

Examination Warrant Number 20-01289-35963-R1

Report of Examination of
AF&L Insurance Company
Fort Washington, Pennsylvania
As of December 31, 2020

For Informational Purposes Only

AF&L Insurance Company

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Harrisburg, Pennsylvania
May 26, 2022

Honorable Melissa L. Greiner
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Madam:

In accordance with instructions contained in Examination Warrant Number 20-01289-35963-R1, dated January 6, 2021, an examination was made of

AF&L Insurance Company, NAIC Code: 35963

a Pennsylvania domiciled, multi-state, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted remotely. The Company’s main office is located at 580 Virginia Drive, Suite 330, Fort Washington, Pennsylvania.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department (“Department”) has performed an examination of the Company, which last had a full scope examination as of December 31, 2015. This examination covered the five-year period from January 1, 2016 through December 31, 2020.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”).

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, in accordance with

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40 P.S. § 323.5(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 (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For year ended December 31, 2016, the certified public accounting firm of Bee Bergvall & Co. (“CPA”) provided a Qualified opinion on the Company’s year-end financial statements based on statutory accounting principles. For years ending December 31, 2017 through December 31, 2020, the CPA provided an Unmodified audit opinion on the Company’s year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

HISTORY

The Company was originally incorporated on August 19, 1987, as American Fidelity & Liberty Insurance Company, Inc. (“American”). American was licensed by the Department on May 16, 1988, and commenced business on May 31, 1988.

On October 18, 1994, American Fidelity & Liberty Insurance Company, Inc. changed its name to American Fidelity & Liberty Insurance Company and again on November 1, 2000 to AF&L Insurance Company.

The Company stopped writing new business on February 25, 2005 in a mutual agreement with the Department. This action occurred due to its weakened financial position, namely, its negative surplus as of December 31, 2004 that was precipitated by a substantial increase in its claim reserves during the fourth quarter of 2004.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382, Section 202, Subsection (c) Paragraph (2) Accident and Health.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of December 31, 2020, the Company’s total capital was \$22,165,400, consisting of 3,750,000 capital shares of issued and outstanding common stock with a par value of \$1.00 per share amounting to \$3,750,000; \$18,214,365 in paid in and contributed surplus; and \$201,035 in unassigned funds (surplus).

The Company’s minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is \$750,000 in capital and \$375,000 in surplus. The Company did not meet all governing surplus requirements for the years ended December 31, 2016 and 2017, but has met them for the years ended December 31, 2018, 2019 and 2020.

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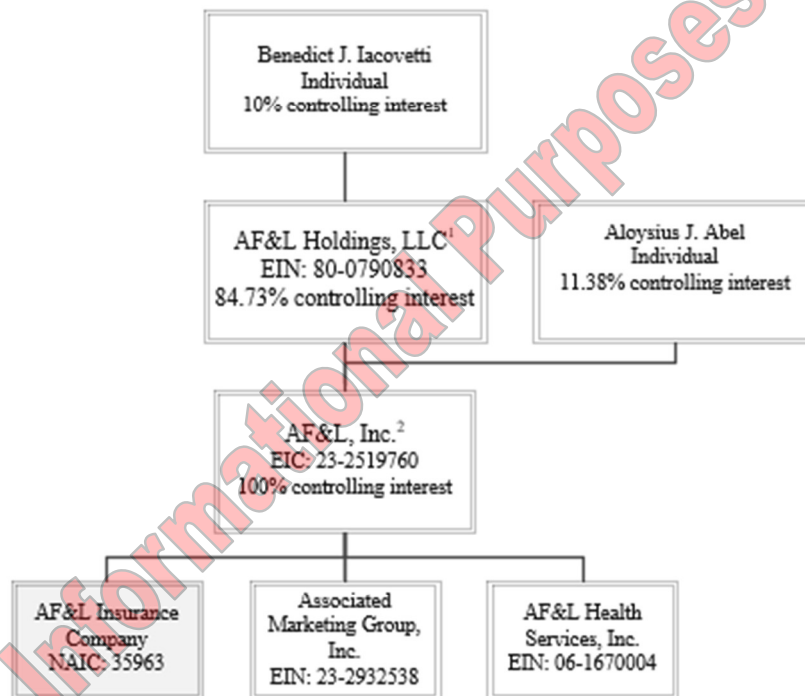
STOCKHOLDER

The Company is directly owned by its sole stockholder, AF&L, Inc. The Company paid no dividends to its sole stockholder during the examination period.

INSURANCE HOLDING COMPANY SYSTEM

AF&L Holdings, LLC (“Holdings”) was formed on December 23, 2009, and has as its members a non-profit corporation, The Marc Foundation, an affiliate of The ARC of Montgomery, Berks and Bucks Counties ("MARC") (90% interest), and Benedict J. Iacovetti (10% interest). MARC’s 90% shares are all non-voting shares.

The following organizational chart summarizes the insurance holding company system structure of the Company as of December 31, 2020:



¹ The Marc Foundation is a 90% non-voting member of AF&L Holdings, LLC. and Mr. Iacovetti is the sole voting member.

² The remaining ownership is with other individuals with less than 10% controlling interest.

AF&L Holdings, LLC has 84.73% ownership in AF&L, Inc. Other owners include Aloysius Abel with 11.38%, and various other owners hold the remaining shares.

AF&L Health Services, Inc. and Associated Marketing Group are currently inactive affiliates.

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors (“Board”), which was comprised of the following member as of the examination date, December 31, 2020:

Name and Address	Principal Occupation
Benedict John Iacovetti Warminster, PA	President and Treasurer AF&L Insurance Company

As of the examination date, the company was not in compliance with 15 Pa. C.S.A. § 3131(b) and the mandates of its own by-laws, both of which require no less than seven (7) Board members. The Company was not in compliance with P.S. § 991.1405(c)(3)(i), which requires that not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of such insurer and who are not beneficial owners of a controlling interest in the voting stock of such insurer.

On August 31, 2021, the Company appointed six (6) new members to the Board bringing the Company into compliance with 15 Pa. C.S.A. § 3131(b) and P.S. § 991.1405(c)(3)(i) (See “Subsequent Events,” page 14).

COMMITTEES

The Company also did not establish any Board Committees during the exam period. Without the appointment of Board Committees, the Company was not in compliance with the requirements to establish certain committees to perform required duties as prescribed by 40 P.S. § 991.1405(c)(3)(ii) and 40 P.S. §§ 991.1405(c)(4) and (4.1).

See “Subsequent Events,” page 14 for further information on Board Committees and members.

It is recommended that the Company appoint Board Committees that meet membership requirements and performance of duty requirements pursuant to 40 P.S. § 991.1405(c)(3)(ii) and 40 P.S. §§ 991.1405(c)(4) and (4.1).

OFFICERS

As of December 31, 2020, the following officers were appointed and serving in accordance with the Company’s by-laws:

Name	Title
Benedict John Iacovetti	President and Treasurer
Ernest Iannucci	Vice President

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of the Company's stockholder were not held in compliance with its by-laws.
- The stockholder does not elect directors at such meetings in compliance with the by-laws.
- The stockholder did not ratify the prior year's actions of the officers and directors.
- Due to lack of Board members, quorums were not present at all directors' meetings.
- The Company's investment transactions are reviewed by the sole Board member.

As a result of the above review, the following recommendations are being made:

It is recommended that the Company have annual stockholder meetings in compliance with its by-laws and maintain documentation of these meetings.

It is recommended that the Company hold Board and Board Committee meetings in compliance with its by-laws and maintain documentation of these meetings.

ARTICLES OF AGREEMENT

There were no changes to the Company's Articles of Agreement during the examination period.

BY-LAWS

There were no changes to the Company's By-laws during the examination period.

SERVICE AND OPERATING AGREEMENTS

Tax Allocation Agreement

Effective January 1, 2004 the Company entered into a tax allocation agreement with its parent AF&L Inc. Under the terms of the agreement, AF&L Inc. files a consolidated Federal Income Tax return and allocates the tax burden or benefit to AF&L and affiliates Associated Marketing Group and AF&L Health Services, Inc.

REINSURANCE

CEDED

The Company's ceded premium for 2020 was \$42,686 which is approximately 0.2% of its surplus. The Company's net amount recoverable for 2020 was approximately \$1,270,981. As

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of December 31, 2020, the Company had \$440,151 outstanding recoverables due from its reinsurers.

Sun Life Assurance Company of Canada

Effective January 1, 1998, the Company entered into an Excess of Loss Treaty with Sun Life Assurance Company of Canada.

The Company's retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of Business Covered</u>
100% of Claims under 5 years	None	Long Term Care Home Health Care Nursing Home Assisted Living Facility Policies

The reinsurance treaty was terminated on April 30, 2000. Policies issued up to that date are still covered under the reinsurance treaty. This treaty does not cover a material portion of the Company's losses.

The agreement transfers risk as outlined in NAIC Statutory Accounting Principles ("SSAP") No. 62R.

ASSUMED

MidWest National Life of Tennessee

Effective September 30, 2003, the Company entered into both an assumption and indemnity contract with MidWest National Life of Tennessee. The contract is in effect until all liabilities and risks of the ceding company have been assumed by reinsurers or their nominee pursuant to the assumption agreement.

The details of this contract are as follows:

<u>Reinsured's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of Business Covered</u>
100% Assumption	None	Long Term Care Nursing Home Home Health Care

The agreement transfers risk as outlined in SSAP No. 62R.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in the following jurisdictions: Delaware, Georgia, Illinois, Indiana, Kansas, Kentucky, Missouri, Montana, Nebraska, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Texas, Virginia, and West Virginia. The Company also has written in other states that it is not currently licensed, which is due to premium that was in effect

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before the company lost its license in those states. The Company is no longer writing any new business, and all business is in the form of guaranteed renewable policies.

The Company's major line of business is Long Term Care ("LTC"). This business includes comprehensive LTC, which provides coverage for nursing home, assisted living facility and care at home; facility only LTC, which only provides coverage for nursing home and assisted living facility stays; and stand-alone home health care, which only provides coverage for care at home. LTC and home health care policies provide coverage of varying periods from one year up to a lifetime benefit and for varying daily benefit amounts.

The following chart illustrates the direct and assumed and ceded premium for the Company as of December 31, 2020:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2020				
Other accident and health	\$ 11,192,924	\$ 42,686	\$ 11,150,238	100.0%
Totals	<u>\$ 11,192,924</u>	<u>\$ 42,686</u>	<u>\$ 11,150,238</u>	<u>100.0%</u>

The states with the most written premium include: Pennsylvania (16.2%), Texas (13.2%), Florida (11%), Ohio (8.5%), and Missouri (6.2%).

SIGNIFICANT OPERATING RATIOS AND TRENDS

The underwriting ratios summarized below are shown on an earned/incurred basis, and encompass the five-year period covered by this examination.

	Amount	Percentage
Premiums earned	\$ 75,065,171	100.0 %
Losses incurred	121,494,920	161.9 %
Loss expenses incurred	1,384,077	1.9 %
Other underwriting expenses incurred	17,589,706	23.4 %
Aggregate write-ins for underwriting deductions	(29,618,599)	(39.5)%
Net underwriting gain or (loss)	(35,784,933)	(47.7)%
Totals	<u>\$ 75,065,171</u>	<u>100.0 %</u>

The Company has reported underwriting losses in four of the five years under examination, but the losses are supplemented by investment income and capital gains.

The Company reported the following net underwriting, investment, and other gains or losses during the period under examination:

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	2020	2019	2018	2017	2016
Admitted assets	\$ 115,532,969	\$ 121,604,852	\$ 118,788,671	\$ 126,588,318	\$ 136,742,974
Liabilities	\$ 93,367,569	\$ 101,796,179	\$ 116,738,107	\$ 133,637,891	\$ 154,626,255
Surplus as regards policyholders	\$ 22,165,400	\$ 19,808,673	\$ 2,050,564	\$ (7,049,573)	\$ (17,883,281)
Gross premium written	\$ 11,192,924	\$ 12,677,278	\$ 14,488,021	\$ 16,454,830	\$ 18,847,811
Net premium written	\$ 11,150,238	\$ 12,628,447	\$ 14,433,120	\$ 16,391,871	\$ 18,778,634
Underwriting gain/(loss)	\$ (4,123,755)	\$ (3,589,908)	\$ (2,246,913)	\$ 1,343,827	\$ (27,168,184)
Investment gain/(loss)	\$ 6,783,372	\$ 21,238,460	\$ 11,365,078	\$ 9,460,414	\$ 9,240,736
Other gain/(loss)	\$ 179,660	\$ 92,538	\$ 9,383	\$ 3,652	\$ 6,495
Net income	\$ 1,270,844	\$ 17,741,088	\$ 9,127,547	\$ 10,807,892	\$ (17,920,953)

The Company has seen a significant decrease in gross and net written premium during the examination period, which is not unexpected due to the Company's current run-off status. The Company's assets have also gradually decreased during the examination period as a result of paying claims and supporting its operational needs. During the exam period, the Company sold invested assets to realize the unrealized capital gains resulting in its increase in net income and surplus amounts.

PENDING LITIGATION

The Company is involved in a lawsuit with a previous actuarial firm, which was filed in 2018, and involves a dispute over non-payment of professional fees. This litigation has not yet proceeded to trial as of the examination date. The Company intends to defend itself against any claims arising out of this lawsuit, and it has filed counterclaims for, among other claims, professional malpractice. See subsequent events.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2020, and the results of its operations for the five-year period under examination, are reflected in the following statements*:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
Comparative Statement of Income;
Comparative Statement of Capital and Surplus; and
Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

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Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2020

	2020	2019	2018	2017	2016
Bonds	\$ 105,661,865	\$ 118,698,909	\$ 110,554,868	\$ 117,404,742	\$ 126,859,168
Cash, cash equivalents, and short term investments	6,877,824	939,776	1,642,623	2,783,583	1,243,401
Other invested assets	0	0	4,133,106	4,138,077	6,320,856
Receivable for securities	0	153	0	9,707	9,707
Subtotals, cash and invested assets	112,539,689	119,638,838	116,330,597	124,336,109	134,433,132
Investment income due and accrued	1,182,757	1,420,645	1,728,503	1,740,990	1,875,684
Premiums and agents' balances due	26,121	15,501	55,188	18,718	21,581
Amounts recoverable from reinsurers	440,151	0	0	0	0
Other amounts receivable under reinsurance contracts	0	407,755	377,026	304,029	300,258
Net deferred tax asset	1,072,781	0	0	0	0
Electronic data processing equipment and software	192,546	0	0	0	0
Receivable from parent, subsidiaries and affiliates	0	0	171,497	10,735	32,814
Aggregate write-ins for other than invested assets	78,922	122,110	125,858	177,738	79,506
Total	\$ 115,532,967	\$ 121,604,849	\$ 118,788,669	\$ 126,588,319	\$ 136,742,975
Losses	\$ 34,409,142	\$ 42,044,238	\$ 50,334,664	\$ 63,206,147	\$ 68,496,615
Loss adjustment expenses	379,575	459,630	542,808	683,516	1,324,807
Commissions payable, contingent commissions and other similar charges	859,090	850,324	921,702	852,298	908,270
Other expenses	1,145,774	1,148,225	1,184,413	1,120,974	940,845
Taxes, licenses and fees	79,588	186,919	129,786	115,042	260,131
Current federal and foreign income taxes	1,568,433	0	0	0	0
Unearned premiums	1,673,639	1,988,527	2,212,495	2,534,375	3,129,381
Ceded reinsurance premiums payable (net of ceding commissions)	11,794	14,519	16,148	18,248	0
Amounts withheld or retained by company for account of others	197,110	166,156	110,228	86,665	88,746
Drafts outstanding	1,035,065	844,611	926,412	1,128,190	1,113,529
Payable to parent, subsidiaries and affiliates	5,385	447	0	0	0
Payable for securities	1,735,026	188	0	0	313
Aggregate write-ins for liabilities	50,267,948	54,092,395	60,359,451	63,892,436	78,363,618
Total liabilities	93,367,569	101,796,179	116,738,107	133,637,891	154,626,255
Common capital stock	3,750,000	3,750,000	3,750,000	3,750,000	3,750,000
Gross paid in and contributed surplus	18,214,365	18,214,365	18,214,365	18,214,365	18,214,365
Unassigned funds (surplus)	201,035	(2,155,692)	(19,913,801)	(29,013,938)	(39,847,646)
Surplus as regards policyholders	22,165,400	19,808,673	2,050,564	(7,049,573)	(17,883,281)
Totals	\$ 115,532,969	\$ 121,604,852	\$ 118,788,671	\$ 126,588,318	\$ 136,742,974

**Comparative Statement of Income
For the Year Ended December 31, 2020**

Underwriting Income	2020	2019	2018	2017	2016
Premiums earned	\$ 11,465,126	\$ 12,848,173	\$ 14,756,027	\$ 16,984,014	\$ 19,011,831
Deductions:					
Losses incurred	16,204,015	19,268,990	16,871,782	26,455,063	42,695,070
Loss expenses incurred	245,929	320,523	209,921	(152,330)	760,034
Other underwriting expenses incurred	2,956,180	3,119,788	3,476,630	3,872,239	4,164,869
Aggregate write-ins for underwriting deductions	(3,817,243)	(6,271,220)	(3,555,393)	(14,534,785)	(1,439,958)
Total underwriting deductions	15,588,881	16,438,081	17,002,940	15,640,187	46,180,015
Net underwriting gain or (loss)	(4,123,755)	(3,589,908)	(2,246,913)	1,343,827	(27,168,184)
Investment Income					
Net investment income earned	5,011,053	5,753,808	6,846,455	7,461,457	8,027,778
Net realized capital gains or (losses)	1,772,319	15,484,652	4,518,623	1,998,957	1,212,958
Net investment gain or (loss)	6,783,372	21,238,460	11,365,078	9,460,414	9,240,736
Other Income					
Net gain or (loss) from agents' or premium balances charged off	1,235	2,958	2,958	927	3,330
Aggregate write-ins for miscellaneous income	178,425	89,580	6,425	2,725	3,165
Total other income	179,660	92,538	9,383	3,652	6,495
Net income before dividends to policyholders and before federal and foreign income taxes	2,839,277	17,741,090	9,127,548	10,807,893	(17,920,953)
Federal and foreign income taxes incurred	1,568,433	0	0	0	0
Net income	\$ 1,270,844	\$ 17,741,090	\$ 9,127,548	\$ 10,807,893	\$ (17,920,953)

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**Comparative Statement of Capital and Surplus
For the Year Ended December 31, 2020**

	2020	2019	2018	2017	2016
Surplus as regards policyholders,					
December 31, previous year	\$ 19,808,672	\$ 2,050,564	\$ (7,049,572)	\$ (17,883,281)	\$ 5,069
Net income	1,270,844	17,741,088	9,127,547	10,807,892	(17,920,953)
Net unrealized capital gains or (losses)	0	0	0	0	18,108
Change in net deferred income tax	1,072,781	0	0	0	0
Change in nonadmitted assets	16,585	17,020	(27,411)	25,817	14,495
Aggregate write-ins for gains and losses in surplus	(3,484)	0	0	0	0
Change in surplus as regards policyholder for the year	2,356,726	17,758,108	9,100,136	10,833,709	(17,888,350)
Surplus as regards policyholders,					
December 31, current year	\$ 22,165,398	\$ 19,808,672	\$ 2,050,564	\$ (7,049,572)	\$ (17,883,281)

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Comparative Statement of Cash Flow For the Year Ended December 31, 2020

	2020	2019	2018	2017	2016
Cash from Operations					
Premiums collected net of reinsurance	\$ 11,136,894	\$ 12,662,261	\$ 14,395,576	\$ 16,410,119	\$ 18,777,137
Net investment income	5,559,237	6,297,754	6,997,256	7,754,368	8,318,879
Miscellaneous income	179,660	92,538	9,383	3,651	6,495
Total income	<u>16,875,791</u>	<u>19,052,553</u>	<u>21,402,215</u>	<u>24,168,138</u>	<u>27,102,511</u>
Benefit and loss related payments	23,871,507	27,590,145	29,816,262	31,749,302	32,371,419
Commissions, expenses paid and aggregate write-ins for deductions	3,391,710	3,572,520	3,646,028	4,311,024	4,586,306
Total deductions	<u>27,263,217</u>	<u>31,162,665</u>	<u>33,462,290</u>	<u>36,060,326</u>	<u>36,957,725</u>
Net cash from operations	<u>(10,387,426)</u>	<u>(12,110,112)</u>	<u>(12,060,075)</u>	<u>(11,892,188)</u>	<u>(9,855,214)</u>
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	32,957,456	102,679,854	39,582,524	11,730,392	12,790,335
Other invested assets	0	5,207,160	0	2,723,296	2,536,374
Miscellaneous proceeds	1,734,992	188	9,707	0	313
Total investment proceeds	<u>34,692,448</u>	<u>107,887,202</u>	<u>39,592,231</u>	<u>14,453,688</u>	<u>15,327,022</u>
Cost of investments acquired (long-term only):					
Bonds	18,458,767	96,647,280	28,357,601	978,379	5,858,332
Miscellaneous applications	0	153	0	313	9,707
Total investments acquired	<u>18,458,767</u>	<u>96,647,433</u>	<u>28,357,601</u>	<u>978,692</u>	<u>5,868,039</u>
Net cash from investments	<u>16,233,681</u>	<u>11,239,769</u>	<u>11,234,630</u>	<u>13,474,996</u>	<u>9,458,983</u>
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Other cash provided or (applied)	91,794	167,493	(315,516)	(42,625)	17,113
Net cash from financing and miscellaneous sources	<u>91,794</u>	<u>167,493</u>	<u>(315,516)</u>	<u>(42,625)</u>	<u>17,113</u>
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	5,938,049	(702,850)	(1,140,961)	1,540,183	(379,118)
Cash and short-term investments:					
Beginning of the year	939,771	1,642,621	2,783,582	1,243,399	1,622,517
End of the year	<u>\$ 6,877,820</u>	<u>\$ 939,771</u>	<u>\$ 1,642,621</u>	<u>\$ 2,783,582</u>	<u>\$ 1,243,399</u>

SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

NOTES TO FINANCIAL STATEMENTS

ASSETS

INVESTMENTS

As of December 31, 2020, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 105,661,865	93.9 %
Cash	3,917,475	3.5 %
Cash equivalents	2,960,349	2.6 %
Totals	<u>\$ 112,539,689</u>	<u>100.0 %</u>

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 28,521,743	27.0 %
2 - high quality	74,638,542	70.6 %
3 - medium quality	2,501,570	2.4 %
Totals	<u>\$ 105,661,855</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 98,849	0.1 %
2 to 5 years	1,822,586	1.7 %
6 to 10 years	3,896,764	3.7 %
11 to 20 years	28,413,683	26.9 %
over 20 years	71,429,973	67.6 %
Totals	<u>\$ 105,661,855</u>	<u>100.0 %</u>

The Company has a written investment policy as required by 40 P.S. § 653b(b). The investment policy is reviewed and approved on an annual basis by the Board of Directors. The Company was following its investment policy at December 31, 2020. The Company's investment portfolio is comprised entirely of Cash, Cash Equivalents, and Schedule D Bonds.

The Company's invested assets are covered by custodial agreement with Comerica Bank that is in compliance with 31 Pa. Code § 148a.3.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of \$34,409,142 for losses and \$379,575 for loss adjustment expenses (“LAE”) on the December 31, 2020 Annual Statement. The Company also reported an Annual Statement-Miscellaneous write-in amount of \$50,267,948 for A&H active life reserves.

Christopher Borcik, FSA, FCA, MAAA, of Continuing Care Actuaries, has been the Company’s appointed actuary (“AA”) since 2019, and provided a Statement of Actuarial Opinion (“Opinion”) stating that the loss and LAE reserve amounts made a reasonable provision in the aggregate for all unpaid loss and LAE and additional contract reserves obligations of the Company under the terms of its contract and agreements. For years ending 2016, 2017 and 2018, Joseph Herbers, ACAS, MAAA, CERA, of Pinnacle Actuarial Resources, Inc. served as AA. The Department received the appropriate change of actuary and no disagreements letters from Mr. Herbers in 2019.

In order for the Department to gain an adequate comfort level with the Company’s estimates of reserves, the Department retained the actuarial services of Merlinos and Associates, Inc. (“Merlinos”) to assist in performing a risk-focused review of the Company’s reserving processes and prospective risks related to the December 31, 2020 loss, LAE and active life reserve amounts reported by the Company. Merlinos assisted in the risk identification, control testing, and necessary substantive testing related to the key actuarial activities. Based on the assessment of the Company’s internal controls, an independent review of the Company’s reserves was required, in accordance with the NAIC’s risk-focused examination process.

The Merlinos independent review, based on December 31, 2020 data, indicated a potential reserve deficiency to the Company’s carried reserves. However, a complete assessment of the Company’s reported reserves would not be possible without an asset adequacy analysis supported by multiple scenario cash flow testing which considers the impact of moderately adverse deviations in actuarial assumptions. Therefore, the Department cannot conclude on the reasonability of reserves, at this point in time.

SUBSEQUENT EVENTS

On August 31, 2021, the Company appointed six (6) new members to the Board bringing the Company into compliance with 15 Pa. C.S.A. § 3131(b) and P.S. § 991.1405(c)(3)(i). The following individuals were subsequently elected: Samuel Heron, Kimberly Greene, Andrew DeGroat, William Doherty, Brooks Binder, and Michael Valucci.

On January 1, 2021, Samuel Heron became the Company’s Vice President of Operations and Kimberly Greene became the Company’s Vice President of Administration and Corporate Secretary.

The Department is monitoring the impact of the COVID-19 global pandemic. The Department recognizes that COVID-19 could have a significant financial and operational impact

on all of its domestic insurers, including the Company. As such, the Department will continue to monitor and share information with the Company as appropriate related to COVID-19 developments.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It is recommended that the Company comply with 40 P.S. § 386 and increase its surplus to at least the minimum as required by statute.

The Company has complied with this recommendation.

2. It is recommended that the Company, at a minimum, increase its number of Directors to conform to the requirements of 15 Pa. C.S.A. Section 3131(b) and the mandates of its own by-laws, both of which require no less than seven members.

The Company has complied with this recommendation subsequent to the examination date.

3. It is recommended that the Company establish committees in compliance with 40 P.S. § 991.1405 (c)(3-4) once it increases its Board membership.

The Company has not complied with this recommendation, it will be reiterated for this examination.

4. It is recommended that the Company have annual stockholder meetings in compliance with its by-laws and maintain documentation of these meetings.

The Company has not complied with this recommendation, it will be reiterated for this examination.

5. It is recommended that the Company revise its Tax Allocation Agreement so that it reflects the current method of allocation.

The Company has complied with this recommendation.

CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. *It is recommended that the Company appoint Board Committees that meet membership requirements and performance of duty requirements pursuant to 40 P.S. § 991.1405(c)(3)(ii) and 40 P.S. §§ 991.1405(c)(4) and (4.1).* (See, “Management and Control – Committees” page 4)
2. *It is recommended that the Company have annual stockholder meetings in compliance with its by-laws and maintain documentation of these meetings.* (See, “Corporate Records – Minutes” page 4)

3. *It is recommended that the Company hold Board and Board Committee meetings in compliance with its by-laws and maintain documentation of these meetings. (See, “Corporate Records – Minutes” page 4)*

For Informational Purposes Only

CONCLUSION

As a result of this examination, the financial condition of AF&L Insurance Company, as of December 31, 2020, was determined to be as follows:

	Amount	Percentage
Admitted assets	<u>\$ 115,532,967</u>	<u>100.0 %</u>
Liabilities	93,367,569	80.8 %
Surplus as regards policyholders	<u>22,165,400</u>	<u>19.2 %</u>
Total liabilities and surplus	<u>\$ 115,532,969</u>	<u>100.0 %</u>

Since the previous examination, made as of December 31, 2015, the Company's assets decreased by \$30,097,928, its liabilities decreased by \$52,258,258, and its surplus increased by \$22,160,331.

This examination was conducted by David Smith, CISA, CPDSE, AES, CDPP, CFE of the Department, Kirk Braunius, ASA, MAAA, Ben Cohen, FSA, MAAA, Sharon Goodman, ASA, MAAA, Jim Karnow, ASA, MAAA, and Bill Reynolds, FSA, MAAA of Merlinos, and Joseph DeVries, CFE, CPA, and Barry Armstrong, CFE, with the latter in charge.

Respectfully submitted,



Matthew C. Milford, CFE
Director
Bureau of Financial Examinations

Robert Woronko

Robert A. Woronko, CFE
Examination Manager

Barry Armstrong
Barry Armstrong (Jun 30, 2022 13:14 EDT)
Barry Armstrong, CFE
Examiner-in-Charge