

DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

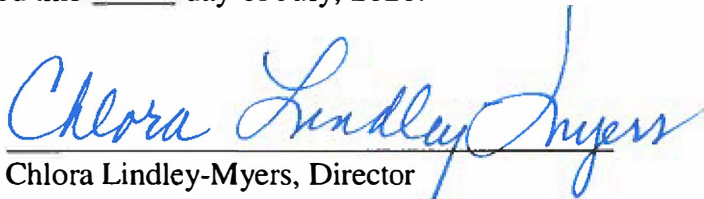
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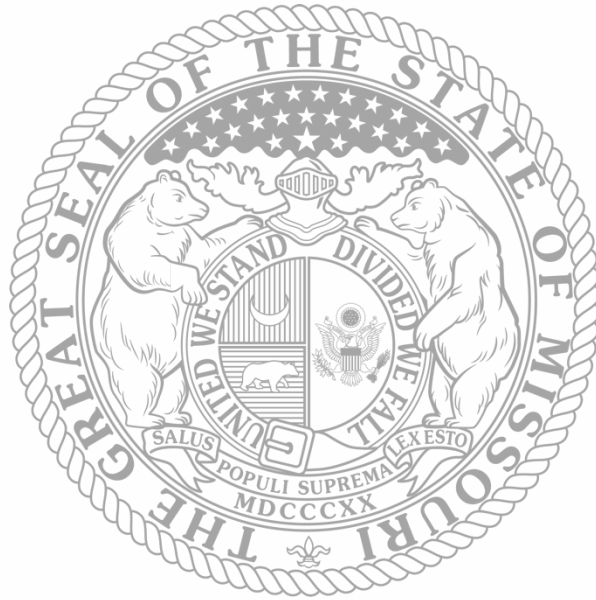
After full consideration and review of the report of the financial examination of Vision Service Plan Insurance Company for the period ended December 31, 2018, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Vision Service Plan Insurance Company as of December 31, 2018 be and is hereby ADOPTED as filed and for Vision Service Plan Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 16th day of July, 2020.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

VISION SERVICE PLAN INSURANCE COMPANY

AS OF
DECEMBER 31, 2018

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Kansas City, MO
June 30, 2020

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

Vision Service Plan Insurance Company (NAIC #32395)

hereinafter referred to as such, as VSPIC-MO, or as the Company. Its administrative office is located at 3333 Quality Drive, Rancho Cordova, California, telephone number (916) 851-5000. The fieldwork for this examination began on September 5, 2019, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a multiple-state financial examination of Vision Service Plan Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2012 through December 31, 2013. The current examination covers the period of January 1, 2014 through December 31, 2018, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *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 the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to VSPIC-MO included Financial Reporting, Investments, Reserves/Claims Handling, Related Party, Taxes,

Underwriting/Premiums, and Expenses. The examination also included a review and evaluation of information technology general controls.

This examination was conducted as part of a coordinated examination of the Vision Service Plan Group, which consists of eleven insurance companies domiciled in numerous states. The Ohio Department of Insurance is the lead state regulator for the group. Along with Missouri, Illinois, New York, and Virginia regulators participated in the coordinated examination.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

VSPIC-MO was incorporated and commenced business on June 1, 1987, as joint stock casualty insurance company under RSMo 379 (Insurance other than life). The Company was originally wholly-owned by California Vision Service, which is now known as Vision Service Plan or VSP. On April 1, 1993, VSP transferred all of its shares of VSPIC-MO to Altair holding Company, Inc., a subsidiary of VSP. During 2009, the Company’s stock was transferred to VSP Holding Company, Inc. (VSP Holding).

Mergers, Acquisitions, and Major Corporate Events

There were no mergers, acquisitions, or other major corporate events during the examination period.

Dividends and Capital Contributions

VSPIC-MO declared and paid the following ordinary dividends to its ultimate parent, VSP, during the examination period:

<u>Year</u>	<u>Amount</u>
2014	\$ 7,300,000
2015	3,000,000
2016	8,300,000
2017	16,200,000
2018	15,700,000
Total	\$ 50,500,000

Surplus Notes

There were no surplus notes issued or outstanding during the examination period.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that are elected by the

shareholders on an annual basis. The Company’s Amended and Restated Bylaws specify that there shall be nine members, who serve a term of one year. The Board of Directors elected and serving as of December 31, 2018, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Kate A. Renwick-Espinosa Rancho Cordova, CA	President, VSP Vision Care
Bradley N. Garber Rancho Cordova, CA	Vice President, Deputy General Counsel, VSP Vision Care
Susan L. Taylor Rancho Cordova, CA	Market Director, VSP Vision Care
Michael J. Guyette Rancho Cordova, CA	President and Chief Executive Officer, VSP Global
Daniel J. Schauer Rancho Cordova, CA	Senior Vice President, General Manager Strategic Partners and Government Business, VSP Vision Care
David E. Plevyak Rancho Cordova, CA	Senior Vice President, Business Controlling Officer, VSP Global
Thomas A. Fessler Rancho Cordova, CA	Chief Legal Officer, General Counsel, VSP Global
Lester E. Passuello Rancho Cordova, CA	Senior Vice President, Chief Accounting Officer, VSP Global
Eric G. Johannessen Rancho Cordova, CA	Senior Vice President, Corporate Development and Legal, VSP Global

Senior Officers

The officers elected and serving, as of December 31, 2018, were as follows:

<u>Name</u>	<u>Office</u>
Kate A. Renwick-Espinosa	President
Daniel J. Schauer	Treasurer
Michael J. Guyette	Secretary

Principal Committees

The Board of Directors for VSPIC-MO does not have any committees of its own. Instead, the VSPIC-MO Board of Directors participates in the committees of the ultimate parent, VSP. As of December 31, 2018, VSP had the following committees:

Finance	Enterprise and Innovation
Patient and Provider	Business
Audit	Compensation
Governance	

Corporate Records

The Company’s Articles of Incorporation and the Amended and Restated Bylaws were reviewed. There were no amendments to either document during the examination period. The minutes of the Board of Director, Shareholders, and VSP Committees were reviewed for the period under examination.

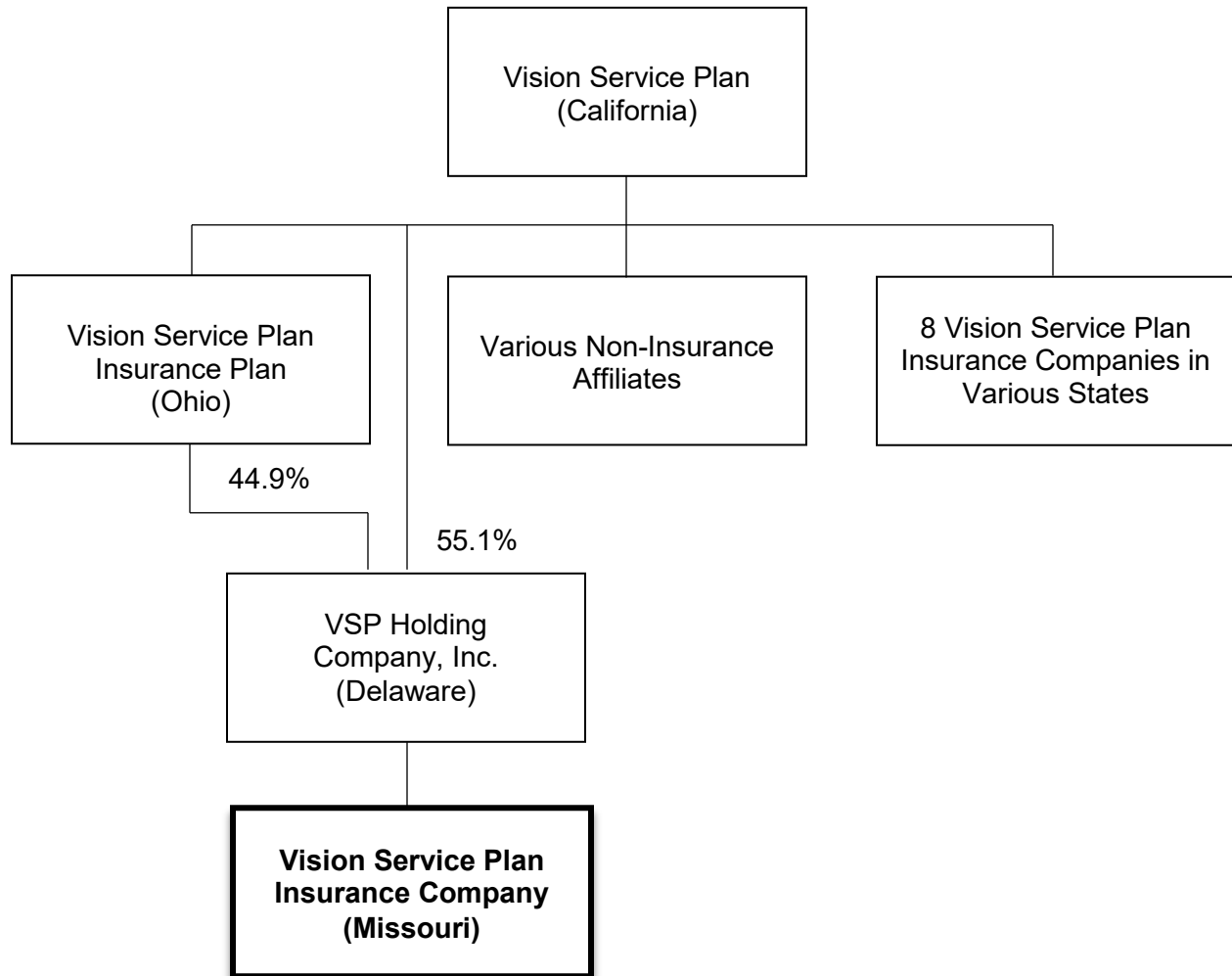
Holding Company, Subsidiaries, and Affiliates

VSPIC-MO is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). VSPIC-MO is wholly-owned by VSP Holding, which, in turn, is partially owned by Vision Service Plan Insurance Company- Ohio (VSPIC-OH) and VSP. VSPIC-OH is wholly-owned by VSP.

VSP is a nonprofit corporation, organized under the laws of the state of California. It provides and administers vision care plans to make professional optometric services available to eligible members of participating clients. VSP, in addition to controlling its affiliated vision care benefit plans, diversifies its business through administrative services, optics, eyewear, practice management, and retail development segments.

Organizational Chart

The following organizational chart depicts the applicable portion of the holding company group as of December 31, 2018. Each entity is 100% owned by its parent unless otherwise indicated.



Intercompany Transactions

The following agreements represent significant contracts executed with affiliated entities that were in effect as of December 31, 2018. A brief description of these agreements are as follows:

Administrative and Marketing Agreement: VSPIC-MO and VSP are parties to an Administrative and Marketing Agreement that has been in effect since December 4, 2007. Under the terms of the agreement, VSP provides VSPIC-MO with certain administrative, management, and marketing services for a fee. The agreement also provides VSPIC-MO with the license to use the “Vision Service Plan” and “VSP” service marks and designs.

Intercompany Tax Sharing Agreement: Under the terms of the Intercompany Tax Sharing Agreement, VSPIC-MO and select affiliated companies file a consolidated federal income tax return with the ultimate parent company, VSP. The taxes paid under this agreement are to be no greater than if the affiliate had filed a separate federal income tax return. VSPIC-MO has been party to the Intercompany Tax Sharing Agreement since August 15, 2008.

TERRITORY AND PLAN OF OPERATION

VSPIC-MO is licensed under Chapter 379 RSMo (Insurance other than life) to write accident and health insurance. VSPIC-MO writes only group vision service insurance to subscriber groups on both a risk and self-funded basis. Subscriber groups which purchase coverage on a risk basis pay an agreed upon monthly premium based on the total number of eligible members. Subscriber groups, which elect self-funded programs, reimburse the Company for benefits paid and pay an administrative fee. All sales and marketing services are provided to the Company by its ultimate parent, VSP. VSP utilizes both in-house agents and independent brokers to market its products.

As of December 31, 2018, the Company was licensed in four states: Missouri, Florida, Georgia, and New Mexico. The amount of premium written in each state during 2018 as a percentage of total written premiums was as follows: Missouri – 47.7%; Florida – 30.2%; Georgia – 16.7%; and New Mexico – 5.3%.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The Company experienced steady growth during the examination period, with total net assets increasing \$50.5 million and net premiums increasing \$87.7 million from 2014 to 2018. Capital and surplus increased each year under examination, despite the Company paying dividends to its ultimate parent, VSP, each year under examination.

The table below summarizes the Company’s growth for the period under examination:

(\$000s omitted)

Year	Total Net Assets	Net Premiums Earned	Underwriting Gain (Loss)	Net Income (Loss)	Capital and Surplus	Ratio of Net Premiums to Surplus
2014	\$ 50,177	\$ 139,486	\$ 8,537	\$ 3,482	\$ 22,800	611.8%
2015	62,780	162,407	14,707	8,523	27,767	584.9%
2016	75,482	184,794	26,808	16,746	34,293	538.9%
2017	83,780	205,107	35,721	23,539	38,930	526.9%
2018	100,700	227,217	38,068	29,917	54,522	416.7%

Increases in benefits paid were commensurate with increases in premium revenues. Total hospital and medical expenses increased \$43.2 million during the examination period.

The table below summarizes the Company's total revenues, incurred hospital and medical expenses, and medical loss ratios for the period under examination.

(\$000s omitted)

Year	Total Revenues	Total Hospital and Medical Benefits	Medical Loss Ratio
2014	\$ 145,349	\$ 110,863	76.3%
2015	170,002	123,562	72.7%
2016	193,727	132,488	68.4%
2017	214,239	142,368	66.5%
2018	235,568	154,018	65.4%

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2014	2015	2016	2017	2018
Direct Premiums Written	\$ 139,486	\$ 162,407	\$ 184,794	\$ 204,115	\$ 225,543
Reinsurance Assumed:					
Non-Affiliates	-	-	-	991	1,674
Net Premiums Written	\$ 139,486	\$ 162,407	\$ 184,794	\$ 205,107	\$ 227,217

Assumed Reinsurance

VSPIC-MO assumes an immaterial amount of group vision business from GBG Insurance Limited. Total assumed premiums in 2018 were \$1.7 million, which accounted for less than 1% of total premiums for that year.

Ceded Reinsurance

The Company did not cede any premiums during the period under examination.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm, Deloitte and Touche, LLP, in Sacramento, California, performed the statutory audit of the Company for the years 2014 through 2018. Reliance was placed upon the CPA workpapers as deemed appropriate. Such reliance included, but was not limited to, consideration of fraud, testing over IT general controls, and substantive testing.

Actuarial Opinion

The Company's actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Frederick W. Kilbourne, FCAS, MAAA, for all years in the examination period. Mr. Kilbourne is employed by The Kilbourne Company of San Diego, California.

Information Systems

In conjunction with this examination, Mohammad Arif, CFE, AES, CISA, CIDM, CISSP, Information Systems Financial Examiner with the Ohio Department of Insurance, conducted a review of the Company's information systems.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Vision Service Plan Life Insurance Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items.” These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

ASSETS

As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 29,716,631	\$ 2,248,388	\$ 27,468,243
Stocks:			
Common Stocks	7,825,844	360,094	7,465,750
Cash, Cash Equivalents, and Short- Term Investments	45,341,650	-	45,341,650
Receivables for Securities	510	-	510
Investment Income Due and Accrued	216,732	-	216,732
Premiums and Considerations:			
Uncollected Premiums and Agents' Balances in the Course of Collection	8,074,752	1,025,361	7,049,391
Amounts Receivable Relating to Uninsured Plans	8,115,331	1,255,736	6,859,595
Net Deferred Tax Asset	3,843,678	-	3,843,678
Guaranty Funds Receivable or on Deposit	542,031	-	542,031
Receivables from Parent, Subsidiaries, and Affiliates	1,912,182	-	1,912,182
TOTAL ASSETS	\$ 105,589,341	\$ 4,889,579	\$ 100,699,762

LIABILITIES, CAPITAL AND SURPLUS

As of December 31, 2018

Claims Unpaid	\$ 8,640,591
Unpaid Claims Adjustment Expenses	151,780
Premiums Received in Advance	13,381,106
General Expenses Due or Accrued	3,695,328
Current Federal and Foreign Income Tax Payable and Interest Thereon	5,351,063
Remittances and Items Not Allocated	934,286
Amounts Due to Parent, Subsidiaries, and Affiliates	11,512,346
Payable for Securities	12,887
Liability for Amounts Held Under Uninsured Plans	198,897
Aggregate Write-Ins for Other Liabilities	2,299,415
TOTAL LIABILITIES	\$ 46,177,699
Common Capital Stock	1,500,000
Unassigned Funds (Surplus)	53,022,063
TOTAL CAPITAL AND SURPLUS	\$ 54,522,063
TOTAL LIABILITIES AND SURPLUS	\$ 100,699,762

STATEMENT OF REVENUE AND EXPENSES

For the Year Ended December 31, 2018

Net Premium Income	\$ 227,217,244
Fee-for-Service	7,740,030
Risk Revenue	610,877
Total Revenue	\$ 235,568,151
Other Professional Services	153,020,001
Net Reinsurance Recoveries	(998,314)
Claims Adjustment Expenses	3,084,229
General Administrative Expenses	40,397,359
Total Underwriting Deductions	\$ 197,499,903
Net Underwriting Gain (Loss)	\$ 38,068,248
Net Investment Income Earned	1,082,548
Net Realized Capital Gains	179,274
Net Investment Gain (Loss)	\$ 1,261,822
Net Gain (Loss) from Agents' or Premium Balances Charged Off	(193,226)
Net Income (Loss) After Capital Gains Tax and Before All Other Federal Income Taxes	\$ 39,136,844
Federal and Foreign Income Taxes Incurred	9,219,602
NET INCOME (LOSS)	\$ 29,917,242

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2014 to December 31, 2018

(\$000's omitted)

	2014	2015	2016	2017	2018
Capital and Surplus, Beginning of Year	\$ 23,113	\$ 22,800	\$ 27,767	\$ 34,293	\$ 38,930
Net Income (Loss)	3,482	8,523	16,746	23,539	29,917
Change in Net Unrealized Capital Gains (Losses)					
Less Capital Gains Tax	(166)	(382)	(84)	882	(689)
Change in Net Deferred Income Tax	1,477	704	1,178	(1,996)	(404)
Change in Nonadmitted Assets	2,193	(877)	(3,014)	(1,589)	2,469
Dividends to Stockholders	(7,300)	(3,000)	(8,300)	(16,200)	(15,700)
Net Change in Capital and Surplus	(313)	4,967	6,526	4,637	15,592
Capital and Surplus, End of Year	\$ 22,800	\$ 27,767	\$ 34,293	\$ 38,930	\$ 54,522

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

On March 11, 2020, The World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, United States President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the United States and global insurance and reinsurance industry is still unknown at the time of releasing this report. The Department is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The Department and all insurance regulators with the assistance of the NAIC are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Vision Service Plan Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Ronald Musopole, CFE, and Alicia Galm, examiners for the Missouri Department of Commerce and Insurance, also participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of Jackson)

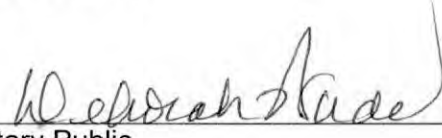
I, Sara McNeely, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of Vision Service Plan Insurance Company, its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Sara McNeely
Examiner-In-Charge
Missouri Department of Commerce and
Insurance

On this 30 day of June, 2020, before me, the undersigned notary, appeared remotely pursuant to Executive Order 20-08 Sara McNeely proved to me through identification documents, and acknowledged to me that she signed the forgoing instrument voluntarily for its stated purpose and acknowledged that she executed the same for the purposes therein contained.

In witness thereof, I hereunto set my signature and official seal.

My commission expires: 5/23/2023 

Notary Public

**DEBORAH WADE
NOTARY PUBLIC-NOTARY SEAL
STATE OF MISSOURI
JACKSON COUNTY
MY COMMISSION EXPIRES 5/13/2023
COMMISSION # 15388909**

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.

A handwritten signature in blue ink, appearing to read "Levi Nwasoria", is written over a horizontal line.

Levi Nwasoria, CPA, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance