

**REPORT ON EXAMINATION**  
**OF**  
**SURENCY LIFE & HEALTH INSURANCE COMPANY**  
**1619 N. WATERFRONT PARKWAY**  
**WICHITA, KANSAS 67206**  
**AS OF**  
**DECEMBER 31, 2019**

**FILED**

**JUN 01 2021**

**VICKI SCHMIDT**  
**Commissioner of Insurance**

## TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE NUMBER</u>
SALUTATION.....	1
SCOPE OF EXAMINATION .....	1
Independent Audit Reports .....	2
Actuarial Review .....	3
SUMMARY OF SIGNIFICANT FINDINGS .....	3
COMPANY HISTORY .....	3
General .....	3
Additional Paid-In Surplus.....	4
CORPORATE RECORDS.....	4
MANAGEMENT AND CONTROL.....	4
Stockholders .....	4
Board of Directors .....	5
Committees.....	6
Officers .....	6
INSURANCE HOLDING COMPANY SYSTEM .....	8
Intercompany/Cost Sharing Agreements .....	8
TERRITORY AND PLAN OF OPERATION.....	9
SELECT FINANCIAL INFORMATION.....	9
REINSURANCE .....	10
FINANCIAL STATEMENTS .....	10
Assets .....	11
Liabilities, Surplus and Other Funds .....	12
Summary of Operations .....	13
Capital and Surplus Account.....	14
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS.....	15
COMMENTS ON FINANCIAL STATEMENTS .....	15
SUBSEQUENT EVENTS .....	15
SUMMARY OF RECOMMENDATIONS.....	15
CONCLUSION .....	15

Wichita, Kansas  
February 16, 2021

Honorable Vicki Schmidt  
Commissioner of Insurance  
Kansas Insurance Department  
1300 SW Arrowhead  
Topeka, Kansas 66604

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

**SURENCY LIFE & HEALTH INSURANCE COMPANY**

with its statutory home and main administrative office at:

**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**

The examiners performed a multi-state financial examination of the Company, a Kansas domiciled life and health insurance company. The last examination covered the four-year period from January 1, 2012, through December 31, 2015. This examination covers the four-year period from January 1, 2016, through December 31, 2019. An examination of the Company's parent, Delta Dental of Kansas, Inc. ("DDKS"), was conducted concurrently with this examination.

The 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 that the examiners 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 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 examination an adjustment is identified, the impact of such adjustment is documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, and general information about the insurer 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.

### **Independent Audit Reports**

Financial statements of the Company were audited by Eide Bailly, LLP for the years ending December 31, 2016, through December 31, 2019. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders’ surplus of

the Company, the results of its operations, and its cash flows in accordance 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 this examination.

### **Actuarial Review**

The Department retained the services of Baker Tilly US, LLP ("Baker Tilly"), to perform a review of the Company's actuarial practices. Baker Tilly's review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in their reserve setting process.

### **SUMMARY OF SIGNIFICANT FINDINGS**

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

### **COMPANY HISTORY**

#### **General**

The Company 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.* The Company was organized for profit as set forth in its articles of incorporation, 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.

### **Additional Paid-In Surplus**

During the period under examination, the Company received additional paid-in surplus from its parent, DDKS, during each year of the examination period. The following amounts were received from DDKS for the noted years: \$697,414 (2016), \$967,739 (2017), \$1,907,980 (2018), and \$1,416,029 (2019).

### **CORPORATE RECORDS**

The Company's articles of incorporation and bylaws were reviewed. The articles of incorporation were unchanged during the examination period. The Company's bylaws were amended on November 18, 2016, to expand upon situations for the election and reelection of directors, identifying the positions of the Company's management team eligible for election to the board of directors, and established term limits for independent director positions. The bylaws were properly filed with the Department.

### **MANAGEMENT AND CONTROL**

#### **Stockholders**

As of December 31, 2019, 100% of the Company's stock is owned by DDKS, a not-for-profit dental service corporation domiciled in the State of Kansas.

Article III, Section 3.2 of the Company's bylaws provides that: "The annual meeting of the stockholders shall be held at the Corporation's registered office each year, or at such other place as may be designated from time to time by the Board of Directors, on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice in the meeting."

Article III, Section 3.3 of the Company's bylaws provides that: "The purpose of the Annual meeting shall be to elect or re-elect such member(s) of the Board of Directors as

presented by the President: 1) who have filled a vacancy resulting from a death, resignation or removal during that year, 2) who will have a vacancy as a result of the expiration of a current member's term, or 3) whose first three-year term will expire at the end of the current year, and to transact such other business, without limitation, as may properly come before the annual meeting."

### **Board of Directors**

Article IV, Section 4.1 of the Company's bylaws provides that: "The Board of Directors shall consist of not less than five (5) and not more than eleven (11) members. Members of the Board of Directors shall be comprised of Members of the Management Team, specifically the Chief Executive, the Chief Financial, Chief Operating, and Chief Marketing Officers of the Corporation; the Chair and Vice-Chair of the stockholder; and external community members."

Article IV, Section 4.1 of the company's bylaws also provides that: "Any director, not a member of the Surency Management Team or the stockholder, shall be limited to to two (2) consecutive three-year terms, after which such director is ineligible for re-election to the Surency Board. Terms shall be staggered so that one (1) such director term expires at the end of each year."

The following is a listing of directors and their position(s) held as of December 31, 2019:

<b><u>Name</u></b>	<b><u>Position(s) Held</u></b>
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	Managing Director & Executive Vice President Delta Dental of Kansas, Inc.

Dr. Brick R. Scheer, DDS	Dentist Self-Employed
Collin G. Stieben	President Encore Pavement. LLC
Mark B. West	Director Surency Life & Health Insurance Co.
James P. Tuttle	Chief Operating Officer Delta Dental of Kansas, Inc.
Shelly K. Prichard	President and Chief Executive Officer Wichita Community Foundation
Gary E. Yager	President Vision Bank

After the examination date, changes were made to the Company's directors. Ms. Jennifer M. Bauer replaced Mr. Michael J. Herbert as a director in the first quarter of 2020. Ms. Natalie L. Daney then replaced Ms. Jennifer M. Bauer as a director in the second quarter of 2020.

Further, Mr. Jonathan B. Dougherty replaced Mr. Michael D. Ellis as a director in the third quarter of 2020.

The changes in directors are related to certain officer changes as further described in the "Officers" section below.

### **Committees**

The Company does not have any committees as of December 31, 2019.

### **Officers**

Article V, Section 5.1 of the Company's bylaws provides that: "The officers of the Corporation shall be a president, a secretary, a treasurer, and such other officers and assistant officers, including, but not limited to, one or more vice-presidents, as the Board

of Directors may from time to time deem necessary or advisable. Unless otherwise designated by the Board of Directors, the president of the Corporation shall be the chief executive officer of the Corporation. Any number of offices may be held by the same person. All officers shall be elected by the Board of Directors at its annual meeting, and the Board of Directors shall also be empowered to fill all vacancies in office.”

The following is a listing of officers and their position(s) held as of December 31, 2019:

<b><u>Name</u></b>	<b><u>Position(s) Held</u></b>
Michael J. Herbert	President & Chief Executive Officer
Michael D. Ellis	Treasurer & Chief Financial Officer
Nancy C. Umholtz	Secretary
Dean A. Newton	Managing Director & Executive Vice President
Kara E. Hunt	Vice President-Human Resources
Sara E. Patterson	Vice President-Marketing & Communications
Junetta M. Everett	Vice President-Professional Relations
Dr. Preddis L. Sullivan, DDS	Executive Vice President & Dental Director
James P. Tuttle	Chief Operating Officer
Jennifer M. Bauer	General Counsel
Robert J. Ebenkamp	Vice President-Information Technology

After the examination date, changes were made to the Company’s officers. In the first quarter of 2020, Mr. Michael J. Herbert retired and was succeeded on an interim basis by Ms. Jennifer M. Bauer until the appointment of Mr. Dean A. Newton as President & Chief Executive Officer in the second quarter of 2020. Ms. Jennifer M. Bauer now serves as Chief People & Strategy Officer and General Counsel.

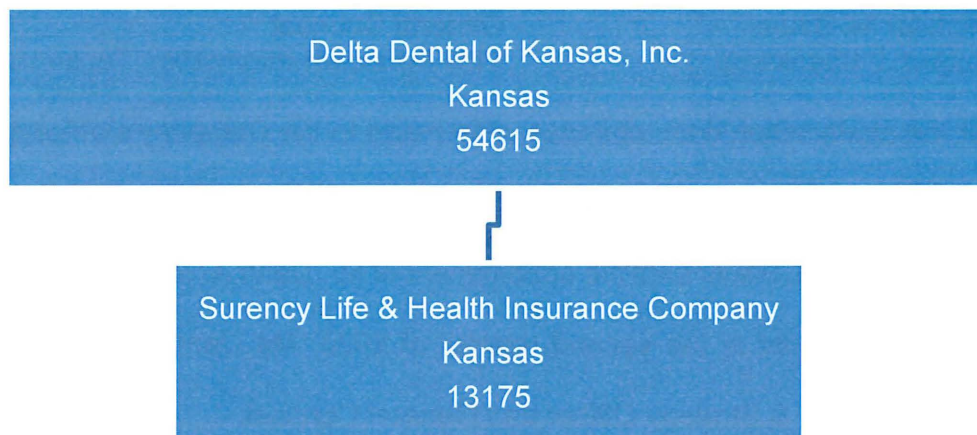
Further, Mr. Michael D. Ellis was succeeded by Mr. Jonathan B. Dougherty as Treasurer & Chief Financial Officer in the third quarter of 2020. Mr. Michael D. Ellis now serves as the Controller of DDKS.

Further, Ms. Natalie L. Daney was appointed as Chief Sales Officer in the second quarter of 2020.

### **INSURANCE HOLDING COMPANY SYSTEM**

K.S.A. 40-3305 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 Form "B" and "C" registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The organizational chart below illustrates the holding company group structure as of December 31, 2019. DDKS owns 100% of the outstanding shares of SLHIC as of December 31, 2019.



### **Intercompany/Cost Sharing Agreements**

Effective January 1, 2012, the Company entered into a Common Paymaster Agreement with its parent, DDKS. Based on this contract, DDKS will timely pay on behalf of SLHIC all wages, salaries, bonuses, and payments for employee benefits due

employees for services rendered to SLHIC. In return, SLHIC pays DDKS for these services at cost.

Effective January 1, 2012, the Company entered into a Real Property License and Expense Sharing Agreement with its parent, DDKS. Based on this contract, DDKS agrees to share its home office and to share certain expenses incurred by them with SLHIC. These services will be reimbursed to DDKS at cost.

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

As of December 31, 2019, the Company is authorized to transact business in fourteen states including: Arizona, Arkansas, Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Michigan, Missouri, Nebraska, Ohio, Oklahoma, and Texas.

As of December 31, 2019, the Company's largest line of business is group accident and health at 100% of direct premiums written. The Company's primary product is vision insurance. The Company also offers group life products including health savings accounts, flexible spending accounts, and health reimbursement accounts. The Company also provides administrative services to self-insured business entities.

### **SELECT FINANCIAL INFORMATION**

The exhibit below shows the Company's financial results for the period of December 31, 2015, through December 31, 2019. The financial amounts were obtained from annual statements filed by the Company.

	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
<i>(in thousands)</i>					
Admitted Assets	8,931	10,963	11,810	12,808	14,910
Liabilities	1,753	3,062	2,964	2,516	2,955
Capital and Surplus	7,178	7,901	8,846	10,292	11,955
Net Gain/(Loss) From Operations	(534)	13	(58)	(319)	5
Net Income	(549)	(16)	(34)	(264)	67
Net Premiums Written	5,032	12,479	12,904	11,984	12,546

### **REINSURANCE**

The Company does not cede or assume any business through reinsurance.

### **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, 2019. Any accompanying comments on the 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**  
**ASSETS**  
**AS OF DECEMBER 31, 2019**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 7,584,680	\$ -	\$ 7,584,680
Common stocks	1,925,818	-	1,925,818
Cash and short-term investments	5,066,337	-	5,066,337
Investment income due & accrued	57,515	-	57,515
Uncollected premiums and agents' balances in the course of collection	237,971	1,985	235,986
Amounts receivable relating to uninsured plans	39,310	-	39,310
EDP equipment and software	3,392	3,392	-
Furniture and equipment	14,630	14,630	-
Receivables from parent, subsidiaries and affiliates	100,000	100,000	-
Aggregate write-ins for other than invested assets	78,051	78,051	-
Total assets	<u>\$ 15,107,704</u>	<u>\$ 198,058</u>	<u>\$ 14,909,646</u>

**SURENCY LIFE & HEALTH INSURANCE COMPANY**  
**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**AS OF DECEMBER 31, 2019**

A&H contract claims	\$ 1,919,650
Premiums and annuity considerations for life and accident and health contracts received in advance	11,911
General expenses due or accrued	354,269
Asset valuation reserve	325,477
Payable to parent, subsidiaries and affiliates	318,139
Liability for amounts held under uninsured plans	24,893
Total liabilities	<u>\$ 2,954,339</u>
Common capital stock	\$ 1,300,000
Gross paid in and contributed surplus	14,680,580
Unassigned funds (surplus)	<u>(4,025,273)</u>
Total capital and surplus	\$ 11,955,307
Total liabilities, surplus and other funds	<u><u>\$ 14,909,646</u></u>

**SURENCY LIFE & HEALTH INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Premiums and annuity considerations for life and accident and health contracts	\$ 12,546,110
Net investment income	227,933
Amortization of Interest maintenance reserve	(3,572)
Totals	<u>\$ 12,770,471</u>
Disability benefits and benefits under accident and health contracts	\$ 10,673,592
Commissions on premiums, annuity considerations and deposit type contract funds	541,927
General insurance expenses and fraternal expenses	1,342,407
Insurance taxes, licenses and fees, excluding federal income taxes	207,063
Totals	<u>\$ 12,764,989</u>
Net gain from operations before dividends to policyholders	\$ 5,482
Dividends to policyholders	<u>-</u>
Net gain from operations after dividends to policyholders	5,482
Federal and foreign income taxes incurred	<u>-</u>
Net gain from operations after dividends to policyholders refunds to members and federal income taxes	5,482
Net realized capital gains	61,736
Net income	<u><u>\$ 67,218</u></u>

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

Capital and surplus, December 31, 2015			<u>\$ 7,177,874</u>
Net income	2016	(15,794)	
	2017	(33,808)	
	2018	(264,034)	
	2019	<u>67,218</u>	(246,418)
Change in net unrealized capital gains or (losses)	2016	93,137	
	2017	183,587	
	2018	(223,981)	
	2019	<u>323,754</u>	376,497
Change in nonadmitted assets	2016	24,249	
	2017	(60,303)	
	2018	(64,688)	
	2019	<u>79,073</u>	(21,669)
Change in asset valuation reserve	2016	(75,911)	
	2017	(111,785)	
	2018	89,838	
	2019	<u>(222,281)</u>	(320,139)
Surplus adjustment: paid in	2016	697,414	
	2017	967,739	
	2018	1,907,980	
	2019	<u>1,416,029</u>	<u>4,989,162</u>
Capital and surplus, December 31, 2019			<u><u>\$ 11,955,307</u></u>

### **ANALYSIS OF CHANGES IN 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, 2019, was \$11,955,307, which was the same amount reported by the Company in its 2019 filed Annual Statement.

### **COMMENTS ON FINANCIAL STATEMENTS**

No comments on the financial statements were identified that warranted inclusion in this Report on Examination.

### **SUBSEQUENT EVENTS**

The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. However, the Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if concerns arise.

### **SUMMARY OF RECOMMENDATIONS**

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

### **CONCLUSION**

The officers of the Company provided the necessary assistance and cooperation during the course of this examination. In addition to the undersigned, Damion Rhudd, CISA, CISM, CRISC - Manager and IT Specialist; Ben Glaudemans - IT Staff; Michelle January, MCM - Examiner; Nick Marella - Examiner; JJ Pan, CPA, CFE - Manager; Mike Dubin, FCAS, FSA, MAAA, FCA, - Actuarial Director; Felix Peysakhovich, ASA, MAAA -

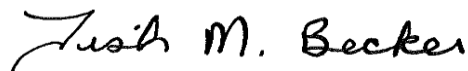
Actuarial Associate; Jake Powell - Actuarial Staff; from Baker Tilly representing the Department, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Philip G. Talerico". The signature is fluid and cursive, with a large initial "P" and "G".

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Philip G. Talerico, CPA, CFE, MCM  
Manager  
Examiner-in-Charge  
Baker Tilly US, LLP

A handwritten signature in black ink, appearing to read "Tish M. Becker". The signature is cursive, with a large initial "T" and "M".

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Tish Becker  
Department Designee  
Director of Financial Surveillance  
Kansas Insurance Department



## slegExhibit S - Examiners Affidavit as to Standards and Procedures Used in an Examination\_Surency.docx

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### E-Signature Summary

#### E-Signature 1: Philip Talerico (PT)

May 19, 2021 07:56:24 -8:00 [891E527CB735] [73.129.145.217]  
philip.talerico@bakertilly.com (Principal) (Personally Known)

#### E-Signature Notary: Erin Gee (ege)

May 19, 2021 07:56:24 -8:00 [D052B0CEFB1F] [149.20.202.88]  
erin.gee@bakertilly.com

I, Erin Gee, did witness the participants named above electronically sign this document.



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

State of Wisconsin,

County of Dane,

Philip G. Talerico, 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 Standards and Accreditation.
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.

  
Signed on 2021/05/19 07:56:24 -8:00

Examiner's Signature

Subscribed and sworn before me by Philip G. Talerico on this 19<sup>th</sup> day of May, 2021.



  
Signed on 2021/05/19 07:56:24 -8:00

My commission expires 09/22/2023  
(date)

