

REPORT OF EXAMINATION
OF THE
LUSO-AMERICAN FINANCIAL
AS OF
DECEMBER 31, 2019

Filed on June 08, 2021

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Oakland, California
May 13, 2021

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

LUSO-AMERICAN FINANCIAL

(hereinafter also referred to as the Society). The Society's home office is located at 7080 Donlon Way, Suite 200, Dublin, California 94568.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Society. The previous examination of the Society was as of December 31, 2014. This examination covered the period of January 1, 2015 through December 31, 2019.

This examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Society's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause the Society's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Society were considered in accordance with the risk-focused examination process. This includes 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 an adjustment was identified during the course of the

examination, the impact of such adjustment would be documented separately following the Society's financial statements.

This examination report includes findings of fact and general information about the Society and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Society.

SOCIETY HISTORY

Effective July 1, 1957, United National Life Insurance Society was the successor of the merger between the Benevolent Society of California founded in San Francisco in 1868 and the Uniao Portuguesa Continental founded in Oakland in 1917. The successor's name was changed to Luso-American Life Insurance Society (LALIS) in 1993. In 2002, the Society merged with the Portuguese Continental Union of the United States of America, domiciled in Massachusetts, with the Society being the surviving entity. Effective January 1, 2008, the Sociedade Portuguesa Rainha Santa Isabel merged with and into the Society. Effective August 9, 2016, LALIS changed its name to Luso-American Financial – A Fraternal Benefit Society.

MANAGEMENT AND CONTROL

The Supreme and governing body of the Society is composed of delegates as follows: (1) officers and directors of the Society, (2) delegates from the Luso-American Fraternal Federation, the Portuguese Continental Union, and the Sociedade Portuguesa Rainha Santa Isabel, and (3) others that may be appointed or elected, with the privilege of the floor but not right to vote.

The three intermediate fraternal divisions of the Society are Luso-American Fraternal Federation, the Portuguese Continental Union, and the Sociedade Portuguesa Rainha Santa Isabel. Each division is entitled to send one delegate for each 400-adult benefit members to the triennial meeting of the Society. In addition, there shall be no more than

one-third of the number of delegates from each fraternal division elected as alternate delegates. Based on membership as of December 31, 2019, Luso-American Fraternal Federation had 22 delegates, the Portuguese Continental Union had 5 delegates, and Sociedade Portuguesa Rainha Santa Isabel had 9 delegates.

The term of office for the directors was six years with approximately one-half of the directors being up for election every three years at the triennial convention. The thirteen members of the board of directors managed the business and affairs of the Society.

Following are members of the board and principal officers of the Society serving at December 31, 2019:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Gerard A. Batista Chino, California	Fleet Manager M.K. Smith Chevrolet
Eduardo S. Eusebio Fairfield, California	Retired
Maritana B. Guadalupe Newington, California	Retired
Patricia M. Larson Chelmsford, Massachusetts	Program Manager Reebok International
Joseph F. Machado Merced, California	Marketing Manager Land O' Lakes
Jose M. Machado Hayward, California	Owner and President J. Machado, Inc.
Aires R. Pavão Worcester, Massachusetts	Senior Project Manager Babcock Power
John N. Perdigao Richmond, California	Retired
Jose A. Soares ^(a) Kearny, New Jersey	Self-employed

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Anthony G. Sozinho Tulare, California	President Sozinho Insurance Services
Cecilia M. Souza Stockton, California	Retired
Joseph B. Vieira San Jose, California	Owner The Vieira Company
Linda M. Vieira Santa Clara, California	Chief Financial Officer and Secretary Vieira Enterprises

Principal Officers

<u>Name</u>	<u>Title</u>
Filomena S. Machado	Corporate Secretary
Roberto C. Maia ^(b)	Treasurer and Controller

The following changes in director and officer occurred subsequent to the examination date:

- (a) Jose A. Soares was discharged from his duties as a board of director during the September 15, 2020 board meeting. The decision was retroactive, effective October 20, 2019.
- (b) Roberto C. Maia left the Society, effective October 9, 2020. Sue Nichols was hired as the new Treasurer and Controller in December 2020.

TERRITORY AND PLAN OF OPERATION

The Society operates under the lodge system as described under Division 2, Part 2, Chapter 10 of the California Insurance Code. The Society's operations are conducted at its home office in Dublin, California. It also maintains an office in New Bedford, Massachusetts, where administrative, fraternal, and sales and marketing functions are performed. The Society is licensed to write life and annuity business in California,

Connecticut, Idaho, Massachusetts, Nevada, New Jersey, Pennsylvania, and Rhode Island.

For the year ending December 31, 2019, the Society had 2 full-time appointed agents, 1 part-time appointed agent, and 25 independent or contracted agents. Approximately 83% of the Society’s direct business was generated in California; 13% in Massachusetts; and 4% in the remaining states. The Society had \$5,675,672 in total direct premiums and annuity considerations for life and accident and health contracts as of December 31, 2019.

REINSURANCE

Assumed

The Society did not assume any reinsurance during the examination period.

Ceded

The following is a summary of principal reinsurance agreements in effect as of December 31, 2019:

<u>Line of Business and Type of Contract</u>	<u>Reinsurer’s Name</u>	<u>Society’s Retention</u>	<u>Reinsurer’s Limit</u>
Life and waiver of premium disability	Optimum RE Insurance Company (authorized)	\$20,000 for life and waiver of premium	\$200,000 for life (age 0-70), \$0 for life (over age 70), \$2,000,000 for waiver of premium (age 0-44), \$1,000,000 (age 45-65) and \$0 for waiver of premium (over age 65)
Life, waiver of premium and accidental death	Optimum RE Insurance Company (authorized)	\$40,000 for life and waiver of premium (age 0-70), \$0 for life and waiver of premium (over ages 70), \$0 for accidental death	\$105,000 for life and waiver of premium (ages 0-70), \$0 for life and waiver of premium (over age 70), \$100,000 for accidental death (ages 0-60) and \$0 for accidental death (over age 60)

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Society's Retention</u>	<u>Reinsurer's Limit</u>
Life, waiver of premium and accidental death	Optimum RE Insurance Company (authorized)	\$40,000 for life and waiver of premium (age 0-70), \$0 for life and waiver of premium (over ages 70), \$0 for accidental death	\$200,000 for life (ages 0-70), \$0 for life (over age 70), \$2,000,000 for waiver of premium (ages 0-44), \$1,000,000 for waiver of premium (ages 45-65), \$0 for waiver of premium (over age 65), \$100,000 for accidental death (ages 0-60) and \$0 for accidental death (over age 60)
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$40,000 (ages 0-70), \$0 (over age 70)	\$200,000 for life (ages 0-70), \$0 for life (over age 70), \$2,000,000 for waiver of premium (ages 0-44), \$1,000,000 for waiver of premium (ages 45-65), \$0 for waiver of premium (over age 65)
Life, disability and accidental death	Optimum RE Insurance Company (authorized)	\$25,000 for life and disability, \$0 for accidental death	Risks that do not exceed \$1,000 of the Society's retention will be \$1,000. Risks that are within or don't exceed \$1,250 of the Society's retention will be for the amount of excess. All other risks to be determined by the reinsurer.
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$40,000	1x the Society's retention to a maximum of \$40,000
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$40,000 (ages 0-70), \$0 (over age 70)	5x the Society's retention to a maximum of \$200,000 in excess of the Society's maximum retention
Life	Optimum RE Insurance Company (authorized)	\$25,000	\$0
Accidental death	Optimum RE Insurance Company (authorized)	\$0	\$300,000
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$25,000	\$100,000
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$40,000 (ages 0-70), \$0 (over age 70)	5x the Society's retention to a maximum of \$200,000 in excess of the Society's maximum retention
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$40,000	\$160,000

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Society's Retention</u>	<u>Reinsurer's Limit</u>
Life and waiver of premium	Optimum RE Insurance Company (authorized)	\$50,000 (ages 0-70), \$0 (over age 70)	5x the Society's retention to a maximum of \$200,000 in excess of the Society's maximum retention
Ordinary life, waiver of premium and accidental death	SCOR Global Life Reinsurance Company of Delaware (authorized)	\$40,000	Face value of the policy

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by the Society with the California Department of Insurance and present the financial condition of the Society for the period ending December 31, 2019. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements reported by the Society.

Statement of Financial Condition as of December 31, 2019

Summary of Operations and Surplus Account for the Year Ended
December 31, 2019

Reconciliation of Surplus from December 31, 2014 through December 31, 2019

Statement of Financial Condition
as of December 31, 2019

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 99,672,852	\$	\$ 99,672,852	
Preferred stocks	155,000		155,000	
Common stocks	195,696		195,696	
Mortgage loans on real estate: First liens	13,290,895		13,290,895	
Properties held for the production of income	1,990,301		1,990,301	
Cash and short-term investments	3,254,553		3,254,553	
Contract loans	2,220,997		2,220,997	
Investment income due and accrued	1,740,155		1,740,155	
Uncollected premiums and agents' balances in the course of collection	38,365		38,365	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	316,915		316,915	
Electronic data processing equipment and software	1,530	1,530	0	
Aggregate write-ins for other than invested assets	6,973	6,973	0	
Total assets	<u>\$ 122,884,232</u>	<u>\$ 8,503</u>	<u>\$ 122,875,728</u>	
<u>Liabilities, Surplus, and Other Funds</u>				<u>Notes</u>
Aggregate reserve for life contracts			\$ 111,877,038	(1)
Liability for deposit-type contracts			832,018	(1)
Contract Claims: Life			549,516	(2)
Premiums and annuity considerations for life and accident and health contracts received in advance less discount			31,165	
Contract liabilities not included elsewhere: Interest Maintenance Reserve			872,185	
Commissions to agents due or accrued			9,711	
General expenses due or accrued			71,483	
Taxes, licenses and fees due or accrued, excluding federal income taxes			268,517	
Unearned investment income			60,223	
Amounts withheld or retained by reporting entity as agent or trustee			67,185	
Remittances and items not allocated			44,983	
Asset valuation reserve			1,052,825	
Aggregate write-ins for liabilities			<u>258,326</u>	
Total liabilities			115,995,175	
Unassigned funds (surplus)		<u>6,880,553</u>		
Total Surplus			<u>\$ 6,880,553</u>	
Total liabilities, surplus, and other funds			<u>\$ 122,875,728</u>	

Summary of Operations and Surplus Account
for the Year Ended December 31, 2019

Underwriting Income

Premiums and annuity considerations	\$	5,421,069
Considerations for supplementary contracts with life contingencies		1,269,632
Net investment income		6,192,329
Amortization of Interest Maintenance Reserve		114,717
Aggregate write-ins for miscellaneous income		71,054
Totals		13,068,801

Deductions:

Death benefits	\$	1,035,936
Matured endowments		16,997
Annuity benefits		1,440,682
Surrender benefits and withdrawals for life contracts		3,099,595
Interest and adjustments on contracts or deposit-type contract funds		32,046
Payments on supplementary contracts with life contingencies		127,821
Increase in aggregate reserves for life and accident and health contracts		4,627,503
Commissions on premiums, annuity considerations and deposit-type contract funds		137,816
General insurance expenses and fraternal expenses		2,195,345
Insurance taxes, licenses and fees, excluding federal income taxes		90,261
Totals		<u>12,804,002</u>

Net gain from operations after dividends to policyholders, refund to members and federal income taxes		264,799
Net realized capital loss		<u>(245,618)</u>
Net income	\$	<u>19,181</u>

Capital and Surplus Account

Capital and surplus, December 31, 2018		\$	6,990,112
Net income	\$	19,181	
Change in net unrealized capital gains		44,005	
Change in nonadmitted assets		2,792	
Change in asset valuation reserve		(151,301)	
Aggregate write-ins for losses in surplus		<u>(24,236)</u>	
Net change in capital and surplus for the year			<u>(109,559)</u>
Capital and Surplus, December 31, 2019		\$	<u><u>6,880,553</u></u>

Reconciliation of Surplus
from December 31, 2014 through December 31, 2019

Surplus as regards policyholders, December 31, 2014			\$ 4,274,952
	Gain in Surplus	Loss in Surplus	
Net income	\$ 3,420,535	\$	
Change in net unrealized capital gains	107,418		
Change in nonadmitted assets	45,572		
Change in asset valuation reserve		324,508	
Aggregate write-ins for losses in surplus		643,417	
Total gains and losses	\$ 3,573,525	\$ 967,925	
Net increase in surplus			2,605,600
Surplus, December 31, 2019			\$ 6,880,553

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Contracts and Liability for Deposit-Type Contracts

Based on an analysis by a Life Actuary from the California Department of Insurance, the Society's reserves as of December 31, 2019 were found to be reasonably stated and have been accepted for the purposes of this examination.

(2) Contract Claims: Life

The Society could not provide proper documentation and information that was complete and accurate for its contract claims. It is recommended that the Society keep proper documentation to support its contract claims and implement procedures to ensure data completeness and accuracy.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of this report, the Society has not experienced significant operational nor financial impact. During 2020, the Society saw improvements in premiums and annuity considerations, investment income, benefits, and net income as compared to 2019 results.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comments on Financial Statement Items – Contract Claims (Page 11): The Society could not provide proper documentation and information that were complete and accurate for its contract claims. It is recommended that the Society maintain proper documentation to support its contract claims and implement procedures to ensure data completeness and accuracy.

Previous Report of Examination

Accounts and Records – Information Systems Controls (Page 7): As a result of the review of the Society's information systems controls, recommendations for improving these controls were presented to the Society. The Society should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems. The Society has taken steps to address the recommendations.

Accounts and Records – Annual Statement Reporting (Page 7): It was noted that the Society did not include all of its reinsurance information in its Annual Statement Schedule S, Part 3, Section 1 for 2013 and 2014. It was also noted that the Society inaccurately reported that it was licensed in Florida in its Annual Statement Schedule T in 2013 and 2014, when the Society surrendered its license in 2012. It was recommended that the Society review its Annual Statement schedules to ensure accurate reporting. The Society has taken steps to address these recommendations.

Comments on Financial Statement Items – Contract Claims (Page 12): The Society could not provide adequate documentation or information that was complete and accurate for its contract claims. It was recommended that the Society keep adequate documentation to support its contract claims and that they review the data for completeness and accuracy. The Society has not remediate this recommendation.

ACKNOWLEDGMENT

Acknowledgement is made of the cooperation and assistance extended by the Society's officers and employees during the course of this examination.

Respectfully submitted,

_____/S/_____

Jack Lee, CFE, CISA
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

_____/S/_____

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