

***CERTIFICATE***

I, KEN SELZER, Commissioner of Insurance of Kansas, do hereby certify that the following and hereto attached is a true copy of

REPORT OF EXAMINATION  
OF  
SURENCY LIFE & HEALTH INSURANCE COMPANY  
1619 N. WATERFRONT PARKWAY  
WICHITA, KS 67206  
AS OF  
DECEMBER 31, 2015

the original of which is now on file and a matter of record in this office.

*In Witness Whereof*, I, KEN SELZER, Commissioner of Insurance of Kansas, have hereto affixed by signature and the seal of the Commissioner of Insurance, in the city of Topeka, Kansas this 1<sup>st</sup> day of September, 2017



*Ken Selzer*

Commissioner of Insurance

**FILED**  
**SEP -1 2017**  
**KEN SELZER**  
**Commissioner of Insurance**

**REPORT OF EXAMINATION**  
**ON**  
**SURENCY LIFE & HEALTH INSURANCE COMPANY**  
**1619 N. WATERFRONT PARKWAY**  
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Wichita, Kansas  
June 12, 2017

Honorable Ken Selzer, Commissioner  
Kansas Insurance Department  
420 S.W. 9th Street  
Topeka, Kansas 66612-1678

Dear Commissioner:

Pursuant to K.S.A. 40-222 – *Examination of Condition of Company* and in accordance with your authorization, an examination has been conducted of the financial condition and business affairs of

**SURENCY LIFE & HEALTH INSURANCE COMPANY  
1619 N. WATERFRONT PARKWAY  
WICHITA, KANSAS 67206**

hereinafter referred to as the “Company” or “SLHIC”. The following report on such examination is respectfully submitted.

**SCOPE OF EXAMINATION**

This full-scope multi-state financial examination was conducted in accordance with the rules, regulations and directives of the Kansas Insurance Department (Department) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook requires the examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. This is done by assessing the Company’s corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

During the course of the examination, the affairs and activities of SLHIC were reviewed and analyzed to determine their compliance with applicable Kansas statutes,

regulations and directives. The examiners reviewed the Company's adherence to the provisions of its articles of incorporation, bylaws and certificates of authority and assessed the principles used and significant estimates made by management. The overall financial statement presentation was evaluated, as well as management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulation. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The last examination was performed by the Department as of December 31, 2011. This statutory examination covers the four-year period from January 1, 2012, through December 31, 2015, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The examination was performed in concurrence with Delta Dental of Kansas, Inc., the Company's parent.

### **Independent Audit Reports**

Financial statements of SLHIC were audited by BKD, LLP. for the years ending December 31, 2012, through December 31, 2015. In each of the years under examination, the auditors concluded that the statutory financial statements of the Company, in all material respects, presented fairly the admitted assets, liabilities, capital and surplus, statement of income surplus and cash flows in conformity with the accounting practices prescribed or permitted by the Department.

The independent auditor's work papers were reviewed and analyzed by the examiners. Significant reliance was placed on select work papers during the course of this examination.

## **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were noted during the course of the examination.

### **HISTORY**

#### **General**

SLHIC was incorporated in the State of Kansas on February 7, 2008 as a stock life insurance company under the provisions of K.S.A. 40-401 *et seq.* – *Formation of company on stock or mutual plan.* The Company was organized for profit as set forth in its articles of incorporation (articles), with the nature of its business being to conduct the business of insurance, including specifically the issuance and the sale of accident and health insurance, life insurance, and short and long-term disability insurance, as well as the administration of flexible spending accounts. The Company received its certificate of authority from the Department under the name Surency Life & Health Insurance Company and commenced business on July 1, 2008. The Company's articles provide for a perpetual existence.

#### **Capital Stock**

The Company's articles authorize the issuance of 1,300,000 shares of common capital stock with a par value of \$1.00 per share. The Company commenced operations by issuing 600,000 shares of common stock to its parent, DDKS. On June 8, 2009, an additional 400,000 shares were issued to DDKS. In 2011, the Company amended its articles of incorporation to increase the number of authorized shares to 1,300,000. As of December 31, 2015, all authorized shares were issued and outstanding resulting in a common capital stock value of \$1,300,000 and paid-in and contributed surplus of \$9,691,418.

As of December 31, 2015, 100% of the stock is owned by Delta Dental of Kansas, Inc., a not-for-profit dental service corporation domiciled in the state of Kansas.

### **CORPORATE RECORDS**

The minutes of the stockholder and Board of Directors' (Board) meetings support adequate approval for transactions and events of the Company during the period under review and subsequent to December 31, 2015.

The Company bylaws were amended on November 18, 2016, expanding upon situations for the election and reelection of Directors, identifying the positions of SLHIC's management team eligible for election to the Board, and established term limits for independent Director positions. The amended Articles were Article III, Section 3.3 and Article IV, Section 4.1. The amendments were filed with the State pursuant to K.S.A. 17-7903 – *Filings related to corporations*.

### **MANAGEMENT AND CONTROL**

#### **Directors**

SLHIC's November 18, 2016 amended bylaws consist of 10 articles that provide the framework for the operation, management and control of a domestic life and accident & health insurance company in the State of Kansas. The Company is controlled by Delta Dental of Kansas, Inc., its sole shareholder, and managed by the SLHIC Board of Directors. The Board consists of not less than five (5) and not more than eleven (11) members. The stockholders will elect or re-elect members of the Board who are presented by the President. Directors are elected to three (3) year terms and will hold office until the expiration of their term or until the Director's successor is duly elected and qualified or until his or her earlier death, resignation or removal. Independent Directors are limited to two three year terms, subsequently they are

ineligible for reelection to the Surency Board. The Board of Directors will be comprised of the members of the management team serving as the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Chief Marketing Officers; the Chair and Vice-Chair of the stockholder and external community members. Elected Directors as of December 31, 2015 are as follows:

<u>Name</u>	<u>Principal Occupation</u>
Michael J. Herbert	President & Chief Executive Officer Delta Dental of Kansas, Inc.
Michael D. Ellis	Treasurer & Chief Financial Officer Delta Dental of Kansas, Inc.
Dean A. Newton	Chief Marketing/Sales Officer Delta Dental of Kansas, Inc.
Linda L. Brantner	Director Surency Life & Health Insurance Company
Alan D. Marcotte	DDS Self-Employed
Nancy G. Zogleman	Attorney Polsinelli
Collin G. Stieben	Executive Vice President Commerce Bank
Sheryl L. Wohlford	President/Co-Owner Automation-Plus, Inc.

### Officers

The officers of the Company are a president, a secretary, a treasurer and other such officers, assistant officers and vice-presidents as the Board may deem necessary. Any number of offices may be held by the same person. All officers are elected by the Board and each officer holds office until the next annual meeting of the Board or until his or her successor is duly elected and qualified, or until his or her death, resignation or removal. Officers elected by the Board as of December 31, 2015 were:



<u>Name</u>	<u>Position</u>
Michael J. Herbert	President
<u>Name</u>	<u>Position</u>
Nancy C. Umholtz	Secretary
Michael D. Ellis	Treasurer

### **Conflict of Interest**

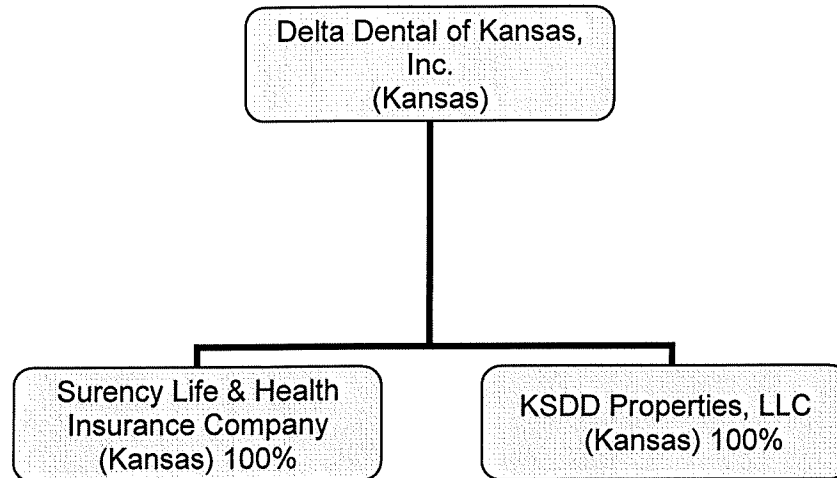
The Company has instituted a formal procedure for reporting to the Board any possible conflicts of interest on the part of its Directors, officers and employees concerning their activities outside the Company, and their official duties within the Company. No conflicts of interest were noted during the examination.

### **AFFILIATED COMPANIES**

K.S.A. 40-3301, *et seq.* - *Insurance Holding Companies*, requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Forms "B" and "C" registration statements to the Department for each of the years under examination. The review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

### **Organization Chart**

The following organizational chart illustrates the identities and intercompany relationships among the insurance companies and non-insurance companies, and the controlling entity thereof, as of December 31, 2015.



Delta Dental of Kansas, Inc. owns 100% of the outstanding shares of Surency Life & Health Insurance Company as of December 31, 2015.

**Intercompany/Cost Sharing Agreements**

DDKS provides administrative services for SLHIC under a management services agreement entered into on July 1, 2008. Services provided include customer service, financial services, sales and marketing, medical management, provider relations, and facilities and occupancy services. SLHIC reimbursed DDKS for services provided under this agreement in 2015 and 2014 in the amount of \$920,233 and \$651,320, respectively. See the “Subsequent Events” section for additional information.

**OUTSIDE AGREEMENTS**

The Company entered into a vision care administrative agreement with EyeMed Vision Care, LLC. (EyeMed) and EyeMed’s wholly-owned subsidiary, First American Administrators (FAA), effective July 1, 2008. EyeMed performs administrative and customer relation functions for those group and individual eye care insurance policies issued by the Company utilizing the EyeMed Participating Provider Organization (PPO) Access Network (EyeMed PPO). Services covered include an eye examination, contact

lenses, eyeglass frames, plastic eyeglass lenses and various other eyeglass lens options. EyeMed's compensation is based on a per-member-per-month basis (PMPM).

FAA will provide claims administration services by acting as a third-party administrator for SLHIC. Weekly paid claim information is submitted to the Company and per the agreement, reimbursement occurs on the fifteenth (15<sup>th</sup>) day of the subsequent month. Fees paid for FAA's services are included in the PMPM fee charged by EyeMed.

### **FIDELITY BOND AND OTHER INSURANCE**

Pursuant to K.S.A. 40-207 – *Secretary and certain officers to give bond*, the Company is required to maintain a financial institution bond sufficient to cover all officers and employees who handle funds and securities on behalf of the Company. SLHIC is a named insured on the fidelity bond obtained by its parent, DDKS. The bond has a single loss limit of liability of \$5 million, with a single loss deductible of \$30,000. The bond coverage exceeds the minimum amount recommended by the NAIC *Financial Condition Examiners Handbook*.

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

As of December 31, 2015, the Company was authorized to market and service life insurance, vision insurance, prepaid dental service plans and act as an administrator of consumer directed healthcare products, including health savings accounts (HSAs), flexible spending accounts (FSAs) and health reimbursement accounts (HRAs) in Kansas, Missouri and Oklahoma. The Company also provides administrative services to self-insured business entities.

## FIVE-YEAR HISTORICAL

The following exhibit shows the [REDACTED] financial growth of the Company (in thousands) for the period December 31, 2012 through December 31, 2015. The financial growth amounts were obtained from annual statements filed by the Company, with the 2015 amounts reflecting the results of this examination.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
[REDACTED]					
	(in thousands)				
Admitted Assets	\$ 4,871	\$ 4,774	\$ 7,525	\$ 8,982	\$ 8,931
Liabilities	445	952	1,174	1,728	1,753
Capital and Surplus	4,426	3,822	6,351	7,254	7,178
Net Income	(425)	(606)	(336)	(152)	(550)
Net Premiums Written	1,391	2,135	3,200	4,124	5,032

## REINSURANCE

The Company has a reinsurance agreement with Hanover Life Re, whereby 70% of all life premiums written are ceded to the reinsurer, with the Company retaining 30%.

The reinsurance agreement in force at December 31, 2015, contained the usual and customary insolvency clause and provision for run-off of covered business as required by K.S.A. 40-221a – *Reinsurance of Risks of and by Kansas Companies*.

## STATUTORY DEPOSITS

The provisions of K.S.A. 40-402 – *Paid Up Capital Stock, Surplus; Deposit of Securities*, require a stock life insurance company to maintain a deposit of qualified securities with the Commissioner of Insurance. Pursuant to K.S.A. 40-229a – *Securities Deposits*, the required deposit of \$400,000 (par value) is to held in a financial institution acceptable to the Commissioner through a custodial or controlled account, a joint custody receipt arrangement, or any combination of these or other measures

acceptable to the Commissioner. Such assets shall be held for the benefit of all policyholders, and shall be released from such deposit only upon written approval from the Commissioner. As of December 31, 2015, the Company maintained a deposit with the Commissioner of qualified securities with a par value of \$400,000. The deposit was verified by the Securities Supervisor of the Department.

#### **UNCLAIMED PROPERTY**

A review of Company documents has indicated there are formal procedures in place to manage and report unclaimed property. For the period under examination, it was determined that unclaimed property reports have been submitted as required.

#### **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, 2015. 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.

**SURENCY LIFE & HEALTH INSURANCE COMPANY**  
**ANALYSIS OF ASSETS**  
**AS OF DECEMBER 31, 2015**

	<u>Assets</u>	<u>Assets Nonadmitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 3,694,745		\$ 3,694,745
Common stocks	695,244		695,244
Cash and short-term investments	4,322,685		4,322,685
Investment income due & accrued	32,187		32,187
Uncollected premiums and agents' balances in the course of collection	80,592	\$ 12,339	68,253
Amounts recoverable relating to uninsured plans	117,633		117,633
Furniture and equipment	1,034	1,034	
Receivables from parent, subsidiaries and affiliates	100,000	100,000	-
Aggregate write-ins for other than invested assets	63,016	63,016	-
<b>Totals</b>	<u><u>\$ 9,107,136</u></u>	<u><u>\$ 176,389</u></u>	<u><u>\$ 8,930,747</u></u>

**SURENCY LIFE & HEALTH INSURANCE COMPANY**  
**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**AS OF DECEMBER 31, 2015**

Contract claims: Accident & Health	\$ 558,732
Premiums received in advance	10,201
General expenses due or accrued	506,700
Asset Valuation Reserve (AVR)	5,339
Payable to parent, subsidiary or affiliate	226,519
Liability for amounts held under uninsured plans	445,382
Total Liabilities	<u>1,752,873</u>
Common capital stock	1,300,000
Paid in and contributed capital	9,691,418
Unassigned funds	(3,813,544)
Surplus as regards policyholders	<u>5,877,874</u>
Total capital and surplus	<u>7,177,874</u>
Totals	<u>\$ 8,930,747</u>

**SURENCY LIFE & HEALTH INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Premiums and annuity considerations	\$ 5,032,081
Net Investment Income:	95,157
Amortization and Interest Maintenance Reserve	126
Totals	<u>5,127,364</u>
Death benefits	6,000
Disability benefits and benefits under accident & health contracts	4,105,956
Totals	<u>4,111,956</u>
Commissions on premiums, annuity considerations	372,267
General insurance expenses	1,098,206
Insurance taxes, licenses and fees	79,326
Totals	<u>5,661,755</u>
Net gain from operations before dividends to policyholders and federal income taxes	(534,391)
Federal and foreign income taxes incurred expenses	-
Net gain from operations after dividends to policyholders and federal income taxes	(534,391)
Net realized capital gains (losses)	(15,112)
Net income	<u><u>\$ (549,503)</u></u>

**CAPITAL AND SURPLUS ACCOUNT**

Surplus as regards policyholders, December 31, 2014	\$ 7,254,397
Net income	(549,503)
Change in net unrealized capital gains (losses)	(36,428)
Change in nonadmitted assets	(36,470)
Change in asset valuation reserved	(614)
Cumulative effect of changes in accounting principles	673
Capital changes"	
Paid in	-
Surplus adjustment:	
Paid in	545,820
Net change in capital and surplus for the year	<u>(76,522)</u>
Capital and surplus, December 31, 2015	<u><u>\$7,177,875</u></u>



**SURENCY LIFE & HEALTH INSURANCE COMPANY**  
**CAPITAL AND SURPLUS ACCOUNT**  
**RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2011			<u>\$ 4,426,450</u>
Net income	2012	(606,186)	
	2013	(336,103)	
	2014	(152,381)	
	2015	<u>(549,503)</u>	(1,644,173)
Change in net unrealized capital gains or (losses)	2012	-	
	2013	-	
	2014	(27,160)	
	2015	<u>(36,428)</u>	(63,588)
Change in nonadmitted assets	2012	2,626	
	2013	15,101	
	2014	(9,907)	
	2015	<u>(36,470)</u>	(28,650)
Cumulative effect of changes in accounting principles	2012	-	
	2013	-	
	2014	-	
	2015	<u>673</u>	673
Change in Asset Valuation Reserve	2012	(1,212)	
	2013	(1,513)	
	2014	(917)	
	2015	<u>(614)</u>	(4,256)
Capital and surplus adjustments paid in	2012	-	
	2013	2,851,488	
	2014	1,094,110	
	2015	545,820	
	2013	<u>4,491,418</u>	<u>4,491,418</u>
Surplus as regards policyholders, December 31, 2015			<u>\$ 7,177,874</u>

### **COMMENTS ON FINANCIAL STATEMENTS**

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company, as of December 31, 2015, was \$7,177,874, which is the same as reported by the Company in its filed Annual Statement. There were no significant or material findings resulting from the examination that warranted inclusion in the report of examination.

### **SUBSEQUENT EVENTS**

SLHIC informed the Department on October 25, 2016 regarding the change of their CPA firm from BKD, LLP to Eide Bailly LLP for the year ending December 31, 2016.

The Board of Directors in their January 27, 2017 approved the discontinuation of providing the life and dental products beginning in 2017.

### **SUMMARY OF RECOMMENDATIONS**

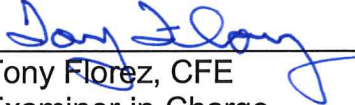
There were no findings or recommendations identified as a result of this examination that warranted inclusion in the report of examination.

## CONCLUSION

The assistance and cooperation by the officers and employees of SLHIC during the course of this examination is hereby acknowledged and appreciated.

In addition to the undersigned, Leon Black, Jr., CFE, a financial examiner, and Shane Mead, CISA, CISM, CRISC, an information systems examiner, and each representing the Department, participated on this examination.

Respectfully submitted,

  
\_\_\_\_\_  
Tony Florez, CFE  
Examiner-in-Charge

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

State of Kansas

County of Shawnee

Tony Florez being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of Surency Life & Health Insurance Company.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of Surency Life & Health Insurance Company was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

Tony Florez  
 Examiner's Signature

Subscribed and sworn before me by Tony Florez on  
 this 19 day of July, 2017.



Dale Hubbell  
 Notary Public

My commission expires 3/19/2019  
 (date)