

REPORT OF EXAMINATION
OF
AMERICAN HOME SHIELD OF CALIFORNIA, INC.
AS OF
DECEMBER 31, 2020

Insurance Commissioner

A handwritten signature in blue ink, appearing to read "P. DeFina", is positioned to the right of the "Insurance Commissioner" text.

FILED on May 13, 2022

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Los Angeles, California
April 7, 2022

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of

AMERICAN HOME SHIELD OF CALIFORNIA, INC.

(hereinafter also referred to as the Company). The Company's statutory and home office address is located at 150 Peabody Place, Memphis, Tennessee 38103.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2015. This examination covered the period from January 1, 2016 through December 31, 2020.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report, but separately communicated to other regulators and/or the Company.

COMPANY HISTORY

The Company was formed under the laws of the state of California on September 13, 1973. It was licensed to operate as a home warranty business on

December 30, 1980 and is a wholly-owned subsidiary of American Home Shield Corporation (AHSC), and ultimately was owned by ServiceMaster Global Holdings, Inc (ServiceMaster).

On October 1, 2018, ServiceMaster formed a stand-alone company, Frontdoor, Inc. (Frontdoor). ServiceMaster transferred the Company and AHSC to Frontdoor when Frontdoor began operating as an independent, publicly-traded company listed on the Nasdaq Global Select Market.

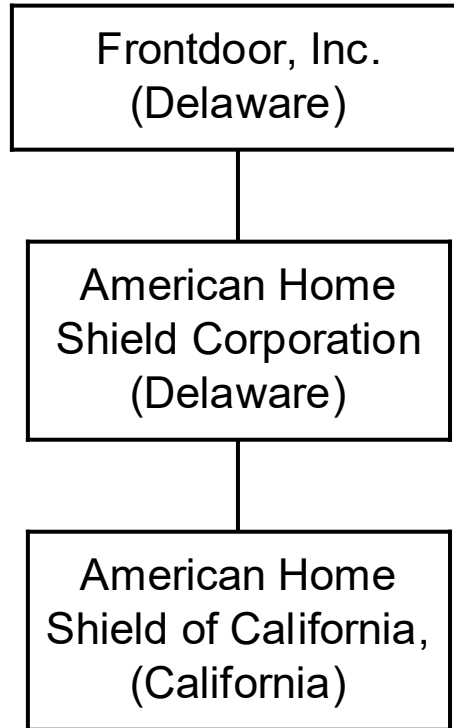
Dividends Paid to Parent

During the examination period, the Company paid ordinary cash dividends to its immediate parent, AHSC, as follows:

<u>Year</u>	<u>Amount</u>	<u>Type of Dividend</u>
2016	\$ 6,500,000	Ordinary
2017	7,250,000	Ordinary
2018	14,400,000	Ordinary
2020	<u>18,000,000</u>	Ordinary
	<u>\$ 46,150,000</u>	

MANAGEMENT AND CONTROL

The Company is a member of a holding company system of which Frontdoor, Inc. is the ultimate controlling entity. The following abridged organizational chart depicts the Company's relationship within the holding company system as of December 31, 2020. All ownership is 100%.



Management and control of the Company is vested in a three-member board of directors.

As of December 31, 2020, the directors were as follows:

Directors

Name and Location

Principal Business Affiliation

Jeffrey A. Fiarman
Westport, Connecticut

Senior Vice President, General Counsel,
and Secretary
Frontdoor, Inc.

Rexford J. Tibbens
Bainbridge Island, Washington

Chief Executive Officer
Frontdoor, Inc.

Brian K. Turcotte
Memphis, Tennessee

Senior Vice President and Chief Financial
Officer
Frontdoor, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Rexford J. Tibbens	Chief Executive Officer
Brian K. Turcotte	Senior Vice President and Chief Financial Officer
Jeffrey A. Fiarman	Senior Vice President, General Counsel, and Secretary
Jennifer L. Woods	Vice President and Assistant Secretary
Matthew S. Davis	Vice President and Treasurer
Chastitie Brim	Vice President and Controller
Tracy Clarke	Vice President, Tax

Management Agreement

Intercompany Affiliated Management Agreement: Effective July 2, 2018, the Company and its immediate parent, American Home Shield Corporation (AHSC), rescinded and restated the Intercompany Management Agreement (Restated Agreement) that was effective October 1, 2012. Under the terms of the Restated Agreement, AHSC agrees to make available its resources and services to the Company for conducting its operations, including but not limited to: claims adjustment and paying; contractors; underwriting and finance, real estate brokers/agents and agency development; administrative services, and advertising, sales promotion and marketing. Compensation for providing these services is based on actual cost without a profit factor being built into that cost. The Restated Agreement was approved by the California Department of Insurance (CDI) on August 29, 2018, pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). Payments made to AHSC for 2018, 2019, and 2020, were \$35,001,811, \$46,834,708, and \$47,670,073, respectively.

Tax Sharing Agreement: Effective October 1, 2018, a Tax Sharing Agreement was entered between the Company and Frontdoor, Inc. (Frontdoor) and each wholly-owned subsidiary of Frontdoor. This agreement replaces the previous tax sharing agreement between the Company and AHSC, effective December 31, 2012. Under the terms of this agreement, Frontdoor files the consolidated tax return on behalf of AHSC and its subsidiaries. The federal tax amount for each subsidiary is determined based on each

subsidiary's separate taxable income. The amount of tax charged to each subsidiary shall not exceed the amount that each subsidiary would pay if the federal and state tax returns were filed separately. The agreement was approved by the CDI pursuant to the CIC Section 1215.5(b)(4) on August 29, 2018. In 2018, 2019, and 2020, the Company paid federal income taxes in the amount of \$4,654,292, \$4,190,315, and \$4,067,293, respectively.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to provide home warranties for household systems and appliances in California. The Company provides residential customers with home warranty contracts that cover the repair or replacement of electrical, plumbing, central heating and air conditioning systems, water heaters, and other household systems and appliances. During 2020, the Company issued 312,670 home warranty contracts and wrote \$186 million in total net contract fees.

Approximately 67 percent of the Company's business comes from its direct-to-consumer distribution channel (via its website). The remainder is generated by the traditional real estate transaction channel through its account managers. American Home Shield Corporation (AHSC) operates three customer service centers throughout the United States, which are located in Carroll, Iowa; Memphis, Tennessee; and Phoenix, Arizona. The Company services its contracts through a network of independent professional contractor firms who are overseen by AHSC.

ACCOUNTS AND RECORDS

Unclaimed Property

California Code of Civil Procedure (CCP) Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532 (Unclaimed Property Law) requires that all tangible personal property located in the State of California that is held or owing in the ordinary course of business

and has remained unclaimed by the owner for more than three years after it became payable or distributable, be escheated to the California State Controller's Office (SCO).

During the review of the Company's unclaimed property filings, it was noted that the Company's 2018 filing included property unclaimed by the owner for over three years including unclaimed property from as early as the year 2006. It was also noted during 2019 and 2020, the Company has been in compliance. Although the Company has complied with the requirement in the recent filings, it is still recommended that the Company implement necessary procedures to ensure the continuous compliance with CCP Sections 1530 and 1532.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2020

Underwriting and Investment Exhibit for the Year Ended December 31, 2020

Reconciliation of Surplus as Regards Contract Holders from December 31, 2015 through December 31, 2020

Statement of Financial Condition
as of December 31, 2020

<u>Assets</u>	<u>Current Year</u>	<u>Prior Year</u>	<u>Notes</u>
Cash, cash equivalents and short-term investments	\$ 79,466,380	\$ 84,342,260	
Home protection contract fees receivable	73,392,301	62,493,936	
Service fee receivable	88,732	186,837	
Federal income tax recoverable	<u>1,605,487</u>	<u> </u>	
 Total assets	 <u>\$ 154,552,900</u>	 <u>\$ 147,023,033</u>	
 <u>Liabilities, Surplus and Other Funds</u>			
Claims adjusted and unpaid or in process of adjustment	\$ 14,890,098	\$ 11,389,145	(1)
Claim service expenses	1,397,737	3,787,951	
Other expenses	683,590	441,599	
Taxes, licenses and fees	448,253	421,631	
Current federal income taxes	0	1,209,845	
Unearned home protection contract fees	75,945,106	67,908,214	
Payable to parent, subsidiaries, and affiliates	881,868	2,726,761	
All other liabilities	<u>538,437</u>	<u>622,938</u>	
 Total liabilities	 94,785,089	 88,508,084	
 Common capital stock	 \$ 1	 \$ 1	
Gross paid-in and contributed surplus	6,442,858	6,442,858	
Unassigned funds (surplus)	<u>53,324,952</u>	<u>52,072,090</u>	
Surplus as regards contract holders	<u>59,767,811</u>	<u>58,514,949</u>	
 Total liabilities, surplus and other funds	 <u>\$ 154,552,900</u>	 <u>\$ 147,023,033</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2020

Statement of Income

Underwriting Income

Home protection contract fees earned		\$ 177,934,169
Deductions:		
Claims incurred	\$ 94,281,026	
Claims service expenses incurred	15,015,279	
Other underwriting expenses incurred	<u>46,534,514</u>	
Total underwriting deductions		<u>155,830,819</u>
Net underwriting gain		22,103,350
<u>Investment Income</u>		
Net investment income earned	\$ <u>422,181</u>	
Net investment gain		422,181
<u>Other Income</u>		
Cancellation fee	\$ <u>658,709</u>	
Total other income		<u>658,709</u>
Net income before federal income taxes		23,184,240
Federal income taxes incurred		<u>4,077,727</u>
Net income		<u>\$ 19,106,513</u>

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2019		\$ 58,514,949
Net income	\$ 19,106,513	
Change in nonadmitted assets*	146,349	
Dividends to stockholders	<u>(18,000,000)</u>	
Change in surplus as regards contract holders for the year		<u>1,252,862</u>
Surplus as regards contract holders, December 31, 2020		<u>\$ 59,767,811</u>

* Nonadmitted assets consist of net protection contract fees and service fees received subsequent to the statement period on contracts that became effective prior to the end of statement period.

Reconciliation of Surplus as Regards Contract Holders
from December 31, 2015 through December 31, 2020

Surplus as regards contract holders, December 31, 2015 per Examination			\$ 27,884,367
	Gain in Surplus	Loss in Surplus	
Net income	\$ 79,568,868	\$	
Change in non-admitted assets		189,445	
Dividend to stockholders		46,150,000	
Change in net realized capital losses		1,345,979	
Total gains and losses	\$ 76,599,868	\$ 47,685,424	
Net increase in surplus as regards contract holders			31,883,444
Surplus as regards contract holders, December 31, 2020, per Examination			\$ 59,767,811

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Claims Adjusted and Unpaid or in the Process of Adjustment

The Company does not utilize an actuary to determine reserves. Instead, the accounting department uses a model that incorporates the number of open work orders, invoices, average payment amounts, and certain assumptions, to estimate the reserve for claims adjusted and unpaid or in process of adjustment. On an annual basis, the Company performs a retrospective reserve analysis to ensure the reasonableness of the aforementioned reserving methodology. The examination team obtained and reviewed the 2020 year-end reserve analysis and deemed the reserving methodology to be adequate.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records-Unclaimed Property (Page 5): It is recommended that the Company implement necessary procedures to ensure the continuous compliance with California Code of Civil Procedure (CCP) Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532.

Previous Report of Examination

Accounts and Records: It was recommended that the Company inform its officers, directors, employees, and agents about the requirements of California Insurance Code Section 734 to ensure compliance in future examinations. The Company has complied with this recommendation.

Fair Claims Settlement Practices Regulations: It was recommended that the Company implement procedures to ensure full compliance with California Code of Regulations, Title

10, Chapter 5, Sub-chapter 7.5, Article I, Section 2695.6(b). The Company has complied with this recommendation.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Company's officers and parent's employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

Ralph Oseguera
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Vivien Fan, CFE
Bureau Chief
Department of Insurance
State of California