

Report of Examination of the
Standard Life & Casualty Insurance Company

Salt Lake City, Utah
as of December 31, 2016

NAIC Company Code #71706

Presented to:



State of Utah
Insurance Department
Salt Lake City, Utah



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March 19, 2018

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to instructions and in compliance with the provisions of Utah Code Annotated (U.C.A.) §31A-2-204(6)(a), and the rules, regulations and provisions promulgated by the National Association of Insurance Commissioners (NAIC), an examination of the financial condition and business affairs has been conducted of:

Standard Life & Casualty Insurance Company
Salt Lake City, Utah

Hereinafter referred to as the "Company." The following report of examination is respectfully submitted.

SCOPE OF THE EXAMINATION

The last full-scope examination covered the period of January 1, 2011 through December 31, 2013. This examination covers the period of January 1, 2014 through December 31, 2016, and any material transactions and/or events occurring subsequent and noted during the examination.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (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 the Company'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 included 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 mentioned in U.C.A. §31A-2-204(6)(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

There were no significant findings noted in the prior examination.

CURRENT EXAMINATION

There are no significant findings to report in the current examination.

COMPANY HISTORY

The Company was initially incorporated as a South Carolina domiciled stock life insurance company on October 1, 1946, and commenced business on October 1, 1948. In 1980, the Company was acquired by American Investors Assurance Company. Effective September 29, 2001, the Company re-domesticated to Utah.

The Company is authorized to transact the following lines of business: Life, Accident & Health and Annuity. As of the examination date, the Company is licensed in twenty (20) states. The Company has been managed by the same ownership for the past 37 years.

DIVIDENDS AND CAPITAL CONTRIBUTIONS

During the examination period the Company paid the following dividends to stockholders

<u>Year</u>	<u>Amount</u>
2014	\$316,973
2015	\$245,000
2016	\$185,000

MERGERS AND ACQUISITIONS

There were no mergers or acquisitions during the examination period.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

The Company's bylaws indicated that the number of directors may not be less than three (3) or more than ten (10).

At December 31, 2016, and during the examination period, the following individuals served as directors of the Company:

Name and Location	Title and Principal Occupation
John Francis Piercey Holladay, Utah	Chairman of the Board, Vice President Standard Life & Casualty Insurance Company
John Bradley Piercey Bountiful, Utah	President/Chief Executive Officer Standard Life & Casualty Insurance Company
Kristen Piercey Holladay, Utah	Operations Manager Standard Life & Casualty Insurance Company
Clark Swofford Sandy, Utah	Secretary/Treasurer/CFO Standard Life & Casualty Insurance Company
Grant Mortensen Salt Lake City, Utah	Partner Oilmill Properties

The Company's bylaws provide for officers to consist of the Chairman, a President, one or more Vice Presidents, a Secretary, a Treasury, and at the discretion of the Board of Directors, one or more assistant secretaries and/or treasurers. The same person shall not occupy the offices of President and Secretary.

The officers of the Company as of December 31, 2016, were as follows:

Name	Title
John Francis Piercey	Chairman of the Board/Vice President
John Bradley Piercey	President/Chief Executive Officer
Clark Swofford	Secretary/Treasurer

Committees and the respective committee members of the Company as of December 31, 2016, were as follows:

Executive Committee	
John Francis Piercey	Chairman of the Board, Vice President
John Bradley Piercey	President/Chief Executive Officer
Kristen Piercey	Operations Manager

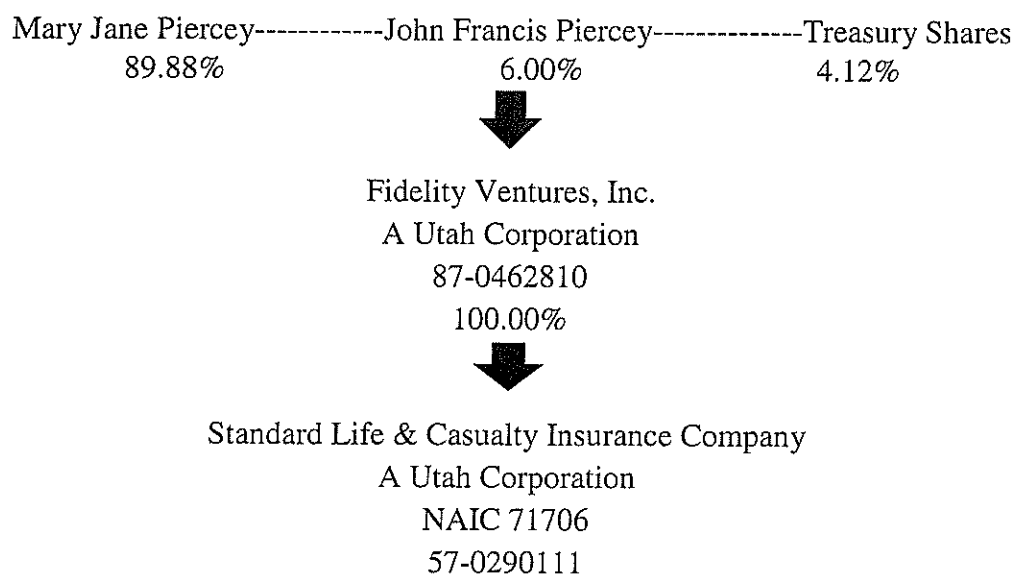
The whole board acts as the Audit Committee.

HOLDING COMPANY

The Company is a member of a Holding Company as defined in U.C.A § 31A-16. The Company is a wholly owned subsidiary of Fidelity Ventures, Inc., a Utah corporation owned by numerous trusts. Fidelity Ventures, Inc. does not engage in any business activities except holding the stock of the Company. On March 29, 2004 Fidelity Ventures, Inc. purchased 7,877 shares of the Company's outstanding stock at a price of \$25.39 per share, making an additional capital investment in the Company of \$199,997. In addition, on December 15, 2004 Fidelity Ventures, Inc. was issued an additional 8,586 shares of outstanding stock in exchanged for a rental property in St. George, Utah. The property was independently valued at \$218,000, thus making the value per share of stock at \$25.39.

HOLDING COMPANY ORGANIZATIONAL CHART

An organizational chart illustrating the holding company system follows:



TAX ALLOCATION AGREEMENT

The Company along with its parent, Fidelity Ventures, Inc. filed a consolidated federal income tax return, pursuant to a tax allocation agreement dated May 12, 2004. Pursuant to the Agreement, the tax returns shall be prepared under the direction of James Smith of Albuquerque, New Mexico, until the parties agree otherwise. All of the federal income taxes and the cost of preparation shall be paid by the Company.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Company was licensed in the following twenty (20) states:

Alabama	Indiana	Nevada	South Carolina
Arkansas	Kentucky	North Carolina	South Dakota
Colorado	Louisiana	North Dakota	Tennessee
Florida	Mississippi	Ohio	Texas
Georgia	Missouri	Oklahoma	Utah

REINSURANCE

ASSUMED

All assumed reinsurance agreements are in runoff status with no new business being written on the reinsurance agreements. A summary of all the agreements in runoff is as follows:

Effective July 1, 1970, the Company reinsured life policies for Cincinnati Life Insurance Company on an automatic coinsurance basis. Reinsurance was on an 80/20 percentage basis, with the Company assuming 20% of all risks under automatic cases.

Effective February 1, 1969, the Company provided reinsurance to Protective Life Insurance Company (Protective; formerly Consecos Variable Insurance Company) and Consecos Life Insurance Company (Consecos) on an automatic coinsurance basis. The Company coinsured 20% of the face amount of the life insurance written by Protective and Consecos. The business covered by the Company was split. Texas policies were placed with Consecos Life Insurance Company and all other policies were left in Consecos Variable Insurance Company.

Effective December 1, 1964, the Company provided reinsurance to Equitable Life and Casualty Insurance Company (Equitable) on an automatic coinsurance basis. Equitable retained \$10 per \$1,000 of insurance; 65% of the pro-rata gross premium; plus the commission on such pro-rata premium for its modified whole life policies insured for \$10,000.

Effective June 22, 1970, the Company provided reinsurance to Symetra Life Insurance Company (Symetra; formerly Safeco Life Insurance Company), on a yearly renewable term basis. The company retained 20% of the face amount of the life insurance written by Symetra.

CEDED

All ceded life business with reinsurance agreements effective prior to 1999 are in a runoff status, with no new life business being written on those reinsurance agreements.

Effective August 1, 2013, the Company entered into a new medical excess reinsurance agreement with Westport Insurance Corporation, a Swiss Re company, through Summit Re. In relation to short-term medical, the Company retains \$200,000 of losses, and Westport Insurance Corporation covers all losses above \$200,000. The Company retains \$125,000 and cedes losses in excess of \$125,000, as related to Plans B, C and D. The aggregate reinsurance limitation for each covered person per agreement period and lifetime is \$2,000,000.

In 2017, the Company entered into four (4) reinsurance agreements on the life insurance block. See "Subsequent Events" for more details.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments on financial statements (if any) reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Please note that failure of any of the following items to add to the totals shown is due to rounding.

Standard Life & Casualty Insurance Company
Balance Sheet (Assets)
December 31, 2016

	2016
Bonds	18,480,309
Mortgage loans on real estates – First liens	3,063,107
Properties held for production of income	1,475,773
Cash	622,519
Contract loans	1,182,523
Other invested assets	91,641
Aggregate write-ins for invested assets	36,121
Subtotals, cash and invested assets	<u>24,951,994</u>
Investment income due and accrued	217,147
Uncollected premiums and agents' balances in the course of collection	80,720
Deferred premiums and agents' balances and installments booked but earned but unbilled premiums	3,710,422
Current federal and foreign income tax recoverable and interest thereon	192,219
Net deferred tax asset	399,695
Electronic data processing equipment and software	7,470
Total assets	<u><u>29,559,667</u></u>

Standard Life & Casualty Insurance Company
Balance Sheet (Liabilities, Surplus, and Other Funds)
December 31, 2016

	2016
Liabilities, Surplus, and Other Funds	
Aggregated reserve for life contracts	23,474,028
Aggregate reserve for accident and health contracts	178,456
Liability for deposit-type contracts	1,188,420
Contract claims: Life	259,487
Contract claims: accident and health	254,164
Dividend not yet apportioned	14,107
Amount provisionally held for deferred dividend policies	7,951
Premiums and annuity considerations for life and health contracts received in advance	22,815
Interest maintenance reserve	90,274
Commissions and expense allowances payable on reinsurance assumed	18,708
General expenses due or accrued	85,884
Taxes, licenses and fees due or accrued, excluding federal income taxes	70,000
Amounts withheld or retained by company as agent or trustee	26,723
Remittances and items not allocated	95,236
Miscellaneous liabilities: Asset valuation reserve	106,173
Aggregate write-ins for liabilities	22,690
Total liabilities	25,915,115
Surplus	
Common capital stock	1,627,500
Gross paid in and contributed surplus	1,078,818
Unassigned funds (surplus)	938,234
Total capital and surplus	3,644,552
Total Liabilities, Surplus, and Other Funds	29,559,667

Standard Life & Casualty Insurance Company
Statement of Income
December 31, 2016

	2016
Revenues	
Premiums and annuity considerations for life and accident and health contracts	12,225,785
Net investment income	985,878
Amortization of interest maintenance reserve (IMR)	15,217
Commissions and expense allowances on reinsurance ceded	437,022
Aggregate write-ins for miscellaneous	2,157
Total Revenues	13,666,058
Death benefits	2,057,058
Matured endowments	5,000
Annuity benefits	19,225
Disability benefits and benefits under accident and health contracts	1,206,263
Surrender benefits and withdrawals for life contracts	314,827
Interest and adjustments on contract or deposit-type contract funds	31,453
Payments on supplementary contracts with life contingencies	11,751
Increase in aggregate reserves for life and accident and health contracts	2,794,245
Totals	6,439,879
Commissions on premiums, annuity considerations, and deposit-type contract funds	4,980,301
Commissions and expense allowances on reinsurance assumed	832
General insurance expenses	2,345,830
Insurance taxes, licenses and fees, excluding federal income taxes	321,804
Increase in loading on deferred and uncollected premiums	151,339
Aggregate write-in for deductions	3,981
Totals	14,252,966
Net gain from operations after dividends to policyholders and before federal income taxes	(586,908)
Dividends to policyholders	15,644
Net gain from operations after dividends to policyholders and before federal income taxes	(602,552)
Federal and foreign income taxes incurred	16,820
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses	(619,371)
Net realized capital gains (losses)	(313,435)
Net income (loss)	(932,806)

Standard Life & Casualty Insurance Company
Capital and Surplus Account
December 31, 2016

Capital and Surplus Account	2016	2015	2014
Capital and surplus prior reporting year	\$4,726,496	\$5,341,406	\$5,677,661
Net Income or (loss)	(932,806)	(203,828)	(25,734)
Change in net unrealized capital gains (losses) less capital gains tax			100,000
Change in net deferred income tax	615,336	(6,372)	8,747
Change in non-admitted assets	(669,721)	(68,677)	(59,839)
Change in asset valuation reserve	90,247	(44,166)	(42,455)
Dividend to stockholders	(185,000)	(245,000)	(316,973)
Aggregate write-ins for gains and losses		(46,866)	
Net change for capital and surplus for the year	(1,081,945)	(614,909)	(336,255)
Capital and Surplus end of reporting year	\$3,644,551	\$4,726,496	\$5,341,406

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

There were no significant findings or recommendations for inclusion in this report.

SUBSEQUENT EVENTS

The Company entered into four (4) reinsurance agreement in 2017.

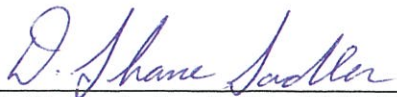
- 1) Southern Financial Life Insurance Company – 100% of the paid-up and extended-term insurance on the books at December 31, 2016.
- 2) Swiss Re of America – 80% of the “amounts at risk” on deaths occurring in a group of final expense policies on policies written between January 1, 2010 and June 30, 2016 on policy holders who were 50 years of age on the date the policy was issued.
- 3) Swiss Re – 80% of every final expense life insurance policy sold to persons 50 years of age or older issued between January 1, 2017 and June 30, 2017.
- 4) Swiss Re – 80% of every final expense life insurance policy sold to persons 50 years of age or older after July 1, 2017.

The Company entered into these agreements to help with the large first-year commissions cost as well as strengthen surplus.

ACKNOWLEDGMENT

D. Shane Sadler, MPA, CFE, SPIR, acted as the Examiner-In-Charge of the examination. Luze Pierre, MBA, CFE, CIGA, was a participating examiner. Malis Rasmussen, MSA, CFE, SPIR, Deputy Chief Examiner, supervised the examination. All join in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully submitted,



D. Shane Sadler, MPA, CFE, SPIR
Examiner-In-Charge
Utah Insurance Department