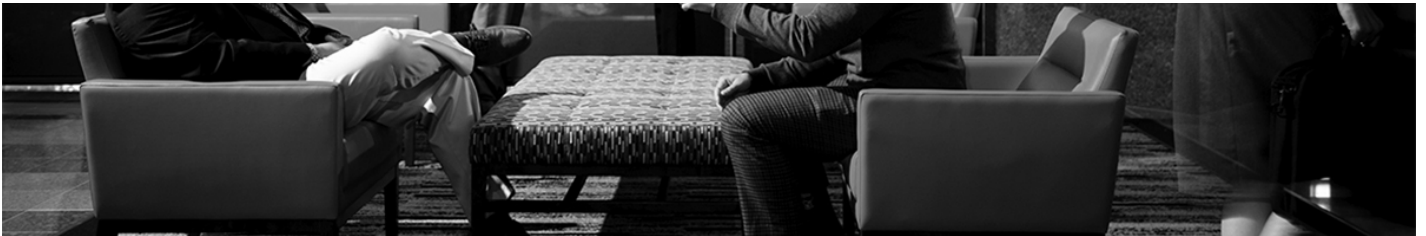




## AMERICAN FIDELITY CORPORATION 2019 ANNUAL REPORT



# MESSAGE FROM OUR CEO

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“While so many things have changed in the past six decades, our dedication to our Customers has remained steadfast even as we’ve grown to serve more than 1.5 million policyholders in 49 states.”



Bill Cameron, Chairman and CEO

In 2019, I celebrated 35 years of working for the company that has been an integral part of my life. My grandfather, C.W. Cameron, and my father, C.B. Cameron, started American Fidelity Assurance Company nearly 60 years ago with the goal of helping their Customers through hard times.

While so many things have changed in the past six decades, our dedication to our Customers has remained steadfast even as we've grown to serve more than 1.5 million policyholders in 49 states. Through services provided by the Cameron family of companies, we also have Customers and business interests in 20 countries around the world. It is our goal to deliver superior value and market-leading convenience for evaluating, purchasing and utilizing all necessary services to help our Customers achieve their health and financial wellness goals. We must be doing something right! American Fidelity continues to grow and strengthen our reputation in the industry as well as in the communities in which we do business. We are recognized year after year for our sound business practices that benefit both our Customers and our Colleagues.

One of the insurance industry's oldest and most-respected ratings agencies, A.M. Best, reaffirmed our A+ rating, which is a testament to our dedication to Customers. Fortune magazine recognized our commitment to Colleagues by including American Fidelity on its list of 100 Best Companies to Work For, an honor we've earned 14 times since 2004. In addition, we've been recognized in several other "best" lists compiled by the magazine and the Great Place to Work Institute. In 2019, we were honored to be among People magazine's 50 Companies That Care, a testament to our dedication to both our Colleagues and our community.

That kind of recognition is due to the excellent team of Colleagues we have, and their singular aligned focus on providing a different opinion for our Customers. We have a unique advantage with our understanding of our Customers' needs. While many providers offer general coverage, as a specialist, we offer a different perspective – a different opinion. We are proud to serve you, and look forward to the next six decades and beyond.

## MESSAGE FROM OUR PRESIDENT



Our strategic focus on growing sales, managing expenses and the continued work on building American Fidelity's brand was an emphasis in 2019. Our success in meeting our goals is a testament to the expertise and dedication of our leadership and Colleagues.

It is remarkable how much we have accomplished, not only in terms of our financial performance but in our ability to deliver on our promise to be a different opinion for our Customer. We believe in our products, services and the value proposition we provide to our niche markets.

Our sales growth was largely dependent on our ability to add new Customer groups to our portfolio combined with expanding our capabilities to serve the Customers who have been with us for years and in some cases, decades. It is through these relationships that we continue to learn what we will need to do in the future to serve for them for years to come.

Innovation is a core driver in our technology efforts. American Fidelity is experiencing large-scale systems transformation while at the same time transitioning to a culture that embraces robotic automation as a way to bring immediate efficiencies to our administration. These combined efforts support our ability to increase our speed to market with products and services aligned to our Customers' needs.

It is important to recognize not only our strengths but also our challenges and turn them into opportunities. We look to our Customers for their feedback, and are building out our net promoter score to benchmark our services and benefits specifically designed for our niche markets in accordance with our brand. We have aggressive aspirations to re-invent how we provide services. Some of these efforts include our ability to execute on our quick claim strategy where our insureds can receive payment for claims as quickly as possible, even as little as one day for annual wellness and physician expenses when enrolled in direct deposit.

As we prepare to celebrate 60 years since the founding of American Fidelity, we will keep a watchful eye on our long-term vision and our proven ability to use the collective efforts of our Colleagues to continue to make things as simple and hassle-free as possible for our Customers.

# SALES



Keith Johnson, Chief Sales Officer

## AMERICAN FIDELITY EDUCATIONAL SERVICES

### Who We Are

American Fidelity Educational Services (AFES) provides supplemental insurance and added value to our Customers by delivering employer and employee value-based services. We focus on taking work off our Customers' plates and making their lives easier. AFES strives to be fair and transparent while following through on promises and welcoming feedback and opportunities to improve.

### AFES Accomplishments 2019

- AFES continued predictable and consistent growth with record-breaking sales while focusing on customizing solutions to Customer needs with an emphasis on efficiency of each enrollment.
- We landed a new endorsement in the large-growth state of Pennsylvania.
- Through solid recruitment, strong Colleague development programs and close manager involvement, AFES enjoyed one of the lowest turnover rates in recent years, which in turn increased sales.

### AFES Goals 2020

- AFES will continue to focus on the rollout of objectives and key results (OKRs) to ensure employer focus is the main objective.
- We will work toward a successful hands-free billing that will provide a tremendous time savings to Customers.

- The division will leverage additional resources by using artificial intelligence and various technologies to enhance our speed to value to the employer.

## ASSOCIATION AND WORKSITE DIVISION

### Who We Are

The Association and Worksite Division (AWD) strives to offer our Customers single-source, solution-based benefits while determining how to be profitable and in line with overall growth and expense strategies. The division provides services to enable employer groups to manage expenses in addition to supplemental benefits for employees. AWD remains focused on the needs of our Customers.

### AWD Accomplishments 2019

- AWD finished 2019 strong with record-breaking sales and improved growth in markets.
- We established a stronger foundation emphasizing Customer value and focusing on making employers' lives easier.
- AWD shifted our focus to larger groups and re-focused on our employer value proposition.

### AWD Goals 2020

- AWD will continue to build a strong core foundation to establish consistency and a predictive future.
- The division will educate and implement Challenger training for our sales Colleagues with an emphasis on value to the employer to enhance their experience and make their lives easier.
- We will continue to focus on new account development and work toward establishing another record-breaking year using objectives and key results (OKRs) with quarterly accountability.



## STRATEGIC ALLIANCES

### Who We are

Strategic Alliances' primary solutions are medical stop loss and direct first dollar benefits. Employers and health plans use stop loss coverage as a risk management tool to mitigate catastrophic risk. Employers offer our direct benefits to employees as an affordable way to support their individual health insurance needs. We also maintain distribution and operating relationships with a variety of insurance marketing and administrative partners. After being in the Medicare Supplement insurance market for several years, we are exiting it in 2020.

### Strategic Alliances Accomplishments 2019

- 2019 marked the second full year of our AF Direct stop loss sales and operation model. With a robust production throughout the year, we exceeded our sales goals for 2019. This success reflected our team's initiative and focus on key third-party administrators (TPA) and broker

distribution relationships. Although our Managing General Underwriter (MGU) production declined in 2019, we maintained stop loss distribution relationships with a number of quality MGUs. Total earned premium for all products exceeded our budgeted level by 16.1%, a reflection of the continued success of AF Direct stop loss, continued MGU support and increased sales of Medicare Supplement coverage.

- The ongoing soft market for stop loss pricing adversely impacted our 2019 earnings significantly. Due to the soft market we increased prices and imposed tighter underwriting standards, causing a significant loss in Jan. 1 business; however, we expect this to improve our profitability in 2020.

### Strategic Alliances Goals 2020

- Strategic Alliances' earned premium target is a decrease of 11.4%, a key part of our goal to return to profitability in 2020. We are terminating our unprofitable block of Medicare Supplement business. Several of our distribution partners have also decreased their volume of business to improve our underwriting results. Our direct line of business is expected to have much lower growth as we implement more underwriting control and increasing prices. Our move to the direct stop loss model gives us more control over loss ratio management, underwriting control and expense management as it becomes a larger part of our total business. Within AF, we are continuing to build on distribution relationships with AWD and AFES that have already created new sales and show excellent promise for future collaboration.
- As always 2020 will remain a dynamic legislative and regulatory period. We will continue to respond effectively to evolving client needs. We look forward to our ability to leverage the unique qualities of AF in creating prompt solutions for our partners and clients.

# CUSTOMER EXPERIENCE



## OPERATIONS

**Living our brand and being a different opinion for our Customers remained our focus in 2019 and will continue into 2020.**

### 2019 saw great accomplishments for us including:

- Launched Release 1 of our Policy Administration System, part of our strategy for moving away from legacy systems to more modern technology to better serve our Customers
- Improvements in our claims processing to decrease turnaround time and automate processes, including:
  - Physicians Expense Quick Claims processing, which allows for automated handling and one-day turnaround for diagnostic testing, wellness and health screening when enrolled in direct deposit
  - Claims flow for reimbursement accounts, which allows for medical/dental claims to flow into our reimbursement portal for auto-adjudication
  - Automated benefit withholding and automation of incomplete claims management

- Developed 24 new robotics automation processes that help provide a better Customer experience

**In 2020, our focus will be on:**

- Continuing work on our roadmap of system modernization through ongoing enhancements of our new Policy Administration System to better serve our Customers
- Implementing AFService, our new CSM platform, to allow for an improved Customer experience in our call center
- Developing additional robotic, AI and other technical projects to improve Customer experience and streamline our processes, such as:
  - Optical character recognition
  - One-day payment for pregnancy when enrolled in direct deposit
  - More detailed online and mobile app claim reports
  - Improved self-service offerings related to annuities
  - HSA platform and investment integration
- Enabling hands-free billing for our employers
- Growing Colleague knowledge and succession planning



## PRODUCTS

Our focus continues to be on maintaining and enhancing our broad suite of voluntary supplemental products that are easy to purchase and easy to understand, and to utilize Customer friendly processes for policyholders to access benefits when the need arises.

In 2019, we expanded our product suite with controlled releases of our new Group Hospital Indemnity and Group Cancer products with early sales results that exceeded our expectations. We will be conducting further releases in additional states in 2020.

Our 403(b) Compliance and Retirement Readiness education seminars are widely attended by our employer and employee Customers, and we continue to expand this widely requested value added service to provide solutions to our Customers' pain points.



Kim Fisher, Chief Information Officer

## INFORMATION TECHNOLOGY

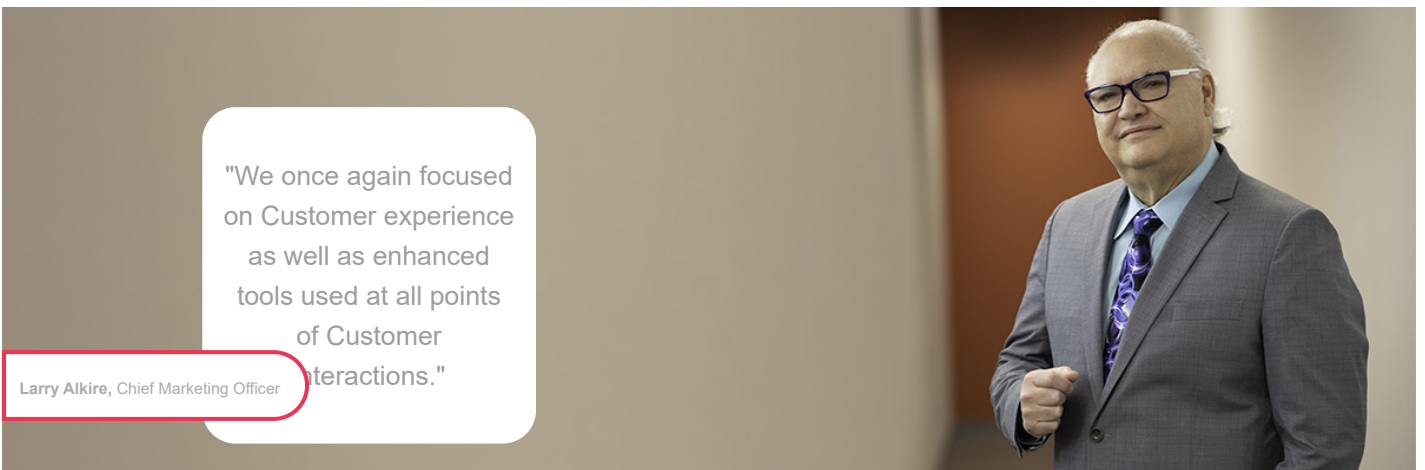
**IT, we're always looking for ways to ensure our Colleagues can easily support our Customers and provide tools and technology to make it easier for them to do business with AF.**

### **Our major accomplishments in 2019 included:**

- Rollout of Physician Expense Benefits in Quick Claims
- Ease of password resets and flex integration on our Online Service Center and AFMobile app
- Expanded data core capabilities
- Release one of our new Policy Administration System
- Implemented cloud migration strategy
- Debut of Astrid, our IT Support chatbot
- Streamlined laptop rollout to field sales Colleagues

### **In 2020, we will continue our focus on the following key areas:**

- New functionality and features for our software
- Focus on Customer and continued strong integration with the business
- Automating processes to allow for more self-service for Colleagues, Customers and policyholders
- Continued improvement to our work from home experience for our Colleagues



"We once again focused on Customer experience as well as enhanced tools used at all points of Customer interactions."

Larry Alkire, Chief Marketing Officer

# MARKETING

**2019 was a very active year for our Marketing and Revenue Support division. We once again focused on Customer experience as well as enhanced tools used at all points of Customer interactions. The division focused on key improvements to make acquiring coverage and using online tools easier for our Customers.**

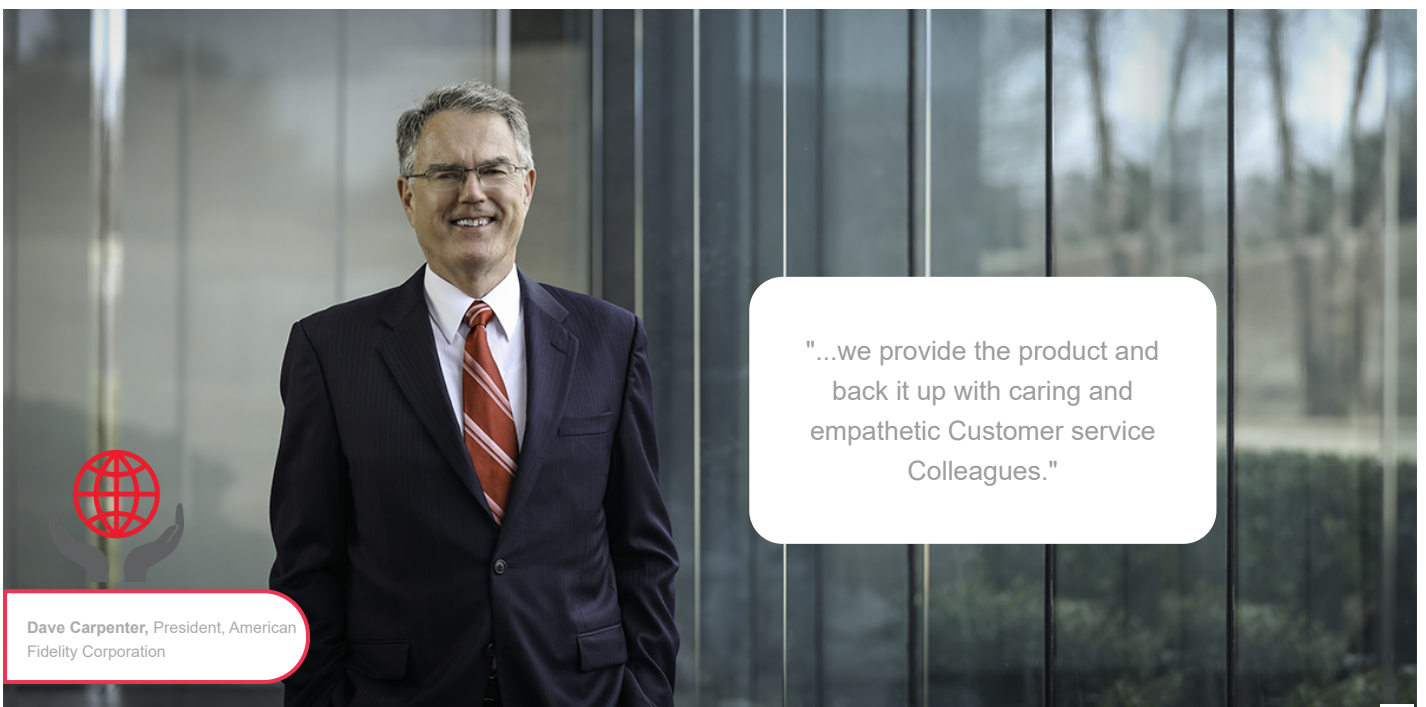
**Our team is well positioned in 2020 and enthusiastic about building on the many accomplishments that we had in 2019. Some of those accomplishments include:**

- Our Research and Development team expanded our Robotic Process Automation and coordinated innovation projects throughout the organization. We were able to automate many mundane processes and free up resources that could be used for Customer-facing interactions. The division also put artificial intelligence to work with some machine learning applications and the ability to map processes and identify opportunities to maximize efficiency.
- Marketing communications focused on pre-enrollment communications and revamped several major product line sales materials. The team was able to focus on need selling and more concise messaging during benefit enrollments. We also used agent and Customer feedback to refine our employer Customer proposal process and deliverables. Finally, we harnessed automation to increase our ability to produce custom videos to explain our enrollment process, our products and instructional videos on filing claims and using our website.
- The division delivered several enhancements to our mobile application, AFenroll, and our online service center. We leveraged usability testing to embed the most common features our Customers use for their online or mobile app experience. Our team synchronized our Customer features and look for our website and mobile app. We also expanded our claims interface with our Quick Claims experience to include diagnostic benefits, wellness benefits and physician expense benefits. This includes an average five-minute claim filing process that does not require document uploads and typically can pay eligible claims within a day when enrolled in direct deposit.

**These are just a few of the marketing highlights from 2019. The Marketing and Revenue Support division continues to find new ways to make acquiring coverage easier and to provide the online tools to simplify the service needs of our Customers.**

## AMERICAN FIDELITY CORPORATION & AFFILIATES

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"...we provide the product and back it up with caring and empathetic Customer service Colleagues."

Dave Carpenter, President, American Fidelity Corporation

At American Fidelity we have what you deserve: important products and service! More relevant than the product offerings, is the excellent service that comes with them. Many companies talk about service, we provide high-quality service. Whether it be banking, homeowners' insurance, payroll, investment management or employer benefit solutions, we provide the product and back it up with caring and empathetic Customer service Colleagues. One of our guiding principles is being always fair. We work hard to be fair to you, our Colleagues and our shareholders.

One of the more exciting ventures we are working on is the real estate development adjacent to our corporate headquarters. Plans for this development include a movie theater, restaurants, corporate offices, hotels and an apartment complex. The entire development will further enable Oklahoma City to grow and prosper and will provide an excellent venue for work or play.



**INSURICA**

Founded in 1959, INSURICA is among the 50 largest insurance brokers in the US, providing access to insurance coverage and risk management programs for person and commercial clients across the country.



**First Fidelity Bank**

Founded in 1920, First Fidelity Bank offers community-centered financial services and solutions for commercial and retail customers. This includes checking, loans, investments and cash management services.



**First Financial Group of America**

Founded in 1966, the companies of First Financial Group of America provide employee benefit solutions, administration service solutions, insurance benefit consulting and enrollment solutions for school systems, hospitals, counties and city governments.



**American Fidelity Assurance Company**

Founded in 1960, American Fidelity Assurance Company offers employer benefit solutions, such as expense management services, enrollment support and stop loss insurance, as well as employee benefits including disability, accident and cancer insurance.



**AF PROPERTY COMPANY, INC. (AFPC)**

Founded in 1964, American Fidelity Property Company, Inc. acquires, develops and manages real estate properties for many of the American Fidelity entities and related Cameron companies. AFPC, through a variety of subsidiaries and LLCs, provides services such as grills, clinics and fitness centers.



**DALLAS WINGS BASKETBALL**

Founded in 1998, Cameron Enterprises purchased the Detroit Shock WNBA franchise in 2010 and formed Tulsa Pro Hoops, LLC dba Tulsa Shock. In 2015, the franchise moved to Arlington, Texas, and joined Cameron Enterprises under the name Full Court Partners, LLC dba Dallas Wings.



**AF ADMINISTRATIVE SERVICES (AFAS)**

Founded in 2012, American Fidelity Administrative Services, LLC (AFAS) offers health and welfare benefit plan analysis and consulting services, as well as compliance assistance with the Affordable Care Act (ACA).



**AMERICAN PUBLIC LIFE**

Founded in 1945, American Public Life Insurance Company offers a wide variety of supplemental health and voluntary insurance products through a select group of brokers across the country.

American Fidelity  
International (Bermuda) Ltd.

### AMERICAN FIDELITY INTERNATIONAL (BERMUDA)

Founded in 2000, American Fidelity International (Bermuda) Ltd. offers high-quality financial protection solutions to individuals throughout Latin America and Asia through an international consultant distribution system.



### INVESTTRUST

Founded in 1997, InvesTrust is a full-service retirement savings plan provider and investment management firm for individuals, families, trusts, corporate entities and charitable organizations.



### ALCOTT HR

Founded in 1987, Alcott HR is an HR outsourcing solution that includes HR compliance, administration and technology, including payroll and taxes, employee benefits, training and development.

## OUR COMMUNITY



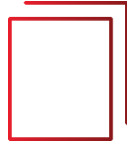
Tom McDaniel, President,  
American Fidelity Foundation

"We believe it's always the right time to do the right thing."

We believe it's always the right time to do the right thing. That's why our Company remains dedicated to the communities where we live and work. The American Fidelity Foundation and the family of companies are proud to be strong corporate citizens committed to building a vibrant community for our Colleagues and Customers.

[Here are some of the ways we demonstrated that commitment in 2019.](#)

## AWARDS AND RECOGNITION



1.5 MILLION  
**POLICYHOLDERS**

2.5 MILLION  
**POLICIES IN FORCE**



\*BEST Workplaces  
**for Women**



\*BEST Workplaces in  
**Financial Services & Insurance**



\*BEST Workplaces  
**for Millennials**

**100**

\*BEST Companies to  
**Work For**

14 times on the list

# Strength & Stability rated A+ by A.M. Best\*

## OUR RESULTS



“AFA’s robust operating performance continues to be driven by providing a strong Customer experience.”

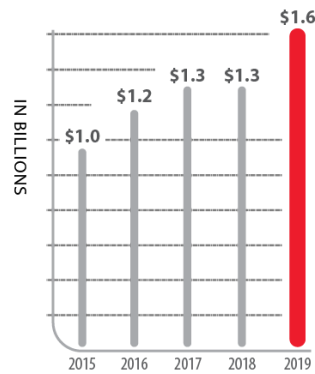
John Cassil, Chief Financial Officer

American Fidelity Corporation and Subsidiaries (AFC) had record operating results in 2019 with consolidated GAAP net income of \$174 million and our flagship company, American Fidelity Assurance (AFA), reporting \$90 million of statutory net income. AFA’s robust operating performance continues to be driven by providing a strong Customer experience that resulted in over 7% earned premium growth in 2019. Our commitment to continue providing the best Customer experience is reflected in the investment in AFA’s new policy administration system and our investment in Cameron Ventures, a venture capital fund focused on identifying and implementing the latest technology innovations in the InsurTech/FinTech space. A guiding principal at AFC is a strong balance sheet to meet the future needs of our Customers and that is reflected in the \$39 million statutory surplus increase at AFA, which totaled \$544 million as of Dec. 31, 2019.

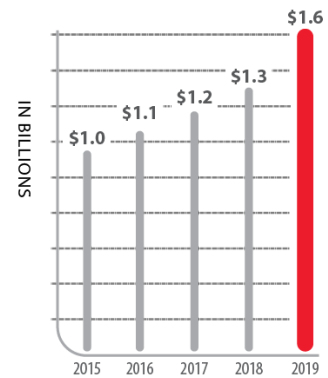
- Realized capital gains net of tax totaled \$62 million and were driven by a portfolio restructure of over \$500 million in bonds designed to improve asset duration and asset quality.
- The annual increase in AFA’s operating cash flows from sales growth of over \$239 million and the \$1.2 billion of total liquidity, for the consolidated group, provides strong financial flexibility to meet operational goals and policyholder needs.
- US GAAP equity increased by \$309 million in 2019 and was primarily driven by \$174 million of earnings and a \$141 million increase in other comprehensive income. The increase in other comprehensive income was primarily driven by the unrealized gains in the bond portfolio due to the drop in market interest rates in 2019.
- AFC has an 11.3% compound annual growth rate in GAAP equity since 2011. AFA’s Risk Based Capital (RBC) ratio increased to 779 and the Best Capital Adequacy Ratio (BCAR) for the group was 36 for 2018 and is expected to remain at a similar level for 2019.
- In 2019, AM Best assigned a group rating of A+ stable for AFA and APL. The current expectation is that the group rating will remain unchanged for 2020.

## FINANCIAL STATEMENTS

## TOTAL REVENUE



## GAAP EQUITY

ACCUMULATED  
BENEFITS PAID TO  
CUSTOMERSCONSOLIDATED  
ASSETS

## 2019 (CONSOLIDATED GAAP, IN THOUSANDS)

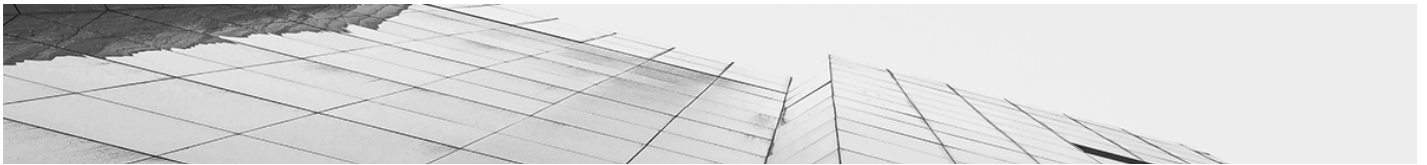
ASSETS	2019	2018
Cash	\$384,541	\$454,126
Bonds	\$4,183,762	\$3,629,029
Preferred & Common Stocks	\$147,088	\$142,063
Trading Investments	\$841,266	\$719,187
Short Term & Other Investments	\$29,442	\$11,575
Mortgage Loans	\$553,162	\$487,446
Real Estate & Policy Loans	\$190,265	\$194,569
Accrued Investment	\$42,988	\$42,800

RESERVES, OBLIGATIONS & EQUITY	2019	2018
Policy & Other Contract Reserve		
Funds Set Aside & Invested to Assure Payment of Future Benefits to Policy Owners & Beneficiaries	\$4,918,749	\$4,603,244
Unearned Premiums	\$9,207	\$10,783
Notes Payable	\$633,883	\$643,761
Income Tax Liability & Other Obligations	\$1,374,718	\$1,257,502
Separate Account Liabilities	\$982,333	\$756,669
Capital Surplus and Retained Earnings for the Future Protection	\$1,590,780	\$1,282,106

RECONCILIATION OF CAPITAL, SURPLUS & RETAINED EARNINGS (IN THOUSANDS)	2019	
Capital & Surplus Reported on Statutory Basis	\$578,128	\$5
Net Deferred Policy Acquisition Costs	\$732,847	\$6
Policy Liabilities	(\$27,508)	(\$2)
Deferred Federal Income Taxes	(\$147,475)	(\$1)
Other	\$250,436	\$1
Stockholder's Equity of Noninsurance Subsidiaries, Net of	\$204,352	\$1

ASSETS			RESERVES, OBLIGATIONS & EQUITY			RECONCILIATION OF CAPITAL, SURPLUS & RETAINED EARNINGS (IN THOUSANDS)		
	2019	2018		2019	2018		2019	
Income			of Policy Owners & Beneficiaries			Consolidating Eliminations		
Accrued Receivable	\$1,186,183	\$1,174,803	<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY APPLICABLE TO AFC</b>	\$9,509,670	\$8,554,065	<b>BALANCE AS DETERMINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES</b>	\$1,590,780	\$1,590,780
Deferred Policy Acquisition Costs	\$800,986	\$760,708	Non Controlling Interest	(\$116)	(\$123)			
Other Assets	\$167,538	\$180,967	<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	\$9,509,554	\$8,553,942			
Separate Account Assets	\$982,333	\$756,669						
<b>Total Assets</b>	<b>\$9,509,554</b>	<b>\$8,553,942</b>						

# BOARD OF DIRECTORS



Greg Allen, CEO Maine Street Holdings, Inc.

Bill Cameron, Chairman & CEO, American Fidelity Corporation

Bill Durrett, Senior Chairman, American Fidelity Corporation

Ted Elam, Attorney McAfee & Taft

Tom McDaniel, President American Fidelity Foundation

John Bendheim, Jr., President Bendheim Enterprises, Inc.

Lynda Cameron, Director, AFA, AFC VP Cameron Associates, Inc.

Charles Eitel, CEO Eitel Times Investments

Paula Marshall, CEO The Bama Companies, Inc.

Stephen Prescott, MD, President Oklahoma Medical Research Foundation



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