

**EXAMINATION REPORT**  
**OF**  
**INDEPENDENCE AMERICAN INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2017**

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

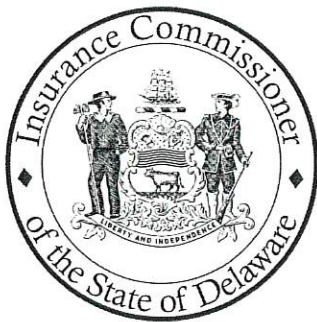
I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2017 of

**INDEPENDENCE AMERICAN INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: *Rafael Brown*

Date: April 2, 2019



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 11 day of April, 2019.

*Trinidad Navarro*

Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF  
INDEPENDENCE AMERICAN INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2017

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in blue ink that reads "Trinidad Navarro".

Trinidad Navarro  
Insurance Commissioner

Dated this 14<sup>th</sup> day of April, 2019

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## **SALUTATION**

December 3, 2018

Honorable Trinidad Navarro  
Commissioner of Insurance  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 18.011, dated June 27, 2018, an examination has been made of the affairs, financial condition and management of

### **INDEPENDENCE AMERICAN INSURANCE COMPANY**

hereinafter referred to as the Company or IAIC and incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1209 Orange Street, Wilmington, Delaware, 19801. The examination was conducted at the administrative office of the Company located at 485 Madison Avenue, 14<sup>th</sup> Floor, New York, New York, 10022-5872. The report of examination thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

We have performed our multi-state examination of IAIC. The last examination was conducted as of December 31, 2012, by the Delaware Department of Insurance (Department). This examination covered the period of January 1, 2013 through December 31, 2017. Our examination was performed as part of the multi-state coordinated examination of the Geneve Group of regulated entities wherein New York is the lead state. The examination was conducted

concurrently with that of the Company's New York domiciled affiliate, Standard Security Life Insurance Company of New York (SSLICNY) and the Company's Wisconsin domiciled affiliate, Madison National Life Insurance Company (MNLIC). To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, 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.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* §321, along with general information about the insurer and its financial condition. There may be other items identified

during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, RSM US LLP (RSM) of Jacksonville, Florida. Certain auditor work papers of the 2017 audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

### **SUMMARY OF SIGNIFICANT FINDINGS**

#### *Corporate Records*

It is recommended that the Company comply with 18 *Del. C.* §1304 "approval of investment transactions" as well as better documenting other corporate transactions and events.

### **COMPANY HISTORY**

The Company was incorporated on February 26, 1973, under the laws of the State of Delaware as Pinnacle Insurance Company and commenced business on March 15, 1973. By agreement dated October 16, 1975, the Company was acquired from the Superintendent of Insurance of the State of New York by Geneve Holdings, Inc. (GHI) and has since remained within this holding company structure. On November 14, 2002, the Company's name was changed to IAIC.

#### **Capitalization**

The Company's Certificate of Incorporation authorizes the issue of 10,000 shares of common stock with a \$600 par value. As of December 31, 2017, the Company had 5,000 common shares issued and outstanding totaling \$3,000,000. All outstanding common shares of the Company are owned by Independence American Holdings Corp. (IAHC). As of December

31, 2017, the Company reported gross paid in and contributed surplus of \$26,902,015.

The Company has not received any capital contributions from IAHC during the exam period.

#### Dividends

The Company's Board of Directors (Board) did not approve or authorize any dividends during the exam period.

### **MANAGEMENT AND CONTROL**

#### Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and affairs of the Company must be managed by or under the direction of its Board. The Board shall not have less than one member and the total number of directors shall be determined by the Board.

Each Director is elected annually by the stockholder and holds office until the next election and until their successors are elected and qualified, or until earlier resignation or removal. Directors duly elected and serving as of December 31, 2017, are as follows:

<u>Director Name</u>	<u>Principal Business Affiliation</u>
David Thomas Kettig	IAIC President
Gary John Balzofiore	IAIC Senior Vice President and Chief Financial Officer
Teresa Ellen Akshar Herbert	Independence Holding Company, Chief Financial Officer

#### Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, one or more Vice Presidents, a Secretary and a Treasurer. The Board may also elect a Controller, one or more Assistant



Secretaries, one or more Assistant Treasurers, one or more Assistant Controllers, and other officers as the Board may from time to time determine. Any number of offices may be held by the same person. The primary officers serving as of December 31, 2017, were as follows:

<u>Officer Name</u>	<u>Title</u>
David Thomas Kettig	President
Gary John Balzofiore	Senior Vice President and Chief Financial Officer
David Brian Getz	Vice President and Controller
Marla Joi DiResta	Vice President and Chief Compliance Officer
Loan Tuong Nisser	Vice President – Legal and Secretary
Rachel Lipari	Vice President

### Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board did not adequately document its meetings and approval of Company transactions and events, including the approval of investment transactions as required for compliance with 18 *Del. C.* §1304.

Furthermore, the following activities were not adequately documented: shareholder annual election of Directors, Board approval of prior Board meeting minutes, Board review and approval of periodic operations and financial position, Board annual appointment of the actuary or change in actuary, Board annual appointment of the external audit firm or change in audit firm, Board review and approval of the annual actuarial report and findings, Board approval of affiliated-party agreements (reinsurance, service, tax allocation agreements) and unaffiliated-party agreements (reinsurance, TPA/MGU, vendor, custodian agreements).

**It is recommended that the Company comply with 18 *Del. C.* §1304 “approval of investment transactions” as well as better documenting other corporate transactions and events.**

In addition, review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

### Insurance Holding Company System

The Company is a member of an Insurance Holding Company System known as Geneve Group as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. As noted above, the Company is a wholly-owned subsidiary of IAHC.

An abbreviated organizational chart of the Geneve Group holding company system as of December 31, 2017, is as follows (ownership of subsidiaries is 100% unless otherwise noted):

The Netter Family {1}, 100% economic / voting control of GHI  
Geneve Holdings, Inc. (DE) [GHI], 100% economic / voting control of GC and GHCC  
Geneve Corporation (DE) [GC]  
GHC Corp. (DE) [GHCC], 100% economic / voting control of AIMC, SIC and SMH  
Argent Investors Management Corporation (NY) [AIMC], 13.30% economic / voting control of IHC  
SMH Associates Corp. (DE) [SMH], 23.87% economic / voting control of IHC  
SIC Securities Corp. (DE) [SIC], 24.25% economic / voting control of IHC  
Independence Holding Co. (DE) [IHC] {2}, 37.7% economic / voting control of AMIC and 100% economic / voting control of ICC  
Independence Capital Corp. (DE) [ICC], 100% economic / voting control of SSLICNY and MNLIC  
Standard Security Life Ins. Co. of New York (NY) [SSLICNY]  
Madison National Life Insurance Co., Inc. (WI) [MNLIC], 100% economic / voting control of MIC  
Madison Investors Corporation (DE) [MIC], 62.30% economic / voting control of AMIC  
AMIC Holdings, Inc. (DE) [AMIC] {3}, 100% economic / voting control of IAHC  
Independence American Holdings Corp. (DE) [IAHC], 100% economic / voting control of IAIC  
**Independence American Insurance Company (DE) [IAIC]**

{1} The Company disclosed on the 2017 annual statement, Schedule Y – Part 1, that the Netter family owns 100% of GHI. The 2017 filed Holding Company Registration Statement Form B discloses that the Netter family owns more than 50% of GHI. Specifically, GHI has 309.601 issued and outstanding common shares, of which the Company disclosed that Barbara Netter, individually, owns 50.04% of the 309.601 shares, or 154.934 shares. The remaining Netter family members own or control the remaining 49.96% of the 309.601 shares, or 154.677 shares.

- {2} Publicly traded under the ticker "IHC". According to publicly available documents filed with the SEC and with information provided by management, there were 14,890,285 outstanding voting common shares of IHC stock at December 31, 2017. Of these shares, Argent Investors Management Corporation owned 1,980,000 shares (13.30%), SIC Securities Corp. owned 3,610,859 shares (24.25%) and SMH Associates Corp. owned 3,554,367 shares (23.87%). Together, these three affiliates owned 9,145,226 shares (61.42%) of the IHC outstanding shares. No other individual entity or group owned or controlled greater than 10% of IHC as of December 31, 2017.
- {3} Prior to taking AMIC private on August 31, 2016, MIC owned 4,622,356 of the outstanding common shares of AMIC (56.94% of the 8,118,551 shares outstanding), Independence Holding Company owned 2,800,795 of the outstanding common shares of AMIC (34.50% of the 8,118,551 shares outstanding) and the general public owned the remaining 695,400 of the outstanding common shares of AMIC (8.57% of the 8,118,551 shares outstanding). The 695,400 shares of AMIC held by the public were taken private on August 31, 2016, through a short form merger whereby AMIC merged with and into AMIC Holdings, Inc., with AMIC Holdings, Inc. being the surviving entity. After being taken private, all outstanding shares were retired and 1,000 new common shares were issued as follows: MIC owned 623 shares (62.3%) and Independence Holding Company owned 377 shares (37.7%). Together, these two affiliates owned all 1,000 AMIC outstanding shares.

The Company filed the required Annual Form B and Form C filings for all of the years under examination, which were reviewed for compliance with the Delaware Insurance code.

#### Agreements with Affiliates

- Tax Allocation Agreement

Effective November 14, 2002, the Company became a party to a tax allocation agreement with IAHC. The agreement allows the Company and IAHC to file federal income tax returns on a consolidated basis under Section 1504(c)(2) of the Internal Revenue Code of 1986. Amounts either payable or receivable under the agreement are calculated as if each participant filed a separate return with settlement amounts due within thirty days after the date the consolidated federal income tax return is filed. This agreement was approved by the Department prior to this examination.

- Service Agreements

Effective July 1, 2006, the Company entered into a second amended and restated service agreement with SSLICNY. Under the terms of the agreement, SSLICNY provides affiliates of GHI, which includes the Company and other participating affiliates, with legal, tax, financial statement preparation, accounting, actuarial, marketing, policy servicing and audit services. All

services are provided at cost and the settlement of all expenses occurs quarterly. This agreement was approved by the Department prior to this examination. For the years under examination, the Company paid the following amounts to SSLICNY pursuant to this agreement:

2013	\$341,509
2014	\$228,827
2015	\$200,600
2016	\$361,276
2017	\$658,277

Effective January 1, 2007, the Company entered into a service agreement with IHC Carrier Solutions, Inc. (IHCCSI) (successor to Actuarial Management Corporation), with Amendment #1 effective January 1, 2009, Amendment #2 effective January 1, 2013, and Amendment #3 effective January 1, 2014. IHCCSI performs actuarial services on certain of IAIC's insurance programs. This agreement was approved by the Department on December 29, 2008. The Company filed the required Form D with the Department for Amendments #1, #2 and #3 to the Service Agreement with IHCCSI on September 19, 2018 (See "Subsequent Events").

- Administrative and Marketing Services Agreements

The Company and EBIX Health Administration Exchange, Inc. (EBIX) (formerly known as IHC Health Solutions, Inc.) were affiliates by virtue of common indirect ownership by IHC prior to July 1, 2016, when IHC reduced its interest in EBIX to a 49% minority interest and EBIX began functioning as an unaffiliated company. The following agreements were relevant to IAIC and EBIX prior to July 1, 2016: Effective January 1, 2011, the Company entered into an administrative and marketing services agreement with EBIX. EBIX provides administration and marketing services for IAIC's medical insurance business; marketing agreement effective April 23, 2007, under which EBIX provides marketing services for IAIC's health insurance business.

- Investment Counsel Agreement

Effective January 1, 2011, the Company entered into an investment counsel agreement with IHC. IHC performs certain investment related services for the Company's investment portfolio. This agreement was approved by the Department on March 15, 2011.

- General Agency Agreement

Effective October 17, 2017, the Company entered into a general agency agreement with Pet Partners, Inc. (PPI), as amended pursuant to the amendment effective April 16, 2018. PPI provides policy and claims administrative services for IAIC's pet accident and illness insurance business. Affiliate IHC SB Holdings, LLC owns 85% of PPI. The Company filed the required Form D with the Department for the original agreement and the amendment for the general agency agreement with PPI on September 21, 2018 (See "Subsequent Events").

#### Agreements with Non-affiliates

- Custodial Agreement

Effective April 16, 2017, the Company entered into a custodial agreement with the JP Morgan Chase Bank, N.A. (JPM), which provides for the safekeeping of the Company's invested assets. The most recent SOC1 Report for JPM was obtained and reviewed without exception.

- Managing General Agency Agreement

Effective January 1, 2017, the Company entered into a managing general agency agreement with Pets Best Insurance Services, LLC (PBIS), relating to pet accident and illness coverage business. PBIS performs underwriting and claims services, premium billing and collection services and administration services. This managing general agency agreement replaced a general agency agreement with PBIS (originally effective October 15, 2011) and a claims services agreement with Pets Best Insurance, Inc. (PBII), which was an affiliate of PBIS (also originally effective October 15, 2011).

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2017, the Company is licensed and/or authorized to transact business in all fifty states and the District of Columbia.

The Company provides specialty health and pet insurance coverage to commercial customers and individuals through independent agents and controlled distribution channels in the United States. The Company retains most of the risk it underwrites on the following lines of business: pet insurance, occupational accident (being curtailed due to high loss ratios), hospital indemnity (HI), short-term medical (STM), fixed indemnity medical, limited medical, gap plans and dental. The Company also reinsures short-term statutory disability (DBL) in New York from affiliate SSLICNY. The Company has ceased writing major medical plans and medical stop-loss.

In 2017, IAIC's specialty health line of business had the following categories: (i) ancillary benefits, including STM, dental, vision, supplemental products (including fixed indemnity limited benefit, critical illness, and HI); (ii) pet insurance; (iii) non-subscriber occupational accident (this category included reinsured international health plans sold to expatriates in 2016). In 2015, the Company exited the major medical business as a result of healthcare reform, which had caused adverse underwriting results in 2013 and 2014. As a result of exiting this line of business, the Company focused attention on growing the specialty health lines of business. Management expects continued growth in the specialty health lines of business into 2018 and beyond.

The Company sells STM products in the majority of states. STM is designed specifically for people with temporary needs for health coverage. Typically, STM products are written for a defined duration of at least 30 days and less than 12 months. Among the typical purchasers of

STM products are people who are in between open enrollment periods or need coverage for a limited duration until their ACA plan becomes effective, and others who need insurance for a specified period of time less than 365 days. The Company's gross premium increased in this line of business in 2017 due, in part, to the increasing costs of ACA plans, which were unaffordable for those without subsidies. This increase took place despite a change in the federal regulatory rules effective April 1, 2017, which reduced the duration of STM to less than 3 months. The Trump administration passed an executive order directing certain federal agencies to adopt a rule extending the duration of the STM product to more than 3 months, subject to law, which should increase sales of STM once adopted (now estimated to be November 1, 2018). Management currently anticipates a continuing increase in this line of business into 2019.

The Company markets supplemental products to individuals and families. These lines of business are generally used as either a supplement to a major medical plan or in lieu of major medical coverage for persons that choose not to purchase such coverage. The main driver for growth in this line is that consumers are moving to higher-cost sharing on their individual major medical plans, and are looking for products to help them offset the additional risk of higher deductibles and out-of-pocket limits. The product lines included in this supplemental grouping are hospital indemnity plans (HIP), fixed indemnity limited benefit plans, critical illness and bundled packages of accident medical coverage and critical illness. These products, which are available in most states, are available through multiple distribution sources including direct-to-consumer websites, call centers and career agents, general agents and on-line agencies. Management anticipates continuing growth in these lines of business in 2018 as a result of increased distribution and demand for these products.

The Company has medical benefit plans for employers that choose to offer non-employee health benefit (EHB) coverage to their employees. IAIC offers a fixed indemnity limited benefit policy that offers affordable health coverage to hourly, part-time, and/or seasonal employees, which is approved in a majority of the states. Fixed indemnity limited benefit plans are a low-cost alternative to EHB plans that permit employees who do not otherwise have health insurance to begin to participate in the healthcare system. The Company anticipates meaningful growth in this line of business in 2018 and beyond due to increased consumer demand, increased distribution channels, and the introduction of a new group gap plan.

The Company sold most of its occupational accident insurance through a marketing and administrative affiliate. This occupational accident product provides accidental death, accident disability and accident medical benefits for occupational injuries to employees of companies that have elected to not participate in the Texas Worker's Compensation system (non-subscribers). The product also gives the employer the option to purchase coverage for employer's liability, which protects the employer from an action brought by an injured worker. The employer is covered for damages and costs arising the settlement of such an action, subject to the terms and limits of the policy. In 2016, an affiliate of the Company sold the entity that provided administrative services for occupational accident insurance. IAIC still offers "Injured-on-Duty" coverage through another affiliate and continues to write a smaller block of occupational accident coverage through unaffiliated entities. As a result of this aforementioned sale, total premiums have decreased significantly.

In 2017, the Company wrote pet insurance through a marketing and administrative company that manages one of the largest blocks of this business in the United States. These plans are marketed to dog and cat owners through veterinary offices, independent marketing



organizations, its nationwide call center, and increasingly, direct-to-consumer. In October 2016, an affiliate acquired the domain name and assets of www.petplace.com (PetPlace), which was launched in 1999, including subscribers and its social media outlets. PetPlace attracts over one million visitors each month with more than 10,000 veterinarian-approved articles. Management plans to make this domain the focal point of selling its pet insurance direct to consumers. In 2017, the Company acquired 85% of the stock of PetPartners, Inc. (PetPartners), a pet insurance marketing and administration company for the purpose of owning additional distribution and administration sources for its pet insurance. PetPartners will provide IAIC additional distribution sources for its pet insurance business through its marketing relationship with the American Kennel Club.

The Company is experiencing material growth in its specialty health products. This growth has primarily been driven by private-label and white-label distribution arrangements with large national partners, and their equity investments in 2017 in two call center agencies. Management recently announced a partnership with eHealth to sell packages of specialty health products. The Company is also recording excellent growth in lead generation for its direct-to-consumer and career advisor distribution initiatives, as well as expanding controlled sales through the call center, career model and transactional websites.

The Company's direct written premiums by line of business is as follows:

<u>Line</u>	<u>2016</u>	<u>2017</u>	<u>Percent</u>
Group Accident & Health (line 13)			
Hospital Indemnity	\$3,708,151	\$40,027,039	42.27%
Stop Loss – Small Group	9,653,131	1,162,037	1.23%
Fixed Indemnity Limited	440,249	2,383,935	2.52%
Dental	145,933	93,931	0.01%
Occupational Accident A&H	<u>14,657,159</u>	<u>6,737,135</u>	<u>7.11%</u>
Subtotal	28,604,629	50,404,078	53.23%
Aggregate write-in line (line 34) [pet health]	20,027,665	20,178,271	21.31%

Independence American Insurance Company

Inland Marine (line 9) [pet health]	18,515,013	18,806,631	19.86%
Other Accident & Health (line 15)			
Short-term Medical	2,123,268	4,009,816	4.23%
Critical Illness	261,663	359,293	0.38%
Individual Dental	<u>0</u>	<u>51,011</u>	<u>0.06%</u>
Subtotal	2,384,931	4,420,118	4.67%
Other Liability – Occurrence (line 17.1)			
Occupational Accident E&L	<u>2,405,956</u>	<u>886,136</u>	<u>0.93%</u>
Total	<u>\$71,938,194</u>	<u>\$94,695,234</u>	<u>100.00%</u>

The major increase from 2016 to 2017 was in the group Accident & Health, specifically

HI.

The Company's direct written premiums by source is as follows:

<u>Line</u>	<u>2016</u>	<u>2017</u>	<u>Percent</u>
Pets Best Insurance Services	\$38,542,678	\$38,917,901	41.10%
The Loomis Company	0	25,406,704	26.83%
EBIX Health Administration Exchange	6,395,403	21,518,320	22.72%
Caprock Claims Management LLC	15,627,527	5,957,610	6.29%
Westport Insurance Corporation	9,653,131	1,162,037	0.00%
All Others Combined	<u>1,719,455</u>	<u>1,732,662</u>	<u>3.06%</u>
Total	<u>\$71,938,194</u>	<u>\$94,695,234</u>	<u>100.00%</u>

The Company's direct written premiums by state is as follows:

<u>Line</u>	<u>2016</u>	<u>2017</u>	<u>Percent</u>
California	\$13,438,099	\$15,968,757	16.86%
Texas	18,345,865	13,451,069	14.20%
Florida	2,667,692	7,087,468	7.49%
Arizona	1,963,925	5,100,957	5.39%
Georgia	1,474,229	4,170,889	4.40%
North Carolina	1,388,145	3,324,905	3.51%
All Other States and D.C. (45)	<u>32,660,239</u>	<u>45,591,189</u>	<u>48.15%</u>
Total	<u>\$71,938,194</u>	<u>\$94,695,234</u>	<u>100.00%</u>

The average annual direct written premium for the remaining 45 jurisdictions was \$725,783 in 2016 vs. \$1,013,138 in 2017, indicating a wide geographical spread of premiums.

**REINSURANCE**

The Company reported the following distribution of premiums written for the years ended December 31, 2017, and the prior examination date of December 31, 2012:

	<u>2012</u>	<u>2017</u>
Direct	\$43,613,554	\$94,695,234
Reinsurance assumed from affiliates	\$50,575,593	\$21,510,890
Reinsurance assumed from non-affiliates	<u>0</u>	<u>0</u>
Total assumed	<u>\$50,575,593</u>	<u>\$21,510,890</u>
Total gross (direct and assumed)	\$94,189,147	\$116,206,124
Reinsurance ceded to affiliates	\$1,835,473	\$0
Reinsurance ceded to non-affiliates	<u>6,556,267</u>	<u>5,358,134</u>
Total ceded	<u>\$8,401,740</u>	<u>\$5,358,134</u>
Net premiums written	<u>\$85,787,407</u>	<u>\$110,847,990</u>
Gross retention rate	91.08%	95.39%

**Assumed Reinsurance – Affiliates**

Of the \$21.511 million in premiums assumed from affiliates, \$15.866 million was assumed from SSLICNY (73.76% of the total assumed from affiliates) and the remaining \$5.645 million was assumed from MNLIC (26.24% of the total assumed from affiliates).

- **SSLICNY**

Effective May 1, 2015, IAIC and SSLICNY are parties to a quota share reinsurance agreement, whereby SSLICNY cedes to IAIC up to 50% of its gross business in individual or group, fully insured or excess, medical, health, disability, vision, or dental insurance policies. SSLICNY had \$107,940,347 in gross written premiums in 2017 and ceded \$15,866,341 to

affiliate IAIC, for a cession of 14.70%. This affiliated reinsurance agreement was approved by the Department on May 19, 2015.

This 2015 reinsurance agreement with SSLICNY replaced a similar earlier reinsurance agreement with SSLICNY that was effective from November 10, 2012 through April 30, 2015, which was approved by the Department on November 9, 2012. The 2012 reinsurance agreement with SSLICNY replaced a similar earlier reinsurance agreement with SSLICNY that was effective from January 1, 2002 through November 9, 2012.

IAIC reinsures 20% of SSLICNY's short-term statutory DBL in New York State. All companies with more than one employee in New York State are required to provide DBL insurance for their employees. DBL coverage provides temporary cash payments to replace wages lost as a result of disability due to non-occupational injury or illness. The DBL business is marketed primarily through independent general agents in New York State. IAIC expects the reinsurance premiums from this line of business to grow modestly in 2018 and beyond.

- MNLIC

Effective January 1, 2015, IAIC and MNLIC are parties to a quota share reinsurance agreement, whereby MNLIC cedes to IAIC up to 50% of its gross business in individual or group, fully insured or excess, medical, health, life, disability, limited medical, student accident, vision, or dental insurance policies. MNLIC had \$147,600,804 in gross written premiums in 2017 and ceded \$5,644,549 to affiliate IAIC, for a cession of 3.82%. This affiliated reinsurance agreement was approved by the Department on May 19, 2015.

This 2015 reinsurance agreement with MNLIC replaced a similar earlier reinsurance agreement with MNLIC that was effective from December 6, 2012 through December 31, 2014, which was approved by the Department on November 14, 2012. The 2012 reinsurance

agreement with MNLIC replaced a similar earlier reinsurance agreement with MNLIC that was effective from April 1, 2002 through December 5, 2012.

The business that MNLIC ceded to IAIC was not originally written by MNLIC. Rather, foreign insurer GBG Ins. Ltd. of Great Britain wrote the \$5,472,809 ex-patriot coverage and then ceded it to MNLIC, which then retroceded it to IAIC.

<u>Line of Business – Segment</u>	Premiums Assumed From <u>SSLICNY</u>	Premiums Assumed From <u>MNLIC</u>	Total Premiums Assumed	Percent of Total
Group A&H (line 13)				
Disability Loss Benefit (DBL – NY)	\$6,409,469	\$0	\$6,409,469	29.80%
ExPat A&H	0	5,618,928	5,618,928	26.12%
Short-term Medical (STM)	3,860,759	0	3,860,759	17.95%
Medical Stop Loss (renewals, in run-off)	2,618,300	0	2,618,300	12.17%
Occupational Accident A&H	1,243,949	0	1,243,949	5.78%
Fixed Indemnity Limited	208,486	23,739	232,225	1.08%
Vision	118,332	0	118,332	0.55%
ExPat Long-term Disability	0	1,883	1,883	0.01%
Dental	325	0	325	0.00%
Group Major Medical	<u>71</u>	<u>0</u>	<u>71</u>	<u>0.00%</u>
Subtotal	\$14,459,691	\$5,644,550	\$20,104,241	93.46%
All Other A&H (line 15.7)				
Short-term Medical	<u>\$ 1,406,649</u>	<u>\$ 0</u>	<u>\$ 1,406,649</u>	<u>6.54%</u>
Total	<u>\$15,866,340</u>	<u>\$5,644,550</u>	<u>\$21,510,890</u>	<u>100.00%</u>

#### Assumed Reinsurance – Non-Affiliates

The Company has not assumed any business from non-affiliates for the years under examination.

#### Ceded Reinsurance – Affiliates

The Company stopped ceding business to affiliates in early 2015. The amounts ceded to affiliates during 2013 to 2015 were not significant.

#### Ceded Reinsurance – Non-Affiliates

Of the \$5.358 million in premiums ceded to non-affiliates, \$3.733 million was ceded to Westport Insurance Company, an affiliate of Swiss Re. This business is the renewal medical stop loss business sold to Swiss Re in early 2016 and represents 69.67% of the total ceded to non-affiliates in 2017. This \$3.733 million consists of \$2,584,515 in medical stop loss and \$1,162,037 in small group medical stop loss.

The remaining \$1.625 million in premium ceded to non-affiliates (30.33% of the total ceded to non-affiliates) is for excess coverage and primarily ceded to various Lloyd's syndicates.

### **FINANCIAL STATEMENTS**

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets and Liabilities as of December 31, 2017
- Statement of Income for the year ended December 31, 2017
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2013, to December 31, 2017

**Statement of Assets and Liabilities**  
**As of December 31, 2017**

	<u>Assets</u>	<u>Non admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 89,012,293		\$ 89,012,293	
Preferred stocks	4,401,600		4,401,600	
Cash, cash equivalents and short-term investments	5,717,048		5,717,048	
Receivables for securities	514,061		514,061	
Subtotals, cash and invested assets	<u>\$ 99,645,002</u>	<u>\$ -</u>	<u>\$ 99,645,002</u>	
Investment income due and accrued	616,740		616,740	
Uncollected premiums and agents' balances in the course of collection	10,406,661	5,484,948	4,921,713	
Amounts recoverable from reinsurers	28,996		28,996	
Funds held by or deposited with reinsured companies	1,752,169		1,752,169	
Other amounts receivable under reinsurance contracts	231,415		231,415	
Net deferred tax asset	1,599,400		1,599,400	
Receivable from parent, subsidiaries and affiliates	1,159,825		1,159,825	
Aggregate write-ins for other than invested assets	2,926,418		2,926,418	
Totals	<u>\$ 118,366,626</u>	<u>\$ 5,484,948</u>	<u>\$ 112,881,678</u>	

Independence American Insurance Company

		<u>Notes</u>
Losses	\$ 29,945,212	1
Reinsurance payable on paid losses and LAE		
Loss adjustment expenses	2,658,800	1
Commissions payable, contingent commissions & similar charges	155,884	
Other expenses	929,057	
Taxes, licenses and fees	1,173,540	
Current federal and foreign income taxes payable	914,682	
Unearned premium reserve	3,703,320	
Ceded reinsurance premiums payable	(123)	
Funds held by company under reinsurance treaties	81,984	
Provisions for reinsurance	835,302	
Payable to parent, subsidiaries, and affiliates	312,068	
Aggregate write-ins for liabilities	89,116	
Total liabilities	<u>\$ 40,798,842</u>	
Common capital stock	\$ 3,000,000	
Gross paid in and contributed surplus	26,902,015	
Unassigned funds (surplus)	42,180,821	
Surplus as regards policyholders	<u>\$ 72,082,836</u>	
Totals	<u><u>\$ 112,881,678</u></u>	



**Statement of Income**  
**For the Year Ended December 31, 2017**

Notes

Premiums earned	\$ 113,313,624
Losses incurred	\$ 50,748,173
Loss adjustment expenses incurred	2,489,119
Other underwriting expenses incurred	50,662,598
Total underwriting deductions	<u>\$ 103,899,890</u>
Net underwriting gain (loss)	<u>\$ 9,413,734</u>
Net investment income earned	2,404,902
Net realized capital gains or (losses) less capital gains tax	244,877
Net investment gain (loss)	<u>\$ 2,649,779</u>
Aggregate write-ins for miscellaneous income	\$ 7,273
Total other income	<u>\$ 7,273</u>
Net income after dividends to policyholders	\$ 12,070,786
Dividends to policyholders	-
Net income, after dividends to policyholders	\$ 12,070,786
Federal and foreign income taxes incurred	3,342,974
Net income	<u>\$ 8,727,812</u>
Surplus as regards policyholders, December 31, 2016	<u>\$ 66,811,885</u>
Net income (losses)	\$ 8,727,812
Change in net unrealized capital gains (losses)	42,171
Change in net deferred income tax	133,632
Change in non-admitted assets	(2,797,362)
Change in provision for reinsurance	(835,302)
Net change in capital and surplus for the year	<u>\$ 5,270,951</u>
Surplus as regards policyholders, December 31, 2017	<u>\$ 72,082,836</u>

**Reconciliation of Capital and Surplus**  
 For the Period from the Prior Examination  
 As of December 31, 2013, to December 31, 2017

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
12/31/12	\$ 3,000,000	\$ 26,902,015	\$ 24,525,426	\$ 54,427,441
12/31/13 1			3,447,110	3,447,110
12/31/14 1			2,293,086	2,293,086
12/31/15 1			3,244,694	3,244,694
12/31/16 1			3,399,554	3,399,554
12/31/17 1			5,270,951	5,270,951
Rounding				-
	<u>\$ 3,000,000</u>	<u>\$ 26,902,015</u>	<u>\$ 42,180,821</u>	<u>\$ 72,082,836</u>

- (1) Aggregates net income, change in unrealized capital gains (losses), change in unrealized foreign exchange gains (losses), change in net deferred income tax, change in non-admitted Assets, change in reinsurance for unauthorized reinsurers

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

The following adjustments to the Company's reported financial statements were made as a result of this examination:

<u>Losses</u>	<u>\$29,945,212</u>
<u>Loss Adjustment Expenses</u>	<u>\$2,658,800</u>

The Company reported \$32,604,012 in Loss and \$0 in Loss Adjustment Expenses. The Company failed to segregate Loss Adjustment Expenses from Losses as required by the NAIC *Property and Casualty Annual Statement Instructions* and the NAIC *Accounting Practices and Procedures Manual*, Statement of Statutory Accounting Principle (SSAP) No. 55. As a result, Losses were decreased by \$2,658,800 from the reported \$32,604,012 to \$29,945,212 and Loss Adjustment Expenses were increased by \$2,658,800 from the reported \$0 to \$2,658,800. The net

effect on policyholder surplus for this adjustment is \$0. The Company correct this reporting issue beginning with the third quarter 2018 statutory financial statement.

### **COMMENTS ON FINANCIAL STATEMENT ITEMS**

Note 1:

<u>Losses</u>	<u>\$29,945,212</u>
<u>Loss Adjustment Expenses</u>	<u>\$2,658,800</u>

The examination liability for the aforementioned captioned items of \$29,945,212 and \$2,658,800 million are not the same as reported by the Company as of December 31, 2017 (see the “Analysis of Changes in Financial Statements Resulting from the Examination”). The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with General Accepted Actuarial Principles and Statutory Accounting Principles, including NAIC *Accounting Practices and Procedures Manual*, SSAP No. 55.

### **SUBSEQUENT EVENTS**

The Company filed a Form D with the Department on September 19, 2018, for amendment #1 (effective January 1, 2009), amendment #2 (effective January 1, 2013) and amendment #3 (effective January 1, 2014) to the Service Agreement that the Company is a party to with affiliate IHCCSI.

The Company filed a Form D with the Department on September 21, 2018, for the General Agency Agreement (effective October 17, 2017) and amendment #1 (effective April 16, 2018) to the General Agency Agreement that the Company is a party to with affiliate PPI.

### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations contained in the prior examination report issued by the Department as of December 31, 2012.

## **SUMMARY OF RECOMMENDATIONS**

### **Corporate Records (Page 6)**


The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the shareholder and Board did not adequately document its meetings and approval of Company transactions and events, including the approval of investment transactions as required for compliance with 18 *Del. C.* §1304. Furthermore, the following activities were not adequately documented: shareholder annual election of Directors, Board approval of prior Board meeting minutes, Board review and approval of periodic operations and financial position, Board annual appointment of the actuary or change in actuary, Board annual appointment of the external audit firm or change in audit firm, Board review and approval of the annual actuarial report and findings, Board approval of affiliated-party agreements (reinsurance, service, tax allocation agreements) and unaffiliated-party agreements (reinsurance, TPA/MGU, vendor, custodian agreements).

**It is recommended that the Company comply with 18 *Del. C.* §1304 “approval of investment transactions” as well as better documenting other corporate transactions and events.**

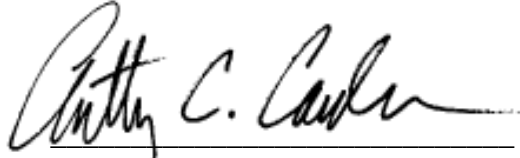
**CONCLUSION**

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the Company's outside audit firm, RSM, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Andrew Chiodini, CFE  
Examiner In-Charge  
State of Delaware



Anthony Cardone, CPA CFE  
Supervising Examiner  
State of Delaware