

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**DAKOTA CAPITAL LIFE
INSURANCE COMPANY**

BISMARCK, NORTH DAKOTA

**AS OF
DECEMBER 31, 2019**

STATE OF NORTH DAKOTA
INSURANCE DEPARTMENT

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

Dakota Capital Life Insurance Company

Bismarck, North Dakota

as of December 31, 2019, with the original on file in this Department and that the same is an accurate duplicate therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 18th day of
February, 2021.





Jon Godfread
Insurance Commissioner

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Bismarck, North Dakota
January 29, 2021

Honorable Jon Godfread
Insurance Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, an examination has been made of the books, records and financial condition of

Dakota Capital Life Insurance Company

Statutory Home Office
107 W. Main Ave., Suite 325
Bismarck, North Dakota, 58501

Hereinafter referred to as ("the Company") or ("DCLIC"), was last examined as of December 31, 2016, by the North Dakota Insurance Department, hereinafter referred to as the ("Department").

The present examination was conducted as of December 31, 2019, by representatives of the Department.

SCOPE OF EXAMINATION

This examination was a multi-state, risk focused financial condition examination conducted in accordance with N.D.C.C. ("N.D.C.C.") § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC Financial Condition Examiners Handbook. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations.. This statutory examination covers the period of January 1, 2017 through December 31, 2019, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the Department and procedures recommended by the NAIC. In accordance with the NAIC Financial Condition Examiners Handbook, the examination was planned and performed 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. The examination also included 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. Statements were prepared by management and are therefore the responsibility of management. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

The following companies, collectively referred to as the US Alliance Corporation (“USAC Group”), were also examined at the same time during the above examination:

<u>Company</u>	<u>Domicile</u>
US Alliance Life and Security Company (“USALSC”)	Kansas
US Alliance Life and Security Company – Montana	Montana

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the status of the seven exception conditions commented upon in our initial organizational examination as of December 31, 2016. We determined that the Company had satisfactorily addressed this item, except the following:

<u>Recommendation</u>	<u>Response</u>
It is recommended that the Company’s external auditors present their annual audit report findings and recommendations to the entire Board of Directors or the designated audit committee thereof as required by N.D. Admin. Code § 45-03-20-12.1 (1).	The Company partially complied. The 2017 audit report was not directly presented to the Board, but the 2018 and 2019 reports were properly presented to the Board. It is again recommended that the Company’s external auditors present their annual audit report findings and recommendations to the entire Board of Directors or the designated audit committee thereof as required by N.D. Admin. Code § 45-03-20-12.1 (1).
It is recommended that the Company periodically review its holdings for compliance with N.D.C.C. § 26.1-05-19(20)(a) and (32). Amounts over the statutory maximum should be nonadmitted.	The Company did not comply. It is again recommended that the Company periodically review its holdings for compliance with N.D.C.C. § 26.1-05-19(20)(a) and (32).

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

No material subsequent events were noted.

HISTORY

General

The Company was issued a Certificate of Authority as a North Dakota domestic Life and Annuity insurer on January 24, 2012. On July 22, 2015, the Company added the Accident and Health lines to its Certificate of Authority.

On August 1, 2017, US Alliance Corporation ("USAC"), merged with Northern Plains Capital Corporation. USAC then contributed the Company to US Alliance Life and Security Company ("USALSC").

MANAGEMENT AND CONTROL

Board of Directors

The Company's business is managed by a Board of Directors, of between 3 and 15 members, elected annually.

Directors duly elected and serving at December 31, 2019, together with their business affiliations are as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Jack H. Brier Topeka, KS	Chairman, CEO and President US Alliance Life and Security Company
James M. Concannon Topeka, KS	Emeritus Dean and Professor of Law Washburn University School of Law
Kurtis Scott Topeka, KS	CEO and President Kansas Medical Mutual Insurance Company
Jim Laducer	President and CEO

Bismarck, ND	Laducer and Associates
Jeffrey D. Brown Topeka, KS	Executive Vice President and COO US Alliance Life and Security Company
Jim Poolman Bismarck, ND	President Jim Poolman Consulting, Inc.
Rowdy Meyer Topeka, KS	Owner American Frontier Company

Officers

Officers are elected annually by the Board of Directors to one year terms. Elected officers serving with their respective duties as of December 31, 2019, are as follows:

<u>Officer</u>	<u>Title</u>
Jack Brier	Board Chairman, Treasurer
Jeff Brown	President

The Company's Appointed Actuary did not present the 2018 Actuarial Opinion to the Board of Directors. Per the NAIC 2019 Life Annual Statement Instructions:

The Appointed Actuary must report to the Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The minutes of the Board of Directors shall indicate that the Appointed Actuary has presented such information to the Board of Directors or the Audit Committee.

It is recommended that the Company's Appointed Actuary present the Actuarial Opinion directly to the Board of Directors, in compliance with the NAIC Annual Statement Instructions.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no changes to the Articles of Incorporation during the examination period.

The Bylaws were amended and restated on August 2, 2017 to reflect with the merger with USALSC. Material changes included:

- Article I removed the address of the principal place of business
- Article II changed the number of Directors from between 4 and 10 to between 3 and 15

Board of Directors, Stockholder, and Committee Minutes

The minutes of the Board of Directors and stockholders meeting for the period under examination were read.

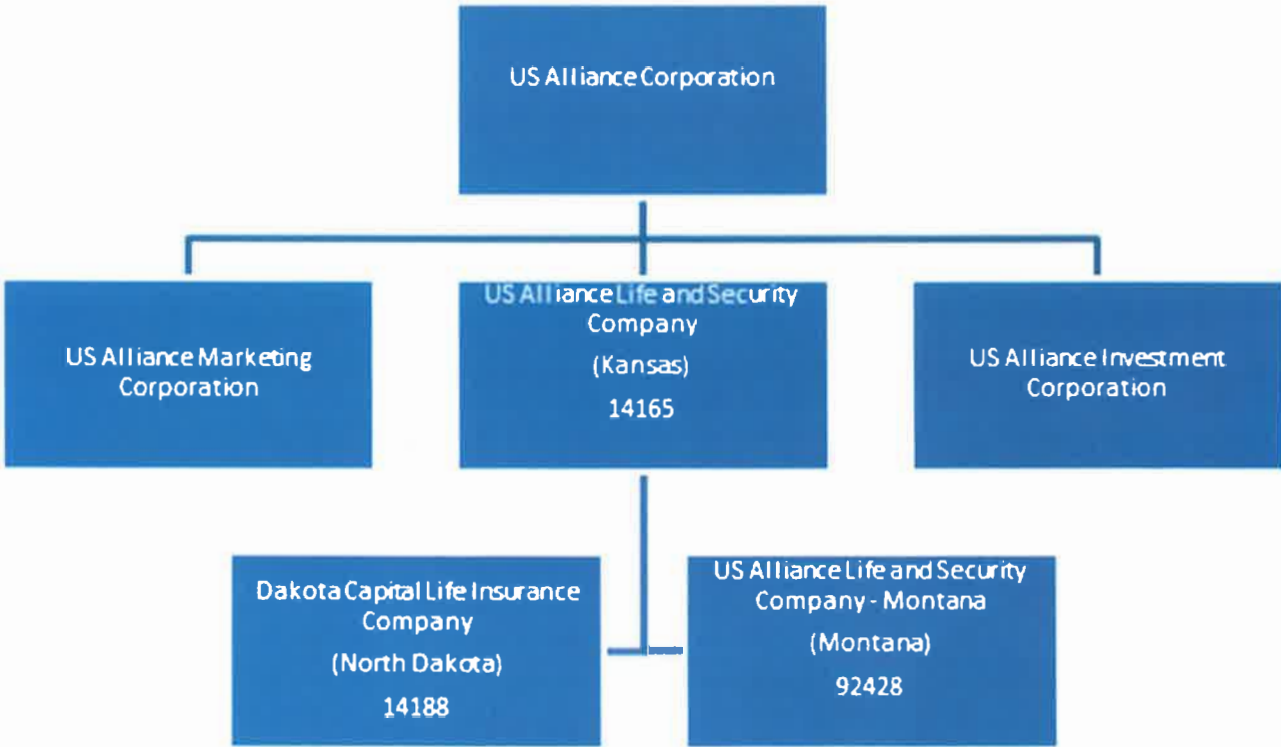
The minutes of the various meetings indicate that meetings were well attended and held in accordance with the Bylaws and Articles of Incorporation. The deliberations of the board were adequately documented and support the Company's transactions and events.

Conflict of Interest

The procedure for disclosure of any conflict requires that directors and officers of the Company sign a form, acknowledging the Company's conflict of interest policy. These statements were reviewed and no material conflicts were disclosed.

HOLDING COMPANIES, SUBSIDIARIES, AND AFFILIATES

The relationship of the Company to its subsidiaries and affiliates at December 31, 2019, is shown in the following organizational chart:



Intercompany Agreements

Third Party Insurance Services Agreement

USALSC has a Third Party Insurance Services Agreement with the Company. The Agreement, effective September 1, 2015, was entered into prior to the Company becoming a member of the holding company system. Under the agreement, USALSC provides the following direct expenses: policy administration, policy accounting, customer service, sales and marketing services, graphic design services, underwriting expenses, and other direct costs paid on behalf of the Company. The agreement's fee schedule was amended, effective December 15, 2015, to provide a flat monthly fee for executive management services, including the services of the President. Payment is due on the last working day of each month and payable on or before the 10th of the following month.

Investment Management Agreement

The Company receives investment management services from its affiliate, US Alliance Investment Corporation ("USAIC"), under an Investment Management Services Agreement, effective August 1, 2017. Pursuant to the Agreement, USAIC makes all investment decisions in accordance with the investment restrictions and guidelines contained in the Agreement. USAIC also provides investment accounting services and assists in preparing the Company's statutory investment schedules for its quarterly and annual financial statements. Compensation is based on the percentage of the value of all assets managed as of the last trading day of each calendar month and is to be paid quarterly.

Tax Allocation Agreement

The Company entered into a Tax Allocation Agreement with its parent, USALSC and USALSC – MT, effective for the 2018 calendar year-end. The consolidated tax liability is allocated to members using the "immediate payment method". All settlements are due within thirty (30) days of the filing of the estimated or actual consolidated federal income tax return with the Internal Revenue Service ("IRS"), except where a refund is due USALSC, in which case, it may defer payment to the member(s) to within thirty (30) days upon receipt of the refund.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2019, the Company was protected against fraudulent or dishonest acts of its employees by a crime and insurance policy. The bond insures the Company and affiliates up to \$500,000 for employee theft and \$250,000 for forgery and computer fraud, which is in compliance with the NAIC suggested minimum amount of fidelity insurance.

The Company has other types of coverage including: professional liability, cyber, electronic equipment, and commercial auto.

STATUTORY DEPOSITS

The book value of securities held in a custodial account and vested with the North Dakota Insurance Commissioner for the benefit of all policyholders totaled \$200,000 at December 31, 2019.

TERRITORY AND PLAN OF OPERATION

At December 31, 2019, the Company was licensed to conduct business in North Dakota and South Dakota.

Ordinary life and individual annuity policies comprised 87 percent of all direct premiums written by the Company in 2019. During the examination period, the Company added critical illness and prepaid funeral policies to its product mix to. Nearly all direct premiums were written in North Dakota.

REINSURANCE

The following is a summary of the Company's most significant reinsurance treaties based on the amount of risk in force at December 31, 2019:

Reinsurance Ceded

1. Type: **Individual Excess of Loss - Yearly Renewable Term**
 Reinsurer: Optimum Reinsurance Company
 Scope: "Accumulator" – (Modified Whole Life + Flexible Annuity Rider)
 Coverage: \$4 Million in excess of \$30,000

2. Type: **Quota Share - Coinsurance**
 Reinsurer: General Reinsurance Life Corporation
 Scope: Group Life
 Coverage: 25% of \$400,000 and 100% of \$100,000 excess of \$400,000

3. Type: **Excess of Loss - Yearly Renewable Term**
 Reinsurer: General Reinsurance Life Corporation
 Scope: Group Accidental Death and Dismemberment
 Coverage: 25% of \$400,000 and 100% of \$100,000 excess of \$400,000

4. Type: **Quota Share**
 Reinsurer: Reliance Standard Life Insurance Company ("CDS")
 Scope: Group Long Term Disability and Short Term Disability
 Coverage: 100% of the Company's gross liability

Reinsurance Assumed

On September 30, 2017, USALSC entered into a coinsurance agreement with American Life and Security Corporation ("ALSC"). Under the agreement USALSC assumes 100% of the risk on a block of whole life policies with annuity riders. USALSC retrocedes 15% of this assumed block to the Company.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination.

The Company is annually audited by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to extent deemed appropriate for this examination.

Safekeeping Agreement

At December 31, 2019, the Company's securities were held by Capitol Federal Savings Bank. The safekeeping agreement contained all of the provisions required by N.D. Admin. Code § 45-03-23-02.

Lease Agreement

Effective October 1, 2016, the Company entered into a two-year property lease agreement with Dakota UPREIT Limited Partnership for 688 square feet of office space at 107 W. Main, Suite 325 in Bismarck for \$920 per month. The lease was extended two years by an amendment to this agreement on August 13, 2018. Effective October 1, 2020, the lease rate increased by 2 percent to \$938.40 per month.

Unclaimed Property Procedures

The Company has not established written unclaimed property procedures. The unclaimed property procedures are established in writing to verify that an insurer will follow the procedures established by the various states to locate the owners of unclaimed property and remit those funds to the states if the owners cannot be located in accordance with the laws for each state.

It is recommended that the Company establish unclaimed property procedures to remit unclaimed property in accordance with N.D.C.C. §§ 47-30.1-05 and 47-30.1-07.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2019. This statement is followed by supporting statements and reconciliations presented in the following order:

Statements of Assets, December 31, 2019

Statement of Liabilities, Surplus, and Other Funds, December 31, 2019

Summary of Income, Year 2019

Reconciliation of Capital and Surplus, January 1, 2017, through December 31, 2019

These financial statements are based on the statutory financial statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Dakota Capital Life Insurance Company
Statement of Assets
December 31, 2019

	Ledger & Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$4,719,432		\$4,719,432
Preferred stocks	414,140		414,140
Common stocks	622,965		622,965
Cash	1,411,882		1,411,882
Cash equivalents	188,915		188,915
Contract loans	15,902		15,902
Investment income due and accrued	59,603		59,603
Uncollected premiums and agents' balances in the course of collection	(122)		(122)
Deferred premiums, agents' balances and installments booked but deferred	21,518		21,518
Funds held by reinsured companies	1,742,978		1,742,978
Agent balances	1,171	1,171	
Interest maintenance reserve (IMR)	21,953	21,953	
Premium assumed Reinsurance receivable	13,888		13,888
Totals	\$9,234,225	\$23,124	\$9,211,101

Dakota Capital Life Insurance Company
Liabilities, Surplus, and Other Funds
December 31, 2019

Aggregate reserve for life contracts	\$7,403,670
Liability for deposit-type contracts	157,583
Contract claims:	
Life	6,178
Premiums and annuity considerations for life and accident and health contracts received in advance less discount	46
Commissions to agents due or accrued	745
Taxes, licenses and fees due or accrued, excluding federal income taxes	16,220
Remittances and items not allocated	135
Asset Valuation Reserve	76,919
Payable to parent, subsidiaries and affiliates	61,780
Reinsurance premium payable	14,895
Total Liabilities	7,738,171
Common capital stock	500,000
Gross paid in and contributed surplus	3,200,000
Unassigned surplus	(2,227,070)
Surplus as Regards Policyholders	1,472,930
Total	\$9,211,101

Dakota Capital Life Insurance Company
Summary of Income
December 31, 2019

Premiums and annuities for life/accident/health contracts	\$2,178,796	
Net Investment Income	253,006	
Amortization of Interest Maintenance Reserve	(1,281)	
Commissions/expense allowances on reinsurance ceded	610	
Miscellaneous Income – Funds Withheld Interest	65,808	
Commission Income	11,972	
Totals		<u>2,508,911</u>
Death benefits	68,853	
Annuity benefits	6,174	
Surrender benefits/withdrawals for life contracts	113,888	
Interest/adjustments on contract/deposit-type contract funds	5,062	
Increase in aggregate reserves for life contracts	1,570,532	
Commissions on premiums/annuities/deposit contract funds	186,788	
Commission and expense allowances on reinsurance assumed	1,567	
General insurance expenses	378,921	
Insurance taxes, licenses/fees, excluding federal income taxes	49,647	
Increase in loading on deferred/uncollected premiums	<u>1,817</u>	
Totals		<u>2,383,249</u>
Net gain after dividends/taxes but before capital gains (losses)		<u>125,662</u>
Net realized capital gains (losses)		(8,916)
Net Income		<u>\$116,746</u>

**Dakota Capital Life Insurance Company
Reconciliation of Capital and Surplus Account
January 1, 2017, Through December 31, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Capital & surplus, December 31, prior year	\$1,373,390	\$1,337,081	\$1,158,886
Net Income	116,746	70,393	(51,279)
Change in net unrealized capital gains (losses)	82,697	(67,250)	(27,364)
Change in non-admitted assets	(22,984)	4,514	13,197
Change in asset valuation reserve	(76,919)	28,652	43,641
Surplus adjustment: Paid in	0	0	200,000
Net change in capital & surplus for the year	99,540	36,309	178,195
Capital & surplus, December 31, current year	<u>\$1,472,930</u>	<u>\$1,373,309</u>	<u>\$1,337,081</u>

CONCLUSION

The financial condition of the Company, as of December 31, 2019, as determined by this examination is summarized as follows:

ADMITTED ASSETS		<u>\$9,211,101</u>
Total Liabilities	\$7,738,171	
Surplus as Regards Policyholders	<u>1,472,930</u>	
LIABILITIES, SURPLUS, AND OTHER FUNDS		<u>\$9,211,101</u>

No adjustments were made to the amounts reported by the Company in its 2019 Annual Statement as a result of this examination.

Since the last examination conducted as of December 31, 2016, the Company's admitted assets have increased \$5,133,619, its total liabilities have increased \$4,819,575, and its surplus as regards policyholders has increased \$314,044.

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

Respectfully submitted,



Colton Schulz, CFE, CFE (Fraud)
Supervising Examiner
North Dakota Insurance Department

COMMENTS & RECOMMENDATIONS

It is again recommended that the Company's external auditors present their annual audit report findings and recommendations to the entire Board of Directors or the designated audit committee thereof as required by N.D. Admin. Code § 45-03-20-12.1(7).

It is recommended that the Company periodically review its holdings for compliance with N.D.C.C. § 26.1-05-19(20)(a) and (32). Amounts over the statutory maximum should be nonadmitted.

It is recommended that the Company's Appointed Actuary present the Actuarial Opinion directly to the Board of Directors, in compliance with the NAIC Annual Statement Instructions.

It is recommended that the Company establish unclaimed property procedures to remit unclaimed property in accordance with N.D.C.C. §§ 47-30.1-05 and 47-30.1-07.