,563,357	\$ 6,107,083
Net income	1,867,446	1,310,223	1,750,218	5,446,705
Change in net deferred income tax	60,266	490,163	(47,041)	-
Change in non-admitted assets	2,143	1,654	2,162	33,240
Change in asset valuation reserve	(7,964)	(5,984)	(761)	(3,707)
Capital changes: transferred to capital (stock dividend)	-	-	400,000	-
Surplus adjustment: transferred to capital (stock dividend)	-	-	(400,000)	-
Dividends to stockholders	-	-	(1,994,086)	(5,019,964)
Capital and surplus, December 31, current year	<u>\$ 9,991,796</u>	<u>\$ 8,069,905</u>	<u>\$ 6,273,849</u>	<u>\$ 6,563,357</u>

## **MARKET CONDUCT ACTIVITIES**

A full market conduct examination was not conducted; however, specific areas of the market conduct activities were reviewed. The specific areas reviewed included those items as indicated below. No significant exceptions with regard to limited procedures performed were noted.

### **Policyholder Service**

The Company maintained a complaint log during the period under examination. All complaints appeared to have been appropriately resolved and no policyholder abuse was noted.

### **Underwriting and Rating**

The Company appeared to be appropriately applying premium rates for insured policies based on application data.

It appeared that all applicable policy forms had been appropriately approved by the MID.

### **Claims Handling**

Claim files were reviewed for general indicators of policyholder treatment concerns noting no material exceptions.

### **Producer Licensing**

The Company appeared to have the appropriate licensure to issue its products, and agents appeared to be properly licensed and appointed.

### **Privacy**

Privacy notices were sent to the Company's policyholders annually which appeared to be in compliance with applicable laws and standards.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

Procedures performed during the course of the examination revealed no pending litigation, commitments or other contingent liabilities to which the Company was a party.

## **COMMENTS AND RECOMMENDATIONS**

The following comments and recommendations reflect findings as of the examination date.

1. It is recommended that the Board implement policies and procedures to ensure that the engagement of the actuary is presented to and reviewed by the Board on an annual basis in accordance with NAIC *Annual Statement Instructions*. (Page 4)
2. It is recommended that the Board implement policies and procedures to ensure the actuarial opinion and asset adequacy memorandum are presented to and reviewed by the Board on an annual basis in accordance with NAIC *Annual Statement Instructions*. (Page 4)
3. It is recommended that the Company include the actual legal name of all affiliated entities, as of the related year end, in the organizational chart on Schedule Y – Part 1 of the Annual Statement. (Page 6)
4. It is recommended that the Company report amounts payable in conjunction with the Administrative Expense Allocation Agreement between AFIC and AFLIC as Payable to parent, subsidiary and affiliates in compliance with NAIC *Annual Statement Instructions*. (Page 7)
5. It is recommended that the Company report amounts payable in conjunction with the General and Administrative Expense Allocation Agreement as Payable to parent, subsidiary and affiliates in compliance with NAIC *Annual Statement Instructions*. (Page 7)
6. It is recommended that the Company report amounts payable in conjunction with the Commission Agreement with FT and its subsidiaries as Payable to parent, subsidiary and affiliates in compliance with NAIC *Annual Statement Instructions*. (Page 8)

## ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

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The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Kimberly Strong, CPA, CFE  
Examiner-in-charge