



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

RE: Examination Report of Advantica Insurance Company, Inc. for the period ended
December 31, 2014

ORDER

After full consideration and review of the report of the financial examination of Advantica Insurance Company, Inc. for the period ended December 31, 2014, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration 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 findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pensions, stock ownership and insurance plans, territory and plan of operation, growth of company, loss experience, reinsurance, accounts and records, statutory deposits, financial statements, comments on the financial statements, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Advantica Insurance Company, Inc. as of December 31, 2014 be and is hereby ADOPTED as filed and for Advantica Insurance Company, Inc. 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) implement, and verify compliance with each item, if any, mentioned in the Comments on the Financial Statements and/or Summary of Recommendations section of such report; and (2) 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 11th day of March, 2016.



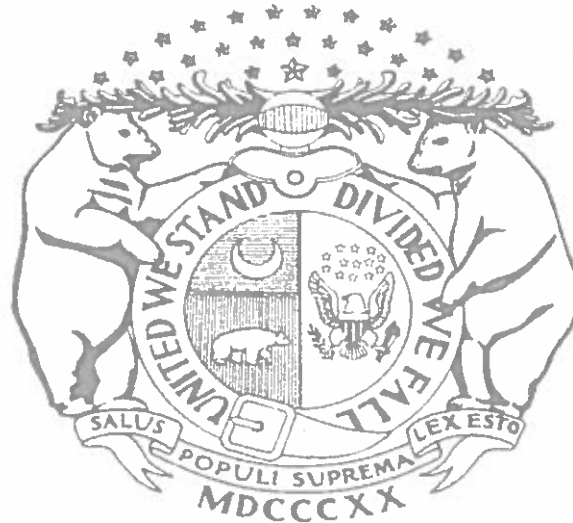
A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

Advantica Insurance Company, Inc.

As of:
DECEMBER 31, 2014



FILED
MAR 21 2016
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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January 6, 2016

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

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

Advantica Insurance Company, Inc.

hereinafter referred to as such or as "AIC" or as the "Company." The Company's statutory home office is located at 12399 Gravois Road, St. Louis, MO 63127, telephone number (314) 656-3000. This examination began on April 6, 2015, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of AIC. The last examination of AIC was completed as of December 31, 2009. This examination covers the period of January 1, 2010 through December 31, 2014, and material transactions or events occurring subsequent to December 31, 2014.

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 of Insurance, Financial Institutions and Professional Registration (DIFP) or statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement Instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examiners relied upon information and workpapers provided by the Company's independent auditor, BKD LLP, for its audit covering the period from January 1, 2014, through December 31, 2014, and its Independent Service Auditor's Reports for Delta Dental of Missouri, and DeniServ, LLC. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings.

SUBSEQUENT EVENTS

There were no significant subsequent events.

COMPANY HISTORY

General

Advantica Insurance Company, Inc. was organized on February 6, 2004, and received a certificate of incorporation from the Missouri Secretary of State on September 12, 2004, as Essex Benefits Insurance Company, Inc. On March 7, 2005, the Missouri Department of Insurance issued the Company a Certificate of Authority to write property, liability, and accident and health insurance pursuant to Chapter 379 RSMo. In 2010, the Company modified its Missouri Certificate of Authority to authorize only accident and health insurance, and changed its name to Advantica Insurance Company, Inc. AIC currently writes vision insurance directly and reinsures dental insurance assumed from an affiliated company. It is authorized to write dental business in Missouri and Florida.

Capital Stock and Paid-In Surplus

The Company is authorized to issue 15,000 shares of common stock at a par value of \$100 per share. The Company was initially capitalized with \$3 million. The Company reported 12,000 common shares issued and outstanding as of December 31, 2014, resulting in a common capital stock account of \$1.2 million. Capital contributions made in 2005, 2011, and 2013 in the amounts of \$1,800,000, \$1,100,000 and \$3,500,000, respectively comprise the Company's current contributed capital balance of \$6,400,000.

ACA impact on Special Surplus Funds

On January 1, 2015, the Company was subject to an annual fee under Section 9010 of the Federal Affordable Care Act (ACA). This amount is reflected as a write-in for special surplus funds of \$120,315 at December 31, 2014.

Dividends

The Company has paid no dividends.

Acquisitions, Mergers and Major Corporate Events

During calendar year 2012, Delta Dental of Missouri (DDMO), the ultimate controlling entity, restructured its subsidiary organizations to streamline services and achieve cost

efficiencies. Advantica Administrative Services (AAS), Advantica Dental Benefits, Inc. (ADB), Advantica Insurance Company (AIC), and DeniServ, LLC are now wholly owned subsidiaries of Advantica Holding Company. Advantica Benefits, Inc., and Allied EyeCare, LLC were merged with and into AAS. AAS is now the parent of Advantica Administrative Services-New York IPA, Inc., Advantica EyeCare IPA of New York, Inc., Advantica, Inc. and Advantica Reinsurance Company, LTD.

Surplus Debentures

No surplus debentures were issued or outstanding during the examination period.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. The Company's articles of incorporations were amended February 1, 2013, to convert the Company from a property and casualty insurance company to a life and health insurance company. The bylaws were amended in 2012, to change the name of the Company from Essex Benefits Insurance, Inc. to Advantica Insurance Company, and to remove references in Article 10, which limited the Company's products to dental.

The minutes of the shareholder, board of directors, and committee meetings were reviewed and appear to properly support and approve the corporate transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a board of 9 directors authorized by the Company's articles of incorporation and bylaws. The directors serving at December 31, 2014, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Barbara C. Bentrup Saint Louis, MO	CFO and Corporate Counsel Delta Dental of Missouri
Rob E. B. Goren Saint Louis, MO	VP Actuarial Services Delta Dental of Missouri
Michael A. Biava Saint Louis, MO	Corporate Controller Delta Dental of Missouri and Affiliates
David W. Haynes (1) Saint Louis, MO	President and CEO Delta Dental of Missouri
Pamela A. Martin Saint Louis, MO	Senior Vice President, Chief Operating Officer Delta Dental of Missouri

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Janice M. Lees Saint Louis, MO	Vice President Board Relations Delta Dental of Missouri
Karl Mudra Saint Louis, MO	Chief Information Officer Delta Dental of Missouri
Ellen R. Samuels Saint Louis, MO	Manager, Corporate Compliance Delta Dental of Missouri
Jane Stanhaus Saint Louis, MO	Corporate Manager Human Resources Delta Dental of Missouri

(1) Edward Pattarozzi, Chief Marketing and Sales Officer replaced David Haynes as a director, effective August 7, 2015, subsequent to the examination period.

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2014, were as follows:

<u>Name</u>	<u>Position</u>
David W. Haynes	President/Vice President
Barbara Bentrup	Secretary/Treasurer

On July 9, 2015, David Haynes announced he was leaving Delta Dental of Missouri by December 31, 2015. On August 18, 2015 DDMO announced that Rob Goren was named the new President and Chief Executive Officer effectively immediately. Rob Goren also replaced David Haynes as President and Vice-President of Advantica Insurance Company. Goren had previously served as chief actuary and senior vice-president of business development for Delta Dental.

The Company has no established committees of its own, instead relying on the committees of the ultimate parent, Delta Dental of Missouri. The various committees of the board established by Delta Dental of Missouri at December 31, 2014, are as follows.

Executive Committee

Dr. Guy P. Bates, Chairperson
 Dr. Ollie Fisher
 Mrs. Dee A. Joyner
 Mr. Richard W. Braun
 Mr. Brian W. Berglund
 Mr. David Haynes
 Dr. Ed Robison
 Staff Liaison – Mrs. Janice Lees

Compensation Committee

Mr. Brian W. Berglund, Chairperson
 Mr. H.R. Redohl
 Dr. Robert M. Tait
 Mr. Richard W. Braun
 Staff: Ms. Jane Stanhaus

Finance and Audit Committee

Mr. Richard W. Braun, Chairperson
Mrs. Dee A. Joyner
Mr. Brian W. Berglund
Dr. Ollie C. Fisher
Mr. James F. Hoffmeister
Staff Liaison – Mrs. Barbara Bentrup

Governance/Nominating Committee

Mr. Mick Redohl, Chairperson
Mr. Brian W. Berglund
Dr. Ollie Fisher
Mr. Richard W. Braun
Mrs. Dee A. Joyner
Mr. Jim Sandfort
Staff: Mrs. Janice Lees

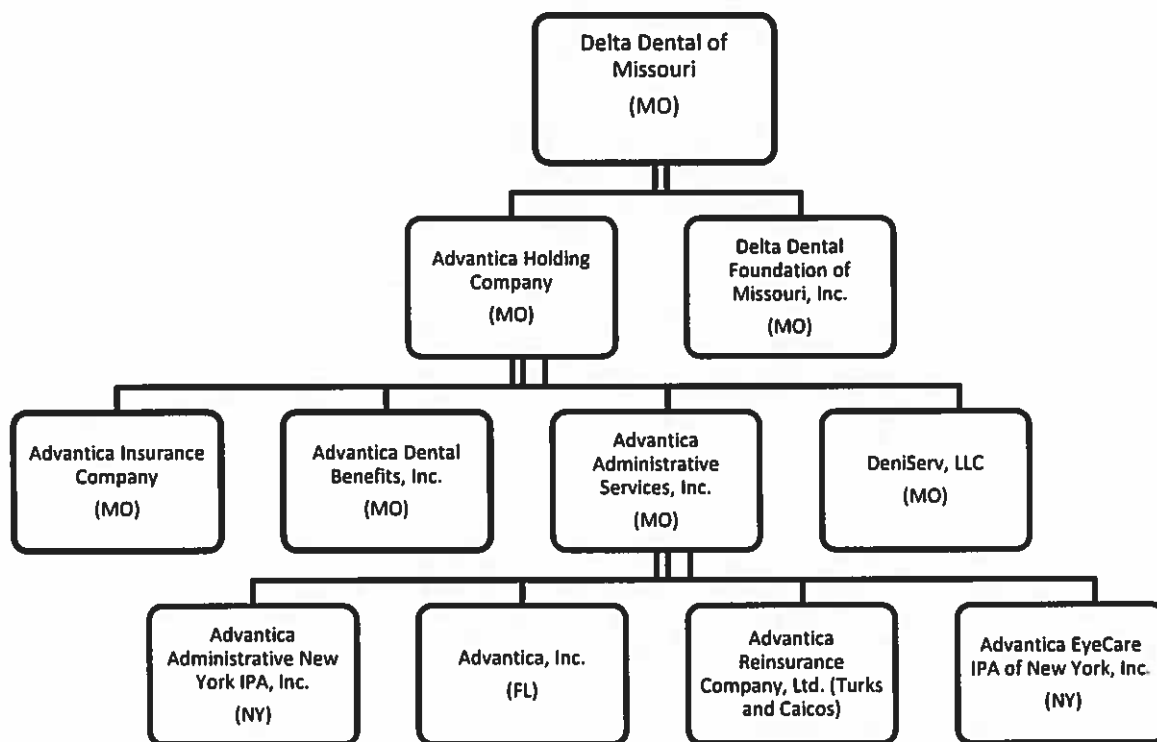
Subsequent to the examination period, in 2015, substantial changes occurred in these committees as a result of the board elections, and the replacement of David Haynes as noted above.

Holding Company, Subsidiaries and Affiliates

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is a wholly owned subsidiary of Advantica Holding Company, which in turn is wholly owned by Delta Dental of Missouri, the ultimate controlling entity of the holding company system.

Organization Chart

The following organizational chart depicts the Company within the current holding company system. All subsidiaries shown are wholly owned.



Affiliated Transactions

The Company enters into various agreements with affiliates. Active agreements are discussed below:

Intercompany Services Agreement between DDMO and its direct and indirect subsidiaries, effective November 1, 2010, was non-disapproved by DIFP on June 30, 2011. An amendment to update the parties was approved December 11, 2012. Parties agree to supply and receive certain management and support services at cost.

Intercompany Tax Allocation Agreement between all Advantica Holding Company subsidiaries effective December 1, 2010, was non-disapproved by DIFP on December 10, 2010. An amendment to update the parties was approved on December 11, 2012. Each party has agreed to file consolidated federal and state income tax returns for the taxable period ending December 31, 2010, and any subsequent taxable periods for which they are permitted to file a consolidated tax return.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond purchased by its parent, Delta Dental of Missouri. The bond provides \$1,000,000 in coverage with a \$10,000 deductible. This coverage meets the minimum amount of fidelity insurance recommended by the NAIC.

The Company is also a named insured on policies that provide the following coverages: property, general and excess, auto, directors and officers, fiduciary, and workers' compensation. The Company's insurance coverages appear adequate.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. Services are provided by affiliates under service agreements described under "Affiliated Transactions." Affiliates' employees are provided benefits typical of the industry including various types of leave, holidays, a cafeteria plan, group life, short-term disability, long-term disability, an employee group health plan, educational assistance, incentive plans, a 401(k) savings plan, and a defined contribution retirement plan. In addition, the Company has a nonqualified, defined benefit, deferred compensation plan for its officers.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Missouri under Chapter 376 RSMo (Life, Health and Accident Insurance), and is authorized to write accident and health insurance. The company became licensed in Florida in 2013, and began writing both dental and vision business there in the second quarter of 2015.

AIC assumed dental and vision benefit business from National Guardian Life Insurance Company in states where it is not authorized. AIC ceased assuming vision business effective December 31, 2010, and began writing vision business directly in 2011. The direct vision business grew from premiums of \$15,325 in 2011, to premiums of \$1,172,908 in 2014.

GROWTH OF COMPANY

The Company's premium grew throughout the examination period. Most of the growth was through assumed dental insurance premium, but direct written vision business added \$1,172,908 to the net premium growth.

<u>Year</u>	<u>Assumed Premium</u>	<u>Written Premium</u>	<u>Capital and Surplus</u>	<u>Net Premium Written to Capital and Surplus</u>
2014	6,470,978	1,172,908	6,020,055	127%
2013	6,490,264	887,465	6,367,737	116%
2012	4,908,260	394,768	3,263,807	162%
2011	2,715,539	15,325	3,425,807	80%
2010	2,320,937	0	2,239,321	104%

LOSS EXPERIENCE

The following exhibit reflects the Company's claims unpaid and medical experience over the examination period. The medical benefits over the examination period are in line with the growth in dental and vision premium.

<u>Year</u>	<u>Claims Unpaid</u>	<u>Medical Benefits</u>
2014	443,000	6,011,018
2013	487,000	6,075,903
2012	360,000	4,151,120
2011	196,362	2,186,009
2010	188,445	1,919,685

REINSURANCE

Assumed

AIC assumed dental and vision benefit business during the examination period under a fronting arrangement with National Guardian Life Insurance Company in states where the Company is not authorized. Pre-paid group dental business is reinsured on a 100% quota share basis. The vision business was reinsured on a fifty percent quota share basis, but was terminated effective December 31, 2010.

Ceded

The Company does not cede any business.

ACCOUNTS AND RECORDS

General

The Company's financial statements were prepared using Sage MAS 500 financial accounting software.

Reserves and related actuarial items as of December 31, 2014, were reviewed and certified by F. Ray Martin, FSA, MAAA, president and owner of MarACon, LLC.

The Company maintains its employer, member and provider data on the aQDen claims processing system and related applications. aQDen is a client-server based application developed to manage benefits, members, enrollments, providers, predeterminations, dental claims, account reconciliation, commissions, invoicing and check/explanation of benefit processing.

Independent Auditor

The Company's financial statements for the period January 1, 2014 to December 31, 2014, were audited by BKD LLP, Certified Public Accountants. The workpapers and reports of the most recent independent audit were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

Information Systems

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the DIFP, conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2014, as reflected below, were sufficient in par and market value to meet the deposit requirement in accordance with Section 354.707 RSMo (Capital, surplus, security required).

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Wentzville MO School District Bond	\$800,000	\$802,160	\$801,594

Deposits with Other States

The Company has no funds on deposit with other states.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences, if any, were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	<u>Assets Current Year</u>	<u>Nonadmitted Assets Current Year</u>	<u>Net Admitted Assets Current Year</u>
Bonds	\$ 5,704,451	\$ 0	\$ 5,704,451
Cash and short-term investments	<u>568,761</u>	<u>0</u>	<u>568,761</u>
Subtotal – Cash and invested assets	\$ 6,263,122	\$ 0	\$ 6,263,122
Investment income due and accrued	18,548	0	18,548
Uncollected premiums and agent’s balances	23,236	0	23,236
Funds held by or deposited with reinsurers	377,603	0	377,603
	<hr/>	<hr/>	<hr/>
Totals	<u><u>\$ 6,682,509</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 6,682,509</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Claims unpaid	\$ 443,000
Unpaid claims adjustment expenses	24,000
Premiums received in advance	20,084
General expenses	1,134
Amounts due to parent, subsidiaries and affiliates	<u>174,236</u>
Total liabilities	\$ <u>662,454</u>
Provision for ACA Tax	\$ 120,315
Common capital stock	1,200,000
Gross paid in and contributed surplus	6,400,000
Unassigned funds	<u>(1,700,260)</u>
Total capital and surplus	\$ <u>6,020,055</u>
Totals	\$ <u><u>6,682,509</u></u>

STATEMENT OF INCOME

Net premium income	<u>\$ 7,643,886</u>
Hospital/medical benefits	646,420
Less:	
Net reinsurance recoveries	<u>(5,364,598)</u>
Total hospital and medical	\$ 6,011,018
Claim adjustment expenses	346,493
General administrative expenses	<u>1,678,144</u>
Total underwriting deductions	<u>\$ 8,035,655</u>
Net underwriting gain (loss)	\$ (391,276)
Net investment income earned	<u>30,493</u>
Net income before taxes	\$ (361,276)
Federal and foreign income taxes	<u>(13,594)</u>
Net income (loss)	<u><u>\$ (347,682)</u></u>

CAPITAL AND SURPLUS

Capital and surplus December 31, 2009		<u>\$ 2,428,866</u>
Net income or (loss) for the year	\$ (189,545)	
Paid-in surplus	<u>0</u>	
Net change in capital and surplus	<u>\$ (189,545)</u>	
Capital and surplus December 31, 2010		<u>\$ 2,239,321</u>
Net income or (loss) for the year	\$ 86,487	
Paid-in surplus	<u>1,100,000</u>	
Net change in capital and surplus	<u>\$ 1,186,486</u>	
Capital and surplus December 31, 2011		<u>\$ 3,425,807</u>
Net income or (loss) for the year	\$ (162,001)	
Paid-in surplus	<u>0</u>	
Net change in capital and surplus	<u>\$ (162,001)</u>	
Capital and surplus December 1, 2012		<u>\$ 3,263,807</u>
Net income or (loss) for the year	\$ (396,070)	
Paid-in surplus	<u>3,500,000</u>	
Net change in capital and surplus	<u>\$ 3,103,930</u>	
Capital and surplus December 31, 2013		<u>\$ 6,367,737</u>
Net income or (loss) for the year	\$ (347,682)	
Paid-in surplus	<u>0</u>	
Net change in capital and surplus	<u>\$ (347,682)</u>	
Capital and surplus December 31, 2014		<u>\$ 6,020,055</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There are no comments on the financial statements.

SUMMARY OF RECOMMENDATIONS

There are no recommendations.


ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and employees of Advantica Insurance Company, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned; Douglas Daniels, CFE, CPA, and Andrew Coppedge, CFE, examiners for the DIFP; participated in this examination. Andrew Balas, AES, CFE, CPA, and DIFP Information Systems Financial Examiner, reviewed the Company's Information Systems.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, 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 the 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.



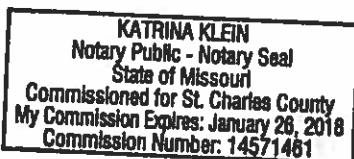
Wyatt Sample, CFE
Examiner-in-Charge
Missouri Department of Insurance,
Financial Institutions and
Professional Registration

Sworn to and subscribed before me this 6 day of January, 2016
My commission expires:

1-26-18




Notary Public



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.



Michael Shadowens, CFE
Audit Manager, St. Louis
Missouri Department of Insurance, Financial
Institutions and Professional Registration