



DEPARTMENT OF COMMERCE & INSURANCE

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

ORDER

After full consideration and review of the report of the financial examination of Advantica 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 Insurance¹ 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, territory and plan of operation, reinsurance, accounts and records, financial statements, comments on financial statement items, analysis of changes to surplus and general comments and/or recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Advantica Insurance Company as of December 31, 2018 be and is hereby ADOPTED as filed and for Advantica 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 26th day of September, 2019.



Chlora Lindley-Myers
Chlora Lindley-Myers, Director
Department of Commerce and Insurance

¹ Pursuant to Executive Order #19-02, effective August 28, 2019, the department name was changed from the Department of Insurance, Financial Institutions and Professional Registration to the Department of Commerce and Insurance.

REPORT OF
FINANCIAL EXAMINATION

Advantica Insurance Company

As of:
DECEMBER 31, 2018

FILED
OCT 7 2019
DIRECTOR OF
MISSOURI DEPARTMENT OF
COMMERCE AND INSURANCE



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

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July 10, 2019
St. Louis, MO

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
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

Advantica Insurance Company

hereinafter referred to as “AIC” or as the “Company.” The Company's main office is located at 12399 Gravois Road, St. Louis, MO 63127, telephone number (314) 656-3000. Examination fieldwork began on March 4, 2019 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of AIC. The last examination was completed as of December 31, 2014. This examination covers the period of January 1, 2015 through December 31, 2018. This examination also included material transactions or events occurring subsequent to December 31, 2018.

Procedures

This full-scope examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (Department or DIFP) 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 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 includes 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 is documented separately following the Company's financial statements. The following key activities were identified: Claims and Reserving, Investments and Treasury, Premiums and Underwriting, and Related Parties.

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 insurer 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 were separately communicated to other regulators or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues or material changes to the balance sheet or income statement identified during the examination.

COMPANY HISTORY

General

Advantica Insurance Company was originally organized as Essex Benefits Insurance Company, Inc. on February 6, 2004, and received a certificate of incorporation from the Missouri Secretary of State on July 26, 2004. In 2005, the Company was issued a Certificate of Authority to write property, liability, and accident and health insurance pursuant to Chapter 379 RSMo (Insurance Laws Other than Life). During 2010, the Company modified its Certificate of Authority to write accident and health insurance only, and changed its name to Advantica Insurance Company. In 2013, AIC converted to a life and health company authorized to write accident and health insurance pursuant to Chapter 376 RSMo (Life, Health and Accident Insurance Laws). AIC is licensed to write business in Missouri and Florida.

Capital Stock and Paid in Capital

The Company is authorized to issue 15,000 shares of common stock at a par value of \$100 per share. AIC reported 12,000 shares issued and outstanding to Advantica Administrative Services, Inc., resulting in a common capital stock account of \$1.2 million. AIC was initially capitalized with \$3 million. Contributions made in 2005, 2011 and 2013 raised the contributed capital balance to \$6.4 million. During 2017, Advantica Reinsurance Company, Ltd. and Advantica, Inc. were merged into AIC, and contributed capital raised to its current level of \$6,824,391.

Dividends

No dividends were paid during the examination period.

Acquisitions, Mergers and Major Corporate Events

In 2017, Delta Dental of Missouri, AIC's ultimate controlling entity, restructured its subsidiary organizations to streamline services and achieve cost efficiencies. Advantica Administrative Services, Inc. (AAS) and Advantica Holding Company merged. AAS was the surviving entity and became the immediate parent of AIC, Advantica Dental Benefits, Inc., Advantica EyeCare IPA of New York, Inc. and DeniServ, LLC. Advantica, Inc. and Advantica Reinsurance Company, Ltd. were merged into AIC. Advantica Administrative Services New York IPA, Inc. was merged into Advantica EyeCare IPA of New York, Inc.

During 2018, Advantica EyeCare IPA of New York, Inc. changed its name to Advantica IPA New York, Inc., while Advantica Dental Benefits, Inc. and DeniServ, LLC were merged into Delta Dental of Missouri.

CORPORATE RECORDS

Corporate Documents

The Company's articles of incorporation and bylaws were reviewed. There were no revisions made to the articles of incorporation or bylaws during the examination period.

Meeting Minutes

The minutes of the shareholder, board of directors, and committee meetings were reviewed and appear to adequately 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 nine directors authorized by the Company's bylaws. All directors are employees of the Company. The directors serving at December 31, 2018, were as follows:

<u>Name</u>	<u>Principal Occupation</u>	<u>Address</u>
Barbara Bentrup	CFO & Corporate Counsel	St. Louis, MO
Michael Biava	Corporate Controller	Swansea, IL
E.B. Rob Goren	President & CEO	High Ridge, MO
Ronald Inge	Chief Dental Officer & COO	Edwardsville, IL
Jonathan Jennings	Chief Actuary & Vice President of Underwriting and Project Management	Kirkwood, MO
Karl Mudra	Chief Information Officer	Kirkwood, MO
Edward Pattarozzi	Chief Sales & Marketing Officer	Chesterfield, MO
Ellen Samuels	Manager, Corporate Compliance	Chesterfield, MO
Jane Stanhaus	Human Resources Director	Edwardsville, IL

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2018 were:

<u>Name</u>	<u>Position</u>
E.B. Rob Goren	President & Vice President
Barbara Bentrup	Secretary & Treasurer

Committees

The Company has no established committees of its own, instead relying on the committees of the ultimate controlling entity, DDMO. The various committees of the board established by DDMO at December 31, 2018, are as follows:

Executive Committee

Dr. Robert Butler, Chairperson
 William Bender
 Brian Berglund, Jr.
 Rosemary Bishop
 E.B. Rob Goren
 Dr. James Rhea
 Dr. Timothy Taylor
 Dr. Mark Zust

Compensation Committee

Brian Berglund, Jr., Chairperson
 Oladipupo Adefala
 Rosemary Bishop
 Richard Braun
 Dr. Mark Mancin
 Dr. James Rhea
 Dr. Timothy Taylor
 Gary Williams
 Dr. Mark Zust

Governance/Nominating Committee

Dr. James Rhea, Chairperson
William Bender
Brian Berglund, Jr.
Rosemary Bishop
Dr. William Edwards
Dr. William Gray
Dr. Mark Mancin
Deborah Patterson
Dr. Timothy Taylor
Gary Williams
Dr. Mark Zust

Finance and Audit Committee

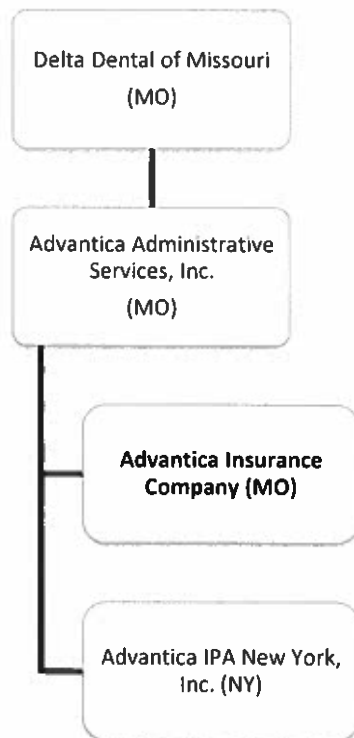
William Bender, Chairperson
Oladipupo Adefala
Brian Berglund, Jr.
Rosemary Bishop
Richard Braun
Johnny Custardo
Gary Williams

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 Administrative Services, Inc., 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 following affiliated agreements were in place as of December 31, 2018:

1. Type: Intercompany Service Agreement

Parties: DDMO and its direct and indirect subsidiaries, including AIC

Effective: November 1, 2010

Terms: Parties agree to supply and receive requested management and support services. A list of services that may be requested is shown as Attachment A to the agreement. Direct expenses will be settled at cost, while indirect expenses will be settled based on the appropriate cost allocation methodology.

2. Type: Intercompany Tax Allocation Agreement

Parties: DDMO and its direct and indirect subsidiaries, including AIC

Effective: December 1, 2010

Terms: Parties agree to file consolidated federal and state income tax returns. Each party's tax liability is determined as if parties filed on a separate basis. Balances are settled within 30 days following the end of the applicable quarter.

TERRITORY AND PLAN OF OPERATION

AIC is licensed in Missouri under Chapter 376 RSMo (Life, Health and Accident Insurance), and is authorized to write accident and health insurance. AIC is also licensed in Florida as a life and health insurer authorized for accident and health coverage. The Company offers vision insurance in both states, and dental coverage only in Florida. The Company also assumes dental and vision business through reinsurance agreements with National Guardian Life Insurance Company.

REINSURANCE

Assumed

During the examination period, AIC assumed dental business under a 100% quota share reinsurance agreement with National Guardian Life Insurance Company in states where the Company is not authorized.

As a result of the merger of Advantica Reinsurance Company, Ltd. (ARC) into AIC, AIC assumed vision business during 2017 and 2018. Prior to the merger, ARC was party to a 100% quota share reinsurance agreement with National Guardian Life Insurance Company. In conjunction with the merger, the reinsurance agreement was amended to transfer all of ARC's rights and obligations to AIC.

Ceded

The Company does not cede any business.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements for the period under examination were audited by BKD LLP. 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.

Independent Actuaries

Reserves and related actuarial items as of December 31, 2018, were reviewed and certified by F. Ray Martin, FSA, MAAA, of MarACon, LLC.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2018, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements" section, which follow the financial statements.

There may have been additional differences found in the course of this examination that are not shown in the "Comments on Financial Statements." These differences 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 key activity.

Assets

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 6,586,754	\$ 0	\$ 6,586,754
Cash, cash equivalents, and short-term investments	3,036,820	0	3,036,820
Investment income due and accrued	40,659	0	40,659
Uncollected premiums and agents' balances	179,323	0	179,323
Funds held by or deposited with reinsured companies	140,098	0	140,098
Guaranty funds receivable or on deposit	32,566	0	32,566
Receivable from parent, subsidiaries and affiliates	76,569	0	76,569
Aggregate write-ins for other than invested assets	1,820	(1,820)	0
TOTAL ASSETS	\$ 10,094,609	\$ (1,820)	\$ 10,092,788

Liabilities, Surplus and Other Funds

Claims unpaid	\$ 454,082
Unpaid claims adjustment expenses	22,704
Premiums received in advance	225,095
General expenses due or accrued	31,776
Current federal and foreign income tax payable	41,190
Amounts withheld or retained for the account of others	17,037
TOTAL LIABILITIES	\$ 791,884
Common capital stock	\$ 1,200,000
Gross paid in and contributed surplus	6,824,391
Unassigned funds (surplus)	1,276,513
TOTAL CAPITAL AND SURPLUS	\$ 9,300,904
TOTAL LIABILITIES, CAPITAL AND SURPLUS	\$ 10,092,788

Statement of Revenue and Expenses

Net premium income	\$ 13,781,533
Total revenues	\$ 13,781,533
Hospital/Medical benefits	\$ 4,399,316
Less: Net reinsurance recoveries	(3,426,436)
Total hospital and medical	\$ 7,825,752
Claims adjustment expenses	1,299,825
General administrative expenses	4,277,047
Total underwriting deductions	\$ 13,402,624
Net underwriting gain or (loss)	\$ 378,909
Net investment income earned	92,165
Net realized capital gains (losses)	331
Net investment gains (losses)	\$ 92,496
Aggregate write-ins for other income or expenses	\$ 4,272
Net income or (loss) after capital gains tax and before all other federal income taxes	\$ 475,677
Federal and foreign income taxes incurred	\$ 41,190
Net income (loss)	\$ 434,487

Reconciliation of Capital and Surplus

	2015	2016	2017	2018
Surplus: Prior year	\$ 6,020,055	\$ 5,874,739	\$ 8,473,693	\$ 8,857,487
Net income	29,554	475,739	394,544	434,487
Change in:				
Nonadmitted assets			(10,750)	8,930
Aggregate write-ins:				
Prior period adjustment	(174,870)			
Change in surplus	\$ (145,316)	\$ 475,739	\$ 383,794	\$ 443,417
Surplus: Current year	\$ 5,874,739	\$ 6,350,479	\$ 8,857,487	\$ 9,300,904

Examination Note to Reconciliation of Capital and Surplus:

Reported beginning 2017 surplus of \$8,473,693 exceeded reported ending 2016 surplus of \$6,350,479 by \$2,123,214. This was due to the subsequent restatement of the 2016 financial statements to reflect the merger of Advantica, Inc. and Advantica Reinsurance Company, Ltd. into AIC during 2017. The restatement was made in accordance with Statement of Statutory Accounting Principles No. 3, *Accounting Changes and Corrections of Errors*, and was disclosed in the AIC 2017 Annual Statement Notes to Financial Statements No. 10.

ANALYSIS OF EXAMINATION CHANGES

There are no changes in the financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on the financial statements.

SUMMARY OF RECOMMENDATIONS

There are no recommendations as a result of this examination.

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.

A handwritten signature in blue ink, appearing to read "Michael K. Shadowens", is written over a horizontal line.

Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Insurance, Financial
Institutions and Professional Registration