

REPORT OF EXAMINATION
OF THE
COMPLETE APPLIANCE PROTECTION, INC.
AS OF
DECEMBER 31, 2021

Insurance Commissioner

A handwritten signature in blue ink, appearing to be 'D. DeLoach', written over a horizontal line.

Filed on September 22, 2023

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Los Angeles, California
September 13, 2023

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

COMPLETE APPLIANCE PROTECTION, INC.

(hereinafter also referred to as the Company). Its home office is located at 1532 NE 96th Street, Suite A, Liberty, Missouri 64068.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. This is the first examination of the Company since its Qualifying Examination on December 15, 2016. The examination covered the period from December 16, 2016 through December 31, 2021.

This examination report includes significant 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.

SUMMARY OF SIGNIFICANT FINDINGS

An examination adjustment was made to reduce surplus as regards contract holders from \$219,557 to \$211,780 as of December 31, 2021. An adjustment was due to an increase in the liability to record claims adjusted and unpaid or in process of adjustment of \$7,777

pursuant to California Insurance Code (CIC) Section 923.5. The examination adjustment is discussed in greater detail in the “Comments on Financial Statement Items” of the report.

COMPANY HISTORY

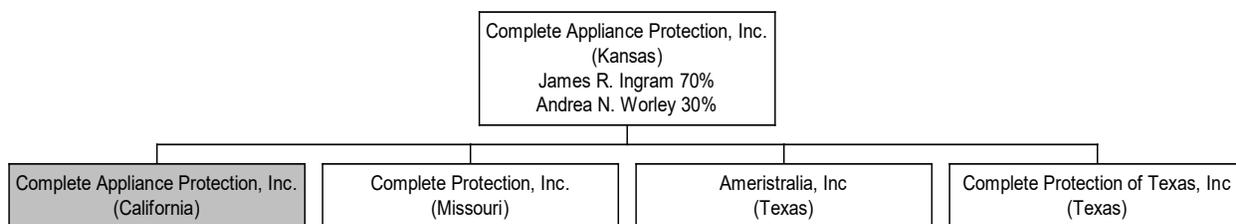
The Company was incorporated under the laws of California on January 26, 2015 and commenced business on March 6, 2017.

Capitalization

The Company is authorized to issue one million shares of common stock with a par value of \$200 per share. As of December 31, 2021, there were 100 shares outstanding.

MANAGEMENT AND CONTROL

The Company is wholly-owned subsidiary of Complete Appliance Protection, Inc., a Kansas corporation, which is 70% owned by James R. Ingram and 30% owned by Andrea N. Worley, daughter of James R. Ingram. Following is an abridged organizational chart. All ownership is 100% unless otherwise noted.



The two members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2021:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
James R. Ingram Liberty, Missouri	President and Director Complete Appliance Protection, Inc. a Kansas corporation
Andrea N. Worley Liberty, Missouri	Vice President, Secretary, Treasurer, and Director Complete Appliance Protection, Inc. a Kansas corporation

Principal Officers

<u>Name</u>	<u>Title</u>
James R. Ingram	President
Andrea N. Worley	Senior Vice President, Secretary, and Treasurer
Amanda Zweimiller	Vice President

Management Agreements

Intercompany Service Agreement: Effective March 1, 2017, an Intercompany Service Agreement was executed between Complete Appliance Protection, Inc., a Kansas corporation (Parent), and the Company. Under the terms of the agreement, the Parent agrees to provide certain services to the Company, including but not limited to: accounting tax and audit, underwriting, claims, functional support services (telecommunications and electronic data processing services, facilities and software programming, documentation and hardware utilization, printing, postage and duplication services, legal service, purchasing, payroll, and employee relations services), web site, marketing, and supplies. The Company pays the Parent a sum of \$5 per contract per month as payment for the Parent providing certain overhead expenses. Effective March 1, 2020, the Company entered into Amendment No. One to the Intercompany Service Agreement. Under this amended agreement, the Company pays the Parent a sum of \$16 per contract per month as payment for the Parent providing certain overhead expenses. However, it was noted that the Company failed to file the amended agreement with the California Department of

Insurance (CDI) for prior approval pursuant to the California Insurance Code (CIC) Section 1215.5(b)(4). It is recommended that the Company implement procedures to ensure compliance with the CIC Section 1215.5(b)(4) and file the amendment with the CDI. The Company paid \$1,220, \$5,300, \$13,990, \$49,953, and \$69,888 to the Parent under the agreement for the years 2017, 2018, 2019, 2020, and 2021, respectively. On June 29, 2023, the Company filed Form D for approval of its Amendment No. One to Intercompany Service Agreement, and the CDI approved the agreement on September 8, 2023.

During the examination period, the Company filed consolidated tax returns with the Parent without any written tax sharing agreement in place. The Company remedied this by filing the Amended and Restated Intercompany Service Agreement noted below to comply with CIC 1215.5(b)(4). The Company paid federal income taxes in the amount of \$0, \$0, \$0, \$6,386, and \$4,743 in 2017, 2018, 2019, 2020, and 2021, respectively.

On June 14, 2023, the Company filed a Form D application with the CDI to seek approval of the Amended and Restated Intercompany Service Agreement with a proposed effective date of January 1, 2024. This 2024 agreement intends to replace the Amendment No. One to Intercompany Service Agreement. Under the terms of the agreement, the Parent provides accounting, tax, auditing, underwriting, claims, functional support services, website, marketing, and premium handling and collection. In addition, the Parent files consolidated federal income tax returns and allocates the respective tax obligation to the Company. The compensation for providing the services is based on actual cost without any profit factor built into the cost. Charges for such services shall include all direct and directly allocable expenses determined to be attributable to a party. The CDI approved this Amended and Restated Intercompany Service Agreement on September 11, 2023.

TERRITORY AND PLAN OF OPERATION

The Company provides home protection service contracts covering residential systems (such as heating and air conditioning) and certain appliances against failures that occur as the result of normal usage during the coverage period in the states of California and Virginia. Coverage is typically for one year and is renewable annually at the option of the contract holder and upon the Company's approval.

There are three service plans that the Company offers: 1) The Home Buyer Warranty Plan, 2) The Monthly Plan, and 3) The Home Inspector Program Plan. The differences among the three products will be effective dates of coverage, grouping of protected appliances, and inclusion of a preventive maintenance check with the plan.

The Company operates as a direct writer and does not have facilities, agents, producers or sales personnel in the state of California, but rather, transact all of its business from the office of its parent company in Liberty, Missouri. The Company's home protection service contracts are marketed, advertised, and sold solely through the internet.

In 2021, the Company wrote \$191,004 of direct premiums. Of this amount, \$161,187 (84.4%) was written in California and \$29,817 (15.6%) was written in Virginia.

ACCOUNTS AND RECORDS

Insurance Holding Company System Annual Registration Statement (Form B)

The Company failed to disclose the agreements and transactions between the affiliates in its Form B filings pursuant to California Insurance Code (CIC) Section 1215.4.

It is recommended that the Company comply with the Form B Instructions and ensure all information is completely and accurately presented in its Form B filings pursuant to the CIC Section 1215.4.

Annual Statement Filing

A review of the Annual Statements filed with the California Department of Insurance (CDI) revealed multiple errors and unreconciled items between schedules and exhibits.

It is recommended the Company implement procedures to ensure that its financial statement filings accurately and appropriately represent its financial condition and affairs pursuant to the CIC Section 12752.

California Premium Tax Filings

During the review of the Company's California Premium Tax Filings for the examination period, it was noted that the Company erroneously included premiums written in Virginia in 2020 and 2021.

It is recommended the Company implement procedures to ensure accurate filing of the California premium tax returns.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2021. The accompanying comments on financial statements reflect examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Contract Holders from December 16, 2016
through December 31, 2021

Analysis of Changes to Surplus as of December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	<u>Notes</u>
Cash	\$ <u>319,337</u>
Total Assets	\$ <u><u>319,337</u></u>
 <u>Liabilities, Surplus and Other Funds</u>	
Claims adjusted and unpaid or in process of adjustment	\$ 7,777 (1)
Unearned home protection contracts	76,402 (2)
All other liabilities:	
Intercompany payable	<u>23,378</u>
Total liabilities	107,557
Common capital stock	20,000
Gross paid-in and contributed surplus	180,500
Unassigned funds (surplus)	<u>11,280</u>
Surplus as regards contract holders	<u>211,780</u>
Total liabilities, Surplus, and other funds	\$ <u><u>319,337</u></u>

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Home protection contract fees earned		\$ 183,829
Deductions:		
Claims incurred	\$ 77,559	
Claims service expense incurred	70,188	
Other underwriting expenses incurred	<u>23,478</u>	
Total underwriting deductions		<u>171,225</u>
Net underwriting income		12,604

Investment Income

Net investment income earned	\$ 65	\$
Net investment gain		<u>65</u>
Net income before federal income taxes		12,669
Federal and foreign income taxes incurred		<u>4,743</u>
Net income		<u><u>\$ 7,926</u></u>

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2020		\$ 203,854
Net income	\$ 7,926	
Change in surplus as regards contract holders for the year		<u>7,926</u>
Surplus as regards contract holders, December 31, 2021		<u><u>\$ 211,780</u></u>

Reconciliation of Surplus as Regards to Contract Holders
from December 16, 2016 through December 31, 2021

Surplus as regards to contract holders, December 16, 2016				\$	200,000
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>			
Net income	\$ 11,780	\$			
Total gains and losses	<u>\$ 11,780</u>	<u>\$ 0</u>			
Net increase in surplus as regards contract holders					<u>11,780</u>
Surplus as regards contract holders, December 31, 2021				\$	<u><u>211,780</u></u>

Analysis of Changes to Surplus as of December 31, 2021

As a result of the examination, an adjustment was made to increase the Company's liability as of December 31, 2021. The adjustment was made to increase claims adjusted and unpaid or in process of adjustment to maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses and claims for which the Company may be liable, and to provide for the expense of adjustment or settlement of losses and claims. The examination adjustment is discussed in greater detail in the "Comments on Financial Statement Items" of the report. The effect on surplus as of December 31, 2021 is shown below:

Surplus as regards contract holders, December 31, 2021, per Annual Statement				\$	<u>219,557</u>
		<u>Increase</u>		<u>Decrease</u>	
Liability: Claims adjusted and unpaid or in process of adjustment	\$	7,777	\$		
Net decrease in surplus					<u>(7,777)</u>
Surplus as regards contract holders, December 31, 2021, after adjustment				\$	<u>211,780</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

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

The Company did not report any liability for claims adjusted and unpaid or in the process of adjustment in the statutory financial statement filed with the California Department of Insurance (CDI) as of December 31, 2021. Pursuant to California Insurance Code (CIC) Section 923.5, the Company is required at all times maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses and claims for which the Company may be liable, and to provide for the expense of adjustment or settlement of losses and claims. During the course of the examination, the Company evaluated the reserves as of December 31, 2021, and determined that \$7,777 should have been reported as an additional liability. The examination team reviewed the Company's 2021 year-end reserve analysis and determined the reserving methodology utilized by the Company to be adequate.

It is recommended that the Company comply with the CIC Section 923.5, and maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses and claims for which the Company may be liable, and to provide for the expense of adjustment or settlement of losses and claims.

(2) Unearned Home Protection Contracts

Pursuant to CIC Section 12753, a home protection company shall maintain a reserve for unearned premiums in an amount not less than 40 percent of the aggregate premiums charged on its contracts currently in force. Per review of the Company's reserve for unearned home protection contract as of December 31, 2021, the Company is in compliance with CIC Section 12753.

SUBSEQUENT EVENTS

Pursuant to the Commitment Letter submitted by the Company to the California Department of Insurance (CDI), dated June 15, 2015, the Company agreed to maintain a net worth of at least \$200,000 at all times, and failure to maintain at all times a minimum net worth of \$200,000 resulting in cessation by the Company in writing new business unless and until a capital contribution is secured from Complete Appliance Protection, Inc., a Kansas corporation to restore the Company's minimum net worth to \$200,000. The Company's net worth was reported at \$182,648 based on the statutory financial statements filed with the CDI as of December 31, 2022.

It is recommended the Company comply with the terms of the Commitment Letter and maintain the net worth of \$200,000 at all times.

On August 29, 2023, the shareholders of the Company voted to cease writing new business and planned to begin disallowing the renewals for existing contracts. In addition, the Company intends to withdraw its home protection license from California in 2024.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreements (Page 3): It is recommended that the Company implement the procedures to ensure compliance with the California Insurance Code (CIC) Section 1215.5(b)(4) and file an amendment to the California Department of Insurance (CDI).

Accounts and Records – Insurance Holding Company System Annual Registration Statement (Form B) – (Page 5): It is recommended that the Company comply with the Form B Instructions and ensure all information is completely and accurately presented in its Form B filings pursuant to CIC Section 1215.4.

Accounts and Records – Annual Statement Filing (Page 6): It is recommended the Company implement procedures to ensure filing accurate and appropriate annual statements exhibiting its conditions and affairs pursuant to CIC Section 12752.

Accounts and Records – California Premium Tax Filings (Page 6): It is recommended the Company implement procedures to ensure accurate filing of the California premium tax returns.

Comments on Financial Statement Items – Claims Adjusted and Unpaid or in the Process of Adjustment (Page 12): It is recommended that the Company comply with the CIC Section 923.5, and maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses and claims for which the Company may be liable, and to provide for the expense of adjustment or settlement of losses and claims.

Subsequent Events – Net Worth Deficiency (Page 13): It is recommended the Company comply with the terms of the Commitment Letter and maintain the net worth of \$200,000 at all times.

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,

Amy Voong, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

Sayaka Dillon, CFE
Bureau Chief
Department of Insurance
State of California