STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Fidelity Security Life Insurance Company as of December 31, 2008

ORDER

After full consideration and review of the report of the financial examination of Fidelity Security Life Insurance Company for the period ended December 31, 2008, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Fidelity Security Life Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 2nd day of April .

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

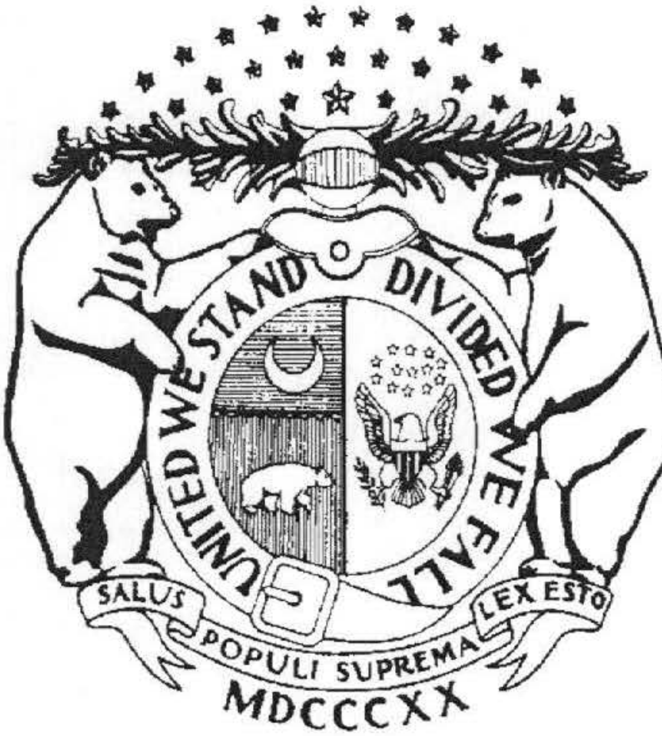
FIDELITY SECURITY LIFE

INSURANCE COMPANY

AS OF

DECEMBER 31, 2008

FILED
APR 12 2010
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND

PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Kansas City, Missouri
February 17, 2010

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee

Honorable Mary Jo Hudson, Director
Ohio Insurance Department
Midwestern Zone Secretary

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Ladies and Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Fidelity Security Life Insurance Company

hereinafter referred to as such, as FSL, or as the Company. Its administrative office is located at 3130 Broadway, Kansas City, Missouri 64111, telephone number (816) 756-1060. This examination began on June 1, 2009, fieldwork was completed on October 27, 2009 and the examination report was concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Fidelity Security Life Insurance Company was made as of December 31, 2005, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covered the period from January 1, 2006, through December 31, 2008, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that the DIFP plan and perform the examination to evaluate the financial condition and identify prospective risks of FSL 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.

This examination also included 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. Key Activities reviewed during the course of the examination included: Investments; Borrowing and Financing; Managing General Agents/Third-Party Administrators, Premiums and Underwriting and Life, Accident & Health Contract Reserving.

The examiners relied upon information supplied by the Company's independent auditor, McGladrey & Pullen, LLP, of Des Moines, Iowa for its audit covering the period from January 1, 2008, through December 31, 2008. Information relied upon included narrative descriptions of processes and controls with respect to premium accounts, investments accounts, paid losses and loss reserving, attorney letters, and documentation of review of fraud policies and programs, etc.

Comments - Previous Examination

Listed below are unresolved comments, recommendations and notes of the previous examination report dated as of December 31, 2005, and the subsequent response or action taken by the Company.

Reinsurance Accounting

Comment: The Company was advised to correct reinsurance reporting and classification issues particularly Reinsurance Recoverable, which was uncovered during the prior examination and the preceding examination.

Company's Response: The Company indicated that the recommendation has been implemented.

Current Findings: Reinsurance accounting was determined to be a problem again during the current examination. See Note #1 in the Comments on Financial Statements section of this examination report for additional details.

Monitoring of TPAs and MGAs

Comment: The Company was directed to integrate the supporting detail records from its network of Managing General Agents (MGAs) and Third-Party Administrators (TPAs) into its main system to enhance the integrity of its accounting records and to improve oversight of the MGAs and TPAs.

Company's Response: The Company noted that a process of data transfers in specific accounts and programs had been implemented and would expand to other activities. In addition, the Company stated its internal auditing was continuing to audit the activities of the MGAs and TPAs to ensure compliance with terms.

Current Findings: Additional issues concerning access to MGA/TPA records were identified during the course of this examination, which have been provided to the Company in separate communication.

SUMMARY OF SIGNIFICANT FINDINGS

The Company reported reinsurance recoverable of $6,316,648 as of the examination date that has remained overdue and outstanding since October 2007 and through the period of the examination fieldwork as a result of unresolved bank account issues involving the reinsurer and an appointed administrator of the underlying program business. Given that FSL did not have access to this fund at year-end 2008, the most conservative accounting approach should have been to non-admit this amount, since the amount was not readily available to cover policyholder obligations. The examination has exercised professional judgment in allowing the $6,316,648 to be reported as an admitted asset as of December 31, 2008. However, the Company is hereby directed to enter into all possible and reasonable arrangement and/or agreements that will ensure that its share of proceeds from the program business and related reinsurance recoveries are promptly received and recorded. The Company is also directed to provide evidence of this resolution to the DIFP as soon as possible.

The Company improperly reported assets pledged under borrowings from the Federal Home Loan Bank (FHLB). The Company is aware of required disclosures under the NAIC Annual Statement instructions regarding assets held in trust, pledged and/or otherwise encumbered. The Company should ensure that its assets pledged as collateral to the FHLB, including the pledged value of the member activity common stock of FHLB owned by the Company, are properly identified on the Annual Statement Schedule D and disclosed on Schedule E – Part 3 (Special Deposits) of the Annual Statement in the future.

SUBSEQUENT EVENTS

In July 2007, the Company became a member of the Federal Home Loan Bank of Des Moines, Iowa. This membership gives the Company the capacity to borrow funds, which are invested to earn a spread. To secure the borrowings, the FHLB requires the Company to invest in the bank's stock and to pledge and maintain sufficient collateral to secure any borrowings. The Company reported a liability balance of $40,900,000 as of December 31, 2008. The Company increased its borrowed money liability in the first quarter of 2009 by an additional $40,000,000 and as of June 30, 2009, reported a total liability of $78,700,000.

HISTORY

General

Fidelity Security Life Insurance Company was incorporated on January 17, 1969, and was issued a Certificate of Authority on June 12, 1969. The Company commenced business on July 1, 1969, as a stock life insurance company, in accordance with the provisions of Chapter 376, Revised Statutes of Missouri (RSMo) (Life, Health and Accident Insurance).

Capital Stock and Contributions

The Company is authorized to issue 1,100,000 shares of $2.50 par value common stock, 50,000 shares of $100 par value Class A preferred stock, and 40,000 shares of $100 par value Class B preferred stock. As of December 31, 2008, 1,000,000 shares of common stock were issued for $2,500,000 in the common capital stock account with 938,347 shares outstanding, and the remaining 61,653 shares held as treasury stock. There were 30,000 shares of Class A preferred stock issued and outstanding and 30,000 shares of Class B preferred stock issued and outstanding, resulting in balances of $3,000,000 each, for a total of $6,000,000 in the Company's preferred capital stock account.

As of December 31, 2008, the 61,653 shares of common stock held as treasury stock were valued at $4,356,743. The increase in treasury stock transactions in 2008 resulted from an exchange of common stock held in trusts for a retired board member for cash and Class B preferred shares.

Dividends

FSL did not pay any common stock dividends during the examination period. However, the Company declared and paid a Class A preferred stock dividend of $232,500 in each year of the examination period. These dividend payments were determined to be ordinary.

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions or mergers during the examination period. However, in 2007 the Company became a member of the Federal Home Loan Bank, which provides a privilege for the Company to be able to borrow from the FHLB for investment. Membership required the purchase of membership and activity stock of the FHLB, which allowed FSL to get advances (borrowings) in direct relation to its investment in the housing/mortgage markets, either directly or through investments in government secured instruments. Such investments are pledged to secure the advances. Borrowed funds from the FHLB totaled $40.9 million as of December 31, 2008 and contributed significantly to the increased level of Bonds held by the Company at year-end 2008, compared to 2007. The total amount of bond investment increased by $43.3 million in 2008, which substantially contributed to the increase in net admitted assets reported in 2008.

The Company is required to maintain a security deposit with the FHLB with a market value amount of approximately 7% greater than the outstanding loan balance. As of December 31, 2008, assets of the Company having a book value of $62 million and a market value of $65.7 million were on deposit with the FHLB. Interest rates on the advances varied between 2.60% and 2.880% and are required to be paid monthly. The Company paid interest of $902,244 to the FHLB in 2008.

The Company planned to borrow an additional $40 million in 2009. As a result of attractive market spreads, this amount was fully funded during the first quarter of 2009. After matured borrowings, the current balance of borrowed funds is $78.7 million as of June 30, 2009. These additional borrowings continue to significantly contribute to the growth to the company's net admitted assets.

CORPORATE RECORDS

A review was made of the Articles of Incorporation and Bylaws for the examination period. The Bylaws were amended in 2007 to change the date of the Annual Shareholders' Meeting. The Bylaws were restated in 2009 to remove a Missouri residency requirement for at least one Board member and add a new section to Article 7 specifying the Board's responsibilities regarding the Company's classes of equity stock. The Articles of Incorporation were amended in 2008 to add Class B preferred stock as part of the Company's equity structure.

The minutes of the Board of Directors' meetings, investment committee meetings and shareholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

Oversight of the Company is vested in a Board of Directors elected by the shareholders. Pursuant to the Company's Bylaws, the number of directors shall be no fewer than ten (10). The directors of FSL elected and serving as of December 31, 2008, were as follows:

Name and Address	Principal Occupation and Business Affiliation
Richard F. Jones Shawnee Mission, KS	President & Treasurer Fidelity Security Life Insurance Company
Dorothy M. Jones* Shawnee Mission, KS	Treasurer Emeritus Fidelity Security Life Insurance Company
Richard L. Andrews Buckeye, AZ	Retired, Dean - College of Education, University of Missouri.
George J. Bereska New Canaan, CT	President Benefits Brokerage Consultants, Inc.
Michael E. Hall Prairie Village, KS	Senior Vice President-Investment Fidelity Security Life Insurance Company
Jeffrey B. Hanes Mission Hills, KS	Former CEO Carter-Waters Corporation
David G. Ruf, Jr. Leawood, Ks	Chairman Emeritus Burns & McDonnell
David J. Smith Leawood, KS	Senior Vice President & Secretary Fidelity Security Life Insurance Company
Larry G. Vogt Overland Park, KS	President and CEO, Uniformed Services Benefit Association, Inc., Rear Admiral, US Navy (Ret.)
Alan E. Zink Columbus, OH	Former President and CEO American Insurance Administrators, Inc.

*Director Dorothy Jones passed away in early 2009 and was replaced on the Board by John S. Arnoldy effective May 5, 2009. Mr. Arnoldy is the CEO of Triten Corporation, Houston, Texas. At the annual shareholders meeting on May 5, 2009, two advisory directors were elected; Richard F. Jones, Jr. and Bradford R. Jones, as provided in the Bylaws. The role of the advisory director is to listen and provide guidance or recommendations as requested and have no voting rights. Richard F. Jones, Jr. and Bradford R. Jones are the sons of Richard F. Jones, President and Treasurer of FSL.

Committees

Pursuant to the Bylaws, the Board of Directors may provide for an Executive Committee, consisting of three or more Directors and other special or standing committees of three or more Directors. The committees established and the individuals appointed as of December 31, 2008 were as follows:

Executive Committee	Investment Committee
Richard F. Jones	Richard F. Jones
David J. Smith	David G. Ruf, Jr.
George J. Bereska	Larry G. Vogt
	Michael E. Hall

Officers

Unless otherwise noted, the following officers were elected on May 6, 2008, during the annual meeting of the Board of Directors and were serving as of December 31, 2008:

Name	Position
Richard F. Jones	President & Treasurer
Michael E. Hall	Senior Vice President-Investments
David J. Smith	Senior Vice President & Secretary
Mark L. Burley	Vice President
William R. Hobbs	Vice President, Controller & Assistant Secretary
Martha E. Madden	Vice President and General Counsel
Kenneth G. House	Vice President (elected on May 5, 2009)
Dana L. Hamilton	Assistant Vice President
Leroy McCarty	Assistant Vice President
Brenda Gordanier	Assistant Vice President (elected on May 5, 2009)

Holding Company, Subsidiaries and Affiliates

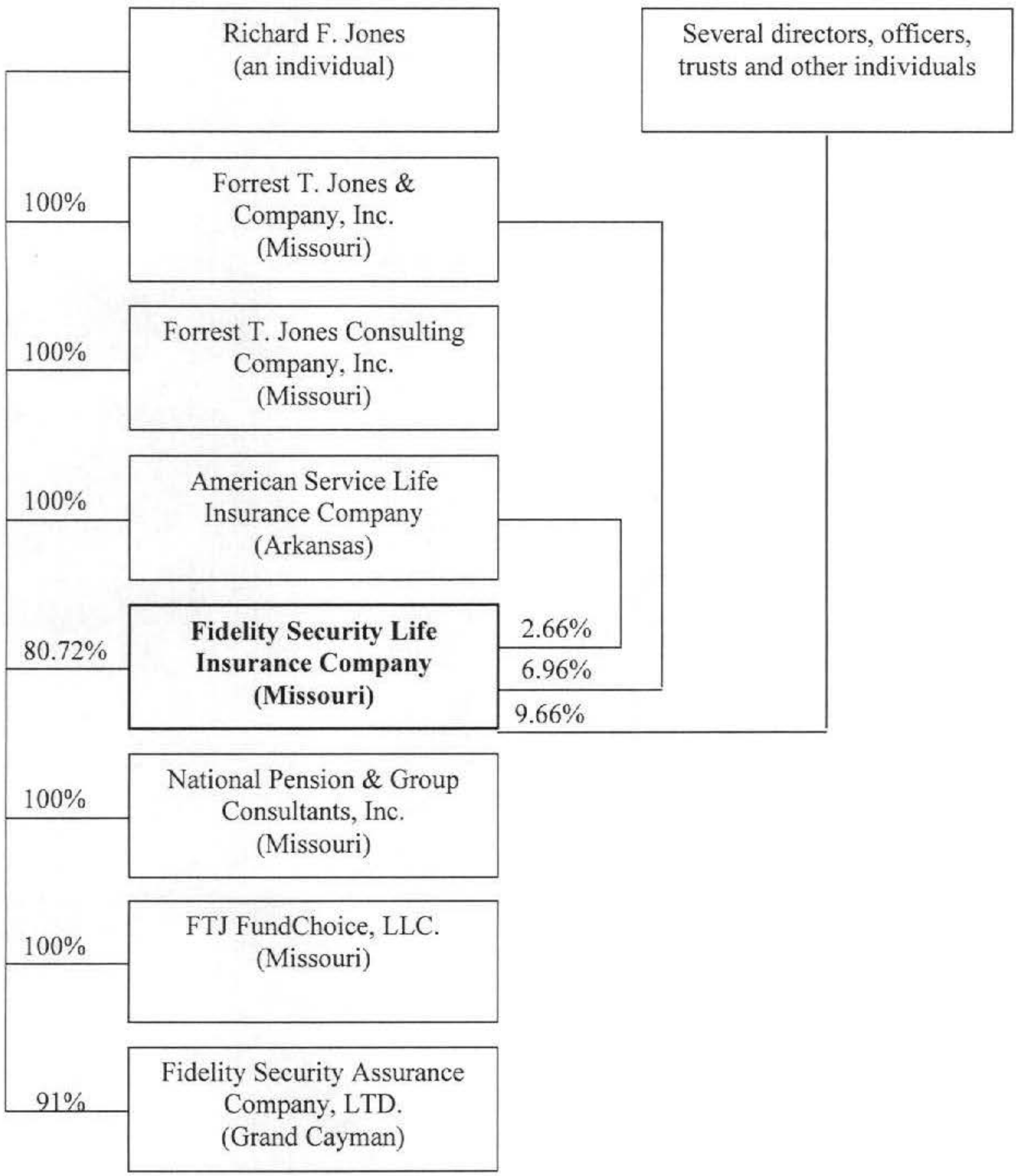
Fidelity Security Life Insurance Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by FSL, for each year of the examination period on behalf of itself and the following affiliates: Forrest T. Jones & Company, Inc. (FTJ&C), Forrest T. Jones Consulting Company (FTJCC), American Service Life Insurance Company (ASLIC), National Pension Group Consultants, Inc. (NPGC), FTJ FundChoice, LLC and Fidelity Security Assurance Company (FSAC).

Richard F. Jones, an individual, is the ultimate controlling person of the Company and the above named affiliates. FTJ FundChoice, LLC, formed in 2001 provides financial services in the nature of mutual fund investment and mutual fund brokerage administration. FTJ FundChoice has agreements between Forrest T. Jones & Company, Inc. and National Pension & Group Consultants. These agreements allow FTJ FundChoice to provide administrative services to enable eligible persons (FTJ&C and NPGC clients) to acquire mutual funds for their retirement programs.

FTJ&C is an insurance agency for various health, life, and casualty companies. FTJCC acts as an agent for insurance companies in the administration of insurance policies. FTJ&C and FTJCC are both licensed TPAs in the State of Missouri. ASLIC is licensed in Arkansas to transact the business of insurance. NPGC sells insurance and annuities and is a general partner in a partnership engaged in commodity futures trading. FSAC is a reinsurer established under the laws of the Cayman Islands.

Organizational Chart

The following organizational chart depicts the holding company system of FSL as of December 31, 2008:



Intercompany Transactions

The Company is a party to the intercompany agreements outlined below.

1. Type: Administrative and Marketing Services Agreement

   Affiliate: Forest T. Jones & Company, Inc.

   Effective: April 1, 1990
   Last amended effective November 1, 2004 (fifteenth amendment)

   Terms: Effective November 1, 2004 - FTJ&C performs certain administrative services for FSL including soliciting insurance business, delivering policies, billing and collecting premiums, paying commission fees to the agents and brokers, and qualifying and underwriting risk for FSL according to the rates, underwriting rules, limits, and forms authorized by the Company. The compensation paid to FTJ&C generally consists of commissions and administrative fees calculated as percentages of premiums depending on the type of policy and the first year or renewal status of each policy. FSL pays FTJ&C net compensation of up to 5% on all fixed annuity contracts for which FTJ&C acts as marketing and servicing agent.

2. Type: Administrative and Marketing Services Agreement

   Affiliate: Forrest T. Jones Consulting Company

   Effective: April 1, 1990
   Last amended effective November 1, 2004 (sixteenth amendment)

   Terms: Effective November 1, 2004 - FTJCC performs certain administrative services for FSL including soliciting insurance business, delivering policies, billing and collecting premiums, paying commission fees to the agents and brokers, and qualifying and underwriting risk for FSL according to the rates, underwriting rules, limits, and forms authorized by the Company. The compensation paid to FTJCC generally consists of commissions and administrative fees calculated as percentages of premiums depending on the type of policy and the first year or renewal status of each policy. The Company pays fixed amounts of administrative fees for some policies and pays FTJCC net compensation of up to 5% on all fixed annuity contracts for which FTJCC acts as marketing and servicing agent.

3. Type: Promissory Note/Loan Agreement

   Affiliates: Forrest T. Jones & Company, Inc.

   Effective: April 30, 1998

   Terms: FTJ&C issued a promissory note to FSL for the repayment of amounts previously loaned, up to a maximum principal balance of $4,000,000. The original note required FTJ&C to repay any loan balance plus interest on January 4, 1999. An amendment, effective January 1, 1999, revised the promissory note into a continuous loan agreement, whereby any loans or advances made during any calendar year are to be repaid by the end of the calendar year. The maximum outstanding loan balance at any one time shall not be greater than the original $4,000,000 in the promissory note. Interest charges are calculated daily using the prime rate of interest and are payable monthly.

4. Type: Agency Service Agreement

   Affiliates: Forrest T. Jones Consulting Company

   Effective: March 1, 1994

   Terms: FTJCC performs certain agency functions including processing insurance applications, handling routine correspondence, maintenance of licenses required to perform agency functions, delivery of contracts, and termination notices. FSL shall pay commissions to FTJCC for services rendered according to the policy type and the first year or renewal status of applicable policies.

5. Type: Cost Allocation Agreement

   Affiliate: Forest T. Jones & Company, Inc.

   Effective: August 1, 1994

   Terms: FSL pays to FTJ&C allocated amounts for various common expenses. Salaries and payroll taxes are allocated based upon a time study by employee. Employee benefits are allocated based upon the salary allocation percentage. Rent, utilities, and building maintenance expenses are allocated based upon the square footage dedicated to Fidelity Security's operations. FSL and FTJ&C will pay respective expenses directly to the vendors.

6. Type: Affiliation Agreement

   Affiliate: Forrest T. Jones & Company, Inc. and National Pension and Group Consultants, Inc.

   Effective: May 15, 1999

   Terms: FTJ&C is authorized to solicit applications, through its licensed insurance agents, for FSL's Flexible Premium Variable Annuity product. NPGC serves as the distributor and principal underwriter of the annuity policies. NPGC is to be paid commissions of 3% of purchase payments plus an annual commission of 0.25% of assets, or the contract values. Amounts due to NPGC are to be paid by FSL to FTJ&C on behalf of NPGC.

7. Type: Distribution and Principal Underwriting Agreements

   Affiliate: National Pension and Group Consultants, Inc.

   Effective: May 15, 1999

   Terms: NPGC will act as the exclusive agent for distribution of the Company's Separate Account contracts, which are variable annuities. NPGC will also act as the principal underwriter. NPGC will use its best efforts to solicit applications for the contracts and to undertake to provide sales services relative to the contracts.

8. Type: Mortgage Loan Agreement

   Affiliate: Forrest T. Jones & Company

   Effective: December 31, 2002

   Terms: FSL agrees to lend Forrest T. Jones & Company $3,600,000, with the home office building as collateral. Interest for the note shall be calculated at "Treasury Yield" plus 2%. FTJ&C will make monthly payments which include interest and principal for a term of 180 months. The balance due the Company at December 31, 2008 was $2,576,544.

The amounts (paid) to and received from parents and affiliates during the period under examination are as follows:

	2008	2007	2006
Administrative & Marketing Services Agreement			
Paid to FTJ&C	$ (2,000,619)	$ (1,870,868)	$ (1,457,444)
Administrative & Marketing Services Agreement			
Paid to FTJCC	(786,622)	(877,973)	(948,419)
Promissory Note			
Paid to FTJ&C	(2,500,000)	-	-
Received from FTJ&C	2,522,264	-	-
Agency Service Agreement			
Paid to FTJCC	(756,905)	(683,089)	(683,910)
Cost Allocation Agreement			
Paid to FTJ&C	(4,895,075)	(5,994,869)	(6,634,512)
Affiliation Agreement			
Paid to NPGC through FTJ&C	(25,789)	(25,001)	(27,544)
Mortgage Loan Agreement			
Interest on Loan Received from FTJ&C	161,226	194,243	198,643
Principal on Loan Received from FTJ&C	207,910	187,311	178,121
Net amount (paid) or received	**$ (8,073,610)**	**$ (9,070,246)**	**$ (9,375,065)**

In addition to the above agreements, the Company also has a group life reinsurance agreement of immaterial amounts with American Service Life Insurance Company.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2008, FSL is a named-insured on a standard financial institution bond providing fidelity coverage. The financial institution bond has a liability limit of $1,500,000 and a deductible of $25,000. This level of coverage is sufficient to meet the suggested minimum amount of fidelity insurance coverage according to NAIC guidelines.

The Company is also a named insured on the following insurance policies: Commercial Property and General Liability, Excess Liability, Business Auto, Travel and Accident, and Directors, Officers, Insured Entity and Employment Practices liability insurance.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

There are no direct employees of Fidelity Security Life Insurance Company. The Company's business operations are managed by the employees of an affiliate, Forrest T. Jones and Company. The Company is allocated a percentage of the benefit costs for FTJ&C employees pursuant to a cost allocation agreement as described in the Intercompany Transactions section.

The employees of FTJ&C receive standard benefits including, but not limited to, a 401(k) profit sharing plan, health insurance, vision, dental, long term disability, and term life insurance. Medical insurance coverage is provided to all full time employees at no cost. Dependant coverage is available at the employee's expense.

Also, executive employees of FTJ&C have the option of participating in two non-qualified deferred compensation plans entitled "Salary Reduction Non-qualified Deferred Compensation Plan" and the "Bonus Award and Non-qualified Deferred Compensation Plan". Direct compensation from FSL is limited to periodic issuance of FSL common stock to certain officers as determined and approved by Chairman and President, Richard F. Jones.

The Company appears to have properly accounted for its allocated share of employee benefits in the financial statements.

TERRITORY AND PLAN OF OPERATION

Fidelity Security Life Insurance Company is licensed by the Missouri Department of Insurance, Financial Institution and Professional Registration under Chapter 376 RSMo (Life, Health and Accident Insurance) to do business in the following kinds of insurance: life, accident and health (A&H), and variable contracts. As of December 31, 2008, the Company was licensed to transact the business of insurance in forty-nine states and the District of Columbia. In addition, the Company was a licensed reinsurer in the State of New York.

The Company provides a diverse product mix through five strategic business segments comprising asset accumulation, special markets, joint ventures, self-funded/stop loss, and specialty benefits. The largest line of business in 2008 was group accident and health insurance, which accounted for approximately 88% of the total direct written premium.

The asset accumulation segment markets retirement plans to not-for-profit niche markets. Currently, marketing is focused in the states of Kansas, Louisiana, Michigan, Missouri, New Mexico, and Texas and is concentrated in the education profession along with government and other not-for-profit organizations. Primary products include the Company's core fixed annuity product, single premium deferred annuities, and flexible premium group annuity contracts in the individual retirement and deferred compensation marketplace.

The special markets segment served as the basis for founding the Company and presently offers group life and supplemental health products through traditional direct response marketing methods and through individual sales. Individual sales are developed through independent agents, generally affiliated with third-party administrators or managing general agents.

The joint ventures segment was formed to penetrate beyond the traditional base market of the association groups. The Company turned to a collaborative "joint venture" business model to introduce its life and health product lines into the broker community. The model involves a three-way partnership among: a distributor with expertise in a highly specialized market segment; FSL as the carrier, sharing the risk; and a reinsurer to help manage program risk and provide capital as the program grows.

The stop-loss/self-funded segment provides medical stop-loss coverages on both a specific and aggregate basis. Excess coverage to employer sponsored group programs is distributed through TPAs with underwriting and contract issues facilitated by a small select group of MGAs. The stop-loss contracts receive a large percentage of reinsurance, and extensive evaluation is committed to all relationships on a regular basis. New distribution partners have recently been established to seek further penetration of the small-group market.

The specialty benefits segment evolved from the joint venture unit to offer prescription drug carve-outs, vision and dental benefit product offerings to large and small employer groups. Partnerships include distributors (MGAs, TPAs, and brokers), pharmacy benefit managers, vision service plans, and reinsurers. The collaborative model developed in the joint venture business unit is utilized in this business unit as well. A single producer group from this unit, Eyemed Vision Care Inc., produced approximately 49% of the total 2008 direct premiums. Eyemed Vision Care is a leading managed vision care organization, with corporate owned optical service providers. Eyemed currently offers five different vision care plans on a group basis. Plans are offered nationwide through local sales offices or over the internet.

The Company utilizes a variety of distribution channels in marketing its products, including, but not limited to, individual sales representatives, brokers, TPAs, MGAs, payroll deduction, and direct responses. As of December 31, 2008, the Company had 28,401 licensed producers, generally affiliated with MGAs or TPAs. Two affiliated TPAs, FTJ&C and FTJCC, accounted for 3.6% of 2008 direct premium volume.

The Company has an internal auditing staff that performs the required annual audits of the MGAs/TPAs in accordance with 20 CSR 200-10.600 (On-Site Reviews) and Section 376.1084 RSMo (Responsibilities of Insurer). In addition, the staff reviews selected general agents annually, based on premium volume. The DIFP relied on the work and reports of the internal audit staff in evaluating the Company's control over its extensive network of MGAs and TPAs.

Company Growth

The Company reported a Risk-based Capital (RBC) ratio of 854.7% at year-end 2008, an increase from 718.4% at year-end 2007. The Company also reported an increase in capital and surplus of $7,339,000 or 9.5% to $85 million as of year-end 2008.

The minimum required capital is $1.2 million; and the minimum required surplus is $1.2 million. FSL's five-year A.M. Best's rating has been a consistent "A-" (excellent); and the current Standard & Poor's Rating is BBB (adequate).

Gross Premium Written to surplus increased marginally from 510% at year-end 2007 to 513% at year-end 2008; while Net Premium Written to surplus decreased from 408% at year-end 2007 to 353% at year-end 2008. The Company showed a net gain from operations of $8.1 million, and a net income of $8.3 million for 2008. The combination of multiple product offerings, distribution channels, and target markets has contributed to consistent statutory earnings over the examination period.

Loss Experience

FSL reported operating gains in each of the past three calendar years, and posted net income in each of the past three years. Benefits paid to net written premiums during the examination period improved from a ratio of 85% in 2006 down to 76% in 2008. Profitable growth has been achieved through new product development and expanded distribution from both existing and new distributors.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	2008	2007	2006
Direct Business	$415,807,489	$374,421,246	$355,634,303
Reinsurance Assumed	20,795,416	19,013,105	13,915,108
Reinsurance Ceded	(138,588,664)	(81,445,207)	(205,418,256)
Net Written Premiums	**$298,014,241**	**$311,989,144**	**$164,131,155**

Assumed

The Company had only four active agreements for assumed life business as of the end of the examination period. FSL assumes 50% of a group life product from New York Life Insurance Company (NY Life), pursuant to a quota share agreement that has been in effect since 1983. The business assumed from NY Life represented over 99% of the assumed in-force for life policies as of December 31, 2008. The Company also assumes small amounts of accident and health (A&H) business from various companies.

Ceded

The Company is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

FSL's insured risks are significantly reinsured for both life and A&H business. In general, the Company reinsures most of its programs on a quota share basis and/or an excess of loss basis to an extensive number of highly rated reinsurers. The maximum amount of insurance risk on any one life the Company retains is $150,000.

The following table provides a summary of the most significant reinsurance agreements based on balances recoverable on paid and unpaid losses, ceded premiums and reserve credits taken at year-end 2008:

Reinsurer	Type	Recoverable on Paid/ Unpaid Losses	Ceded Premium	Reserve Credit Taken
Hannover Life Reassurance Co. of America	CO/I	$ 4,498,107	$ 31,272,167	$ 9,226,792
Everest Reinsurance Company	CO/G	3,277,711	14,482,117	-0-
Munich Reinsurance America, Inc.	CO/G	2,619,949	19,496,414	15,907
Avesis Insurance Incorporated	CO/G	1,760,000	32,190,365	-0-
ATA Performance Company	CO/G	1,612,010	8,804,667	-0-

The Company also ceded an insignificant amount of business to American Service Life Insurance Company, an affiliate, on a modified coinsurance basis. The Company reported modified coinsurance reserves on this business of $481,933 on Schedule S, Part 3, as of December 31, 2008.

The Company also participates in several fronting arrangements with unauthorized reinsurers. The following table provides a summary of reinsurance with unauthorized reinsurers under fronting arrangements as of the examination date:

Reinsurer	Total Reserves	Letters of Credit	Total Collateral	Excess Collateral Over Reserve
ATA Performance Company	$1,612,010	$1,612,010	$2,823,262	$1,220,253
Avesis Insurance Incorporated	1,760,000	100,000	1,996,511	236,511
Opticare Vision Insurance Co.	77,000	100,000	157,702	80,702
Plateau Insurance Company	81,887	-0-	196,330	114,443

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institution and Professional Registration as of December 31, 2008, as reflected below, were sufficient to meet the minimum capital deposit requirement of $600,000 for the State of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities). Funds on deposit as of December 31, 2008, are as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Note	$2,350,000	$2,581,687	$2,342,344

Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2008, were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Arkansas	U.S. Treasury Note	$260,000	$285,290	$259,153
Florida	U.S. Treasury Note	250,000	274,318	249,185
Georgia	Money Market Fund	50,071	50,071	50,071
Massachusetts	U.S. Treasury Note and Money Market Fund	117,108	127,807	116,749
New Mexico	U.S. Treasury Note	135,000	148,131	134,560
North Carolina	U.S. Treasury Note	400,000	438,908	398,697
Virginia	U.S. Treasury Note	100,000	109,727	99,674
Total		$1,312,179	$1,434,252	$1,308,089

Other Deposits

The Company has also pledged assets to the Federal Home Loan Bank as collateral for borrowings of $40,900,000 as of December 31, 2008. In addition, the Company has an investment in the common stock of the FHLB, which is part of the borrowing requirement. The common stock investment was also pledged to the FHLB as additional collateral for the loans. In accordance with Annual Statement instructions, the value of the pledged securities and the value of the pledged common stock investment are required to be reported on the Schedule E - Part 3 - Special Deposits of the Annual statement. The Company did not report these pledged assets and is hereby directed to do so in the future. As of December 31, 2008, the Company should have listed the following assets as pledged to the FHLB as collateral for the loans:

Type of Security	Par Value	Fair Value	Statement Value
Gov't & Agency Bonds	$61,284,277	$65,798,917	$62,050,565
FHLB Member Activity Stock	2,440,400	2,440,400	2,440,400
Total	$63,724,677	$68,239,317	$64,490,965

The Company is aware of required disclosures under the NAIC Annual Statement instructions regarding assets held in trust, pledged and/or otherwise encumbered as is the case with the Federal Home Loan Bank pledged assets, including the member activity stock. Assets with these characteristics are not available for policyholders, claimants, and ordinary creditors of the Company. Therefore, such assets must be identified and reported as such in Schedule D and Schedule E – Part 3 of the Annual Statement.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements for the year ending December 31, 2006 and 2007 were audited by the CPA firm KPMG LLP, of Kansas City, Missouri. The financial statement for 2008 was audited by the CPA firm McGladrey & Pullen, LLP of Des Moines, Iowa.

Appointed Actuary

Life policy and contract reserves were reviewed and certified by James A. Merwald, FSA, MAAA, of Actuarial Resources, Corporation, of Overland Park, Kansas for each of the years under examination. Accident and health policy and claim reserves were reviewed and certified by Paul E. Hansen, FSA, MAAA, of Paul Hansen, Inc., of Bloomington, Minnesota for each of the years under examination.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of FSL for the period ending December 31, 2008. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$470,608,699	$ -	$470,608,699
Preferred Stocks	2,500,000	-	$2,500,000
Common Stocks	2,866,403	-	2,866,403
Mortgage Loans on Real Estate	7,351,297	-	7,351,297
Cash and Short-Term Investments	15,822,898	-	15,822,898
Contract Loans	7,122,931	-	7,122,931
Other Invested Assets	5,090,316	-	5,090,316
Receivable for Securities	772,442	-	772,442
Investment Income Due and Accrued	4,284,779	-	4,284,779
Uncollected Premiums and Agents' Balances in the Course of Collection	5,372,608	-	5,372,608
Deferred Premiums, Agents' Balances Booked But Deferred and Not Yet Due	1,273,092	-	1,273,092
Amounts Recoverable from Reinsurers	545,970	-	545,970
Other Amounts Receivable Under Reinsurance #1	7,002,269	-	7,002,269
Net Deferred Tax Asset	1,604,530	708,560	895,970
Guaranty Funds Receivable on Deposit	153,511	-	153,511
EDP Equipment and Software	51,968	-	51,968
Furniture and Equipment	292,361	292,361	-
Receivables from Parent, Sub., and Affiliaties	474,029	-	474,029
Separate Accounts	6,172,727	-	6,172,727
TOTAL ASSETS	**$539,362,830**	**$1,000,921**	**$538,361,909**

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Contracts	$333,048,678
Aggregate Reserve for Accident and Health Contracts	12,095,418
Liability for Deposit-type Contracts	6,908,471
Contract Claims – Life	1,461,724
Contract Claims – Accident and Health	14,862,510
Advance Premiums	181,189
Provision for Experience Rating Refund	1,810,560
Other Amounts Payable on Reinsurance	4,300,411
Interest Maintenance Reserve	5,076,991
Commissions to Agents Due or Accrued	588,203
General Expenses Due or Accrued	1,785,577
Transfers to Separate Accounts	(43,882)
Taxes, Licenses and Fees	1,368,463
Federal Income Taxes	392,431
Amounts held for Agents' Account	15,011,957
Remittances and Items not Allocated	444,347
Borrowed Money	40,900,000
Asset Valuation Reserve	2,184,148
Reinsurance in Unauthorized Companies	178,662
Funds Held under Reinsurance Treaties with Unauthorized Reinsurers	4,643,822
Aggregate Write-ins for Liabilities:	
Liability for Unclaimed Funds	374,958
Separate Accounts	6,172,727
TOTAL LIABILITIES AND SEPARATE ACCOUNTS	**$453,747,365**
Common Capital Stock	2,500,000
Preferred Capital Stock	6,000,000
Gross Paid-in and Contributed Surplus	1,313,217
Unassigned Funds (Surplus)	79,158,069
Less: Treasury Stock	4,356,743
Surplus	**$ 76,114,543**
Total Capital and Surplus	**$ 84,614,543**
TOTAL LIABILITIES CAPITAL AND SURPLUS	**$538,361,908**

Summary of Operations

Premiums and Annuity Considerations	$298,014,242
Considerations for Supplementary Contracts with Life Contingencies	1,492,581
Net Investment Income	23,925,213
Amortization of Interest Maintenance Reserve	575,633
Commission and Expense Allowances on Reinsurance Ceded	32,273,560
Miscellaneous Income	129,151
TOTAL	**$356,410,380**
Death Benefits	7,752,027
Annuity Benefits	25,620,088
Disability Benefits and Benefits Under Accident & Health Policies	188,230,651
Surrender Benefits and Withdrawals for Life Contracts	3,001,430
Interest and Adjustments on Contract and Deposit-type Contract Funds	701,021
Payments on Supplementary Contracts with Life Contingencies	2,485,204
Increase in Aggregate Reserve for Life and Accident & Health Contracts	1,821,567
Commissions on Premiums and Annuity Considerations	85,925,438
Commissions and Expense Allowances on Reinsurance Assumed	4,971,968
General Insurance Expenses	18,819,680
Insurance Taxes, Licenses and Fees	5,717,414
Increase in Loading on Deferred and Uncollected Premiums	(77,148)
Net Transfers to or (from) Separate Accounts Net of Reinsurance	(1,557,726)
TOTAL	**$343,411,614**
NET GAIN FROM OPERATIONS	**$ 12,998,766**
Federal Income Taxes Incurred	4,914,125
Net Realized Capital Gains and (Losses)	207,905
NET INCOME	**$ 8,292,546**

Capital and Surplus Account

Capital and Surplus, December 31, 2007	$77,275,674
Net Income or (Loss)	8,292,546
Change in Net Unrealized Capital Gains or (Losses)	(493,656)
Change in Non-admitted Assets	(486,786)
Change in Treasury Stock	(3,932,639)
Dividends to Stockholders	(232,500)
Change in Net Deferred Income Tax	659,335
Change in Liability for Reinsurance in Unauthorized Companies	433,898
Change in Asset Valuation Reserve	95,958
Paid-in Capital	3,000,000
Paid-in Surplus	2,712
Net Change in Capital and Surplus	**$ 7,338,868**
CAPITAL AND SURPLUS, DECEMBER 31, 2008	**$84,614,542**

CHANGES IN FINANCIAL STATEMENTS RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENTS

Note #1 Other Amounts Receivable Under Reinsurance $7,002,269

The above amount reported by the Company for this account includes $6,316,648 that was overdue at year-end 2008 and remained uncollectible during examination fieldwork. Pursuant to the review of the underlying documents, the examination noted that the recoverable reflects an overdue receivable from Standard Security Life Insurance Company of New York (SSL) under a reinsurance arrangement covering a program business that is administered by one of FSL's affiliates. Ordinarily, there should have been a premium trust bank account, whereby the appointed administrator or FSL should have obtained the authority to draw on the account for its share of monies arising from the program. In this case, however, SSL opened an account at Bank of America and with its corporate name and tax identification number.

Accordingly, all through the period under examination and subsequently, FSL was unable to draw on the account as well as the appointed administrator. Given that FSL did not have access to this fund at year-end 2008, the most conservative accounting approach should have been to non-admit its share, since the amount was not readily available to cover policyholder obligations.

Subsequent to the end of the examination fieldwork, FSL reached an interim agreement with SSL and Bank of America that allowed a transfer of approximately $8.5 million to FSL covering the amount recoverable as of December 31, 2008 and subsequent activity. The examination has exercised professional judgment in allowing the $6,316,648 to be reported as an admitted asset as of December 31, 2008. However, this judgment is predicated on the premise that FSL will address all the related banking issues that thus far have remained unresolved. Any such signed resolution, on a permanent and going-forward basis, must be provided to the DIFP as soon as possible. The Company is therefore directed to enter into all possible and reasonable arrangements and/or agreements that will ensure that its share of proceeds from the program business and reinsurance with SSL are promptly received and recorded.

SUMMARY OF RECOMMENDATIONS

Statutory Deposits – Other Deposits (Page 18)

The Company should ensure that its assets pledged as collateral to the Federal Home Loan Bank, including the pledged value of the member activity common stock of Federal Home Loan Bank owned by the Company, are properly identified on the Annual Statement Schedule D and disclosed on Schedule E – Part 3 (Special Deposits) of the Annual Statement in the future.

Other Amounts Receivable Under Reinsurance (Page 23)

The Company reported a significant amount receivable under reinsurance that was overdue at year-end 2008 that was subsequently received after the completion of examination fieldwork. Although the examination exercised professional judgment in allowing the amount to be reported as admitted, the Company is hereby directed to resolve all the underlying bank account issues involving the account with its reinsurer and the appointed administrator. The Company is also directed to provide evidence of such resolution to the DIFP as soon as possible.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Fidelity Security Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shawn Hernandez, CFE, Barbara Bartlett, CPA, CFE and Valerie Hastings, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Timothy Carroll, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment. Leon L. Langlitz, FSA, of Lewis & Ellis, Inc. also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Levi N. Nwasoria, CPA, MSA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Levi N. Nwasoria, CPA, MSA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 4th day of February, 2010.

My commission expires: March 5, 2010 Gale A Holmes
Notary Public

GALE A. HOLMES
Notary Public - Notary Seal
STATE OF MISSOURI
Commissioned in Jackson County
My Commission Expires: March 5, 2010
Commission #06398233

GALE A HOLMES NOTARY PUBLIC NOTARY SEAL COMMISSION #06398233 STATE OF MISSOURI

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Mark Nance, CPA, CFE
Audit Manager
Missouri Department of Insurance, Financial
Institutions and Professional Registration

FSL
FIDELITY SECURITY LIFE INSURANCE COMPANY

RECEIVED
MAR 26 2010
INSURANCE SOLVENCY
COMPANY REGULATION

March 22, 2010

Ms. Tammy Rodieck, Exam Coordinator
Division of Insurance Company Regulation
Department of Insurance, Financial Institutions, and Professional Registration
301 West High Street, Room 530, P.O. Box 690
Jefferson City, Missouri 65102-0690

RE: Fidelity Security Life Insurance Company (FSL) Response to Examination Report of FSL by the Missouri Department of Insurance, Financial Institutions, and Professional Registration (DIFP)

Dear Ms. Rodieck:

FSL appreciates the opportunity to respond to DIFP's Examination Report of FSL for the period ending December 31, 2008 (Report), and this letter should be included in the Report as a public document. Initially, FSL would like to thank the DIFP who shared their experience and knowledge with FSL personnel and for providing FSL with suggestions and recommendations.

FSL will address DIFP's Comments on Financial Statements and Summary of Recommendations in order.

Note #1 Other Amounts Receivable under Reinsurance and corresponding recommendation:

An oversight occurred while setting up the bank accounts for this program and FSL's affiliate and the appointed administrator for Standard Security Life (SSL), Forrest T. Jones & Company, Inc., should have had access to draw on the account for the distribution of monies, including the monies due and owing to FSL. At no time did SSL make claims to those funds as not belonging to FSL, and SSL has agreed to release the outstanding amounts to FSL and make all necessary changes to the account.

FSL appreciates the examiner's consideration and recommendation on this matter, and FSL will provide to DIFP all relevant documentation of FSL's resolution with SSL regarding this matter upon its completion. FSL will put procedures in place to ensure this oversight is not repeated.

Statutory Deposits – Other Deposits

FSL recognizes that NAIC Annual Statement Instructions require that common stocks owned by FSL should have been listed on Schedule D, and FSL had listed their common stock of the

Federal Home Loan Bank (FHLB) on Schedule D of FSL's 2009 Annual Statement. FSL will continue to list their common stock of the FHLB on Schedule D.

FSL further recognizes that its assets pledged as collateral to the FHLB should have been listed on Schedule E-Part 3. To that end, FSL will list those assets as such under Schedule E-Part 3 in its 2010 Annual Statement and for as long as those assets continue to qualify as such under Schedule E-Part 3.

Conclusion

FSL again thanks the DIFP for this examination and its corresponding Report. FSL has taken the corrective action as noted above to ensure compliance with Missouri requirements.

If you have any questions or need anything further, please do not hesitate to contact me.

Thank you and best regards,

Richard F. Jones
President
Fidelity Security Life Insurance Company