

REPORT OF EXAMINATION  
OF THE  
COMPANION LIFE INSURANCE COMPANY  
OF CALIFORNIA  
AS OF  
DECEMBER 31, 2016

Filed on January 11, 2018

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San Francisco, California  
November 15, 2017

Honorable Dave Jones  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

Companion Life Insurance Company of California

(hereinafter referred to as the Company) at 4101 Percival Road, Columbia, South Carolina 29229. The Company's statutory home office is located at 731 Sansome Street, San Francisco, California 94111.

#### SCOPE OF EXAMINATION

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

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* (Handbook). The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, 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 will be documented separately following the Company's financial statements.

This examination report includes findings of fact 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.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This was a coordinated examination whereby South Carolina was the lead state with participation from California and New York. The examination was conducted concurrently with other insurance entities in the group, including Blue Cross and Blue Shield of South Carolina, Companion Life Insurance Company, BlueChoice HealthPlan of South Carolina, Inc., InStil Health Insurance Company, and Niagara Life and Health Insurance Company.

### COMPANY HISTORY

The Company is authorized to issue 100,000 shares of common stock with a par value of \$50 per share. As of December 31, 2016, there were 52,000 shares issued and outstanding.

As of December 31, 2015, the Company (formerly known as The Doctors Life Insurance Company) was a wholly-owned subsidiary of The Doctors Company, an Interinsurance Exchange (Exchange). Effective January 1, 2016, the Company was acquired by Companion Life Insurance Company (CLIC), a South Carolina domiciled insurer.

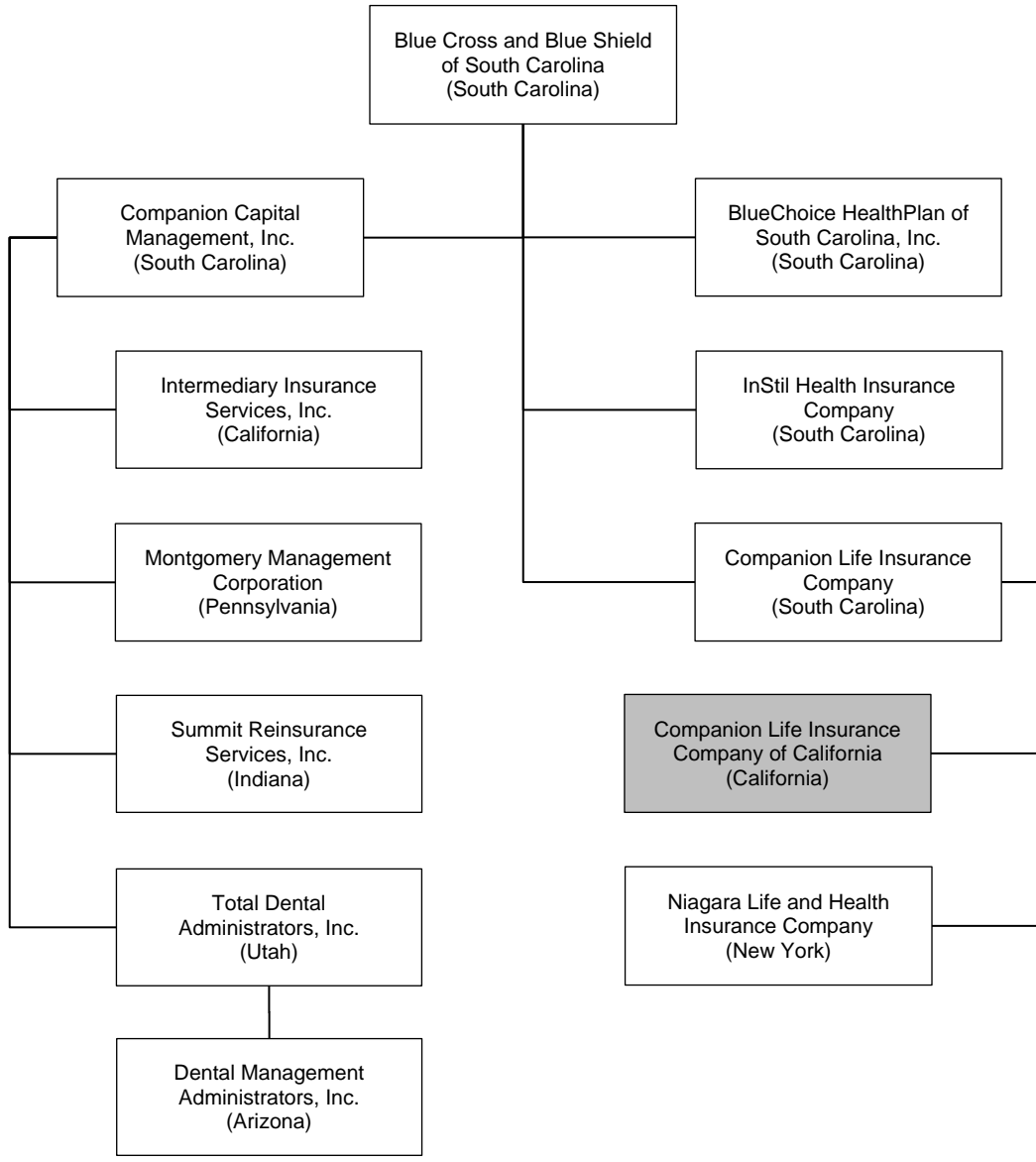
Pursuant to California Insurance Code Section 1215.2, the California Department of Insurance consented to the acquisition on November 23, 2015. On March 11, 2016, the Company changed its name to Companion Life Insurance Company of California.

In conjunction with the sale, a Transition Services Agreement (Agreement) was entered into between CLIC and the Exchange, whereby the Exchange will provide certain transition services to CLIC related to the sale of the Company. The Agreement is effective January 1, 2016 and covers a period of up to one year. CLIC has taken over daily operations of the Company as of July 1, 2016.

### MANAGEMENT AND CONTROL

At December 31, 2016, the Company was a member of an insurance holding company system of which the ultimate controlling entity is Blue Cross and Blue Shield of South Carolina (BCBSSC). The Company has no employees. The day-to-day operation of the Company is managed by its immediate parent, Companion Life Insurance Company, and BCBSSC in accordance with its administrative services agreements.

The following abridged organizational chart depicts the Company's relationship within the holding company system as of December 31, 2016 (all ownership is 100% unless otherwise noted):



Management and control of the Company is vested in a six-member Board of Directors, elected annually. As of December 31, 2016, the members serving on the Board of Directors were as follows:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Diane Fischer Columbia, South Carolina	Chief Financial Officer Companion Life Insurance Company
J. Philip Gardham* Columbia, South Carolina	Chief Operating Officer Companion Life Insurance Company
James T. Helton, III Columbia, South Carolina	Chief Actuary Companion Life Insurance Company
Trescott N. Hilton, Jr.* Columbia, South Carolina	President Companion Life Insurance Company
Duncan S. McIntosh Columbia, South Carolina	Vice President and General Counsel Companion Life Insurance Company
Michael J. Mizeur Columbia, South Carolina	Executive Vice President, Chief Financial Officer and Treasurer Blue Cross and Blue Shield of South Carolina

Principal Officers

<u>Name</u>	<u>Position</u>
Trescott N. Hilton, Jr.*	President
Diane Fischer	Vice President, Treasurer and Secretary
James T. Helton, III	Actuary and Assistant Secretary

\*Effective January 1, 2017, J. Philip Gardham was appointed as the Chairman of the Board and President of the Company to replace Trescott N. Hilton, Jr. who retired December 31, 2016.

## Management Agreements

Administrative Services Agreement: An Administrative Services Agreement (Agreement) between the Company and its ultimate parent, Blue Cross and Blue Shield of South Carolina (BCBSSC) was entered into on January 1, 2016. Under the terms of the agreement, BCBSSC agrees to provide administrative, compliance and accounting services, and the Company reimburses BCBSSC for the actual cost of these services. Pursuant to California Insurance Code (CIC) Section 1215.5(b)(4), the California Department of Insurance (CDI) approved the Agreement on April 20, 2016.

Administrative Services Agreement: An Administrative Services Agreement (Agreement) between the Company and its immediate parent, Companion Life Insurance Company (CLIC), was entered into on January 1, 2016. Under the terms of the agreement, CLIC agrees to provide administrative, compliance, accounting, underwriting, marketing, communications, and claims processing services, and the Company reimburses CLIC for the actual cost of these services. Pursuant to CIC Section 1215.5(b)(4), the CDI approved the Agreement on April 20, 2016.

Administrative Services Agreement: An Administrative Services Agreement (Agreement) between the Company and its affiliate, Intermediary Insurance Services, Inc. (IISI) was entered into on November 1, 2016. Under the terms of the agreement, IISI agrees to provide administrative and compliance services, and the Company reimburses IISI for the actual cost of these services. Pursuant to CIC Section 1215.5(b)(4), the CDI approved the Agreement on October 6, 2016.

General Manager's Agreement: A General Manager's Agreement (Agreement) between the Company and its affiliate, IISI was entered into on March 1, 2017. Under the terms of the agreement, IISI underwrites and manages stop loss policies for the Company. As compensation for the services, the Company pays IISI up to 10.5% of Original Gross Premium (OGP) for manager's fees, up to an average of 12.0% of OGP for producer



commissions, and 4.5% of OGP for issuing fees. Pursuant to CIC Section 1215.5(b)(4), the CDI approved the Agreement on February 24, 2017.

**General Manager's Agreement:** A General Manager's Agreement (Agreement) between the Company and its affiliate, Montgomery Management Corporation (MMC), was entered into on July 1, 2017. Under the terms of the agreement, MMC underwrites and manages stop loss policies for the Company. As compensation for the services, the Company pays MMC up to 11.0% of OGP for manager's fees, up to an average of 10.0% of OGP for producer commissions, and 4.0% of OGP for issuing fees. Pursuant to CIC Section 1215.5(b)(4), the CDI approved the Agreement on June 8, 2017.

**General Manager's Agreement:** A General Manager's Agreement (Agreement) between the Company and its affiliate, Summit Reinsurance Services, Inc. (Summit), was entered into on July 1, 2017. Under the terms of the agreement, Summit underwrites and manages stop loss policies for the Company. As compensation for the services, the Company pays Summit between 6.0% to 11.0% of OGP for manager's fees, between 5.0% to 15.0% of OGP for producer commissions, and between 4.0% to 5.0% of OGP for issuing fees. Pursuant to CIC Section 1215.5(b)(4), the CDI approved the Agreement on June 29, 2017.

**Administrative Services Agreement:** An Administrative Services Agreement (Agreement) between the Company and its affiliate, Dental Management Administrators, Inc. (DMA) was entered into on October 15, 2017. Under the terms of the agreement, DMA agrees to provide third-party administrator services to the Company. As compensation for the services, the Company pays DMA between 1.0% to 9.0% of monthly gross premiums collected. Pursuant to CIC Section 1215.15(b)(4), the CDI approved the Agreement on October 4, 2017.

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Company is licensed to transact life and annuity insurance business in Arizona, California, Hawaii, Montana, Nevada, Texas, and Wyoming.

Prior to the acquisition by Companion Life Insurance Company (CLIC), the Company wrote a book of life and annuity insurance products for the insured physicians of its former parent and also issued structured settlements to claimants. The Company ceased writing new business and has been in run-off since 1985. The Company will continue to service the life insurance and annuity contracts in run-off pursuant to the Stock Purchase Agreement, but does not plan to write any new annuities or individual life insurance policies.

In 2016, the Company began filing new products with the California Department of Insurance (CDI) and was approved to write a Supplemental Prescription Drug product on May 18, 2016 and a Stop Loss product on July 28, 2016. The Company's immediate parent, CLIC, is experienced in writing both of these products. Following the CDI's approval of the filed forms and rates, the Company began selling in 2017 two new product lines categorized as Ancillary products and Specialty products. Both product lines are sold through the Company's affiliated managing general underwriters, and are described as follows:

(1) The Ancillary products line includes employer group insurance benefit plans designed to complement an employer's group health benefit plan issued by other carriers. These core products include both employer group term life insurance and employer group health insurance.

(2) The Specialty products line includes stop loss coverage, group non-coordinated limited benefits health paying fixed indemnity, blanket student medical, short-term medical, association group limited benefit health paying fixed indemnity, employer group critical illness insurance, and group prescription supplemental coverage.

## REINSURANCE

### Assumed

During the examination period, the Company did not enter into any assumed reinsurance agreements.

### Ceded

During the examination period, the Company did not enter into or terminate any ceded reinsurance agreements. For the policies in runoff, the Company has a yearly renewable term agreement whereby the Company retains \$100,000 on any one life and reinsures the excess to the following reinsurers:

	<u>Admitted</u>	
SCOR		40%
Swiss Re Life & Health America Inc.		<u>60%</u>
Total		<u>100%</u>

The following three contracts cover the new products written by the Company:

(1) An Aggregate Quota Share reinsurance agreement (Agreement) between the Company and Medco Containment Life Insurance Company (Medco) was entered into on January 1, 2017. Under the terms of the agreement, Medco reinsures 100% of the Group Supplemental business which is procured by the Company's third-party administrator, Express Scripts Administrators, LLC. The Company is not in compliance with California Code of Regulations, Title 10, Subchapter 3, Article 3, Section 2303.15(b) because it did not retain at least 10% of the direct premium written for this line of business under this reinsurance agreement as required by the regulation. It is recommended the

Company comply with California Code of Regulations, Title 10, Subchapter 3, Article 3, Section 2303.15(b).

(2) A Whole Account Quota Share reinsurance agreement between the Company and Greenlight Reinsurance, Ltd. (Greenlight) was entered into on February 1, 2017. Under the terms of the agreement, Greenlight reinsures a 42.1% quota share of the Company's retained liability, net of any other inuring reinsurance, for the stop loss business produced by the Company's affiliated managing general underwriter, Intermediary Insurance Services, Inc. (IISI).

(3) A Self-Funded Medical Specific and Aggregate Excess of Loss reinsurance agreement between the Company and RGA Reinsurance Company (RGA) was entered into on April 1, 2017. Under the terms of the agreement, RGA reinsures 52.5% of the Company's net loss on the first \$1 million and 100% of the Company's net loss in excess of \$1 million, for the specific stop loss and aggregate stop loss business produced by IISI.

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2016. The accompanying comments to the amounts reported in the financial statements should be considered an integral part of the financial statements. No examination adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2016

Summary of Operations and Capital and Surplus Account for the Year Ended  
December 31, 2016

Reconciliation of Capital and Surplus from December 31, 2015 through  
December 31, 2016

Statement of Financial Condition  
as of December 31, 2016

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 12,499,963	\$	\$ 12,499,963	
Cash, cash equivalents and short-term investments	6,564,067		6,564,067	
Investment income due & accrued	92,997		92,997	
Uncollected premiums and agents' balances in course of collection	(15,209)		(15,209)	
Current federal and foreign income tax recoverable and interest thereon	34,955		34,955	
Net deferred tax asset	<u>567,803</u>	<u>421,545</u>	<u>146,258</u>	
Total assets	<u>\$ 19,744,576</u>	<u>\$ 421,545</u>	<u>\$ 19,323,031</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserves for life contracts			\$ 6,648,088	(1)
Liability for deposit type contracts			90,508	(1)
Contracts claims - life			25,000	(1)
Interest Maintenance Reserve			1,344,768	
Taxes, licenses and fees due or accrued			2,128	
Amounts held for agents' account			662	
Asset Valuation Reserve			10,327	
Reinsurance in unauthorized and certified companies			3,535	
Payable to parent, subsidiaries and affiliates			45,861	
Aggregate write-ins for liabilities			<u>13,377</u>	
Total liabilities			8,184,254	
Common capital stock		\$ 2,600,000		
Gross paid-in and contributed surplus		8,980,907		
Unassigned funds (surplus)		<u>(442,130)</u>		
Surplus			<u>11,138,777</u>	
Total liabilities, surplus, and other funds			<u>\$ 19,323,031</u>	

Summary of Operations and Capital and Surplus Account for the  
Year Ended December 31, 2016

Statement of Income

Premiums and annuity considerations	\$ 57,354
Net investment income	464,241
Amortization of interest maintenance reserve	<u>134,269</u>
Total	655,864
Annuity benefits	431,934
Surrender benefits and withdrawals for life contracts	10,635
Increase in aggregate reserves for life and accident and health contracts	<u>(170,931)</u>
Total	271,638
General insurance expenses	81,630
Insurance taxes, licenses and fees, excluding federal income taxes	<u>64,415</u>
Total	417,683
Net gain from operations before federal income taxes	238,181
Federal and foreign income taxes incurred	<u>40,045</u>
Net income	\$ 198,136

Capital and Surplus Account

Capital and surplus, December 31, 2015	\$ 6,959,785
Net income	\$ 198,136
Change in net deferred income tax	4,600
Change in nonadmitted assets	141,658
Change in liability for reinsurance in unauthorized and certified companies	3,144
Change in asset valuation reserve	1,825
Surplus adjustment: Paid-in	<u>3,829,629</u>
Net change in capital and surplus for the year	<u>4,178,992</u>
Capital and surplus, December 31, 2016	<u>\$ 11,138,777</u>

Reconciliation of Capital and Surplus  
from December 31, 2015 through December 31, 2016

Capital and surplus, December 31, 2015, per Examination			\$ 6,959,785
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 198,136	\$	
Change in net deferred income tax	4,600		
Change in nonadmitted assets	141,658		
Change in liability for reinsurance in unauthorized and certified companies	3,144		
Change in asset valuation reserve	1,825		
Surplus adjustment: Paid-in	<u>3,829,629</u>		
Total gains and losses	<u>\$ 4,178,992</u>	<u>\$</u>	
Net increase in capital and surplus for the year			<u>4,178,992</u>
Capital and surplus, December 31, 2016, per Examination			<u>\$ 11,138,777</u>



## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Aggregate Reserves for Life Contracts, Liability for Deposit Type Contracts, and Contract Claims - Life

An analysis of the aggregate reserves for life contracts, liability for deposit type contracts, and contract claims – life as of December 31, 2016 was performed by a consulting actuary engaged by the South Carolina Department of Insurance. Based on the analysis, the consulting actuary determined that the Company's reserves as of December 31, 2016 were found to be reasonably stated. A life actuary from the California Department of Insurance reviewed the work performed by the consulting actuary and concurred with the conclusion.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Reinsurance Agreement – Medco Containment Life Insurance Company (Page 9): It is recommended the Company comply with California Code of Regulations, Title 10, Subchapter 3, Article 3, Section 2303.15(b).

### Previous Report of Examination

None.

## ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

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Allen Lau  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California

/S/

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Ber Vang, CFE, AES, CISA  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California