



## MISSISSIPPI INSURANCE DEPARTMENT

**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

501 N. WEST STREET, SUITE 1001  
WOOLFOLK BUILDING  
JACKSON, MISSISSIPPI 39201  
www.mid.state.ms.us

**MARK HAIRE**  
Deputy Commissioner of Insurance

MAILING ADDRESS  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
TELEPHONE: (601) 359-3569  
FAX: (601) 359-2474

January 12, 2015

### CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. Scott M. Quist, President  
Southern Security Life Insurance Company, Inc.  
5300 South 360 West  
Salt Lake City, UT 84123

**RE: Report of Examination as of December 31, 2013**

Dear Mr. Quist:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

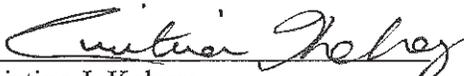
Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY  
COMMISSIONER OF INSURANCE

BY

  
Christina J. Kelsey  
Senior Attorney

MC/CJK/bs  
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF MISSISSIPPI**

**IN RE:   REPORT OF EXAMINATION OF SOUTHERN  
          SECURITY LIFE INSURANCE COMPANY, INC.**

**CAUSENO.15-6818**

**ORDER**

**THIS CAUSE** came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

**JURISDICTION**

**I.**

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011).

**II.**

That Southern Security Life Insurance Company, Inc. is a Mississippi-domiciled Company licensed to write Industrial Life, Industrial Accident and Health; Life and Life (Burial) coverages.

## FINDINGS OF FACT

### III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for an examination of Southern Security Life Insurance Company, Inc. and appointed Scott K. Eady, Examiner-In-Charge, to conduct said examination.

### IV.

That on or about November 12, 2014, the draft Report of Examination concerning Southern Security Life Insurance Company, Inc. for the period of January 1, 2009 through December 31, 2013, was submitted to the Department by the Examiner-In-Charge, Scott K. Eady.

### V.

That on or about December 1, 2014, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period to submit any rebuttal to the draft report. On or about January 8, 2014, the Company responded by email.

## CONCLUSIONS OF LAW

### VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

**IT IS, THEREFORE, ORDERED**, after reviewing the Report of Examination, all relevant examiner work papers and the Company's rebuttal, that the Report of Examination of Southern Security Life Insurance Company, Inc. attached hereto as Exhibit "A", should be and same is hereby adopted as final.

**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

**IT IS FURTHER ORDERED** that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, Southern Security Life Insurance Company, Inc. shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

**IT IS FURTHER ORDERED** that Southern Security Life Insurance Company, Inc. take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

**SO ORDERED**, this the 12<sup>th</sup> day of January 2015.

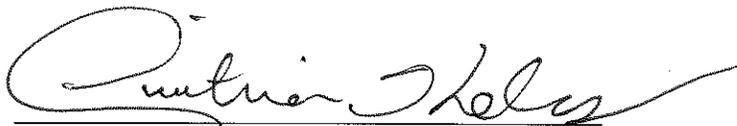


  
\_\_\_\_\_  
MIKE CHANEY  
COMMISSIONER OF INSURANCE

**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 12<sup>th</sup> day of January 2015, to:

**Mr. Scott M. Quist, President**  
**Southern Security Life Insurance Company, Inc.**  
**5300 South 360 West**  
**Salt Lake City, UT 84123**



Christina J. Kelsey  
Senior Attorney

Christina J. Kelsey  
Senior Attorney  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 9853



# **Mississippi Insurance Department**

## **Report of Examination**

**of**

**SOUTHERN SECURITY LIFE INSURANCE  
COMPANY, INC.**

**as of**

**December 31, 2013**

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

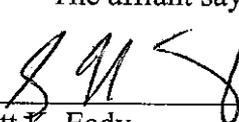
State of Mississippi,

County of Madison,

Scott K. Eady, being duly sworn, states as follows:

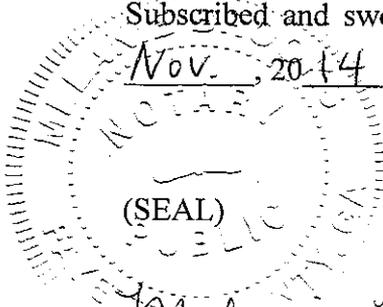
1. I have authority to represent Mississippi Insurance Department in the examination of Southern Security Life Insurance Company, Inc. as of December 31, 2013.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Southern Security Life Insurance Company, Inc. was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

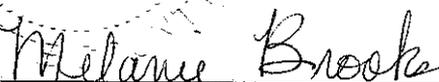
The affiant says nothing further.

  
\_\_\_\_\_

Scott K. Eady  
Examiner-In-Charge

Subscribed and sworn before me by Scott K. Eady on this 25<sup>th</sup> day of Nov., 2014.



  
\_\_\_\_\_

Melame Brook  
Notary Public

My commission expires October 30, 2017 [date].

\_\_\_\_\_  
Southern Security Life Insurance Company, Inc.  
MID Examination as of December 31, 2013



**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**MARK HAIRE**  
Deputy Commissioner of  
Insurance

## MISSISSIPPI INSURANCE DEPARTMENT

501 N. WEST STREET, SUITE 1001  
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www.mid.state.ms.us

MAILING ADDRESS  
Post Office Box 79  
Jackson, MS 39205-0079  
TELEPHONE: (601) 359-3569  
FAX: (601) 359-1951

November 12, 2014

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk State Office Building  
501 North West Street  
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2013, of the affairs and financial condition of:

### **SOUTHERN SECURITY LIFE INSURANCE COMPANY, INC.**

3935 I-55 South  
Jackson, Mississippi 39212

License #	NAIC Group #	NAIC #	FEETS#	Group Exam #
7701317	0454	75531	75531-MS- 2013-1	454-2012-1

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 *et seq.* The report of examination is herewith submitted.

### **SCOPE OF EXAMINATION**

We have performed our full-scope, single state examination of Southern Security Life Insurance Company, Inc. ("Company" or "SSLIC") as part of a coordinated examination on the part of the lead state of Utah and in conjunction with other jurisdictions (including Mississippi, Arkansas, Utah and Texas). The last exam was completed as of December 31, 2008. This examination covers the period January 1, 2009 through December 31, 2013, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination. The purpose of this examination is to assess the financial condition of the Company and set forth findings of fact

(together with citations of pertinent laws, regulations and rules) with regard to any material adverse findings disclosed by the examination. The examination was conducted primarily at the Company's administrative office in Salt Lake City, Utah; the primary location of the Company's records.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process.

### **COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION**

The following is a summary of comments and recommendations from examiners and responses from the Company (resolutions) contained in the prior examination report issued by the State of Mississippi, as of December 31, 2008:

#### **Recommendation:**

It is recommended that the Company prepare a formal, documented long-term strategic plan to address its future planning and business activities for a 3-5 year period in accordance with common business best practices and implement an annual budget plan whereby baseline goals and objectives are quantified with allowance for major impacts, such as investment deterioration, to be quantified and added to the plan when known.

#### **Resolution:**

The Company believes their current procedures and processes are adequate to obtain the same objectives as a formal strategic plan. The Company has implemented a formal annual budget of expenses by cost center. These budgets are reviewed monthly and adjusted as required. The monthly review process also includes an analysis of revenue, insurance claims and reserves, and investment performance compared to anticipated results. Top management reacts to variances to planned results as required.

#### **Recommendation:**

It is recommended that the Audit Director consider developing an audit plan for the Internal Audit Department. In addition, senior management should consider obtaining external investment advice in the area currently handled by the internal audit director to reestablish the independent nature of the function. Any excess available time of the internal audit director could be spent on assistance to the external auditors, which could help to keep down audit costs.

***Resolution:***

The Audit Director worked closely with Protiviti during 2009 to identify the areas of greatest concern in satisfying the requirements of the Sarbanes-Oxley Act of 2002. In order to ensure, an independent approach to the audit of these areas, the Company used outside auditors from Protiviti to test a number of significant processes. These processes continue to be strengthened and additional processes have been included in the audit plan.

The activity of the Audit Director in the investments of the Company involves only a small portion of the investment portfolio and includes analysis of potential bonds and other equity investments for which the Audit Director is highly qualified to review and provide insight to management of the Company. Management approves all investment activity and the Audit Director is not involved in the recording and reporting of investment transactions in the financial systems. The limited scope of this investment activity and the use of external auditors to assist in the audit function should not hinder the ability of the Audit Director to act independently in all but a very small area of the Company. This area of investments is reviewed annually by Protiviti. The Audit Director continues to report directly to the Audit Committee and works independent of, but closely with, Senior Management.

**Recommendation:**

It is recommended that official position descriptions and responsibilities be developed and kept up to date.

***Resolution:***

The Company maintains and provided an organizational chart of the Security National Life Insurance Company including departments and job titles to the auditors. In addition, the auditors were provided a chart of individuals in the Finance Department including length of experience and specific job functions. The Finance Department maintains a closing document that assigns specific account reconciliations and other closing functions to individuals. Processes are written that explain the activities performed within the various departments. The Company feels this is sufficient information to appropriately assess the staffing and activities of individuals and departments.

**Recommendation:**

It is recommended that the actuarial staff sign off on reports and procedures and maintain historical records to document internal controls.

***Resolution:***

The Actuarial Department provides inputs pertaining to actuarial adjustments to the Accounting Department on a monthly basis. The Actuarial Department signs-off on and maintains historical copies of this document. Formal closing procedures have been created but will continue to be improved. Historical information is maintained electronically and supports each month's activity. This information is maintained for a minimum of three years or until the completion of the state statutory examination.

**Recommendation:**

It is recommended that an appropriate apportionment of expenses be done and employed in future analyses.

***Resolution:***

The Company reviews the apportionment of expenses and adjusts as appropriate.

**Recommendation:**

It is recommended that the Company obtain written agreements for all business processed for Class A and B Funeral Associations.

***Resolution:***

The Company has obtained or is working to obtain written agreements from all business processed for Class A and Class B Funeral Associations.

**Recommendation:**

It is recommended that the actuarial department maintain adequate documentation of its asset adequacy testing on a legal entity basis.

***Resolution:***

The Company has implemented procedures that adequately document asset adequacy testing by legal entity for entities that require cash flow testing. Cash flow testing is not required nor performed on zero net liability entities.

**Recommendation:**

It is recommended that the Company implement controls to insure the integrity of the information and calculations reported upon from these spreadsheets.

***Resolution:***

The insurance operations of the Company are managed entirely with the use of software including but not limited to USSI and LifePro. These software packages track and record all activity related to individual policies and the application of premiums, payment of claims, agent commissions and any other activity that occurs in the normal course of business. All of the transactions tracked by the insurance software are interfaced throughout the month to the general ledger system. Journal entries to make adjustments to comply with both GAAP and STAT accounting are entered to the general ledger with journal entries. Therefore, all transactions throughout the month are either generated electronically and interfaced into the general ledger or entered directly with journal entries or through modules included in the general ledger software.

Financial spreadsheets used by the Company are generated using the FRX reporting system directly from the general ledger. Spreadsheets are used by the Company due to the greater flexibility to generate specific reports and information for management and other users of the information. In addition, spreadsheets are restricted as to users. Only assigned individuals can change data within the spreadsheets. We feel that existing controls are adequate to ensure the integrity of the data.

## **HISTORY OF THE COMPANY**

The Company was incorporated on January 23, 1973, as Southern Security Insurance Company, Inc., under the laws of the State of Mississippi, as a burial company. The original Articles of Incorporation provided for authorized capital of \$25,000 representing 250 shares of common stock with a par value of \$100 per share.

An amendment to the Articles of Incorporation, approved by the stockholders at a meeting held May 5, 1976, provided for an increase in authorized capital to \$200,000 representing 100,000 shares of common stock with a par value of \$2.00 per share. In addition, the amendment provided for the corporate name be changed to Southern Security Life Insurance Company, Inc.

On June 4, 1990, Articles of Amendment were passed providing for the authorization to issue 100,000 shares of Class A (voting) with a par value of \$2.00 per share and 1,000,000 shares of Class B (non-voting) common capital stock with a par value of \$1.00 per share. All capital stock of the Company outstanding at June 4, 1990 was reissued as Class A common stock in a subsequent amendment on July 20, 1990.

On December 18, 2008 the Company completed a stock purchase transaction with Security National Life Insurance Company ("SNLIC"); a Utah domiciled insurance company, whereby SNLIC agreed to purchase all of the outstanding shares of the Company from its shareholders. Under the terms of the agreement, SNLIC paid purchase consideration equal to \$1,352,134, representing the capital and surplus, interest maintenance reserve and asset valuation reserve of the Company as of September 1, 2008, the date SNLIC assumed administrative control over the Company, plus \$1,500,000, representing the ceding commission that had been paid on August 29, 2008, plus \$75,883, representing an actual loss allowance experienced by the Company in the second quarter, ended June 30, 2008, less certain adjustments.

As a result of the transaction, on August 29, 2008, SNLIC and the Company entered into a reinsurance agreement to reinsure the majority of the in-force business of the Company to the extent permitted by the Mississippi Insurance Department. Certain insurance business and operations were transferred to SNLIC, including all policies in force as of the administrative control date. All future business would be covered by this reinsurance agreement.

As of December 31, 2013, the Company's authorized lines of insurance were Life, Industrial Life, Industrial Accident and Health, and Life (Burial). The Company was previously authorized to write business in Arkansas but relinquished its license on December 27, 1995. The Company continues to collect premiums and pay premium taxes in Arkansas on business previously written, but does not write any new business.

## **CORPORATE RECORDS**

The Articles of Incorporation, Bylaws and amendments thereto were reviewed and duly applied in other sections of this report where appropriate. Minutes of the meetings of the Shareholder,

Board of Directors (Board), and various committees, as recorded during the period covered by this examination, were reviewed and appeared to be complete and in order with regard to actions discussed at the meetings for appropriate action, which included the approval and support of the Company's transactions, as well as review of the audit and examination report.

## MANAGEMENT AND CONTROL

### Stockholders

As of December 31, 2013, the Company had issued and outstanding 50,000 shares of its 100,000 authorized Class A common capital stock with a par value of \$2 per share and 450,000 shares of its 1,000,000 authorized shares of Class B common capital stock with a par value of \$1 per share. The common capital stock was 100% owned by Security National Life Insurance Company. The Company paid \$0 in shareholder dividends during the period under examination.

### Board of Directors

The Board of Directors consisted of nine (9) members, which is in compliant with the Company Bylaws. Directors are appointed by either written consent in lieu of an annual meeting or during an annual meeting of the Shareholder of the corporation. The following persons served as directors of the Company as of December 31, 2013:

<b>Name and Location</b>	<b>Primary Occupation</b>
Scott Milton Quist Sandy, Utah	President and Chairman Security National Financial Corporation
Jack Lynn Beckstead, Jr. Alpine, Utah	President Security National Mortgage Company
John Lester Cook Sandy, Utah	Co-Owner Cook Brothers Painting, Inc.
Gilbert Amos Fuller Sandy, Utah	Executive Vice President and CFO USANA Health Sciences
Robert Gail Hunter, M.D. Sandy, Utah	Department Head of Otolaryngology Intermountain Medical Center
Howard Craig Moody Sandy, Utah	Owner Moody & Associates
Norman Gilbert Wilbur Georgetown, Texas	Manager of Planning & Reporting, Retired JC Penny
Jason Gary Overbaugh Draper, Utah	Vice President Security National Financial Corporation
Scott Andrew Quist Draper, Utah	Vice President Security National Financial Corporation

## Committees

As of December 31, 2013, the Board of Directors has the following committees in place: Executive Committee, Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee with membership as indicated below:

<b>Executive Committee</b>	<b>Audit Committee</b>
Scott Milton Quist	Norman Gilbert Wilbur
Gilbert Amos Fuller	Gilbert Amos Fuller
Scott Andrew Quist	Howard Craig Moody
Howard Craig Moody	

<b>Compensation Committee</b>	<b>Nominating and Corporate Governance Committee</b>
John Lester Cook	John Lester Cook
Robert Gail Hunter, M.D.	Robert Gail Hunter, M.D.
Gilbert Amos Fuller	Gilbert Amos Fuller
Howard Craig Moody	Howard Craig Moody
Norman Gilbert Wilbur	Norman Gilbert Wilbur

## Officers

At each annual meeting of the Board of Directors, the Board is to elect the officers of the Company in accordance with the Bylaws.

Officers as of December 31, 2013 were as follows:

<b>Name</b>	<b>Title</b>
Scott Milton Quist	President
Jeffrey Russell Stephens	Secretary
Garrett Stephen Sill	Treasurer and CFO
Faye Anne Ruby Blackett	Vice President
Diana Carroll Olson	Vice President
Christie Quist Overbaugh	Vice President
Jason Gary Overbaugh	Vice President
Scott Andrew Quist	Vice President
Stephen Williams Turner	Vice President
John Wayne Van Valkenburg	Vice President

## **Conflict of Interest**

The Company has an established policy whereby each officer and director completes a conflict of interest questionnaire each year disclosing any potential or conceivable conflict with the director's or officer's responsibilities within or for the Company. The conflict of interest questionnaires were completed by all the directors and officers of the Company for the calendar years 2009, 2010, 2011, 2012 and 2013. A review of the disclosures made by the officers and directors did not reveal any material exceptions to the Company's established policies.

## **Corporate Governance**

The risk-focused surveillance approach requires examiners to consider the insurer's corporate governance and established risk management processes. This evaluation includes assessing the "tone at the top", board of directors and management oversight and understanding and conveyance of the necessity of internal controls to employees. The Company shares common management and control with its parent company, Security National Life Insurance Company (SNLIC).

Upon review of the corporate governance structure, it was noted that the Company has an experienced board of directors and management team. The Company has appropriately and adequately bonded its directors and officers. At year-end, the Board of Directors, which per the Company Bylaws, are appointed by the shareholders (SNLIC) and hold a term of office until the next meeting of the shareholders, consisted of five independent and four non-independent members. All non-independent members are employees of affiliated companies. The Board is required to meet at least annually. In addition, the Board regularly conducts business via conference calls and written consents throughout the year. The Board had appointed an Audit Committee with insurance and financial expertise. The management records, such as Board and Audit Committee meeting minutes appeared to be in order. Information regarding the Board members, Audit Committee and other related information can be found in the "Management and Control" section of this report.

The appropriateness of the entity's organizational structure and its ability to provide the necessary information flow to manage its activities were considerations in obtaining our understanding of the organizational structure. Our consideration also encompassed understanding of the assignment of authority and responsibility. Our consideration of corporate governance encompassed the risk management function through discussions with senior management and members of the Board and through gaining an understanding of the risk management function including inspection of relevant risk management documentation. Upon our review and consideration of these components and functions, there were no material concerns or exceptions noted.

Management competence is a consideration in overall assessment of corporate governance. In our review of this area, we considered factors such as management's experience level and management turnover. There were no material concerns noted upon our consideration of this area. As indicated in the Management and Control section of this report, key management has significant experience with the Company and the officer/employee turnover ratio was low.

## **HOLDING COMPANY STRUCTURE**

The Company was a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company was required to file with the MID, Holding Company Registration Statements in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9. These filings set forth material changes in structure, identity or relationships of affiliates and any material transactions by and between the Company and its affiliates.

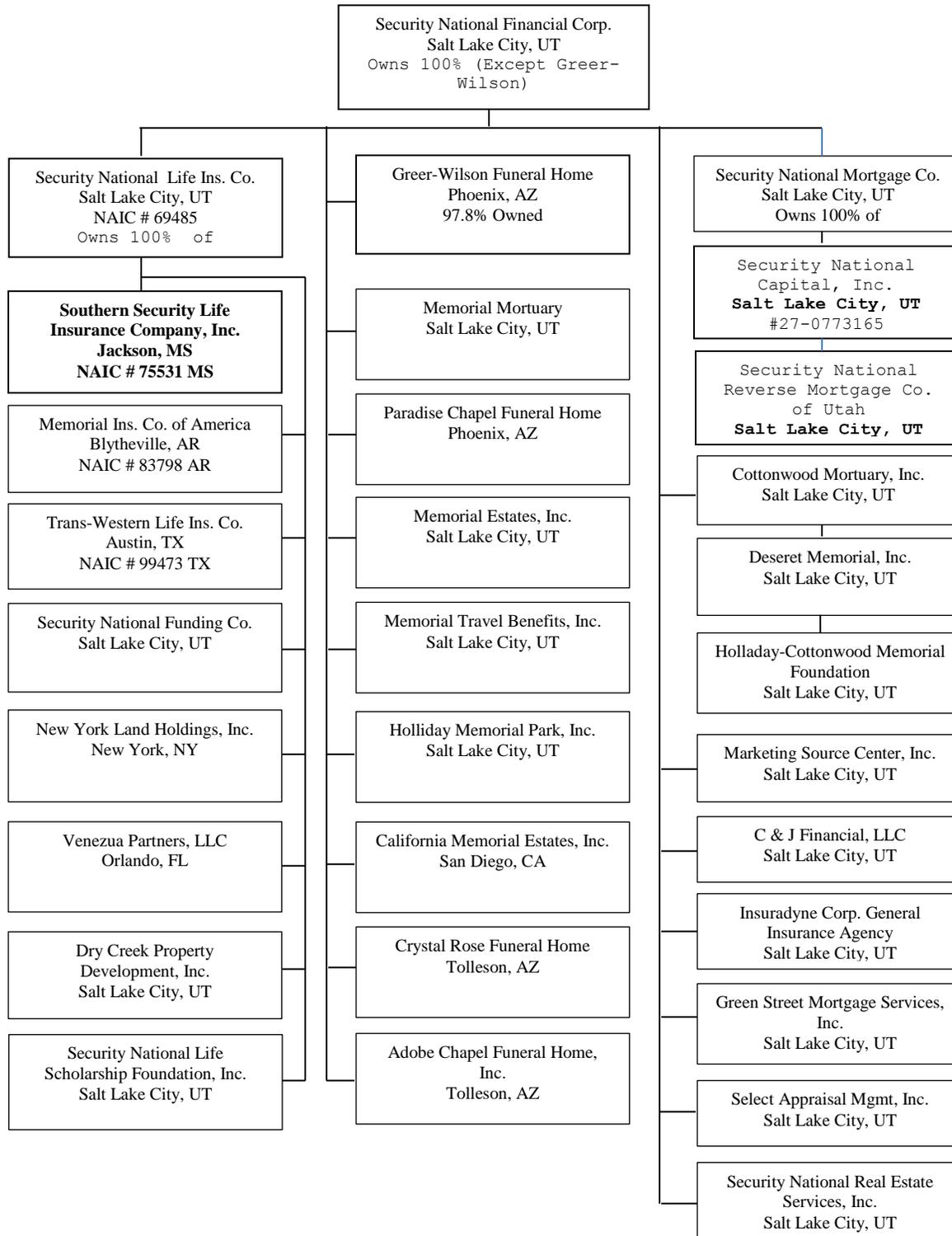
Security National Life Insurance Company owns 100% of the outstanding common capital stock of the Company. SNLIC is 100% owned by Security National Financial Corporation.

**SECURITY NATIONAL FINANCIAL CORPORATION (SNFC)** (ultimate parent) is a publicly-held company listed on the NASDAQ Exchange under the ticker symbol SNFCA. At December 31, 2013, SNFC and affiliates' consolidated financial statements reported assets of approximately \$619 million and net worth of approximately \$88 million. SNFC operates in three main business segments: life insurance, cemetery and mortuary, and mortgage loans. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products, and accident and health insurance. These products are marketed in 38 states through a commissioned sales force of independent licensed insurance agents. The cemetery and mortuary segment of SNFC consists of five cemeteries in the State of Utah and one cemetery in the State of California, and seven mortuaries in the State of Utah and one mortuary in the State of Arizona. SNFC also engages in pre-need selling of funeral, cemetery and cremation services. The mortgage loan segment originates and underwrites or otherwise purchases residential and commercial loans for new construction, existing homes and real estate projects. The mortgage loan segment operates through 88 wholesale and retail offices in 19 states, and is an approved mortgage lender in several other states.

**SECURITY NATIONAL LIFE INSURANCE COMPANY (SNLIC)** is a wholly-owned subsidiary of SNFC and parent of the Company. SNLIC offers various life and annuity products; most of which are marketed as a means to fund funeral and internment related costs.

## Holding Company Group Organizational Chart

The organizational chart below reflects ownership of the Company as of December 31, 2013:



## **Affiliated and Related Party Agreements & Transactions**

The Company's transactions with related parties were reviewed and the following items were considered notable for purposes of this report:

- **Allocation Agreement**

Effective December 18, 2008, the Company entered into an Allocation Agreement with SNLIC. Under the terms of the agreement, SNLIC provides accounting, actuarial, administrative, financial report preparation, policyholder administration, underwriting, data processing, legal, building management, marketing, investment and other services to the Company. The Company agrees to compensate SNLIC for an administrative and financial services that it shall provide to the Company under the agreement at cost on a pro-rata basis. For the twelve months ended December 31, 2013 and 2012, the Company paid SNLIC \$21,900 and \$40,000, respectively.

- **Reinsurance Agreement**

Effective August 13, 2008, the Company entered into a reinsurance agreement with SNLIC. Under the agreement, SNLIC assumes 100% of the Company's premiums and related risks, after the Company cedes a small amount to reinsurer Optimum Re. The Company pays SNLIC a reinsurance premium on all policies in effect from time to time in an amount equal to the gross premium earned by the Company. The premium paid to SNLIC is paid as it is collected by the Company. The reinsurance agreement transfers risk and contains arbitration and insolvency clauses.

- **Tax Sharing**

The Company's federal income tax return is consolidated with the entities in the holding company group. The method of allocation among the participating companies is approved by the Security National Financial Corporation (SNFC) Board of Directors, whereby allocation is made primarily from a consolidated return basis. The Board decides which companies are allocated expenses and benefits once the taxes are consolidated. The Board did not approve an allocation in 2013 or 2012 for the Company. It was noted that no written tax sharing agreement exists for the consolidated holding company group, as required by paragraph 16.b. of SSAP 101. This item is addressed as an examination issue, as discussed further in the **COMMENTS AND RECOMMENDATIONS** section of the report below.

## **FIDELITY BOND AND OTHER INSURANCE**

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for the Company is \$50,000. The Company is a named insured on a fidelity bond owned by SNLIC, which provides coverage of \$1,000,000. The amount of coverage exceeds the minimum requirements as recommended by NAIC guidelines. The Company is also a named insured on policies issued by authorized companies for normal hazards incident to conducting ordinary business.

## **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

SNFC provides pension, stock ownership and insurance plans for its employees and the employees of its subsidiaries. The insurance plans consist of group medical and group term life plans. The benefit plans includes a non-contributory employee stock ownership plan, a stock incentive plan and a 401(k) savings and profit sharing plan. The Company has no employees; therefore, the day-to-day operations are performed by employees of SNLIC through the Allocation Agreement described in the Affiliated and Related Party Agreements & Transactions section of the report above.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed in the State of Mississippi to provide industrial life, industrial accident and health, life and life (burial) insurance products. The Company's life insurance business includes funeral plans, as well as other traditional life and accident and health insurance products that are sold by direct agents and brokers and independent licensed agents.

## **GROWTH OF COMPANY**

The following table indicates key figures in evaluating the growth of the Company over the last three years:

	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Total admitted assets	\$ 1,647,854	\$ 1,645,088	\$ 1,612,668
Total liabilities	\$ 61,020	\$ 61,560	\$ 31,469
Total capital and surplus	\$ 1,586,834	\$ 1,583,524	\$ 1,581,199
Direct premiums written	\$ 982,195	\$ 1,143,603	\$ 1,290,048
Ceded premiums written	\$ 982,195	\$ 1,143,603	\$ 1,290,048
Net premium income	\$ -	\$ -	\$ -
Net underwriting gain (loss)	\$ 1,288	\$ (344)	\$ 1,387
Net Income (loss)	\$ 1,288	\$ 184	\$ 971

## **RESERVING AND UNPAID CLAIMS EXPERIENCE**

SNLIC actuary, Mr. Brian E. Speight, ASA, MAAA, issued the actuarial opinions for years 2010 through 2013. SNLIC actuary Mr. Mark W. Birdsall, FSA, MAAA, issued the actuarial opinion for 2009. Since the Company cedes 100% of its business to authorized affiliate and non-affiliate insurers and reinsurers, the Company does not record loss or loss adjustment expense reserves.

Each actuarial opinion reported that the amounts carried in the balance sheet for reserves and related actuarial items were fairly stated and computed in accordance with reserving standards and actuarial principles, reasonably provided for all unpaid claims and claims adjustment expense obligations of the Company, and met the requirements of the insurance laws of the State of Mississippi.

### **REINSURANCE**

The Company cedes a small portion of its business to Optimum Re and then cedes 100% of its remaining business to SNLIC under the terms of reinsurance agreements. The Company entered into a facultative reinsurance agreement with Business Men’s Assurance Company of America (BMA) on June 1, 1993, that was later transferred by BMA to Optimum Re. The business ceded to Optimum Re relates to policies issued prior to the Company’s acquisition by SNLIC.

The Company entered into a reinsurance agreement with SNLIC at the time of acquisition by SNLIC. The effective date of the agreement was August 28, 2008. The agreement requires SNLIC to reinsure all of the in force and future insurance liabilities of the Company. SNLIC also assumed complete administrative control of all insurance related business operations of the Company.

### **ACCOUNTS AND RECORDS**

The Company’s books and records are fully automated. The accounting system produces a general ledger, subsidiary detail and other reports as required for the preparation of the financial statements and other regulatory reporting. Tests of the Company’s accounts and records were determined based upon the examination procedures promulgated by the NAIC and applicable policies and directives issued by the Department. The Company’s systems appear to furnish a reliable audit trail.

The Company’s financial statements are subject to an annual audit conducted by independent certified public accountants. Larson and Company, P.C., performed the statutory audit for 2012 and 2013. Larson & Rosenberger, LLP, performed the statutory audit for 2009 through 2011. Unqualified opinions were issued for each year of the examination period.

### **STATUTORY DEPOSITS**

The Company’s statutory deposits with the state of Mississippi complied with Miss. Code Ann. §83-19-31 (2). The following chart displays the Company’s deposits at December 31, 2013.

Description	Par Value	Book Value	Fair Value
US Treasury Note	\$400,000	\$401,802	\$406,844

**SOUTHERN SECURITY LIFE INSURANCE COMPANY, INC.**

**FINANCIAL STATEMENTS**

**EXAMINATION AS OF DECEMBER 31, 2013**

The following financial statements reflect the same amounts reported by the Company and consist of a Statement of Admitted Assets, Liabilities, Surplus and Other Funds – Statutory at December 31, 2013, a Statement of Income – Statutory for the year ended December 31, 2013, a Reconciliation of Capital and Surplus – Statutory for examination period ended December 31, 2013, and a Reconciliation of Examination Changes to Surplus – Statutory at December 31, 2013.

**SOUTHERN SECURITY LIFE INSURANCE COMPANY, INC.**

**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS  
DECEMBER 31, 2013**

<b>Assets</b>	
Bonds	\$ 691,708
Mortgage loans on real estate: First liens	310,016
Real estate: Properties held for the production of income	84,457
Cash and short-term investments	505,678
Cash and invested assets	<u>1,591,859</u>
Investment income due and accrued	9,598
Other amounts receivable under reinsurance contracts	43,019
Guaranty funds receivable or on deposit	3,378
	-
<b>Total assets</b>	<b>\$ 1,647,854</b>
<b>Liabilities, Surplus and Other Funds</b>	
Taxes, licenses and fees due or accrued	\$ 4,018
Amounts withheld or retained by company as agent or trustee	500
Amounts held for agents' account	7,858
Remittances and items not allocated	30,941
Asset valuation reserve (AVR)	12,638
Payable to parent, subsidiaries and affiliates	5,065
	-
<b>Total liabilities</b>	<b>61,020</b>
Common capital stock	550,000
Gross paid in and contributed surplus	1,618,879
Unassigned funds (surplus)	(582,045)
<b>Total capital, surplus and other funds</b>	<b>1,586,834</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$ 1,647,854</b>

**SOUTHERN SECURITY LIFE INSURANCE COMPANY, INC.**

**SUMMARY OF OPERATIONS  
FOR YEAR ENDED DECEMBER 31, 2013**

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<b>Revenue</b>		
Net investment income	\$	25,443
Commissions and expense allowances on reinsurance ceded		130,407
Aggregate write-ins for miscellaneous income		411
<hr/>		
Total income	\$	156,261
<hr/>		
<b>Expenses</b>		
Commissions on premiums, annuity considerations, and deposit-type contracts	\$	130,407
General insurance expenses		24,566
<hr/>		
Total expenses	\$	154,973
<hr/>		
Net gain from operations after dividends to policyholders and after federal income taxes and before realized capital gains (losses)		1,288
Net realized capital gains		-
<hr/>		
<b>Net Income</b>	\$	1,288

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**SOUTHERN SECURITY LIFE INSURANCE COMPANY, INC.**

**RECONCILIATION OF CAPITAL AND SURPLUS  
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2013**

	2013	2012	2011	2010	2009
Capital & Surplus, beginning of the year	\$ 1,583,524	\$ 1,581,199	\$ 1,578,025	\$ 1,551,787	\$ 1,556,316
Net Income	1,288	184	971	2,667	2,059
Change in non-admitted assets	832	2,838	5,587	23,913	(6,434)
Change in asset valuation reserve	1,188	(697)	(3,384)	(342)	(154)
Surplus adjustment: Paid in	-	-	-	-	-
Net change in capital & surplus for the year	3,308	2,325	3,174	26,238	(4,529)
Capital & Surplus, end of the year	\$ 1,586,832	\$ 1,583,524	\$ 1,581,199	\$ 1,578,025	\$ 1,551,787

**SOUTHERN SECURITY LIFE INSURANCE COMPANY, INC.**

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS  
DECEMBER 31, 2013**

There were no changes made to the assets, liabilities or net worth reported by the Company for the year ended December 31, 2013. The capital and surplus, which totaled \$1,586,832 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31.

## **COMMENTS ON FINANCIAL STATEMENT ITEMS**

### **Assets**

There were no adjustments to assets during this examination.

### **Liabilities, Capital and Surplus**

There were no adjustments to liabilities during this examination.

### **Capital and Surplus**

The amount of capital and surplus reported by the Company of \$1,647,854 has been accepted for the purposes of this examination. Thus, there has been no change to the Company's Risk-Based Capital (RBC) ratio as of December 31, 2013.

### **Risk-Based Capital**

During the period under examination, the Company reported its Risk-Based Capital (RBC) ratio at a more than adequate level. The Company's RBC ratios, defined as total adjusted capital divided by authorized control level RBC, for the period under examination are as follows:

2009	1,841.3%
2010	1,706.8%
2011	1,701.8%
2012	1,742.2%
2013	1,826.9%

## **MARKET CONDUCT ACTIVITIES**

A full scope market conduct examination was not conducted; however, specific areas of market conduct activities were reviewed in conjunction with the financial examination of SNLIC. Examiners noted no concerns related to marketing the Company's insurance products.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

During and subsequent to the examination period, the Company was not involved in litigation outside the normal course of business.

## **SUBSEQUENT EVENTS**

There were no events, subsequent to the examination date and noted during the course of the examination, which require disclosure in this report.

## **COMMENTS AND RECOMMENDATIONS**

The Company's federal income tax return is consolidated with other entities in the insurance holding company group. The method of allocation among the companies is approved by the Board of Directors, whereby allocation is made primarily from a consolidated return basis. The Board decides which companies to allocate expense and benefits once the taxes are consolidated. The Board of Directors did not approve an allocation in 2013 and 2012 for the Company. It is noted the Company did not have a written tax sharing agreement defining the terms among the members of the consolidated group.

Pursuant to paragraph 16.b of SSAP 101, income tax transactions between affiliated parties shall be recognized if such transactions are pursuant to a written income tax allocation agreement. Further, per paragraph 28.b of SSAP 101, if no written agreement has been executed, the Company must disclose why such an agreement has not been executed. Additionally, the disclosure shall include the manner in which the entity has an enforceable right to recoup federal income taxes in the event of future net losses which it may incur or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

It is recommended the Company create and execute a written tax sharing agreement between participants that defines benefits and obligations for each member of the consolidated group. Additionally, the Company should properly disclose, in the interim, why a written agreement has not been executed.

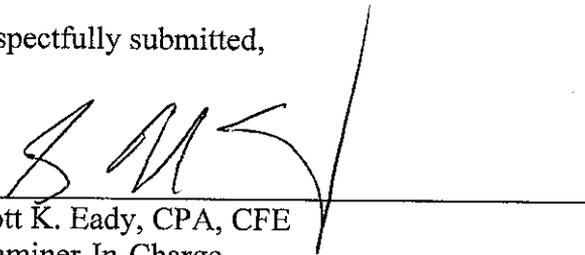
**ACKNOWLEDGMENT**

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner-In-Charge:	Scott K. Eady, CPA, CFE
Examiners:	Tom Baxter, CPA, CFE, CFF, CITP, CGMA, CISA Brian Menard, CFE, FLMI
Supervising Examiner:	John B. Humphries, ASA, MAAA, CFE, AES, MCM, CISA
Actuary:	Michael Presley, FSA, MAAA

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Scott K. Eady, CPA, CFE  
Examiner-In-Charge  
AGI Services