

# **Financial Condition Report**

**Year ended December 31, 2019**

Providence Life Assurance Company (Bermuda) Ltd.

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## **1. Business and Performance**

### **1.1. The Insurer**

This report relates to Providence Life Assurance Company (Bermuda) Ltd. (“the Company” or “Providence”).

The Company is a limited liability company registered and incorporated in Bermuda under the Companies Act 1981 and licensed as a class C insurer by the Bermuda Monetary Authority (“BMA”) to write long-term insurance and reinsurance business.

The Company operates from its headquarters in Hamilton, Bermuda and markets its business through various channels.

### **1.2. Insurance supervisor**

Bermuda Monetary Authority  
43 Victoria Street  
Hamilton HM 12, Bermuda  
Tel: (441) 295 5278

### **1.3. Approved auditor**

EY Bermuda Ltd.  
3 Bermudiana Road  
Hamilton HM 11, Bermuda  
Tel: (441) 295 7000

### **1.4. Ownership details**

The Company is fully owned by the Northstar Group (Bermuda) Ltd. (“Northstar”). Northstar is a non-regulated company registered and domiciled in Bermuda.

### 1.5. Financial Results

Providence underwrites Private Placement Variable Universal Life Insurance policies (PPVUL) sold to non-US trusts or corporations. These individual life insurance policies are sold to qualified investors who satisfy certain suitability and financial standards. Specific rules of conduct must be followed to ensure the legal, reputational, financial and tax status of the Company and the products it issues are preserved.

The following is a snapshot of its business performance for the year:

	<b>Dec-19</b>	<b>Dec-18</b>
Net Business Income	476,315	760,542
General & Administrative Expenses	(776,212)	(326,928)
Net Investment Income	<u>18,721</u>	<u>22,164</u>
Net (Loss)/Income	<u>(281,176)</u>	<u>455,778</u>

Net Business income is comprised of fees assessed against the policyholder account balances net of reinsurance costs and commissions due to producers.

Investment assets are held in low yielding cash and cash equivalents with an average yield of 1.7% p.a.

The Company incurred \$161,406 during the year 2019 in one-off reorganization expenses following the change of ownership from Prudential to Northstar.

Subsequent to the Company's 2018 financial statements and pursuant to the change of ownership from Prudential Financial Inc ("PFI") to Northstar, the Company's Management has identified an error in the recognition and amortization of deferred acquisition costs ("DAC") in the historical financial statements. This error arose from the failure to apply the correct US GAAP methodology under the previous ownership (PFI). Management has estimated this error using the principles of ASC 944-30 at \$1,294,572 as of December 31, 2018 and deems it material to the fair presentation of these financial statements.

The Company has therefore corrected this prior periods error in the current year financial statements by adjusting line 2(e) of the condensed statement of capital and surplus and line 13(f) of the condensed balance sheet effective January 1, 2019. As a result, the total capital and surplus decreased by \$1,294,572 from \$3,098,712 as previously stated to \$1,804,140 whereas DAC correspondingly decreased from \$1,893,200 as previously stated to \$598,628.

## 2. Governance Structure

### 2.1. Board and Senior Executives:

The Board of Directors is responsible for the management of the Company and for setting the overall strategy and ensuring its implementation. The Board meets every quarter. The Board has delegated the operational management of the Company to two outsourced service providers. The Board is comprised of 4 members and the following are their bios:

**Daniel L. Gray**, Chairman and Chief Executive Officer. Mr. Gray has multi-faceted and successful experience in the life insurance industry spanning forty-four years in operations, strategy, sales, advisory and M&A.

The first twenty-two years of his career were with AXA Equitable where he served, among other roles, as President of Midwestern Operations and as SVP Corporate Strategy, reporting to Chairman & CEO Richard Jenrette and Joseph J. Melone, President, where he helped with the company's restructuring and strategic planning during its historic demutualization and IPO. For the last twenty-two years, Mr. Gray has been an insurance entrepreneur and innovator serving as Chairman and CEO of Northstar Companies, Inc. (NCos) in Charleston, SC and its wholly owned Bermuda based subsidiary, Northstar Group (Bermuda) Ltd. ("NGB").

Northstar Companies, Inc. was founded in 2000 to advise ultrahigh net worth (UHNW) international families to assist with their inter-generational wealth planning needs. Northstar also works collaboratively with private equity firms focused on acquiring large blocks of US in-force annuities and operating life insurance businesses. Northstar Companies has been actively engaged in life and reinsurance company M&A and advisory transactions as principal or advisor for the past 14 years. Mr. Gray assisted Athene Holdings (a wholly owned subsidiary of Apollo) in their purchase of Investors Insurance Corp. from SCOR Reinsurance Company, SE ("SCOR") in 2011. In addition, he acted as an "Operating Partner" consultant to Apollo Global Management from March 2010 to March 2012 and assisted them in numerous global insurance and reinsurance transactions. He has also advised on transactions on behalf of Cinven and Monument Re.

Since 2014, Mr. Gray has devoted a substantial amount of his time towards Emerging Markets microinsurance initiatives having acted as a Senior Advisor to Leapfrog Investments and Women's World Banking. He played an integral role in helping raise \$400 million for the Leapfrog Financial Inclusion Fund II along with providing advice on acquisitions and dispositions. Leapfrog is recognized as the world's largest "profit-with-purpose" financial services fund, now exceeding \$1.5 billion in committed funds, dedicated entirely to invest in insurance and adjacent financial services companies in Sub-Saharan Africa, India and Southeast Asia that address the needs of individuals making less than \$10/day.

Mr. Gray graduated with a Bachelor of Arts degree in 1976 from Millikin University in Decatur, IL. He currently serves on the Boards of 777 Reinsurance, Ltd., Merit Life and Helen Keller International. He has served on the Board of the Cancer Research Institute in NYC. From 1994-1999, Mr. Gray was a guest lecturer on "Leadership and Decision-Making During Times of Crisis and Change" at The Fletcher School of Law and Diplomacy at Tufts University.

**Jean-Francois Lemay**, Chief Actuary and Chief Investment Officer (CIO), has over 27 years of experience in the life and annuity industry, both in insurance and reinsurance. His previous experience includes being the CIO and Chief Risk Officer (CRO) of Front Street Re, a Cayman based reinsurance company focused on asset intensive liabilities; CIO of NorthStar Re, a Bermuda reinsurance company; CIO of Opal Re, a Bermuda reinsurance company part of The Phoenix Group (UK); CIO of Western United Life Assurance Company in Spokane Washington. He has also worked in the Reinsurance Group of America (RGA) International division, as well as RGA Financial Products. Jean-Francois has a bachelor's in actuarial sciences from Laval University and is a Fellow of the Society of Actuaries.

**Paul Gatutha**, Executive Director. Paul is a Senior Vice President of Marsh based in Bermuda and is responsible for providing management services to Insurance Company clients. Paul obtained a Bachelor of Commerce degree from the University of Nairobi in 1993 and qualified as a Chartered Accountant with Ernst & Young (London) in 1998. In 2004, he qualified as a Chartered Financial Analyst and is also a Chartered Property and Casualty Underwriter.

**Tonesan Amisshah**, Non-Executive Director, Tonesan is the Managing Director of Appleby Global Services Bermuda, where she oversees all aspects of client service. She is a former partner of Appleby (Bermuda) Limited, where she practiced corporate law. She has extensive experience in the structuring, formation and day-to-day operations of a wide range of investment vehicles. Tonesan has also focused on other debt and equity financings, bond issues, project finance, M&A transactions and the structuring and offering of listed securities. Her long history of sitting on boards of Bermuda companies as an independent director is valued by many clients. She is member of the Institute of Directors and has been an accredited speaker for the Regulatory and Compliance Association since 2015, participating at a number of conferences and seminars.

## **2.2. Outsourcing**

The Board has delegated the operational management of the Company to two outsourced service providers. Their services are described below.

Marsh Management Services (Bermuda) Ltd. ("Marsh") is the Company's Principal Representative and provides the principal place of business in Bermuda. Its services include accounting, administration and back-office support. The Company's records are held on Marsh systems and therefore it relies on Marsh for internal controls and cyber risk management. Marsh is also responsible for regulatory reporting and ensuring regulatory compliance under the supervision of the Board.

Kane LPI solutions ("Kane") provides third party administration (TPA) services. Kane provides policy administration services including the financial processing of premiums, claims, commissions and liquidations. Kane also provides non-financial transaction maintenance such as beneficiary or address changes as well administrative support for the Company's AML/KYC program. Kane also provides fund administration services for the policyholder separate account assets. Kane also manages the Company's service centre and website.

### 3. Risk Profile

#### 3.1. Risk Appetite

The Company has low appetite for both underwriting and investment risk. The Company reinsures its mortality risk with an A+ rated Reinsurer limiting its retention to \$200,000 per year. The assets of the general account are invested in short-term cash or cash equivalents and have minimal investment risk.

#### 3.2 Identification and Assessment of material risks

##### i. Reinsurance Counterparty Risk

Our Reinsurer (PICA) may default on their obligations to us or be unable to perform service functions that are significant to our business due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Such a default could have an adverse effect on our results of operations and financial condition.

##### ii. Marketing Risk

We may experience difficulty in marketing and distributing products through our current and future distribution channels.

##### iii. Regulatory and Legal Risks

Our business is heavily regulated and changes in regulation may adversely affect our results of operations and financial condition.

Foreign governmental actions could subject us to substantial additional regulation. Changes in accounting requirements could negatively impact our reported results of operations and our reported financial position.

Legal and regulatory actions are inherent in our businesses and could adversely affect our results of operations or financial position or harm our businesses or reputation.

##### iv. Other Risks

The occurrence of natural or man-made disasters could adversely affect our operations, results of operations and financial condition.

#### 4. Solvency Valuation

The valuation principles applied under the Economic Balance Sheet (EBS) Framework are the same as those used for Statutory Financial Statements and Condensed GAAP Financial Statements except for Deferred Acquisition cost which is eliminated as an asset under EBS. Assets and Liabilities are recorded at fair value. Set out below is a reconciliation between shareholder's equity and the available statutory capital and surplus:

Shareholder's equity under Condensed general purpose financial statements	1,945,397
Non-admitted assets under Bermuda Statutory rules	<u>(5,642)</u>
Statutory Capital and Surplus	<u>1,939,755</u>
Deferred Acquisition Cost	<u>(648,682)</u>
Economic Capital and Surplus as per EBS framework	<u>1,291,073</u>

#### 5. Capital Management

##### 5.1. Capital management policy and process for determination of capital needs

The primary driver of the capital maintained by the Company is the level of capitalization required to meet Bermuda's regulatory capital requirements i.e. the Target Capital Level ("TCL") and the Minimum Margin of Solvency ("MSM");

The Company monitors capital levels on a quarterly basis.

##### 5.2. Eligible capital categorised by tiers in accordance with the Eligible Capital Rules;

Tier 1                      \$1,291,073

Fully paid shares        \$250,000

Contributed surplus     \$1,041,073

Eligible capital used to meet the Enhanced Capital Requirement ("ECR") and the MSM;

Available Capital & Surplus     \$1,291,073

Enhanced Capital Requirement   \$500,000

Minimum Margin of Solvency    \$500,000

ECR ratio                              258%



### **5.3. Other Capital Information**

i. confirmation that eligible capital is subject to transitional arrangements as required under the Eligible Capital Rules;

*None*

ii. identification of any factors affecting encumbrances affecting the availability and transferability of capital to meet the ECR;

*None*

iii. identification of ancillary capital instruments that have been approved by the Authority;

*None*

### **5.4. Regulatory Capital Compliance:**

There have been no instances of non-compliance as the Company capital level has significant headroom above its regulatory capital requirements.

### **5.5. Approved Internal Capital Model used to derive the ECR**

The Company does not have an approved Internal Capital Model and it uses the BSCR Model for the purpose of calculating its regulatory capital requirements.

## **6. Subsequent Event**

The Board of Directors, has performed an assessment of the potential effects of COVID-19 on the Company's operations and related financial performance through July 3, 2020. This assessment included consideration of: the Company's exposure to losses on its investment portfolio; the Company's exposure to COVID 19 related insurance claims; and the Company's continued ability to meet its statutory solvency and liquidity ratio requirements. As a result of this assessment management has concluded that as at July 3, 2020, the Company's financial performance has not been significantly impacted by the COVID-19 outbreak and it will continue to monitor the situation and any potential future impact on the Company.

## 7. Declaration

We declare that to the best of our knowledge and belief, the information contained in this Financial Condition Report fairly represents the financial condition of the Company in all material respects.

Signatory:



Name: Daniel L. Gray

Role: Chairman and Chief Executive Officer

Date: July 3, 2020

Signatory:



Name: Jean-Francois Lemay

Role: Chief Actuary and Chief Investment Officer

Date: July 3, 2020