

SECU Life Insurance Company

Raleigh, North Carolina

Report on Examination

As of December 31, 2018

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April 22, 2020

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

SECU Life Insurance Company

(hereinafter referred to as the “Company”), at its main administrative office and statutory office located at 119 North, Salisbury Street, Raleigh, North Carolina. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2014 to December 31, 2018, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was an organizational examination as of December 31, 2013.

The purpose of this examination is to review and evaluate the Company’s business processes and controls to assist in accessing and monitoring its current financial condition and prospective solvency. Pursuant to GS § 58-2-132, this Report on Examination comprises only facts appearing in the books, records, or other documents of the Company (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause 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 and the following key functional activities were identified:

Capital and Surplus
Investments
Related Parties
Reserves and Claims Handling
Underwriting and Premiums

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This 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 from the Company's financial statements.

This examination report includes significant findings of fact 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 the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Johnson Lambert, LLP of Raleigh, North Carolina, the designated independent public accountant of the Company, issued an unmodified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2018.

REPORT ACRONYMS

Board of Directors	“Board”
Financial Condition Examiner’s Handbook	“Handbook”
General Statutes of North Carolina	“GS”
National Association of Insurance Commissioners	“NAIC”
North Carolina Department of Insurance	“Department”
SECU Life Insurance Company	“Company”
State Employees’ Credit Union	“SECU”

SUMMARY OF FINDINGS

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

- a. Conflict of interest forms were not executed annually by all officers of the Company. The Company did not have the required form for one officer of the Company for 2017. Pursuant to the North Carolina Administrative Code Title 11 Chapter 11C.0117, the Company is directed to execute conflict of interest forms annually.

COMPANY HISTORY

The Company was incorporated on October 4, 2012, and became a licensed stock life insurance company on January 1, 2013. On January 2, 2013, the Company commenced business and the State Employees’ Credit Union (“SECU”) invested \$25,000,000 to capitalize the Company in exchange for 250,000 shares of \$10 par value common stock

CAPITAL STOCK

As of December 31, 2018, the Company’s capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	250,000
Total common capital stock	\$2,500,000
Par value per share	\$10

No additional shares were issued during the period under examination. As of December 31, 2018, all outstanding shares are owned by SECU.

At December 31, 2018, the Company reported \$22,500,000 in gross paid-in and contributed surplus and \$3,781,189 in unassigned funds.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Board of Directors

All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of the board of directors (“Board”). The bylaws specify that the number of Directors shall be not less than three (3) nor more than nine (9). Directors are elected annually, at the annual meeting of shareholders, and each director shall hold office until his death, resignation, retirement, removal, disqualification, or until his successor is elected and qualified.

The following individuals served as directors as of December 31, 2018:

Name	Location	Principal Occupation
Michael Lord	Raleigh, NC	Chief Executive Officer/President, SECU
Leigh Brady	Raleigh, NC	Executive Vice President – Organizational Development, SECU
Jammison Applequist	Garner, NC	Chief Administrative Officer – Service Delivery, SECU
Robert Dixon	Raleigh, NC	Senior Vice President – Corporate Quality Control, SECU
Jennifer Hamrick	Raleigh, NC	Executive Vice President – Organizational Support, SECU
Maurice Smith	Cary, NC	Chief Executive Officer, Local Government Federal Credit Union

The Board established several committees including the Audit Committee and Investment Committee to act on behalf of the Company.

The following individuals served on committees as of December 31, 2018:

Audit Committee

Michael Lord - Chair
Leigh Brady
Jammison Applequist
Robert Dixon
Jennifer Hamrick
Maurice Smith

Investment Committee

Michael Lord
Jammison Applequist
Rex Spivey
Bill Umphlett
Stacey Waddell

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer and any other officers deemed necessary by the Board. All officers shall hold office until his death, resignation, retirement, removal, disqualification, or his successor shall have been appointed. Any two offices may be held simultaneously by the same person, but no person may act in more than one capacity where action of two or more officers is required.

The following individuals served as officers of the Company as of December 31, 2018:

Name	Title
W. William Umphlett	President/Chief Executive Officer
Stacey Waddell	Secretary/Chief Operating Officer
Rex Spivey	Treasurer/Chief Financial Officer

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed the Company was missing one signed conflict of interest form from years 2014-2018. (Refer to the Summary of Findings).

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's articles of incorporation and bylaws were reviewed for any changes during the period under examination. No changes were noted regarding articles of incorporation and bylaws for the Company.

CORPORATE ORGANIZATION

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is wholly-owned by SECU, a North Carolina-chartered Credit Union.

The Company's 2018 Annual Statement Schedule Y contains a complete organization chart.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2018 Annual Statement Schedule E, Part 3 contains a complete description

and listing of the Company's statutory deposits by state. The Company maintains a statutory deposit in North Carolina only.

FIDELITY BONDS AND OTHER INSURANCE

The Company has fidelity bond coverage totaling \$4,000,000 in aggregate, which exceeds the minimum amount of fidelity bond coverage recommended by the Handbook.

In addition, the Company has a Professional Liability Coverage policy, which appeared to be adequate to cover risks in the normal course of business.

RELATED PARTY AGREEMENTS

The Company has a management agreement with SECU, effective April 29, 2013, whereby SECU is reimbursed for the services and goods provided to the Company, including employees, office facilities, and software. Under this agreement, the Company paid fees totaling \$1,345,965 and \$1,069,987 in 2018 and 2017, respectively.

The Company has a General Agency Agreement with SECU, effective January 16, 2013, whereby the Company appoints SECU's subagents as agents of the Company for the purpose of marketing and selling life insurance and annuity contracts. In return, SECU receives commission for all the life and annuity policies written on behalf of the Company. Under this agreement, the Company paid fees totaling \$264,015 and \$205,793 in 2018 and 2017, respectively.

The Company has a Custodial Agreement with SECU Brokerage Services, Inc. effective August 21, 2013, whereby SECU Brokerage provides brokerage services to the Company. Under this agreement, the Company paid fees totaling \$20 and \$0 in 2018 and 2017, respectively.

The Company has a Mortgage Loan Purchase Agreement with SECU effective January 17, 2014, whereby the Company purchases mortgage loans originated and owned by SECU, at par, up to the statutory limit as defined in GS 58-7-170(c). Under this agreement, the Company purchased \$6,491,098 and \$5,422,212 in mortgage loans in 2018 and 2017, respectively.

The Company has an Automated Clearing House Network ("ACH") Agreement with SECU, effective June 4, 2014, whereby the Company initiates credit and/or debit entries through SECU to accounts maintained at SECU and in other depository institutions by means of ACH. Under this agreement, the Company did not pay any fees in 2018 and 2017.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write life insurance and annuities only in the State of North Carolina. The Company operates through SECU employees to write individual life insurance (term and whole), group life insurance, single premium fixed deferred annuities, and single premium fixed immediate annuities.

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five year period ended 2018:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Income
2018	\$50,345,718	\$28,781,189	\$10,069,714	\$1,144,309
2017	\$43,299,840	\$27,407,025	\$7,684,925	\$1,040,991
2016	\$37,423,783	\$26,196,779	\$7,128,981	\$588,424
2015	\$31,643,720	\$25,549,836	\$6,347,009	\$912,853
2014	\$26,256,570	\$24,606,520	\$2,145,153	\$326,614

ACTUARIAL OPINION

Every life insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial memorandum in accordance with GS § 58-58-50.

The statutory reserves and related items for 2018 were reviewed and certified by the Company's Appointed Actuary, Edward Mire, F.S.A., of Rudd and Wisdom Inc. Consulting Actuaries. Actuarial opinions regarding the Company's policy reserves were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the policy reserve. According to the actuarial opinions, the Company's aggregate reserves met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all actuarial reserves of the Company.

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, 2018. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2017, are unexamined and are presented for comparative purposes only.

SECU Life Insurance Company
Statutory Statement of Admitted Assets
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Bonds	\$18,610,092	\$16,615,435
Mortgage Loans	18,602,590	15,919,709
Cash	12,169,887	9,868,242
Total cash and invested assets	49,382,569	42,403,386
Investment income due and accrued	26,096	128,556
Uncollected premiums and agents' balances in course of collection	97,523	92,811
Deferred Premiums, agents' balances and installments booked but deferred and not yet due	11,252	8,142
Net deferred tax asset	552,748	309,112
Receivables from parent	275,530	357,833
Total admitted assets	\$50,345,718	\$43,299,840

SECU Life Insurance Company
Statutory Statement of Liabilities, Capital and Surplus
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Aggregate reserve for life contracts	\$18,856,665	\$13,124,535
Liability for deposit-type contracts	2,222,877	2,033,611
Contract life claims	137,000	285,000
Premiums and annuity considerations received in advance	4,007	253,888
General expenses due or accrued	43,500	53,082
Taxes, licenses and fees	26,607	23,065
Federal income tax liability	148,142	33,892
Amounts withheld or retained by Company	3,094	3,326
Asset Valuation Reserve	74,410	63,679
Payable to parent	48,227	18,737
Total Liabilities	21,564,529	15,892,815
Common capital stock	2,500,000	2,500,000
Gross paid in and contributed surplus	22,500,000	22,500,000
Unassigned funds	3,781,189	2,407,025
Total capital and surplus	28,781,189	27,407,025
Total Liabilities, Capital and Surplus	\$50,345,718	\$43,299,840

SECU Life Insurance Company
Statutory Statement of Operations
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Revenues		
Premiums and annuity considerations for life and accident and health contracts	\$10,069,714	\$7,684,925
Net investment income	1,242,560	1,056,148
Total revenues	11,312,274	8,741,073
Deductions		
Death benefits	1,333,500	1,367,384
Annuity benefits	343,855	359,510
Surrender benefits and withdrawals for life contracts	3,710	1,941
Interest and adjustments on contract or deposit-type contract funds	86,571	68,079
Payments on supplementary contracts with life contingencies	331,391	237,701
Increase in aggregate reserves for life and accident and health contracts	5,732,130	3,955,051
Total deductions	7,499,766	5,751,965
Expenses and Other Deductions		
Commissions on premiums, annuity considerations and deposit-type contract-type contract funds (direct business only)	264,015	205,793
General insurance expenses	1,712,141	1,390,245
Insurance taxes, licenses and fees, excluding federal income taxes	146,511	115,365
Increase in loading on deferred and uncollected premiums	1,826	5,978
Total expenses and other deduction	9,624,259	7,469,346
Net gain from operations after dividends and before taxes	1,688,015	1,271,727
Federal income taxes incurred	543,706	230,736
Net gain from operations before realized capital losses	1,144,309	1,040,991
Net Income	\$1,144,309	\$1,040,991

SECU Life Insurance Company
Statutory Statement of Capital and Surplus
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Capital and surplus, beginning of year	\$27,407,025	\$26,196,779
Capital and surplus increases (decreases):		
Net Income	1,144,309	1,040,991
Change in net deferred income tax	243,636	160,088
Change in non-admitted assets	(3,050)	17,126
Change in asset valuation reserve	(10,731)	(7,959)
Capital and surplus, end of year	\$28,781,189	\$27,407,025

SECU Life Insurance Company
Statutory Statement of Cash Flow
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Cash From (Used By) Operations		
Premiums collected net of reinsurance	\$9,810,185	\$7,919,975
Net investment income	1,313,483	1,030,868
Total	11,123,668	8,950,843
Benefit and loss related payments	1,829,065	1,644,835
Commissions, expenses paid and aggregate write-ins	2,128,707	1,675,629
Federal income taxes paid	429,456	200,722
Total	4,387,228	3,521,186
Net cash from operations	6,736,440	5,429,657
Cash From Investments		
Proceeds from investments sold, matured, or repaid	3,808,217	3,432,535
Cost of investments acquired	8,454,218	5,422,212
Net cash (used by) Investments	(4,646,001)	(1,989,677)
Cash From (Used By) Financing and Miscellaneous Sources		
Net deposits on deposit-type contracts	102,695	221,868
Other cash provided	108,511	43,027
Net cash from financing and miscellaneous sources	211,206	264,895
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	2,301,645	3,704,875
Cash and short-term investments, beginning of year	9,868,242	6,163,367
Cash and short-term investments, end of year	\$12,169,887	\$9,868,242

COMMENTS ON FINANCIAL STATEMENTS

Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

Nonadmitted assets: Certain assets, such as premiums over 90 days past due, excess of book value over market value for securities, and prepaid expenses are "nonadmitted" and are charges against surplus.

Mortgage loans: Mortgage loans on real estate are reported at the balance of unpaid principal less valuation allowance and nonadmitted other than first liens.

Premiums: Life insurance premiums are recognized as income over the premium paying period. Annuity considerations are recognized as revenue when received. Accident and Health premiums are earned ratably over the terms of the policies.

Asset valuation reserve: Maintained as prescribed by the NAIC.

Policy Reserves: Life and annuity policy liabilities are developed by actuarial methods and are intended to provide, in the aggregate, reserves that are greater than, or equal to, the minimum or guaranteed policy cash values or the amounts required by law. Deposit-type reserves are computed as deposits net of withdrawals, plus amounts credited based on contract specifications, less contract fees charged assessed. The liabilities for unpaid claims is based upon estimates of payments to be made for claims incurred that have been reported and unreported.

Analysis of Assets:

The Company reported prepaid expenses totaling \$12,398 as non-admitted at December 31, 2018.

Summary of Reserves:

The following provides a reconciliation of the Company's reserves as of December 31:

Policy Reserves

Life Contracts	2018	2017
Ordinary life contracts	\$3,734,317	\$2,186,458
Annuities - Ordinary	13,921,492	9,998,289
Miscellaneous Reserves	1,200,856	939,788
Total Life and Annuities	18,856,665	13,124,535
Total Policy Reserves	\$18,856,665	\$13,124,535

Deposit-Type Contracts	2018	2017
Balance at January 1	\$2,033,611	\$1,743,664
Deposits received during the year	404,747	664,344
Investment earnings credited to the account	62,549	55,638
Other net changes in reserves	24,022	12,441
Net surrender or withdraw payments	302,052	442,476
Balance at December 31	\$2,222,877	\$2,033,611

Claims Reserves

Liability for Unpaid Life and Annuity Benefits	2018	2017
Life Insurance	\$50,000	\$260,000
Incurred but not reported		
Life Benefits	87,000	25,000
Total Incurred during the year	87,000	25,000
Balance at December 31	\$137,000	\$285,000

Capital and Surplus:

The following, in conjunction with the Statutory Statement of Capital and Surplus (see page 11), represents the changes in the Company's capital and surplus since the Department's last examination as of December 31, 2013:

	2016	2015	2014
Capital and surplus, beginning of year	\$25,549,836	\$24,606,520	\$24,385,330
Capital and surplus increases (decreases):			
Net income	588,424	912,853	326,614
Change in net deferred income tax	59,219	39,304	(44,419)
Change in nonadmitted assets	9,425	5,590	(29,841)
Change in asset reserve valuation	(10,125)	(14,431)	(31,164)
Net change in surplus as regards policyholders for the year	646,943	646,943	221,190
Capital and surplus, end of year	\$26,196,779	\$25,549,836	\$24,606,520

Contingencies and Commitments:

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company.

SECU Life Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2018

Rex Spivey, Chief Financial Officer
119 North Salisbury Street, Floor 10
Raleigh, North Carolina, 27603

Stacey Waddell, Chief Operating Officer
119 North Salisbury Street, Floor 10
Raleigh, North Carolina, 27603

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$750,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

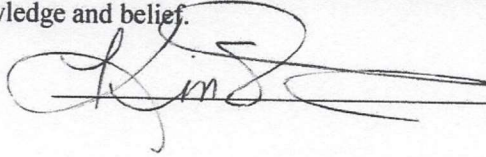
April 22, 2020

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Kimmea Stevenson, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature:

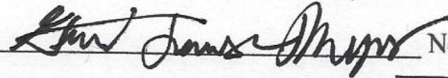


Date:

4/22/2020

Sworn and subscribed before me this 22nd day of April, 2020.

Notary Public Signature:



Notary Public Seal:

GRANT JAMES MYERS
NOTARY PUBLIC
Wake County
North Carolina
My Commission Expires Aug. 18, 2024