



STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION

of

SENTINEL SECURITY LIFE INSURANCE COMPANY

of

Salt Lake City, Utah

as of

December 31, 2019



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June 3, 2021

Honorable Jonathan T. Pike, Commissioner
Utah Insurance Department
4315 S. 2700 West, Ste. 2300
Taylorsville, UT 84129

Commissioner:

Pursuant to your instructions and in compliance with Utah Code § 31A-2-204, a multi-state examination, as of December 31, 2019, has been made of the financial condition and business affairs of:

SENTINEL SECURITY LIFE INSURANCE COMPANY
Salt Lake City, Utah

hereinafter referred to in this report as “the Company”, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

This full-scope, multi-state examination of the Company was conducted by representatives of the Utah Insurance Department (Department) and covers the period of January 1, 2017 through December 31, 2019, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. This examination was part of a coordinated examination led by representatives from the Nebraska Department of Insurance. The last examination covered the period of January 1, 2014 through December 31, 2016 and was conducted in the same manner.

Examination Procedures Employed

We conducted our examination in accordance with the *National Association of Insurance Commissioners 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 may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination, however, 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 Financial Statements section of this report.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204, and general information about the Company 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 insurance regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

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

COMPANY HISTORY

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 life insurance business as a mutual insurer. In 1954, the Company converted to a capital stock company and changed its name to Sentinel Insurance Company. In 1957, the Company changed its name to Sentinel Security Life Insurance Company.

Effective April 15, 2016, Advantage West LLC (“ADW”) acquired 100% ownership of the Company. ADW is a wholly owned subsidiary of Advantage Capital Holdings, LLC (“ACH”).

As of December 31, 2019, the Company had 10,000,000 shares authorized; 605,289 shares issued and 540,900 shares outstanding. All shares are Class A common stock with a par value of \$8 per share.

Mergers and Acquisitions

There were no mergers or acquisitions during the examination period.

The Company formed a pure Utah captive wholly owned subsidiary, Jazz Reinsurance Company (“JZZ”). JZZ was incorporated on April 4, 2017 to reinsure affiliated insurance companies. The Company contributed to JZZ the required initial capitalization of \$250,000.

Dividends and Capital Contributions

The Company paid dividends to policyholders during the examination period as follows:

2019 – \$11,596
2018 – \$22,918
2017 – \$29,874

The Company contributed \$7,000,000 of additional paid-in capital to JZZ during 2019. All funds were transferred during the year except \$300,000 which was paid in January 2020.

As of December 31, 2019, the Company recorded a \$4,000,000 receivable from its parent, ADW, as paid-in capital. The Company received the funds on January 30, 2020 and properly reported this transaction as a Type I subsequent event.

There were no dividends paid to stockholders during the examination period.

Surplus Notes

The Company issued a \$15,000,000 surplus note to an unaffiliated company, Bankers Trust Insurance Company, on March 28, 2017. The interest rate is 6.5% with a maturity date of December 31, 2031. The Company's affiliate, Haymarket Insurance Company ("HIC"), acquired \$5,000,000 of this note on August 10, 2018 and the remainder on June 14, 2019. Interest paid during 2019 was \$975,001.

The Company issued a \$5,000,000 surplus note to Knighthead Annuity & Life Assurance Company ("KAL"), an unaffiliated and unauthorized reinsurer, on September 25, 2017. The interest rate is 6.75% with a maturity date of July 25, 2032. Interest paid during 2019 was \$337,499.

The Company issued a second \$5,000,000 surplus note to KAL on May 30, 2018. The interest rate is 6.75% with a maturity date of July 25, 2032. Interest paid during 2019 was \$337,499.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Board of Directors

The bylaws of the Company require between five (5) and nine (9) directors. The following persons served as directors for the Company as of December 31, 2019:

Name and Location	Principal Occupation
Kenneth King <i>Pleasantville, NY</i>	President, Chairman of the Board <i>A-CAP</i>
Thomas R. King <i>Salt Lake City, UT</i>	Attorney <i>King & Burke, PC</i>
Edward M. Grimm <i>Salt Lake City, UT</i>	Secretary <i>Sentinel Security Life Insurance Company</i>
Robert E. Saliba <i>Highland Park, IL</i>	President <i>Salibaco, LLC</i>
Daniel B. Cathcart * <i>Fort Lauderdale, FL</i>	Chief Executive Officer <i>Atlantic Coast Life Insurance Company</i>

* - Appointed during the year ended December 31, 2019

Committees

The bylaws of the Company allow for the Board of Directors to create committees. The sole committee was comprised of the following directors as of December 31, 2019:

Audit Committee
Robert E. Saliba (Chair)
Thomas R. King

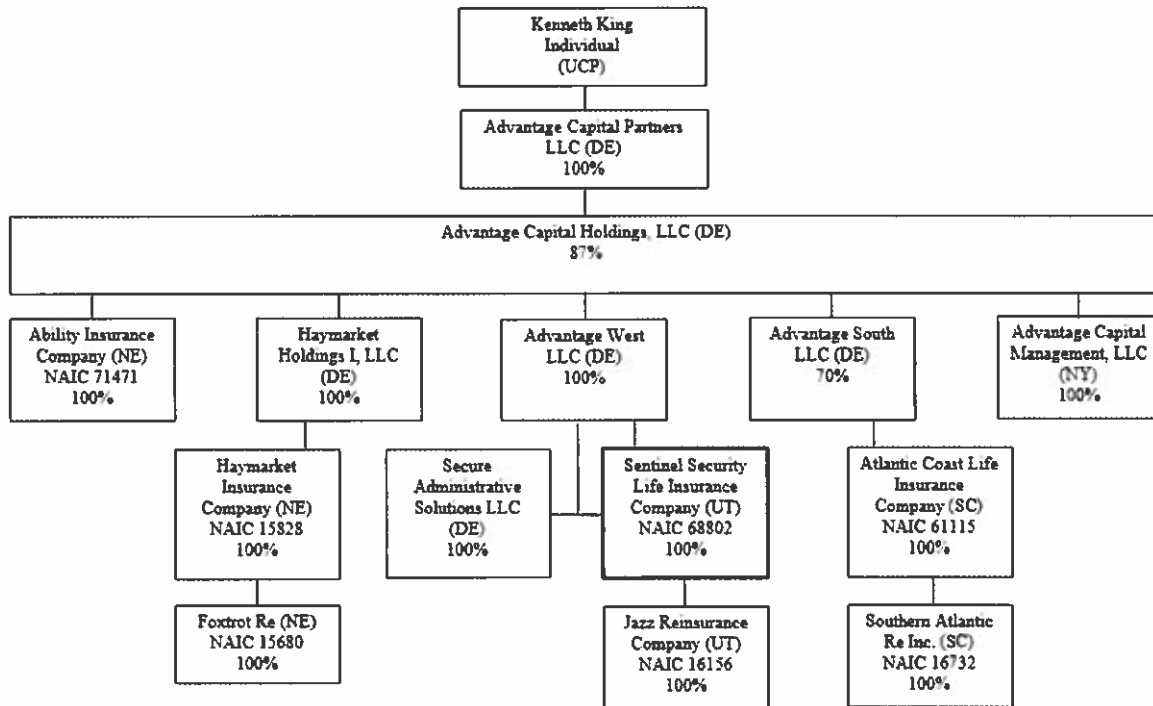
Officers

The bylaws of the Company provide for officers to consist of a president, vice president, secretary and treasurer. The following persons served as officers of the Company as of December 31, 2019:

Name	Title
Kenneth King	President
Sabrina Lemos	Treasurer, Vice President of Finance
Edward M. Grimm	Secretary
Michael Maughan	Chief Operating Officer, Vice President

Holding Company

The Company is part of an insurance holding company system as defined in Utah Code § 31A-1-301(97). An abbreviated organizational chart illustrating the holding company system as of December 31, 2019, follows:



Transactions and Agreements with Affiliates

The following affiliate agreements were in-force as of December 31, 2019:

1. Effective March 31, 2014, the Company entered into an Investment Management Agreement with Advantage Capital Management (“ACM”).
2. Effective December 30, 2016, the Company entered into an Administrative Services Agreement with ADW. This agreement was assigned to ADW from StageCoach LLC, the Company’s former parent.
3. Effective April 4, 2017, the Company entered into an Administrative Expense Agreement with JZZ.
4. Effective June 1, 2018, the Company entered into an Administrative Services Agreement with Secure Administrative Solutions, LLC (“SAS”).
5. Effective February 2019, the Company entered into an Investment Management Agreement with ACM to authorize ACM to manage the assets held in the modified coinsurance account for liabilities ceded to Aureum Re.

One-Time Transactions

The Company engaged in material transfers of assets with Ability Insurance Company (“AIC”), Atlantic Coast Life Insurance Company (“ACL”), Advantage Capital Holdings, LLC (“ACH”), and HIC during the examination period as follows:

Date	Seller	Acquirer	Amount
March 10, 2017	AIC	Company	\$8,179,363
March 14, 2017	AIC	Company	\$2,437,576
September 19, 2017	ACL	Company	\$9,446,198
December 27, 2017	Company	AIC	\$14,745,168
April 17, 2018	Company	AIC	\$3,022,022
July 2, 2018	Company	ACL	\$6,065,476
December 20, 2018	Company	ACL	\$1,003,431
December 20, 2018	AIC	Company	\$1,505,641
January 1, 2019	AIC	Company	\$3,409,555
September 30, 2019	ACL	Company	\$6,567,897
September 30, 2019	Company	HIC	\$12,826,053
December 11, 2019	HIC	Company	\$27,448,081
December 31, 2019	HIC	Company	\$5,495,289
December 31, 2019	Company	ACH	\$3,050,000
December 31, 2019	Company	HIC	\$3,839,373

See the REINSURANCE section below for affiliate reinsurance agreements.

TERRITORY AND PLAN OF OPERATION

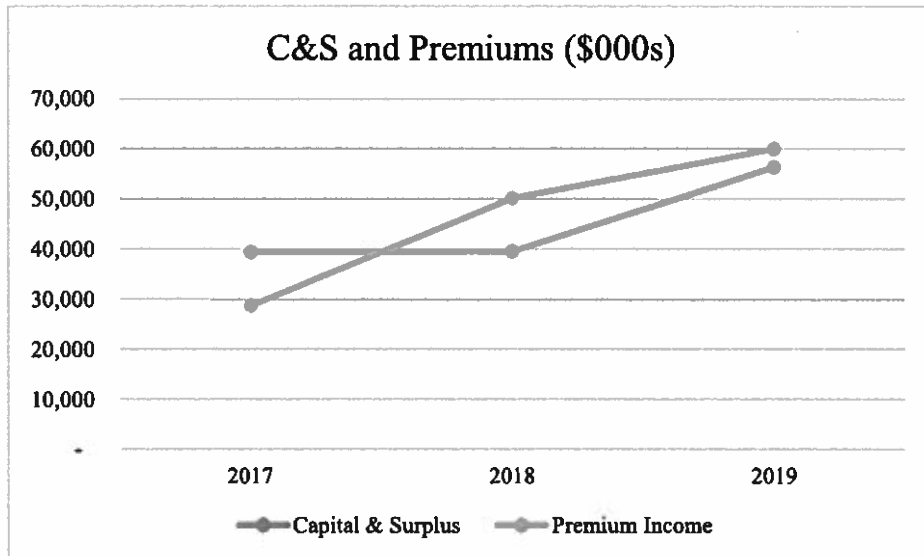
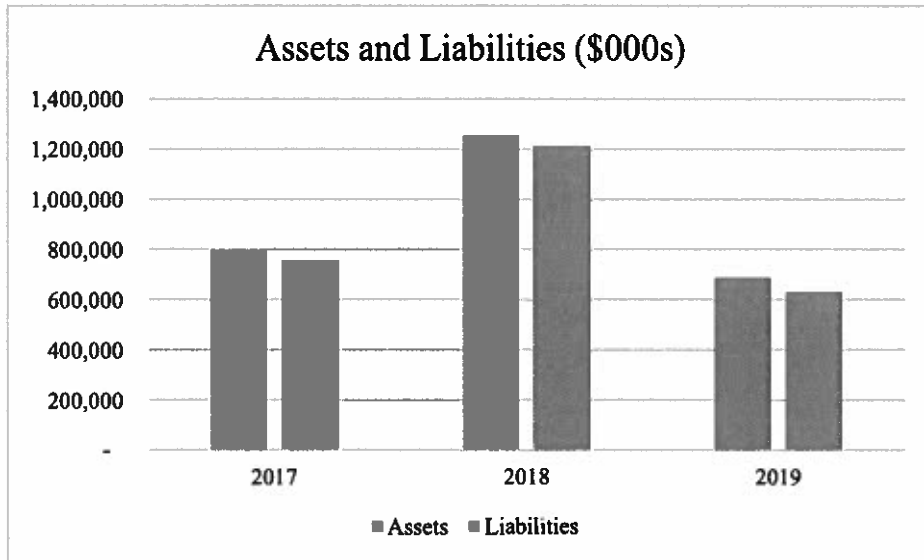
As of December 31, 2019, the Company was licensed in the following thirty-six (36) states:

Alabama	Georgia	Kentucky	Nevada	Pennsylvania
Arizona	Hawaii	Louisiana	New Mexico	Rhode Island
Arkansas	Idaho	Maryland	N. Carolina	S. Carolina
California	Illinois	Minnesota	N. Dakota	S. Dakota
Colorado	Indiana	Mississippi	Ohio	Texas
Delaware	Iowa	Montana	Oklahoma	Utah
Florida	Kansas	Nebraska	Oregon	Washington
				Wyoming

The Company focuses primarily on the senior market offering annuities, final expense life insurance, and Medicare Supplement. Sales are primarily made up of multi-year guaranteed annuity and indexed annuity contracts. The Company writes insurance under a general agency plan. All general agents, associate general agents, and special agents are independent contractors of the Company.

GROWTH OF COMPANY

The Company's assets and liabilities fluctuated during the examination period due primarily to the changing of certain reinsurance agreements from funds withheld to coinsurance in 2019. There was a significant increase in capital & surplus in 2019 as a result of positive net income, positive change to the asset valuation reserve, and paid-in capital. Premiums increased year-over-year as a result of increased annuities sales.



REINSURANCE

Assumed

The Company has assumed small blocks of Medicare Supplement business on a quota share basis as follows:

Cedent	Effective Date
Polish Falcons of America	January 1, 2015
Pan-American Life	March 1, 2017
Catholic United Financial	September 1, 2017
National Guardian Life	January 1, 2018

Ceded (affiliated)

The following affiliate ceded reinsurance agreements were in-force during the examination period:

1. Effective May 1, 2014, the Company entered into a Coinsurance Agreement and Trust Agreement with AIC to reinsure certain annuity business. AIC novated these obligations and trust account assets to HIC on December 31, 2018.
2. Effective December 30, 2015, the Company entered into a Coinsurance Agreement with AIC for certain annuity business written in 2015. AIC novated these obligations to HIC on December 31, 2018.
3. Effective June 30, 2016, October 1, 2016, and December 31, 2016, the Company entered into three Funds Withheld Reinsurance Agreements with HIC to reinsure certain annuity business. These agreements were amended on March 1, 2019, to change the structures from funds held to coinsurance. As of December 31, 2019, the reserve credit taken by the Company for business ceded was \$1,196,128,662.
4. Effective September 1, 2017, the Company entered into a Funds Withheld Reinsurance Agreement with KAL to reinsure certain MYGA business.
5. Effective March 31, 2019, the Company entered into a Novation and Amendment Agreement with KAL and JZZ for business originally ceded to KAL. On this same date, the Company entered into a Coinsurance Agreement with JZZ. This agreement has been amended three times to modify ceding allowances, commissions, and quota share percentages. As of December 31, 2019, the reserve credit taken by the Company for business ceded was \$549,434,547.

6. Effective September 1, 2017, the Company entered into a Funds Withheld Reinsurance Agreement with KAL to reinsure certain fixed index annuity business. Effective March 31, 2019, the Company entered into a Novation and Amendment Agreement with KAL and JZZ for business originally ceded to KAL. On this same date, the Company entered into a Coinsurance Agreement with JZZ. This agreement was amended to modify the ceding allowance. As of December 31, 2019, the reserve credit taken by the Company for business ceded was \$198,944,734.

Ceded (unaffiliated)

The following unaffiliated ceded reinsurance agreements were in-force during the examination period:

Reinsurer	Product	Cede %	2019 Reserve Credit
Mutual of Omaha	Medicare Supplement	90%	\$139,710
Munich American Re	Fixed Index Annuity	7%	\$7,555,577
Athene Re*	Fixed Annuity	20%	\$125,026,031
Guggenheim Life & Annuity	Fixed Index Annuity	90 – 100%	\$57,066,446
Guggenheim Life & Annuity	MYGA	80%	\$315,000,577
Aureum Re*	Fixed Index Annuity	90%	\$0
Aureum Re*	Guaranteed Income	90%	\$0
Optimum Re	Final Expense	50%	\$6,080,833
Swiss Re	Final Expense	90%	\$562,880

* - Unauthorized reinsurer

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, 2019. The accompanying COMMENTS ON FINANCIAL STATEMENTS reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

**SENTINEL SECURITY LIFE INSURANCE COMPANY
ASSETS**

as of December 31, 2019

	<u>Net Admitted Assets</u>
Bonds	\$ 404,334,371
Preferred stocks	6,088,577
Common stocks	1,854,316
Mortgage loans: first liens	74,030,594
Real estate: occupied by the company	4,878,160
Real estate: held for the production of income	2,977,117
Cash, cash equivalents and short-term investments	105,752,107
Contract loans	1,667,258
Derivatives	14,360,043
Other invested assets	16,924,768
Receivables for securities	22,967,195
Investment income due and accrued	6,584,993
Uncollected premiums, agents' balances in the course of collection	44,917
Deferred premiums, agents' balances booked but not yet due	3,197,784
Amounts recoverable from reinsurers	447,733
Other amounts receivable under reinsurance contracts	11,887,807
Net deferred tax asset	5,707,881
Guaranty funds receivable or on deposit	186,877
Electronic data processing equipment and software	177,468
Receivables from parent, subsidiaries and affiliates	5,927,565
Health care and other amounts receivable	368,357
Total assets	\$ 690,365,888

**SENTINEL SECURITY LIFE INSURANCE COMPANY
LIABILITIES AND CAPITAL & SURPLUS**

as of December 31, 2019

	Current Year
Aggregate reserve for life contracts	\$ 288,601,475
Aggregate reserve for accident and health contracts	269,796
Liability for deposit-type contracts	99,712,065
Contract claims: life	972,314
Contract claims: accident and health	751,922
Policyholders' dividends and refunds to members apportioned for payment	26,000
Coupons and similar benefits	1,000
Premiums and annuity considerations received in advance	94,485
Other amounts payable on reinsurance	57,685,851
Interest maintenance reserve	2,647,160
Commissions to agents due or accrued	85,167
General expenses due or accrued	9,080,716
Taxes, licenses and feed due or accrued, excluding federal income taxes	170,612
Current federal and foreign income taxes	1,710,117
Unearned investment income	2,700,924
Amounts withheld or retained as agent or trustee	669,042
Remittances and items not allocated	16,420,117
Asset valuation reserve	4,944,196
Funds held under reinsurance treaties with unauthorized reinsurers	127,840,628
Payable to parent, subsidiaries and affiliates	890,534
Derivatives	8,612,009
Payable for securities	10,164,863
Total liabilities	\$ 634,050,993
Common capital stock	\$ 4,842,259
Surplus notes	25,000,000
Gross paid in and contributed surplus	13,313,760
Unassigned funds (surplus)	14,416,611
Less treasury stock, at cost	(1,257,735)
Total capital and surplus	56,314,895
Total liabilities, capital and surplus	\$ 690,365,888

**SENTINEL SECURITY LIFE INSURANCE COMPANY
INCOME STATEMENT**

for the Year Ended December 31, 2019

	Current Year
Premiums and annuity considerations	\$ 59,971,366
Net investment income	45,373,423
Amortization of Interest Maintenance Reserve	246,574
Commissions and expense allowances on reinsurance ceded	74,819,548
Reserve adjustments on reinsurance ceded	(1,958,960)
Charges and fees for deposit-type contracts	25,182
Aggregate write-ins for miscellaneous income	17,091
Total revenue	\$ 178,494,224
Death benefits	\$ 3,919,024
Matured endowments	14,582
Annuity benefits	3,064,977
Disability benefits, benefits under accident and health contracts	5,267,485
Coupons, guaranteed annual pure endowments and similar benefits	824
Surrender benefits and withdrawals for life contracts	4,542,114
Interest and adjustments on contract or deposit-type contract funds	3,410,853
Payments on supplementary contracts with life contingencies	18,415
Increase in aggregate reserves for life and accident and health contracts	47,065,874
Total benefits and increase in aggregate reserves	67,304,148
Commissions on premiums, annuity considerations, deposit-type contracts	46,340,895
Commissions and expense allowances on reinsurance assumed	338,925
General insurance expenses and fraternal expenses	20,831,782
Insurance taxes, licenses and fees, excluding federal income taxes	1,356,847
Increase in loading on deferred and uncollected premiums	66,570
Aggregate write-ins for deductions	26,258,054
Total benefits, increase in aggregate reserves, and expenses	\$ 162,497,221

SENTINEL SECURITY LIFE INSURANCE COMPANY
INCOME STATEMENT (continued)
for the Year Ended December 31, 2019

	<u>Current Year</u>
Net gain from operations before dividends, refunds, and federal income taxes	\$ 15,997,003
Dividends to policyholders and refunds to members	<u>11,596</u>
Net gain from operations after dividends and refunds, before federal income taxes	15,985,407
Federal and foreign income taxes incurred	<u>6,528,754</u>
Net gain from operations after dividends, refunds and federal income taxes	9,456,653
Net realized capital gains (losses)	<u>(741,112)</u>
Net income	<u>\$ 8,715,541</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS

2017 through 2019

	2017	2018	2019
Capital and surplus, December 31, prior year	\$ 40,152,684	\$ 39,437,291	\$ 39,592,391
Net income	3,474,985	1,842,863	8,715,541
Change in net unrealized capital gains (losses)	843,438	(878,712)	(4,324,860)
Change in net deferred income tax	(983,813)	2,456,182	2,351,748
Change in nonadmitted assets	(5,026,626)	(5,109,508)	(282,636)
Change in asset valuation reserve	(3,963,220)	(3,095,568)	6,322,864
Change in surplus notes	5,000,000	5,000,000	-
Surplus adjustments: Paid in	-	-	4,000,000
Change in surplus as a result of reinsurance	(60,157)	(60,157)	(60,157)
Net change in surplus for the year	(715,393)	155,100	16,722,500
Capital and surplus, December 31, current year	\$ 39,437,291	\$ 39,592,391	\$ 56,314,891

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to capital & surplus as of December 31, 2019 as a result of the examination.

SUBSEQUENT EVENTS

The following significant events occurred subsequent to the examination period:

- Effective January 1, 2020, Charles Thalheimer replaced Edward Grimm on the Board of Directors. Mr. Grimm remains Secretary of the Company.
- During examination fieldwork, SAS, an affiliate, was sold to a third party and is no longer part of the holding company system.
- During examination fieldwork, the Audit Committee was transitioned from the Company to the A-CAP level and now includes all insurers in the group.
- In May 2020, Michael Maughan resigned as Chief Operating Officer and Vice President.

ACKNOWLEDGEMENT

The lead state contracted with Noble Consulting, LLC for the information systems review, and with Risk & Regulatory Consulting for the actuarial review. The Department relied on the testing performed by the lead state. Malis Rasmussen, MSA, CFE, SPIR, Chief Examiner, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,



Natasha Robinson, CFE, PIR
Examiner-in-Charge
Utah Insurance Department