

Financial Examination Report of  
**Sentinel Security Life Insurance Company**

Salt Lake City, Utah  
as of December 31, 2016

NAIC Group Code #4824  
NAIC Company Code #68802



State of Utah  
Insurance Department  
Salt Lake City, Utah



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June 1, 2018

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

Commissioner:

Pursuant to your 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:

Sentinel Security Life 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 financial examination of the Company, by representatives of the Utah Insurance Department ("UID"), was for the period of January 1, 2010 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. This examination is part of a coordinated examination led by representatives from Nebraska Department of Insurance. The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by 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. Other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within this examination report but have been separately communicated to other regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

### **PRIOR EXAMINATION**

All issues noted during the last examination deemed satisfactorily resolved by the Company prior to the start of this examination.

### **CURRENT EXAMINATION**

During a review of intercompany transactions between the Company and Advantage Capital Holdings, LLC ("ACH") it was noted that ACH paid Company expenses without an underlying agreement governing the terms and conditions of the transactions.

We recommend an agreement be executed to define and govern expense transactions between the Company and ACH.

### **GENERAL**

The Company was organized in 1948, under the name Sentinel Mutual Insurance Company. The Company was granted a certificate of authority in July 1948 to conduct a life insurance business as a mutual insurer. In 1954, the Company converted to a capital stock company and the Company name was changed to Sentinel Insurance Company. In 1957, the Company name was changed to Sentinel Security Life Insurance Company.

On December 10, 2014, The Articles of Incorporation were amended to increase the par value of each common stock from \$4 to \$8 per share. The amendment was approved by the UID on March 24, 2015.

### **SURPLUS NOTES**

On March 26, 2014, UID approved a surplus note in the amount of \$10 million that was issued by the Company to Ability Insurance Company ("AIC"), an affiliate. The scheduled maturity date of the note is April 1, 2025. On November 21, 2014, the surplus note was amended to include an additional \$5 million from AIC, bringing the total to \$15 million. The scheduled maturity date of the note was December 1, 2025 with quarterly interest payments at the annual interest rate of 7%. The amended note was approved by UID on December 16, 2014. The interest paid in 2016 on this note was \$1,050,000.

On March 27, 2017, a surplus note was issued by the Company to Bankers Life Insurance Company in exchange for a loan amount of \$15 million. The proceeds of this note repaid the \$15 million dollar AIC surplus note discussed above. The scheduled maturity date of the loan is December 31, 2031. The Company pays quarterly interest on the note commencing June 1, 2017 at an annual interest rate of 6.5%. Each payment of principle and interest on this note may be made only with the prior approval of the Commission of Insurance of the State of Utah and only to the extent the Company has sufficient surplus earnings to make such payment.

Effective September 25, 2017, a surplus note in the amount of \$5,000,000 was issued pursuant to Rule 144A under the Securities Act of 1933, and is held solely (100%) by Knighthead Annuity and Life Assurance Company. Each payment of Interest and principle on this note may be made only with the prior approval of the Commission of Insurance of the State of Utah and only to the extent the Company has sufficient surplus earning to make such payment.

During the examination period the Company paid dividends to its shareholders pursuant to U.C.A. § 31A-16-106(2). Dividends paid were as follows:

<u>Year</u>	<u>Amount</u>	<u>Type</u>
2013	\$ 464,632	Ordinary
2014	0	-
2015	0	-
2016	<u>285,244</u>	Extraordinary
Total	\$ 748,876	

#### **MERGER AND ACQUISITION**

Effective April 15, 2016, Advantage West LLC (“ADW”) acquired 100% ownership of the Company from affiliates via affiliate mergers and a dividend transaction of \$285,244. ADW is a wholly owned subsidiary of Advantage Capital Holdings, LLC (“ACH”).

## MANAGEMENT AND CONTROL

### CORPORATE GOVERNANCE

The Company's bylaws require that there be between five (5) and nine (9) Directors. Currently, the Company has five (5) members. As of December 31, 2016, the following individuals were serving as Directors of the Company:

<u>Name</u>	<u>Location</u>	<u>Position and Occupation</u>
Earl L. Tate	Tooele, Utah	Chairman - Investor Tate Mortuary
Edward M. Grimm	Holladay, UT	Company Corporate Secretary Investor
Thomas R. King	Holladay, UT	Attorney King & Burke, PC
Kenneth King	Pleasantville, NY	President AIC and Owner of ACH
Robert E. Saliba	Highland Park, IL	President Salibaco, LLC

The Company's bylaws provide for officers to consist of a president, vice presidents and secretary and a treasurer. Other Officers and Assistant Officers, as necessary. The officers of the Company as of December 31, 2016, were as follows:

<u>Name</u>	<u>Title</u>
Earl Tate	Chief Executive Officer, Chairman of the Board
G. Daniel Acker	President and Chief Financial Officer
Michael Maughan	Vice-President
Sabrina Lemos	Treasurer
Edward M. Grimm	Secretary

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

#### **Audit Committee**

<u>Name</u>	<u>Title</u>
Robert Saliba	Committee Chairman, Director
Kenneth King	Committee Member, Director
Thomas King	Committee Member, Director

#### **Enterprise Risk Management Committee**

<u>Name</u>	<u>Title</u>
G Daniel Acker	Chief Financial Officer
Daniel Morgan	Chief Operating Officer
Dave Rasmussen	Chief Information Officer
Linda Jonidas	Chief Underwriter
Edward Grimm	Corporate Secretary
Rick Klar	Actuary

#### **HOLDING COMPANY**

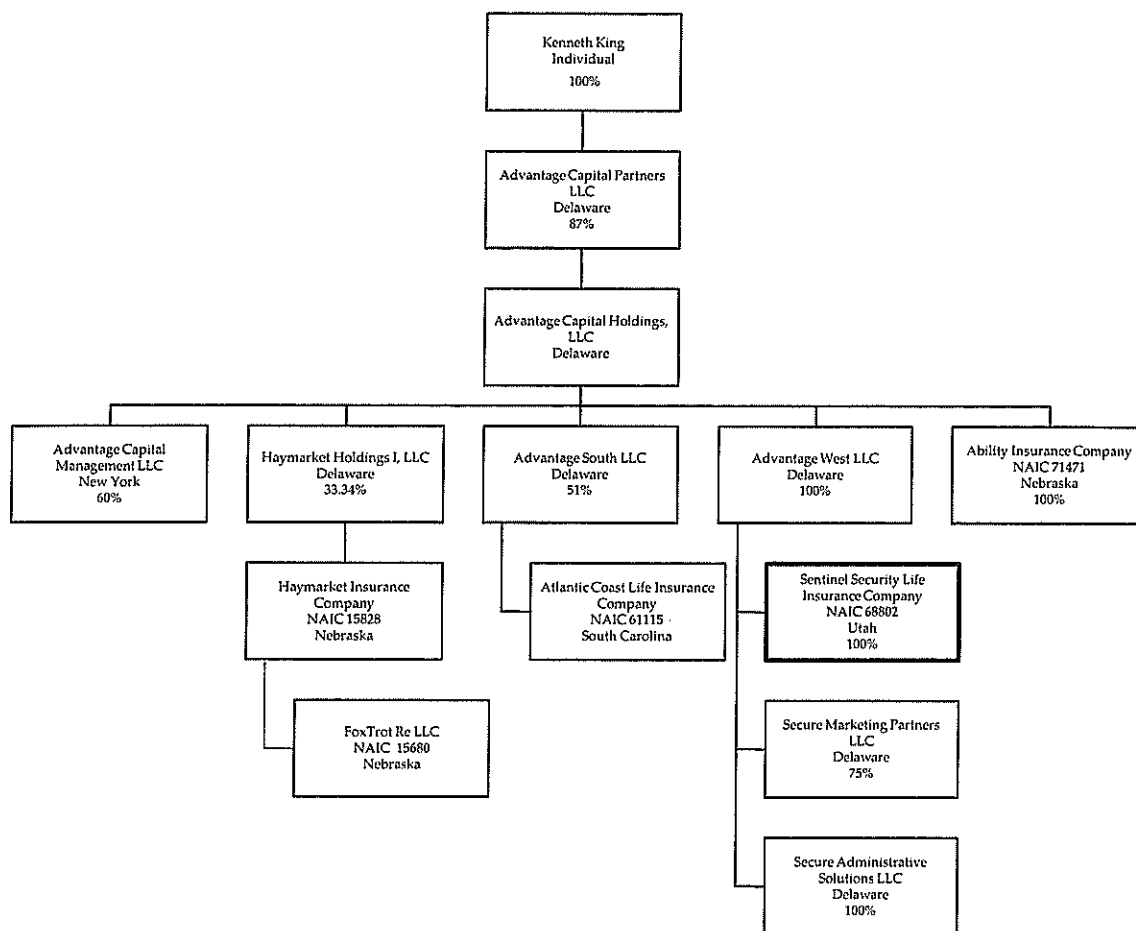
The Company is a member of a holding company system as defined in U.C.A. § 31A-1-301(90). A review of Company and UID records for the examination period indicated all holding company filings were submitted as required by U.C.A. § 31A-16-105 and 31A-16-106. The holding company system is privately held.

The Company owned a 75% interest in Secure Marketing Partners, LLC (“SMP”), and a 100% interest in Secure Administrative Solutions, LLC (“SAS”). On December 30, 2016, The Company issued a dividend to transfer the ownership of SAS and SMP to ADW.

#### **ORGANIZATIONAL CHART**

The organizational chart below illustrates all insurance entities and other entities within the holding company system with significant Company relationships as of December 31, 2016.





## RELATED PARTY AGREEMENTS

The following related party agreements were in force during the examination period:

Effective March 31, 2014, the Company entered into an Asset Management Services Agreement with Advantage Capital Management (“ACM”).

Effective May 1, 2015 and amended December 23, 2015, the Company entered into a Management Agreement with SAS to provide shared services where SAS reimbursed the Company on a monthly basis for rent, services, and salaries. Beginning January 5, 2015, SAS began providing services to the Company in the form of new business processing, underwriting, billing and collection of premiums, commission payments to agents, and claims processing. As of December 31, 2016, SAS owed the Company \$992,346 for the shared services. As of December 31, 2016 the Company owed SAS \$358,099 for the services performed during the year.

Effective May 1, 2015 and amended January 11, 2016, the Company entered into a Management Agreement with SMP to provided shared services where SMP reimbursed the Company on a monthly basis for business services provided. As of December 31, 2016, SMP owed the Company \$719,375 for the shared services.

Effective June 30, 2016, the Company entered into an Investment Management Agreement with ACM where ACM acts as investment manager for the purposes of investing and managing assets in accordance with investment guidelines specified in the agreement.

### **TERRITORY AND PLAN OF OPERATION**

The Company markets final expense whole life, Medicare supplement, Medicare select plans and multi-year and fixed annuities primarily to the senior market through a well-established, personal producing, non-captive general and associate general agent distribution network as well as through its brokerage channels.

As of December 31, 2016, the Company was licensed in the following 27 states:

Arizona	Hawaii	Minnesota	North Dakota	Utah
Arkansas	Idaho	Montana	Oklahoma	Washington
California	Illinois	Nebraska	Oregon	Wyoming
Colorado	Iowa	Nevada	Pennsylvania	
Florida	Kansas	New Mexico	South Dakota	
Georgia	Louisiana	North Carolina	Texas	

### **REINSURANCE**

#### **Ceded**

The Company is party to significant volume of third party ceded reinsurance and inter-company reinsurance for each of its Accident and Health, Life and Annuity business. The Company reinsures all product lines except for Hospital Indemnity, New Vantage II and New Vantage III final expense products as the Company determined the volume and risk related to those products were not significant.

The following table summarizes the reinsurance program by product:

<u>Product</u>	<u>Reinsurer</u>	<u>Percent Reinsured</u>	<u>2016 Reserve Credit</u>
Medicare Supplement/Select	Mutual of Omaha	90%	\$170,906
New Vantage I/Final Expense	Optimum Re	50%	\$ 3,333,419
Fixed Annuity	Athene Re	20%	\$ 217,775,391
Fixed Annuity	AIC (Affiliate)	48%	\$ 529,133,970
Fixed Annuity	HIC (Affiliate)	12%	\$ 130,050,568
Fixed/Index Annuity	Guggenheim Ins. Co.	10/90%	\$ 385,755,423

As of December 31, 2016 the following significant ceded contracts were in place.

#### **Ceded to Affiliated Reinsurers**

Effective March 27, 2014, the Company entered into a Coinsurance Reinsurance Agreement with AIC to reinsure certain annuity business. Cessions under this contract ceased on October 1, 2016. Effective December 30, 2015, the Company was party to an agreement where AIC then retroceded its obligations to HIC.

Effective September 30, 2015, the Company entered into a reinsurance agreement with its affiliate Haymarket Insurance Company (“HIC”) to reinsure a coinsurance portion of the annuity business assumed by AIC under the reinsurance agreement noted above and dated March 27, 2014.

Effective June 30, 2016, September 30, 2016, and December 30, 2016, the Company entered into three Funds Withheld Coinsurance Reinsurance Agreements with HIC to reinsure a portion of certain annuity business written directly by the Company

Effective December 30, 2016, the Company entered into a Quota Share Reinsurance Agreement with HIC to reinsure portion of certain annuity business.

#### **Ceded to Third Party Reinsurers**

Effective June 1, 2010, the Company entered into a reinsurance agreement with Optimum Re Insurance Company to reinsure life insurance risks on a coinsurance basis.

Effective January 1, 2010, the Company entered into a reinsurance agreement with Mutual of Omaha Insurance Company to reinsure Medicare supplemental insurance on a coinsured basis.

Effective August 1, 2011, the Company entered into a reinsurance agreement with Athene Life Re, LTD to reinsure annuities on a coinsured funds withheld basis. Athene Life Re, LTD is an

unauthorized reinsurer. Effective September 5, 2012, the Company terminated this agreement. The ceded portion of these reinsured contracts will continue to be reported on the funds-withheld basis under reinsurance treaties with unauthorized reinsurers” line in the statement of liabilities until all contract owners choose to withdraw their funds. The balance of the funds-withheld liability with Athene Life Re, LTD was \$219,033,781 at December 31, 2016.

Effective September 6, 2012, the Company entered into a reinsurance agreement with Guggenheim Life and Annuity to reinsure fixed annuity business on a coinsurance basis. The Guggenheim agreement was amended in 2013 to include the Summit Bonus Index annuities.

This agreement was subsequently cancelled in 2017 in order to cede the MYGA and Fixed Index annuities to Knighthead Annuity & Life Assurance Company and Haymarket Insurance Company.

Effective September 15, 2017, and subsequent to the examination period, the Company entered into an agreement with Knighthead Annuity and Life Assurance Company to reinsure annuity business on a funds withheld basis.

### **Assumed**

Effective January 1, 2015, the Company entered into an agreement with Polish Falcons of America to assume a small amount of Accident and Health business on a coinsurance basis.

## **FINANCIAL STATEMENTS**

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

**Sentinel Security Life Insurance Company**  
**Balance Sheet (Assets)**  
**December 31, 2016**

	<b>Net Admitted Assets</b>
Bonds	\$462,264,471
Preferred stocks	5,437,375
Common stocks	2,185,899
Mortgage loans on real estate first liens	40,783,774
Real estate occupied	4,966,691
Real estate income	1,300,000
Cash and short term investments	83,824,717
Contract Loans	1,361,116
Other Invested Assets	123,508
Subtotals, cash and invested assets	\$602,247,551
Investment income due and accrued	2,987,266
Uncollected premiums and agents' balances	29,773
Deferred premiums and agents' balances	2,787,095
Amounts recoverable from reinsurers	90,218
Other amounts receivable under reinsurance contracts	1,745,100
Net deferred tax asset	3,518,296
Guaranty funds receivable or on deposit	79,006
Electronic data processing equipment and software	218,134
Receivables from parent, subsidiaries and affiliates	3,300,928
Health care and other amounts receivable	137,854
<b>Total assets</b>	<b>\$617,141,221</b>

**Sentinel Security Life Insurance Company**  
**Balance Sheet (Liabilities, Surplus, and Other Funds)**  
**December 31, 2016**

	<b>2016</b>
<b>Liabilities, Surplus, and Other Funds</b>	
Aggregate reserve for life contracts	\$ 139,889,198
Aggregate reserve for accident and health contracts	167,931
Liability for deposit-type contracts	44,818,657
Contract claims: Life	5,489,269
Contract Claims: Accident and Health	496,427
Dividends apportioned for payment	22,000
Coupons of similar benefits	1,500
Premiums and annuity considerations for Life and accident and health	104,928
Interest Maintenance Reserve	607,479
Commissions to agents due or accrued	37,026
General expenses due and accrued	2,738,322
Taxes, licenses and fees due or accrued, excluding federal income taxes	99,549
Current federal income taxes	204,742
Unearned investment income	48,369
Amounts withheld or retained by company as agent or trustee	331,134
Remittances and items not allocated	4,900,667
Asset valuation reserve	4,208,271
Funds held under reinsurance treaties	219,033,781
Funds held under coinsurance	153,088,286
Payable for securities	701,003
<b>Total liabilities</b>	<b>\$576,988,539</b>
<b>Surplus</b>	
Common capital stock	\$ 4,842,259
Surplus notes	15,000,000
Gross paid in and contributed surplus	9,313,760
Unassigned funds	12,254,398
Treasury stock at cost	(1,257,735)
Surplus as regards policyholders	<b>\$ 40,152,682</b>
<b>Total Liabilities, Surplus, and Other Funds</b>	<b>\$ 617,141,221</b>

**Sentinel Security Life Insurance Company**  
**Statement of Income**  
**December 31, 2016**

	<b>2016</b>
<b>Revenue</b>	
Premiums Earned	\$ 21,236,334
Net Investment Income	10,277,701
Amortization of Interest Maintenance Reserve	241,306
Commission and Expense Allowance on Reinsurance Ceded	27,602,416
Miscellaneous Income	59,541
Miscellaneous Income	6,746
Total Revenue	\$ 59,424,044
<b>Benefits and Increase in Aggregate Reserves for Life and A&amp;H Contracts</b>	
Death Benefits	\$ 3,404,425
Matured Endowments	24,386
Annuity benefits	2,249,798
Disability, A&H Benefits	3,124,018
Coupons, guaranteed annual pure endowments and similar benefits	1,949
Surrender Benefits, Withdrawals – Life Contracts	12,573,514
Interest and Adjustment on Deposit Type Contract	(3,335,729)
Increase in aggregate reserves for life and accident and health contract	(1,046,432)
Total Benefits and Increases in Aggregate Reserves	\$ 16,995,929
<b>Expenses</b>	
Commissions	\$ 26,548,026
Commissions and expenses allowances on reinsurance assumed	79,609
General Insurance Expenses	12,386,114
Taxes, License, & Fee Expenses Incurred	756,327
Increase in loading on deferred & uncollected premiums	(21,256)
Total Benefits and Increase in Aggregate Reserves and Expenses	\$ 56,744,749

## Statement of Income (Continued)

### Other Income

Net income before dividends to policyholders, after capital gains tax and before federal income tax	\$ 2,679,295
Dividends to policyholders	<u>(12,883)</u>
Net income after dividends to policyholders, after capital gains and before federal income tax	\$ 2,666,412
Federal income taxes incurred	<u>(273,500)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	\$ 2,392,912
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax	<u>(4,867,138)</u>
<b>Net income (loss)</b>	<b><u><u>\$ (2,474,226)</u></u></b>



**Sentinel Security Life Insurance Company**  
**Capital and Surplus Account**  
**December 31, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Surplus as regards policyholders, December 31 prior year</b>	\$ 38,694,952	\$ 25,720,909	\$ 15,230,702
Net Income	(2,474,226)	1,917,991	(1,613,746)
Change in net deferred income tax	3,454,037	(1,614,484)	(1,397,453)
Change in deferred income tax	(195,816)	(340,276)	808,595
Change in non-admitted assets	1,978,474	2,600,142	(1,274,844)
Change in asset valuation reserve	(959,332)	109,888	(863,971)
Change in treasury stock	0	0	36
Change in surplus notes			15,000,000
Cumulative effect of change in accounting principles			(180,518)
Transferred to capital stock dividend			1,438,104
Transferred from capital surplus adjustment			(1,438,104)
Paid in capital adjustment		1,966,048	
Paid in surplus adjustment		8,033,950	
Change in surplus reinsurance	(60,157)	300,784	
Dividends to stockholders	(285,244)		
Aggregate write-ins for gains and losses in surplus	(3)	0	12,108
Net change for capital and surplus for the current year	1,457,732	12,974,043	10,490,207
<b>Surplus as regards policyholders December 31 current year</b>	<u>\$ 40,152,684</u>	<u>\$ 38,694,952</u>	<u>\$ 25,720,909</u>

## ANALYSIS OF CHANGES TO FINANCIAL STATEMENTS

No financial adjustments were made to surplus as a result of this examination.

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### Capital and Surplus

**\$40,152,684**

The Company's capital and surplus was determined to be that same as that reported in the Company's annual statement as of December 31, 2016. The capital and surplus exceeded the authorized control level risk-based capital. No adjustments were identified during the examination.

## SUBSEQUENT EVENTS

The Company issued two surplus notes subsequent to the examination date. See the surplus note section of this report for further information.

In 2017, the Company formed a wholly-owned subsidiary Jazz Reinsurance Company.

On July 12, 2017, UID approved the Derivative Use Plan ("DUP") of the Company, as required under U.C.A. 31A- 18-105. DUP was filed in relation to the Company's implementation of a hedge strategy designed to control the economic risk of loss due to changes in value, yield, price, cash flow or quantity of assets and liabilities that the Company has, or may acquire. DUP is also designed to mitigate the economic impact of any potential changes in currency exchange rates or the degree of exposure as to assets or liabilities denominated in a foreign currency.

The Company President, Daniel Acker, resigned effective June 1, 2018. As a result, Kenneth King, AIC President and Owner of ACH, assumed the office of the Company President.

## ACKNOWLEDGEMENTS

Mike Presley, FSA, MAAA, of Risk and Regulatory Consulting, performed the actuarial review of the examination. Malis Rasmussen, MSA, CFE, SPIR, Deputy Chief Examiner, of Utah Insurance Department, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully submitted,



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Peter Bliss, CFE  
INS Company  
Examiner-In-Charge, Representing  
Utah Insurance Department