

EXAMINATION REPORT OF  
CAPE VERITY III, INC.  
DES MOINES, IOWA  
AS OF DECEMBER 31, 2019

Des Moines, Iowa  
May 26, 2021

HONORABLE DOUG OMMEN  
Commissioner of Insurance  
State of Iowa  
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an Examination has been made of the business affairs and financial condition of

CAPE VERITY III, INC.

DES MOINES, IOWA

AS OF DECEMBER 31, 2019

at its home office located at 215 10<sup>TH</sup> Street, Suite 1100, Des Moines, Iowa.

#### INTRODUCTION

Cape Verity III, Inc., hereinafter referred to as the “Company” was previously examined as of December 31, 2014 by the Iowa Insurance Division. The examination reported herein was conducted as a coordinated examination of an insurance holding company group with the Indiana Department of Insurance acting as the Lead State. The Company’s parent, Accordia Life and Annuity Company (Accordia), and affiliate, Cape Verity I, Inc. (CV1) were examined concurrently with this examination.

#### SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2015 to the close of business on December 31, 2019, including any material transactions and events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that the Division plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

The examination report includes significant findings of fact and general information and the insurer and its financial condition.

## HISTORY

The Company was incorporated on August 15, 2013, as an Iowa domiciled limited purpose subsidiary of Accordia. The Company was issued a Certificate of Authority under Section 508.33A, Code of Iowa, as a Limited Purpose Subsidiary reinsurer.

### CAPITAL STOCK AND DIVIDENDS TO STOCKHOLDERS

There are 25,000 shares of common stock authorized, issued and outstanding, with a par value of \$100.00 per share. Accordia owns 100% of the common stock. No dividends were paid during the examination period.

The Company received a capital contribution from Accordia of \$4,000,000 in 2016.

On May 1, 2019, in connection with the recapture of its ceded business from CV2 and reinsurance of that business to the Company, Accordia paid a \$166,032,945 capital contribution to the Company.

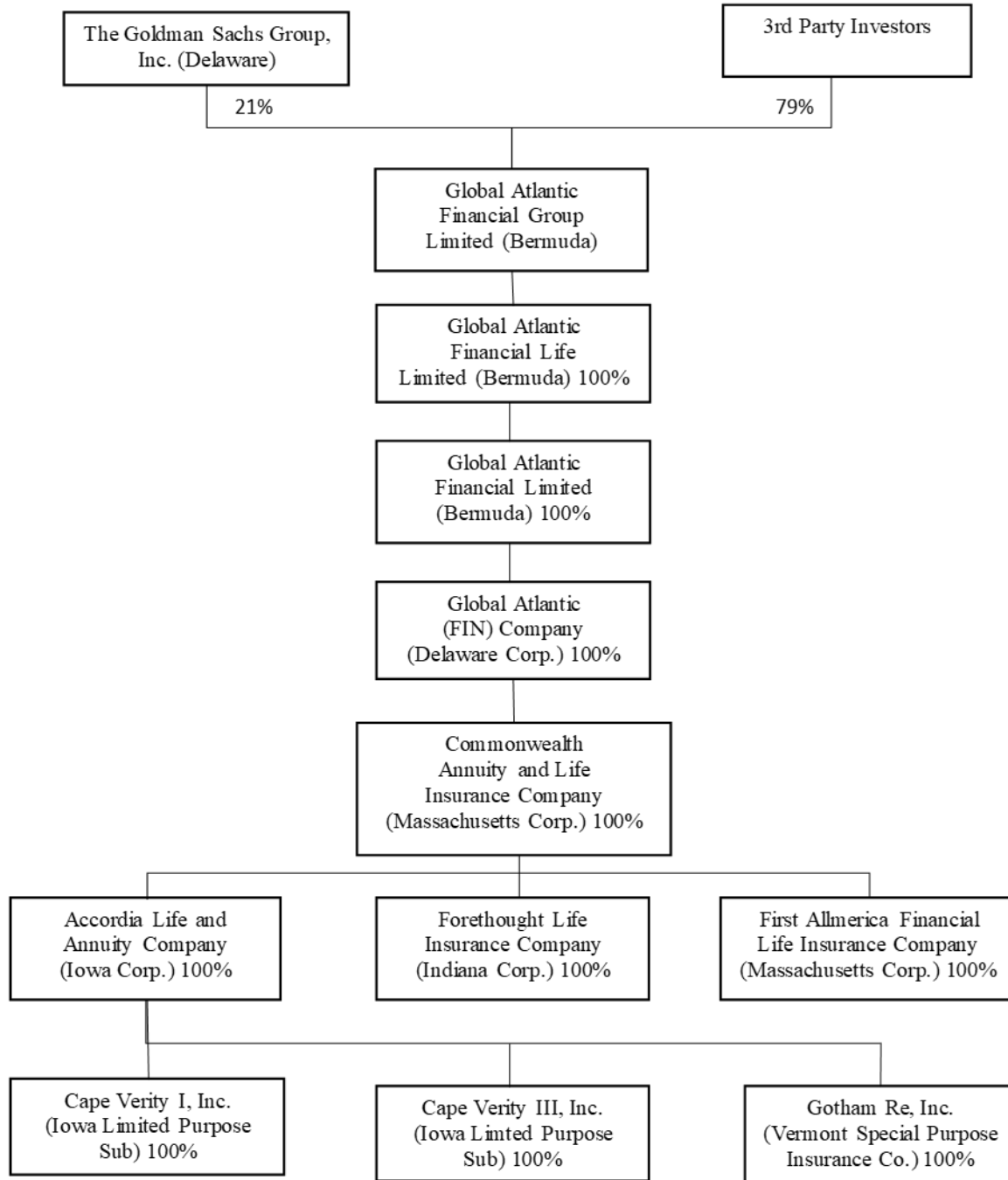
### SURPLUS NOTE

The Company issued a Variable Principal Amount Surplus Note (Surplus Note) to Meramec Financing, LLC (Meramec), in conjunction with the business assumed from Accordia in 2013. The Surplus Note is discussed in the Reinsurance section of this report.

### INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined by Chapter 512A, Code of Iowa. The Goldman Sachs Group, Inc. is the ultimate controlling person for the group. An Insurance Holding Company System Registration Statement was filed annually with the Iowa Insurance Division for each year of the examination period.

An abbreviated organizational chart identifying the Companies within the Holding Company System follows:



## MANAGEMENT AND CONTROL

### Shareholders

The annual meeting of the shareholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held at such time and date as specified in the notice of the meeting and at such place within or without the State of Iowa as the Board of Directors shall determine.

Special meetings of the shareholders, for any purpose, may be called by the President, the Board of Directors, or the Secretary upon written request of the holders of at least ten percent of all the shares entitled to vote at the meeting.

Notice of the place, date and times of all meetings of shareholders and, in the case of a special meeting, the purpose for which the meeting is called, shall be communicated not fewer than ten days nor more than 60 days before the date of the meeting to each shareholder entitled to vote at such meeting.

#### Board of Directors

The number of directors of the corporation shall be not less than three or more than five and shall be determined by the shareholder at each annual meeting or by the Board of Directors. Each director shall hold office until the next succeeding annual meeting and until his or her successor shall have been elected and qualifies, or until his or her earlier resignation or removal. Any vacancy occurring on the Board of Directors may be filled by the majority vote of the remaining directors, even if the remaining directors are less than a quorum.

A quorum of the Board of Directors consists of one third of the total number of directors, but not less than two. The vote of a majority of the directors present, at a meeting at which a quorum is present, shall be the act of the Board of Directors.

The Board of Directors may hold its meetings at such place within or without the State of Iowa, as the Board may determine however, at least one meeting shall be held in the State of Iowa. The Board of Directors shall meet each year immediately after the annual meeting of the shareholder for the purpose of organization, the election of officers and consideration of other business. Notice of such meeting need not be given.

Special meetings of the Board of Directors shall be held whenever called by the President, Secretary, or any one director. Notice of the time, date and place of a special meeting shall be communicated to each director at least one day in advance of the special meeting. The notice need not specify the purpose of the meeting.

The directors duly elected and serving as of December 31, 2019 were:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Robert Michael Arena Jr. Farmington, CT	President Global Atlantic Financial Group	2020
Hanben Kim Lee New York, NY	Chief Financial Officer Global Atlantic Financial Group	2020
David Paul Wilken Des Moines, IA	President Accordia Life and Annuity Company	2020

All directors were re-elected at the annual meeting of shareholders held on July 7, 2020.

#### Committees

The Board of Directors may by resolution establish one or more committees of the Board of Directors, including an Executive Committee. Each committee shall consist of two or more directors with powers delegated to it by the Board of Directors. No committees were formed by the Company as of December 31, 2019.

## Officers

The executive officers of the Company, as defined in the Bylaws, shall consist of a President, a Treasurer, a Secretary, and such other officers as may be appointed by the Board of Directors.

The principal elected officers serving at December 31, 2019 were as follows:

<u>Name</u>	<u>Title</u>
David Paul Wilken	President
David Allen Jacoby	Chief Financial Officer
Robert Michael Arena Jr.	Chief Executive Officer
Virginia Hope Johnson	Senior Vice President, Associate General Counsel and Secretary
Bryan Edward Nelson	Vice President and Appointed Actuary
Gary Phillip Silber	Managing Director, Associate General Counsel and Assistant Secretary
John Nicholas Giamalis	Treasurer
Philip William Sherrill	Managing Director
David Eberhart Neve	Vice President
Tonya Rachelle Maxwell	Vice President

On June 17, 2020, Kathryn Lauren Freund was elected Vice President, Assistant General Counsel and Secretary of the Company replacing Virginia Hope Johnson, who assumed the position of Assistant Secretary.

The officers are employees of the Company's affiliate, Global Atlantic Financial Company (GAFC). The salaries of these officers are paid by GAFC.

The salaries of the above officers are shown in Exhibit A, found immediately following the signature page of this report.

## CONFLICT OF INTEREST

The Company has an established procedure for the annual disclosure to its Board of Directors of any material interest or affiliation on the part of the directors, officers, responsible employees and members of their immediate family, which is in conflict with, or is likely to be in conflict with the official duties of such person. The Company requires its officers and directors to complete conflict-of-interest statements and disclose any known or potential conflict of interest as part of the annual disclosure process.

The examiners requested to review the conflict of interest statements completed by the Company's officers and directors for each year of the period covered by this examination. The Company was not able to produce a statement for one of its officer-directors for 2016 and one other officer for 2016.

## CORPORATE RECORDS

Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

The recorded minutes of the meetings of the shareholder and Board of Directors were read and noted.

The minutes of the Board meetings did not show that the Report of Examination as of December 31, 2014 by the Iowa Insurance Division was received by the Board.

## FIDELITY BONDS AND OTHER INSURANCE

The Company is protected by a Financial Institution Bond up to a single loss limit of \$15,000,000. This coverage is for all companies of GAFG. Other coverages in place appear to adequately protect the interests of the Company.

## AFFILIATED AGREEMENTS

### SERVICES AND EXPENSE AGREEMENTS

The Company entered into a Services and Expense Agreement with Global Atlantic (Fin) Company (FinCo), an indirect parent, and GAFC under which the parties will second their employees and provide various administrative, legal, compliance, technology, operations, financial reporting, human resources, risk management and other functions to each other as the parties may agree. The agreement was approved by the Iowa Insurance Division effective October 2, 2013.

The Company entered into a Services and Expense Agreement with Accordia to provide services consistent with the Company's plan of operation. This agreement was approved by the Iowa Insurance Division effective October 2, 2013.

### TAX ALLOCATION AGREEMENT

Effective October 2, 2013, and January 2, 2014 under a joinder agreement, the Company became party to a Tax Allocation Agreement with various affiliates within the GAFG holding company system. This agreement provides for the filing of consolidated federal income tax returns by GAFG on behalf of the insurers and non-insurer affiliates in the holding company system, and the allocation of tax liabilities among those entities. Under the agreement, each party's respective obligation or benefit is calculated on a separate return basis. This agreement was approved by the Iowa Insurance Division effective October 2, 2013.

## EMPLOYEES' AND AGENTS' WELFARE

The Company does not have employees. Corporate services are performed pursuant to a Services and Expense Agreement with Accordia.

## REINSURANCE

### REINSURANCE ASSUMED

Effective October 1, 2013, the Company assumed policy risks under a 100% quota share funds withheld retrocession agreement (Retrocession Agreement) with Accordia. The Retrocession Agreement covered Individual Universal Life with No-Lapse Guarantees policies issued by Aviva Life and Annual Company (ALAC) between 2008 and 2009.

Effective October 1, 2014, the Company amended its reinsurance agreement with Accordia dated October 1, 2013, to cover Individual Term and Universal Life with No-Lapse Guarantees policies issued by ALAC during 2013 and 2014.

Effective April 1, 2019, the Company further amended its reinsurance agreement with Accordia dated October 1, 2013 to assume all business Accordia had recaptured from its wholly-owned subsidiary, CV2, which consisted of Individual Term and Universal Life Policies with No-Lapse Guarantees issued by ALAC during 2010 and 2012.

At December 31, 2019, the statutory reserves required to be held under 191 IAC 47 ("Regulation XXX") and Actuarial Guideline 38 ("Regulation AXXX") was \$4,112,925,668, of which \$1,264,036,340 were estimated to be non-economic reserves.

The non-economic reserves are funded pursuant to the terms of an LLC Note Agreement that was entered into effective October 1, 2013.

Under the LLC Note Agreement Meramec issued a non-transferable Variable Funding Puttable Note (LLC Note) to the Company in the event funds are required by the Company to meet its obligations under the Retrocession Agreement. The Company was granted permission by the Iowa Insurance Division to report the outstanding face amount of the LLC Note as an admitted asset on its statutory financial statements. As of December 31, 2019, the LLC Note had a face amount of \$1,264,036,340 that was equal to the estimated non-economic reserves on this same date.

In addition, in consideration for the issuance of the LLC Note to the Company by Meramec, the Company issued a Surplus Note to Meramec. As of December 31, 2019, the balance of the Surplus Note was zero however, each time the Company requests payment under the LLC Note, the outstanding balance of the Surplus Note will increase in the same amount. Any payment of principal or interest on the Surplus Note would be subject to the written approval of the Iowa Commissioner of Insurance.

Pursuant to the Retrocession Agreement, Accordia reports a financial statement funds withheld liability equal to the economic reserves assumed by the Company. The funds withheld amounts are maintained by Accordia in the form of notional account and a segregated securities account registered in the name of the Company and held by a bank custodian.

#### STATUTORY DEPOSIT FOR LEGAL RESERVE

The Company is exempt from the requirement to have securities on deposit with the Iowa Insurance Division.

#### TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business in the State of Iowa as a Limited Purpose Subsidiary. The Company is only authorized to reinsure (assume) the risks of its parent, Accordia.

#### GROWTH OF COMPANY

The growth of the Company is reflected by the following data taken from the Company's copies of the filed annual statements for the years indicated.

(000's Omitted)

<u>Year</u>	<u>Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Life Aggregate Reserves</u>	<u>Life Premium Income</u>	<u>Life Insurance In Force Ordinary</u>
2015	\$ 747,289	\$ 60,840	\$ 664,219	\$ 37,918	\$ 4,921,551
2016	816,398	59,099	728,918	36,292	4,850,255
2017	881,981	66,368	783,647	34,103	4,680,921
2018	938,738	69,264	833,505	28,940	4,482,331
2019	4,454,373	257,335	4,112,926	2,246,377	16,437,844



## ACCOUNTS AND RECORDS

The Company uses electronic data processing equipment and related software for processing and maintaining its accounts, records and files. In certain areas, an imaging system is used to maintain documents on the computer system rather than maintaining the original documents (paper) or other media (microfilm, microfiche etc.). The Information Systems controls were reviewed by this examination. No material exceptions were noted to accepted control practices and procedures.

The trial balance of the Company's general ledger was taken for 2019 and was found to be in agreement with the office copy of the filed annual statement.

During the course of examination, no statutory violations or material differences with the amounts reflected in the financial statements, as presented in the annual statement at December 31, 2019, were identified.

## SUBSEQUENT EVENTS

### COVID-19 Pandemic

The Iowa Insurance Division is monitoring the impact of the COVID-19 global pandemic. The Iowa Insurance Division recognizes that COVID-19 could have a significant financial and operational impact on all of its domestic insurers, including the Company. As such, the Iowa Insurance Division will continue to monitor and share information with the Company as appropriate related to COVID-19 developments.

### Acquisition of GAFGL by KKR

On February 1, 2021, KKR & Co., Inc. (KKR) completed the acquisition of Global Atlantic Financial Group Limited (GAFGL), the Company's indirect parent, by Magnolia, a KKR subsidiary. The Company does not expect the acquisition to materially impact its operations. The transaction was approved by the Iowa Insurance Division and other interested regulators.

### Capital Contribution

During 2020, bonds and cash with an aggregate value of \$120,000,000 were transferred to the Company from Accordia as a capital contribution.

FINANCIAL STATEMENTS  
AND COMMENTS THEREON

Note: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2019.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Assets</u>	<u>Non Admitted</u>	<u>Admitted</u>
Bonds	\$ 132,876,163	\$	\$ 132,876,163
Cash, cash equivalents and short-term investments	8,909,942		8,909,942
Contract loans	19,685,881		19,685,881
Investment income due and accrued	1,707,256		1,707,256
Deferred premiums	7,478,996		7,478,996
Funds held by reinsured companies	2,945,803,647		2,945,803,647
Other receivables under reinsurance contracts	73,874,849		73,874,849
Net deferred tax asset	209,150,902	209,150,902	
Contingent note	1,264,036,340		1,264,036,340
Acct rec - miscellaneous	1,904	1,904	
	<hr/>	<hr/>	<hr/>
Total Assets	\$4,663,525,880	\$209,152,806	\$4,454,373,074

LIABILITIES, SURPLUS and OTHER FUNDS

Aggregate reserve for life contracts	\$4,112,925,668
Other amounts payable on reinsurance	69,238,461
Interest maintenance reserve	12,014,389
Commissions and expense allowances payable on reinsurance assumed	2,514,509
Asset valuation reserve	344,695
	<hr/>
Total Liabilities	\$4,197,037,722
	<hr/>
Common capital stock	\$ 2,500,000
Contingent note surplus	1,264,036,340
Gross paid in and contributed surplus	191,532,945
Unassigned funds (surplus)	(1,200,733,933)
	<hr/>
Total Capital and Surplus	\$ 257,335,352
	<hr/>
Total Liabilities, Surplus and Other Funds	\$4,454,373,074

## SUMMARY OF OPERATIONS

Premiums and annuity considerations for life contracts	\$2,246,377,134
Net investment income	5,324,068
Amortization of interest maintenance reserve	694,169
Funds withheld miscellaneous income	139,760,021
	<hr/>
Total	\$2,392,155,392
	<hr/>
Death benefits	\$ 52,394,430
Surrender benefits and withdrawals for life contracts	11,714,622
Increase in aggregate reserves for life contracts	3,278,975,434
Commissions and expense allowances on reinsurance assumed	8,111,688
	<hr/>
Total	\$3,351,196,174
	<hr/>
Net gain (loss) from operations before federal income taxes	\$ (959,040,782)
Federal and foreign income taxes incurred	(26,713,822)
	<hr/>
Net gain (loss) from operations after federal income taxes and before net realized capital gains	\$ (932,326,960)
	<hr/>
Net realized capital gains (losses) less capital gains tax	224,384
	<hr/>
Net Income (Loss)	\$ (932,102,576)
	<hr/>

CAPITAL AND SURPLUS

Capital and Surplus, December 31, 2018	<u>\$ 69,263,804</u>
Net income (loss)	\$(932,102,576)
Change in net deferred income tax	174,605,522
Change in non-admitted assets	(174,607,427)
Change in asset valuation reserve	(238,755)
Paid in surplus	166,032,945
Change in tax sharing agreement	(26,650,165)
Prior year adjustment	(318,379)
Change in contingent note surplus	<u>981,350,384</u>
Net change in capital and surplus for the year	<u>\$ 188,071,548</u>
Capital and Surplus, December 31, 2019	<u>\$ 257,335,352</u>

## CASH FLOW

### CASH FROM OPERATIONS

Premiums collected net of reinsurance	\$64,192,648	
Net investment income	3,747,351	
Miscellaneous income	(51,589,655)	
	<hr/>	
Total		\$16,350,344
Benefit and loss related payments	\$ 18,065,067	
Commissions and expenses paid	6,381,191	
	<hr/>	
Total		<hr/> \$24,446,258
Net cash from operations		<hr/> \$(8,095,914)

### CASH FROM INVESTMENTS

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 15,988,131	
Net gains on cash, cash equivalents, and short-term investments	1,264	
	<hr/>	
Total investment proceeds		\$15,989,395
Cost of investments acquired (long-term only):		
Bonds	\$ 8,748,812	
Total investments acquired		<hr/> \$ 8,748,812
Net increase (decrease) in contract loans		<hr/> 1,872,165
Net cash from investments		<hr/> \$ 5,368,418

### CASH FROM FINANCING AND MISCELLANEOUS SOURCES

Cash provided (applied):		
Paid in surplus	2,663,406	
Other cash provided (applied)	\$ (1)	
	<hr/>	
Net cash from financing and miscellaneous sources		<hr/> \$ 2,663,405

### RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments		\$ (64,091)
Cash and short-term investments:		
Beginning of year		<hr/> \$ 8,974,034
End of year		<hr/> \$ 8,909,943

## CONCLUSION

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

In addition to the undersigned, examiners from the Iowa Insurance Division, JP Consulting, investment specialists, and Insurance Strategies Consulting, LLC, actuarial specialists, participated in the examination and the preparation of this report.

The Information Systems portion of this examination was performed by The Thomas Consulting Group, Inc., on behalf of the Indiana Department of Insurance as Lead State for the holding company group examination.

Respectfully submitted,

/s/ Thomas Allen

Thomas Allen, CFE  
Examiner-in-Charge  
Examination Resources, LLC on behalf of the  
Iowa Insurance Division

/s/ Daniel Mathis

Daniel Mathis, CFE  
Supervisor and Assistant Chief Examiner  
Iowa Insurance Division