



**EXAMINATION REPORT
OF
American Fidelity Life Insurance Company**

NAIC Company Code: 60429

**Pensacola, Florida
as of
December 31, 2019**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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April 30, 2021

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners ("the NAIC"), we have conducted an examination as of December 31, 2019, of the financial condition and corporate affairs of

American Fidelity Life Insurance Company

500 S. Palafox St., Suite 200
Pensacola, FL 32502

hereinafter referred to as "the Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2015 through December 31, 2019 and the fieldwork commenced with planning with the Florida Office of Insurance Regulation (“the Office”) on October 2, 2020. The fieldwork concluded as of April 30, 2021. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2010 through December 31, 2014

The examination was a multi-state/coordinated holding company group examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (“the Handbook”). The Handbook requires that the examination be planned and performed 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. The lead state for this exam was Florida, and the state that participated in this exam was California.

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 the NAIC Statements of Statutory Accounting Principles (“SSAP”). 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 information obtained from the examination of the records, accounts, files and documents of or relative to the Company and other information as permitted by Section 624.319, Florida Statutes. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The following is a summary of significant findings of fact including material adverse findings, significant non-compliance findings, such as non-compliance with state law(s), SSAPs, or material changes in the financial statements.

The Company did not report their Subsidiary, Controlled and Affiliated (SCA) investment valuations within the 2019 Annual Financial Statement pursuant to SSAP No. 97, 8c(iii), Sub-2 Valuation method, subject to certain limitations and restrictions, utilized by the NAIC Investment Analysis Office (NIAO). The Company did not provide sufficient documents needed to verify the amount reported. As a result, the Company overstated the amount reported by \$7,080,894. This amount is greater than 10% of the Company's Capital and Surplus for 2019 and is considered a material adjustment. An examination adjustment is shown in the Company's financial statements.

Subsequent Event: On May 4, 2021, the 2019 Sub-2 Filings from the NIAO were received by the Office. Based on valuations determined by the NIAO, the overstated amount of was \$7,228,379 at December 31, 2019. There is a minimal difference between the NIAO overstatement and the one determined by the examination. Since the Company should be amending its financial statements with the NIAO valuations pursuant to SSAP No.3, the examination adjustment reflects the over \$7,228,379 overstatement.

The examination was unable to determine the Company's compliance with the NAIC's Insurance Holding Company System Regulatory Act. The total percentage of common ownership for the Company's Parent Company, AMFI Corporation ("AMFI") could not be established. This was a prior examination finding, with the 2014 Exam Report noting the Company cited confidentiality as a basis for not providing information on whether AMFI has an ultimate controlling person or group of persons. The withholding of this information is in violation of Section 624.318(2) Florida Statutes.

The Company maintained a Policy Issuance agreement with an affiliated entity Trans World Assurance Company ("TWA"). On April 1, 2019 a new agreement was made, superseding the

previous October 1, 2017 agreement and all amendments, and setting the service fee to \$11. Based on the lack of clarity of the amended agreement terms, the settlement terms of the agreement did not meet the arm's length transaction standards set by SSAP No. 25. Refer to additional details provided later within the Holding Company System section.

Previous Examination Findings

The following is an update on other significant regulatory information disclosed in the previous examination.

The 2014 examination found the Company's Audit Committee was not independent from the Company in accordance with Section 624.424(8)(c), F.S. Additionally, the Company did not maintain formal Audit Committee meetings minutes and there was no evidence in the Board of Directors' meeting minutes of the Audit Committee's discussion of the audit results with the Board all are violations of Section 624.424(8)(c), F.S. Section 624.424(8)(c), F.S. states that the Audit Committee shall be comprised of members who are free from any relationship that, in the opinion of its board of directors, would interfere with the exercise of independent judgment as a committee member. During the current examination it was noted there is one independent member and it is the opinion of the Board of Directors that the members of the Audit Committee, being members of the board and company management, are not impaired in their judgment. The review of the Audit Committee meeting minutes provided evidence that the Audit Committee received a review of the external auditors audit results.

It was noted during the prior examination 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. During the current examination period there was a change in the Treasurer position. The Office was notified of the change.

The 2014 examination found the Company was not in compliance with SSAP No. 25 Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties with regards to not meeting arm's length transactions standard related to service fees charged to affiliates and

terms of settlement within a Federal Income Tax agreement with affiliates. Review of the current Federal Income Tax agreement found that the recommended agreement provisions were added through an amendment dated March 1, 2016, specifically related to Cash Settlements and Cost Allocation.

It was noted during the prior examination 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. Company subsequently submitted an anti-fraud policy and the finding was resolved. The current examination reviewed a contract between the Company and Brumell Investigations, Inc. dba Brumell Group, effective July 15, 2018, who was contracted to provide Fraud Consulting Services and Special Investigation Unit services in accordance and compliance with state specific requirements.

The 2014 examination found the Company, as of December 31, 2014, did not maintain a formal written anti-money laundering ("AML") plan. Subsequent to the end the 2014 examination, 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 based internal controls on; independent testing of the program; the Company's Board member charged with the responsibilities of compliance with the AML program as opposed to an individual officer; and the duties of the Board or person designed to assure day-to-day compliance were vague. A review was made of the current AML plan and found the designation of the Senior Vice-President of Underwriting and a Director of AMFI were charged with the responsibility of compliance with the terms and provisions of the AML plan. The Enterprise Risk Management program, which includes a formal risk assessment and an independent testing of the plan, was performed.

It was noted during the prior examination 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. 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, Inc. was incorrectly classified on the Annual Statements Schedule D as a non-affiliated common stock. During the current examination a review of the 2019 Holding Company Registration Statement noted Five Flags Bank, Inc. within the organization chart and the 2019 NAIC Annual Statement notes the common stock in Five Flags, Inc. was correctly classified as affiliated common stock.

COMPANY HISTORY

General

The Company was incorporated in Florida on September 5, 1956 and commenced business on September 13, 1956.

Dividends

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2015, 2016, 2017, 2018 and 2019 in the amounts of \$2,883,000, \$2,250,000, \$2,900,520, \$1,663,135 and \$675,000, respectively.

Capital Stock and Capital Contributions

As of December 31, 2019, the Company's capitalization was as follows:

Number of authorized common capital shares	4,834,374
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
Par value per share	\$1.00

There were no capital contributions during the period under examination.

Surplus Notes

The Company did not have or issue any surplus notes during the period under examination.

Acquisitions, Mergers, Disposals, Dissolutions

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance, during the period under examination

MANAGEMENT AND CONTROL

Corporate Governance

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2019, are shown below:

Directors		
Name	City, State	Principal Occupation, Company Name
Rita E. Enderson ⁽¹⁾	Pensacola, Florida	Vice President, Underwriting American Fidelity Life Insurance Company
Carolyn B. Harrison	Pensacola, Florida	Retired
Marilyn W. Hess	Pensacola, Florida	President, AMFI Corp./Vice-President American Fidelity Life Insurance Company
Thomas E. Mitchell	Bay Minette, Alabama	President, Stuart Contracting Company, Inc.
Jack B. Yancey	Pensacola, Florida	President, American Fidelity Life Insurance Company

⁽¹⁾ The April 13, 2021 shareholder election of Directors noted Rita Enderson was not reelected and Vicki W. Webb was elected.

In accordance with the Company's Bylaws, the Board appointed the following Senior Officers:

Senior Officers		
Name	City, State	Title
Jack B. Yancey	Pensacola, Florida	President
Marilyn W. Hess	Pensacola, Florida	Vice President
Rita E. Enderson ⁽¹⁾	Pensacola, Florida	Vice President Underwriting
Carolyn R. Pugh	Pensacola, Florida	Treasurer
Vicki W. Webb	Pensacola, Florida	Secretary

⁽¹⁾ The Board of Directors' reelection of officers on January 25, 2021 did not show Rita E. Enderson being reelected.

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2019. The first person listed for each committee is the chairperson.

Executive & Finance Committee		
Name	City, State	Title, Company Name
Marilyn W. Hess	Pensacola, Florida	Vice-President American Fidelity Life Insurance Company
Carolyn R. Pugh	Pensacola, Florida	Treasurer
Jack B. Yancey	Pensacola, Florida	President, American Fidelity Life Insurance Company

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

Audit Committee		
Name	City, State	Title, Company Name
Rita E. Enderson ⁽²⁾	Pensacola, Florida	Vice President, Underwriting American Fidelity Life Insurance Company
Thomas E. Mitchell	Bay Minette, Alabama	President, Stuart Contracting Company, Inc.
Jack B. Yancey ⁽¹⁾	Pensacola, Florida	President, American Fidelity Life Insurance Company

⁽¹⁾ Jack Yancey was removed from the Audit Committee effective January 4, 2021 and replaced by Carolyn B. Harrison

Enterprise Risk Management Committee		
Name	City, State	Title, Company Name
Rita E. Enderson ⁽²⁾	Pensacola, Florida	Vice President, Underwriting American Fidelity Life Insurance Company
James Brammer	Pensacola, Florida	Chief Information Officer Bank of the South
Marilyn W. Hess	Pensacola, Florida	Vice-President American Fidelity Life Insurance Company
Carolyn R. Pugh	Pensacola, Florida	Treasurer
Vicki W. Webb	Pensacola, Florida	Secretary
Jack B. Yancey	Pensacola, Florida	President, American Fidelity Life Insurance Company

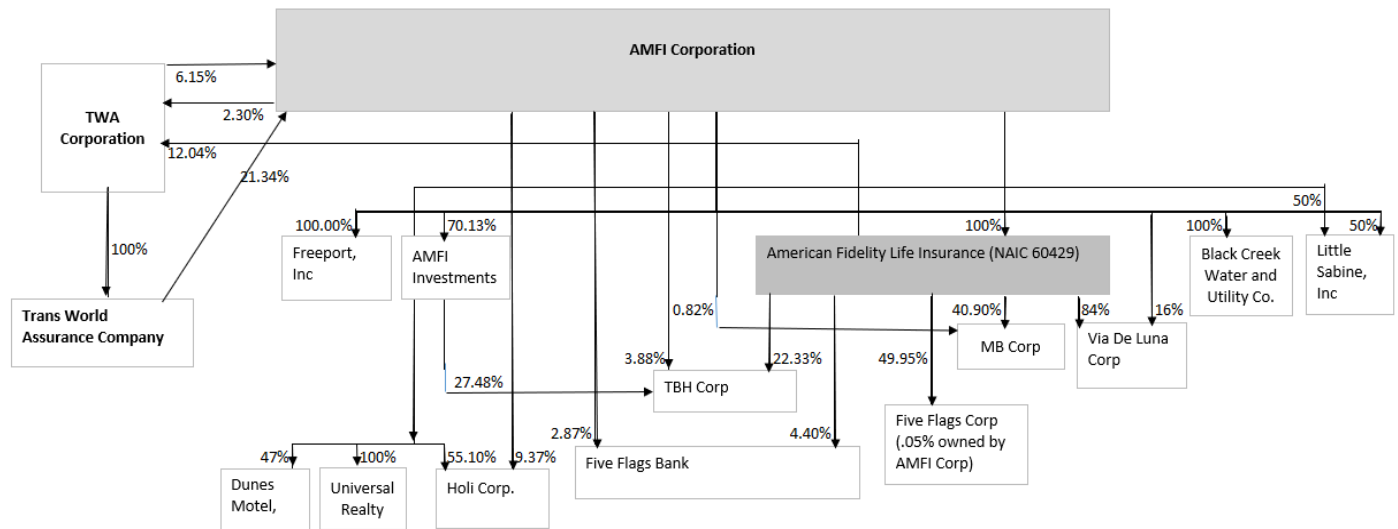
⁽²⁾ No other changes were noted upon review of the 2020 – 2021 Board of Directors' meeting minutes that reflected changes to the members of Board Committees, although Rita Enderson was not reelected as a Director or Officer.

Holding Company System

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 April 2, 2020.

A simplified organizational chart as of December 31, 2019, reflecting the holding company system, is shown. Schedule Y of the Company's 2019 annual statement provided a list of all related companies of the holding company group.

American Fidelity Life Insurance Company
Simplified Organizational Chart
December 31, 2019



The following agreements were in effect between the Company and its affiliates:

Federal Income Tax Agreement

The Company, along with its parent, AMFI Corp, filed a consolidated federal income tax return. On December 31, 2019, the method of allocation between the Company and AMFI Corp was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with AMFI Corp. Cash settlements were due no later than each December 15, following the filing of the tax return. Overpayment made by the Company would be applied to the Company's next taxable year.

Policy Issuance / Maintenance Agreement

The Company entered into a Policy Issuance/Maintenance Agreement, effective March 1, 1997, with subsequent amendments, with its affiliate Trans World Assurance Company (TWA). Under

the terms of the agreement, the Company provided services which included policy issuance, claims administration, accounting, investments, premium collection, data processing and financial reporting. In return, TWA paid a fee based on the number of in-force policies to Company.

On April 1, 2019 a new agreement was made, superseding the previous agreement and all amendments. Under this agreement, the Company provided facilities and personnel for the processing of certain functions in connection with the insurance business to be conducted by TWA, such as, underwriting, policy preparation, policyholder service, premium billing and payment upon receipt, bookkeeping, claims and other accounting functions. The agreement is to continue in force for a term of five (5) years, unless otherwise modified or terminated within the guidelines of the agreement. The management fee charged TWA was increased from \$ 9.00 to \$11.00 for each paying policy in force at the end of each quarter as recorded on the TWA in-force inventory run. Payment was due on the last business day of each quarter. If payment was not made within 90 days of the due date, 6% interest will be charged on the full amount due. The quarterly amounts paid by TWA to the Company were based on the in-force inventory run at the end of each quarter, but were calculated at an annual, instead of quarterly, rate of \$ 11. According to the agreement, the fee was based on historical cost study averages unless analysis justified its modification. The fees charged for the years 2015 through 2018 were just over \$ 10 annually per in-force policy. Based on the lack of clarity of the amended agreement terms, the settlement of amounts outstanding did not meet the arm's length transaction standards set by SSAP No. 25. For services provided, TWA paid the Company in the years 2015, 2016, 2017, 2018, and 2019; \$105,047, \$176,971, \$163,417, \$151,798, and \$166,924, respectively.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Pensacola, Florida. The Company and non-affiliates had the following material agreements:

Third Party Administrative Services Agreement

The Company entered into a Third Party Administrative Services Agreement with Actuarial Management Resources, Inc. ("AMR"), effective January 1, 2010. Services provided are standard insurance administrative services required for the administration and processing of Life, Annuity and Accident and Health policies issued, assumed or otherwise obtained through indemnity reinsurance obligations acquired by the Company, including all Universal Life for both the Company and Trans World Assurance Company. Compensation was based the number of policies in force at the end of each month times the monthly per policy fee, New business/issue \$10.00 and an In-Force policy maintenance \$1.30 (\$1.15 if policies are issued by the Company), subject to a \$5,000 minimum.

Client Service Agreement

The Company entered into a Client Service Agreement with Landrum Professional Employer Services, Inc. IV ("Landrum"), to provided Landrum professional employees, effective March 30, 2007. Landrum assumes responsibility for the payment of wages, payroll taxes and collection of taxes from payroll to jobsite employees. The Company is invoiced by Landrum after each payroll period. Invoices are due upon receipt.

Safekeeping Agency Agreement

The Company maintained a Safekeeping Agency Agreement with Wells Fargo Bank, N.A. executed on July 12, 2010. The agreement did not comply with Rule 69O-143.042, Florida Administrative Code. The agreement was missing language addressing some of the custodian's responsibilities including notification to the office. **Subsequent Event:** Prior to the end of fieldwork an updated and fully executed Safekeeping Agency Agreement was received.

Independent Auditor Agreement

An independent CPA, Carr, Riggs & Ingram, LLC audited the Company's statutory basis financial statements for the year 2019. For the years 2018, 2017, 2016 and 2015 the Company's statutory basis financial statements were audited by Lambert & Lanza CPAs P.A., in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

Corporate Records Review

The recorded minutes of the Shareholder(s), Board of Directors (Board) and the Audit Committee and Executive and Finance Committee were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments, as required by Section 625.304, Florida Statutes.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in all U.S. states except New York and Vermont. The Company was also authorized in the District of Columbia, Guam, Japan, South Korea and the Philippines. The ten highest premium volume states included:

State	Premium	State	Premium
Texas	\$ 2,149,590	Georgia	\$ 274,050
Florida	\$ 946,166	Pennsylvania	\$ 248,704
California	\$ 703,469	Virginia	\$ 233,452
North Carolina	\$ 466,210	Arizona	\$ 142,849
Ohio	\$ 308,700	Illinois	\$ 131,324

The Company was authorized to transact insurance in Florida on September 13, 1956 and is currently authorized for the following lines of business as of December 31, 2019:

Accident and Health
Group Life and Annuities
Life
Credit Life

The Company primarily writes ordinary, universal and group life and annuities policies in the states and countries where it is licensed or eligible.

REINSURANCE

The Company and TWA are parties to three reciprocal coinsurance agreements under which certain life policies and riders issued by the parties are automatically coinsured 50 percent in excess of each company's retention.

The coinsurance agreements that were effective December 19, 1963 and December 27, 1972 both cover ordinary life and limited payment life or endowment policies. The Company's retention under these two agreements was originally \$20,000 and then increased to \$35,000 on March 1, 1982 through December 31, 1997. The third coinsurance agreement that was effective August

1, 1986 covers Annual Renewable Term and Guaranteed Insurability Option Riders. Retention under this treaty was \$50,000 through December 31, 1997. Effective January 1, 1998, the retention for the three aforementioned coinsurance agreement was increased to \$75,000.

Effective September 1, 2009, the Company entered into a Yearly Renewable Term Coinsurance Agreement with TWA whereby the Company and TWA agreed to assume and cede universal life policies. The amount reinsured is 50% of the net amount at risk not to exceed \$75,000.

Reinsurance Assumed

The Company assumed risk through a reinsurance agreement effective September 29, 1965, with The Prudential Insurance Company of America. Prudential Insurance Company of America ceded insurance under Group Insurance Policy No. G-32000 issued to the Administrator of Veterans' Affairs in accordance with the Servicemen's Group Life Insurance provisions of sub-chapter III of chapter 19 of title 38, United States Code, to the Company.

Reinsurance Ceded

Other than the coinsurance agreements noted above the Company had no ceded reinsurance.

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds and Summary of Operations for the year ended December 31, 2019. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2019. (Note: Due to rounding, column amounts may not add to the totals reflected in this Report.)

American Fidelity Life Insurance Company
Assets
December 31, 2019

	Per Company	Examination Adjustments	Per Examination
Bonds	\$289,976,451		\$289,976,451
Stocks			
Common	31,757,882	(7,228,379)	24,529,503
Mortgage loans on real estate			
First liens	31,163,468		31,163,468
Real Estate			
Properties held for the production of income	12,047,773		12,047,773
Properties held for sale	14,489,115		14,489,115
Cash, cash equivalents and short-term investments	5,962,439		5,962,439
Contract loans	2,976,666		2,976,666
Other invested assets	6,387,524		6,387,524
Subtotal cash and invested assets	\$394,761,318		\$394,761,318
Investment income due and accrued	4,848,715		4,848,715
Premiums and considerations			
Uncollected premiums and agents' balances	36,492		36,492
Deferred premiums and agents' balances	1,466,580		1,466,580
Amounts recoverable from reinsurer	7,500		7,500
Totals	\$401,120,605	\$(7,228,379)	\$393,892,226

American Fidelity Life Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2019

	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$104,821,683		\$104,821,683
Liability for deposit-type contracts	207,698,413		207,698,413
Contract claims life	1,109,812		1,109,812
Policyholders' dividends and refunds to members not yet apportioned	34,041		34,041
Premiums and annuity considerations for life and accident and health contracts received in advance	8,665		8,665
Commissions to agents due or accrued-life and annuity contracts	92,641		92,641
General expenses due or accrued	21,548		21,548
Taxes, licenses and fees due or accrued	65,091		65,091
Net deferred tax liability	3,007,562		3,007,562
Amounts withheld or retained by reporting entity as agent or trustee	1,204,443		1,204,443
Remittances and items not allocated	1,318,077		1,318,077
Asset valuation reserve	12,830,021		12,830,021
Aggregate write-ins for other liabilities	997		997
Total liabilities	\$332,212,995		\$332,212,995
Common capital stock	2,500,000		2,500,000
Gross paid-in and contributed surplus	2,489,370		2,489,370
Unassigned funds (surplus)	63,918,240		63,918,240
Total capital and surplus	\$68,907,610	\$(7,228,379)	\$61,679,231
Total liabilities, capital and surplus	\$401,120,605	\$(7,228,379)	\$393,892,226

American Fidelity Life Insurance Company
Summary of Operations
December 31, 2019

	Per Company	Examination Adjustments	Per Examination
Premiums and annuity considerations for life and accident and health contracts	\$9,438,809		\$9,438,809
Net investment income	14,510,497		14,510,497
Amortization of Interest Maintenance Reserve	80,916		80,916
Commissions and expense allowances on reinsurance ceded	3,997		3,997
Aggregate write-ins for miscellaneous income	1,518		1,518
Total revenues	\$24,035,737		\$24,035,737
Death benefits	4,280,702		4,280,702
Annuity benefits	2,820,932		2,820,932
Surrender benefits and withdrawals for life contracts	1,708,797		1,708,797
Group conversions	(842)		(842)
Interest and adjustments on contract or deposit-type contract funds	7,905,897		7,905,897
Increase in aggregate reserves for life and accident and health contracts	(762,466)		(762,466)
Subtotal	\$15,953,020		\$15,953,020
Commissions on premiums, annuity considerations and deposit-type contract funds	307,105		307,105
Commissions and expense allowances on reinsurance assumed	674		674
General insurance expenses	4,055,366		4,055,366
Insurance taxes, licenses and fees	457,613		457,613
Increase in loading on deferred and uncollected premiums	(48,477)		(48,477)
Aggregate write-ins for deductions	2		2
Totals	\$20,725,304		\$20,725,304
Net gain from operations before dividend to policyholders, refunds to members and federal income taxes	3,310,433		3,310,433
Dividends to policyholders and refunds to members	29,033		29,033

Net gain from operations after dividends to policyholders, refunds to members and before federal income taxes	3,281,400		3,281,400
Federal and foreign income taxes incurred	631,341		631,341
Net gain from operations after dividends to policyholders, refunds to members and federal income taxes.	2,650,059		2,650,059
Net realized capital losses	(4,561)		(4,561)
Net Income	\$2,645,498		\$2,645,498

	Per Company	Examination Adjustments	Per Examination
Analysis of Changes in Surplus			
Capital and surplus prior reporting year	\$68,560,651		\$68,560,651
Net Income	\$2,645,498		\$2,645,498
Change in net unrealized capital gains (losses) less capital gains tax	4,443,404		4,443,404
Change in unrealized foreign exchange capital gain	987		987
Change in net deferred income tax	(1,835,310)		(1,835,310)
Change in nonadmitted assets	425,149		425,149
Change in asset valuation reserve	(4,647,770)		(4,647,770)
Dividends to stockholders	(675,000)		(675,000)
Net change in capital and surplus	\$346,959		\$346,959
Capital and surplus end of reporting year	\$68,907,610	\$(7,228,379)	\$61,679,231

American Fidelity Life Insurance Company
Reconciliation of Capital and Surplus
December 31, 2019

Capital/Surplus Change during Examination Period			
Capital and Surplus at December 31, 2014, per Examination			\$68,145,650
	Increase	Decrease	
Net Income	\$13,475,870		\$13,475,870
Change in net unrealized capital gain (loss)	\$4,192,517		\$4,192,517
Change in net unrealized foreign exchange capital gain (loss)	\$10,296		\$10,296
Change in net deferred income tax		\$1,211,476	\$(1,211,476)
Change in non-admitted assets	\$1,903,526		\$1,903,526
Change in asset valuation		\$7,848,683	\$(7,848,683)
Dividends to stockholders		\$10,371,655	\$(10,371,655)
Aggregate write-ins for gains and losses in surplus	\$611,565		\$611,565
Net increase (or decrease)			\$761,960
Examination adjustment			\$(7,228,379)
Capital and Surplus at December 31, 2019 per Examination			\$61,679,231

American Fidelity Life Insurance Company
Analysis of Changes in Financial Statement Resulting from the Examination
December 31, 2019

Analysis of Changes in Capital and Surplus			
Reported Capital and Surplus as of December 31, 2019			\$68,904,610
	Increase	Decrease	
AS Line 2.2 Common stock		\$7,228,379	\$(7,228,379)
Net increase (decrease)		\$7,228,379	\$(7,228,379)
Adjusted Capital and Surplus as of December 31, 2019			\$61,679,231

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Thomas M. Hull, FSA, MAAA, Actuarial Management Resources, Inc., appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2019, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Lisa Parker, ASA, MAAA, Risk & Regulatory Consulting LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and she was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$68,907,610, exceeded the minimum of \$13,054,205 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Florida Office of Insurance Regulation has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Office continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

SUMMARY OF RECOMMENDATIONS

The Company did not report their Subsidiary, Controlled and Affiliated (SCA) investment valuations within the 2019 Annual Financial Statement pursuant to SSAP No. 97, 8c(iii), Sub-2 Valuation method, subject to certain limitations and restrictions, utilized by the NAIC Investment Analysis Office (NIAO). The Company did not provide sufficient documents needed to verify the amount reported. As a result, the Company overstated the amount reported and an examination adjustment was reflected within the Financial Statements. This amount is greater than 10% of the Company's Capital and Surplus for 2019 and is considered a material adjustment. -

We recommend the Company file an amended financial statement pursuant to SSAP No. 3. The Company should also continue to work with the NAIC Investment Analysis Office Team to resolve the difference in reporting its affiliate SCA Investment valuations. It is recommended that the Company provide additional details regarding ownership percentages among the affiliates.

The examination was unable to determine the Company's compliance with the NAIC's Insurance Holding Company System Regulatory Act. The total percentage of common ownership for AMFI Corporation could not be established since it could not be determined whether or not AMFI had an ultimate controlling person or group of persons. The withholding of this information is in violation of Section 624.318(2) Florida Statute and is a recurring finding from the 2014 financial examination. **We recommend the Company provide all necessary information needed to make a determination of the ultimate controlling person, or group of persons, of the Company.**

The Company maintained a Policy Issuance agreement with an affiliated entity Trans World Assurance Company ("TWA"). The agreement was amended April 1, 2019 to increase the service

fee to \$11. In 2019 the payment was calculated on an annual basis and paid quarterly; however, the amended agreement did not provide clear contractual terms as to whether or not the fee should be calculated on an annual or quarterly basis. Consequently, the settlement terms of the agreement did not meet the arm's length transaction standards set by SSAP No. 25. **We recommend the Company amend the Policy Insurance / Maintenance agreement with Trans World Assurance Company to ensure all terms of the agreement are reasonable and clear.**

CONCLUSION

The 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, 2019, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, Darlene L. Lenhart-Schaeffer, CFE, CISA Examiner-in-Charge, Barry W. Lupus, CFE, CPA, CFE (Fraud) Participating Examiner, with Risk & Regulatory Consulting, LLC also participated in the examination. Members of the Office who participated in the examination included Margaret M. McCrary, CFE, CPA, MBA, Chief Financial Examiner, Examination Manager. Additionally, Lisa Parker, ASA, MAAA, Life & Health Actuary and Stephen Skenyon, CPA, CISA, IT Specialist with Risk & Regulatory Consulting, LLC, are recognized for participation in the examination.

Respectfully submitted,



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