

REPORT OF EXAMINATION  
OF THE  
MERITPLAN INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2017

Filed on June 11, 2019

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Los Angeles, California  
May 10, 2019

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

### MERITPLAN INSURANCE COMPANY

(hereinafter also referred to as the Company). The statutory home office and primary location of books and records is located at 275 Valencia Avenue, Brea, California 92823. The Company's main administrative office is located at 9800 Muirlands Boulevard, Irvine, California 92618.

### SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2012. This examination covered the period from January 1, 2013 through December 31, 2017.

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. The examination also includes identifying and evaluating significant risks that could cause the Company'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 an adjustment was identified during the course of the examination, the impact of such adjustment would be documented separately following the Company's financial statements.

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.

The examination was a coordinated examination and was conducted concurrently with the examinations of Balboa Insurance Company (California), and Newport Insurance Company (Arizona). California served as the lead state.

### COMPANY HISTORY

The Company was incorporated in the state of California on December 10, 1952, and commenced transacting property and casualty business on April 21, 1953. The Company is a wholly-owned subsidiary of Balboa Insurance Company (BIC), a California domiciled insurance company. BIC is a wholly-owned subsidiary of BA Insurance Group, Inc. (BAIG), a Delaware corporation. BAIG is a subsidiary of NB Holdings Corporation, a Delaware corporation, which in turn, is a subsidiary of the ultimate parent, Bank of America Corporation (BAC), a publicly traded company incorporated in Delaware.

In June 2011, and as part of a significant sale transaction, BAC sold substantially all of the Company's insurance portfolio, and those of its affiliates BIC and Newport Insurance Company (NIC), (collectively BIG) to the QBE Insurance Group Limited, through a Master Transaction Agreement with QBE Holdings, Inc., and some of its subsidiaries

(collectively, QBE). In this transaction, QBE assumed substantially all of the insurance liabilities of BIG in exchange for QBE's acquisition of an equivalent amount of cash and other assets through a reinsurance transaction with BIG. The reinsurance transactions were effective retroactive to April 1, 2011. The remaining assets and liabilities are comprised primarily of an investment portfolio and federal income tax related items. QBE also assumed the majority of the Company's employees and facilities.

As part of the Master Transaction Agreement, QBE and BIG entered into the Reinsurance Administrative Service Agreement (RASA) that provides for administrative services by QBE to BIG, effective June 1, 2011. Under this agreement, QBE provides all necessary services to administer substantially all of the policies on behalf of BIG, and to administer existing run-off claims at no cost to BIG. Although there were a limited amount of policies being renewed by the Company, in May 2012, QBE began writing substantially all new and renewal business directly, rather than through assuming the policies issued by the Company, which therefore put the Company in run-off. The Company ceased writing new and renewal policies on insurance for any class of business in 2013, except for those that are renewable by statute, namely automobile policies. Guaranteed Asset Protection (GAP) policies were last written in 2011. The last lender-placed policy written by BIG was in 2014.

As of June 1, 2014, substantially all of the lender-placed policies were transitioned from BIG to QBE. Renewals of automobile policies required by statute were the only business remaining with BIG. A plan to non-renew the automobile policies was submitted to the California Department of Insurance (CDI) and approved. Accordingly, the remaining automobile policies will non-renew by October 31, 2019. In accordance with the terms of the RASA, QBE subcontracted the performance of certain administrative and support services to National General Insurance Company in connection with a separate Limited Services Agreement, effective October 1, 2015. QBE will continue to administer the BIG business under the terms of the RASA and associated agreements, until all policyholder liability is exhausted.

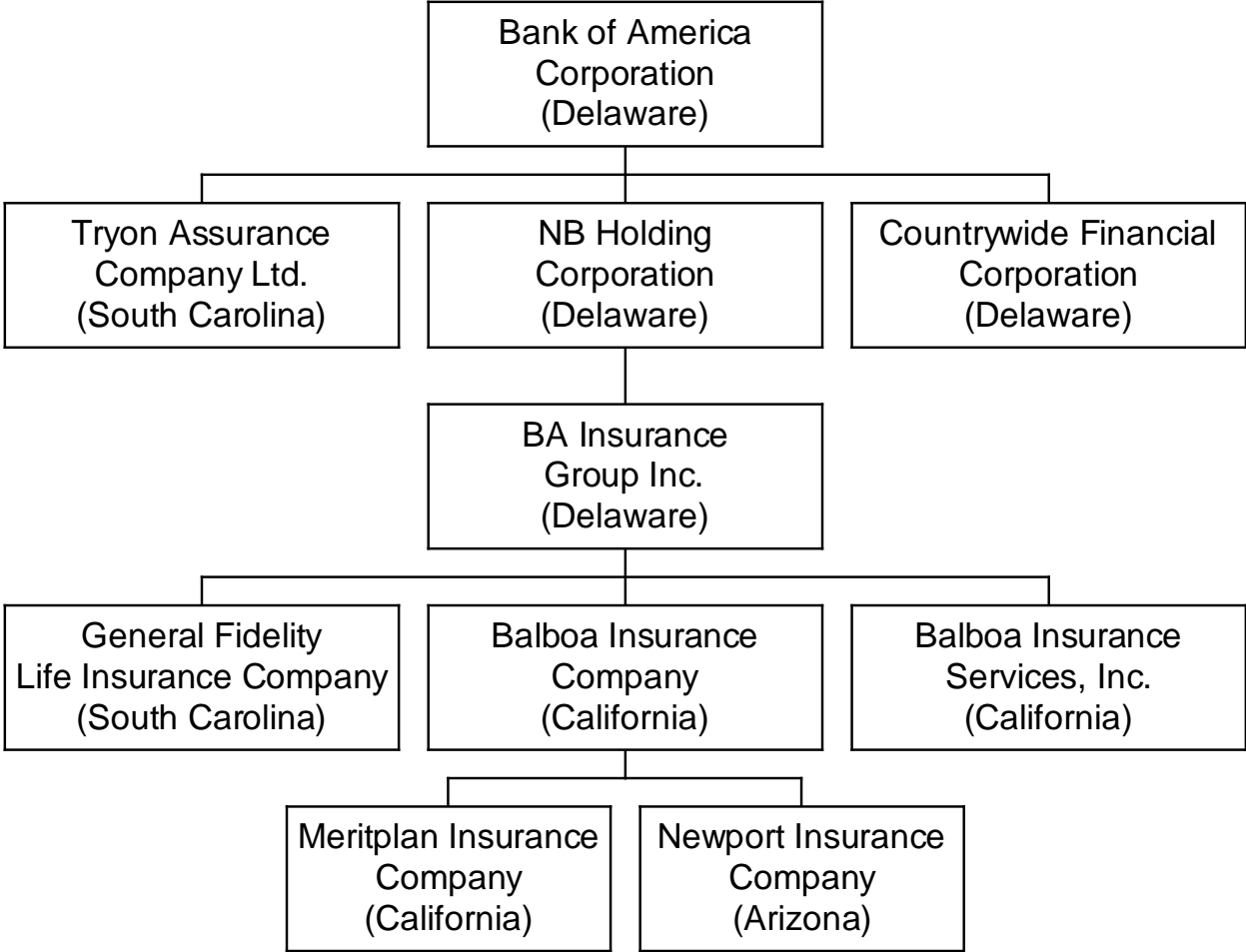
## Dividends

On December 3, 2014, the Company paid an extraordinary cash dividend of \$30 million and a distribution of capital of \$10 million to Balboa Insurance Company (BIC). The California Department of Insurance (CDI) approved these transactions on November 20, 2014.

On December 11, 2015, the Company paid an extraordinary cash dividend of \$5 million and a distribution of capital of \$20 million to BIC. The CDI approved these transactions on October 27, 2015.

## MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary and affiliated insurance companies, depicts the Company's relationship within the holding company system. (all ownership is 100%).



The seven members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2017:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Dea L. Christian Phoenix, Arizona	Senior Vice President and Managing Director Balboa Insurance Group (*)
Lori K. FitzGerald Thousand Oaks, California	President, Director, and Chief Operating Officer Balboa Insurance Group
Felipe R. Maldonado Folsom, California	Senior Vice President, Director and Chief Financial Officer Balboa Insurance Group
Helen L. Mittelstadt Charlotte, North Carolina	Senior Vice President and Director Balboa Insurance Group
Susan M. Potts St. Louis, Missouri	Senior Vice President, Director, and Chief Risk Officer Balboa Insurance Group
Ida A. Shapiro Kennesaw, Georgia	Senior Vice President and Director Balboa Insurance Group
Bradley H. Weber Charlotte, North Carolina	Senior Vice President, Controller and Chief Accounting Officer Balboa Insurance Group

(\*) Balboa Insurance Group, collectively consists of Balboa Insurance Company, Meritplan Insurance Company, and Newport Insurance Company.



## Principal Officers

<u>Name</u>	<u>Title</u>
Lori K. FitzGerald	President and Chief Operating Officer
Eric B. Chamberlain	Secretary and Chief Legal Officer
Felipe R. Maldonado	Senior Vice President, Treasurer and Chief Financial Officer
Bradley H. Weber	Senior Vice President, Controller and Chief Accounting Officer

## Affiliated Management Agreements

Bank of America Insurance Services Group Intercompany Services Agreement (Intercompany Services Agreement): Since January 2009, the Company and a number of other affiliates have been party to the Intercompany Services Agreement. Under the terms of this agreement, Bank of America, N.A. (BANA) provides the following services: executive management, procurement and disbursements, human resource management and employee relations, payroll, tax preparation and planning, information systems, marketing and planning, legal, government, regulatory affairs, compliance services, select accounting services, internal audit, facilities management and certain other services to all Group Members on an actual cost basis. This Intercompany Services Agreement was approved by the California, Arizona, and New York Departments of Insurance. The California Department of Insurance (CDI) approved this agreement on April 10, 2009. In 2013, the Company paid \$3,925,687 in service fees under the terms of this agreement. No fees were paid in 2014, 2015, 2016, and 2017.

Insurance Producer Agreement: Since June 2008, the Company, Balboa Insurance Company (BIC), and Newport Insurance Company (NIC) (collectively, Balboa Insurance Group), BANA and Bank of America Insurance Services, Inc., (BAISI) (collectively, Agencies) have been parties to the Insurance Producer Agreement. Under the terms of this agreement, the Balboa Insurance Group paid BANA and BAISI a 15% commission on net premium written or net premium collected. Balboa Insurance Group appointed the Agencies on a non-exclusive basis to produce, solicit and/or arrange for the solicitation

of homeowners, automobile and renters insurance. Subsequent to the examination date, and on August 31, 2018, this agreement was terminated in conjunction with the Company's run-off plan. In 2013, the Company returned \$9,976 in service fees under the terms of this agreement. No fees were paid in 2014, 2015, 2016, and 2017.

**Marketing and Servicing Producer Agreement:** Since April 2009, the Company and BIC (collectively, Companies) have been party to the Marketing and Servicing Producer Agreement with BANA, BAISI, FIA Card Services, N.A., and IFIA Insurance Services, Inc. (collectively, Agencies). Under the terms of this agreement, the Companies appointed the Agencies on a non-exclusive basis to produce, solicit and/or arrange for the solicitation of life, accident, and mortgage disaster insurance on their behalf. The Companies compensate the Agencies under various compensation rates based on net written premium. This agreement was approved by the CDI on April 30, 2009. Subsequent to the examination date, and on August 31, 2018, this agreement was terminated in conjunction with the Company's run-off plan. During the examination period, the Company did not make any payments to the Agencies.

**Consolidated Federal Income Tax Allocation Agreement:** Since December 2009, for tax years beginning July 1, 2008, the Company, BIC, NIC, and Bank of America Corporation have been parties to the Consolidated Federal Income Tax Allocation Agreement. Pursuant to the agreement, each company's tax liability is the same as it would have been had it filed on a separate, stand-alone basis. The CDI approved this agreement on December 10, 2009. The Company paid the following taxes during the examination period:

<u>Year</u>	<u>Amount</u>
2013	\$ 2,568,578
2014	\$ 327,812
2015	\$ 152,357
2016	\$ 189,957
2017	<u>\$ 69,724</u>
Total	\$ 3,308,428

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company was licensed in the following states:

Alabama	Indiana	Missouri	Oklahoma
Arizona	Iowa	Montana	Oregon
California	Kansas	Nebraska	Pennsylvania
Colorado	Kentucky	Nevada	South Carolina
Connecticut	Louisiana	New Jersey	Tennessee
Delaware	Maryland	New Mexico	Texas
Florida	Michigan	New York	Utah
Georgia	Minnesota	North Carolina	Washington
Hawaii	Mississippi	Ohio	Wisconsin
Idaho			

The Company had been primarily engaged in providing fire, allied lines, and automobile physical damage insurance through its lender-placed hazard and automobile collateral protection insurance programs. The Company also provided homeowners insurance for homes, condominiums, and tenants, as well as private passenger automobile liability and physical damage insurance through its personal line programs. The Company sold its insurance primarily through agencies affiliated with financial institutions, general agents and agencies affiliated with the Company.

In 2011, as discussed in the “COMPANY HISTORY” section of this report, substantially all of the business and operations of the Company were sold to QBE Insurance Corporation (QBE). As part of that transaction, all of the policy obligations, existing and prior, of the Company were transferred to and reinsured with QBE, pursuant to the 100%

Quota Share Agreement. QBE administers all policy obligations pursuant to a reinsurance administrative services agreement, which includes all claims handling and policy services.

The Balboa Insurance Group Master Policies for the lender-placed business were cancelled over time, with the last policy being written was in 2014. No new GAP certificates were issued after June 1, 2011. The Company is not currently transacting any insurance in the automobile class of insurance in California nor any other jurisdiction except for these that are renewable by statute. The Company has been in full run-off since 2013, except for 15 renewal policies of private passenger automobile insurance.

## REINSURANCE

### Intercompany Reinsurance Agreement

Since January 2005, the Company, its parent, Balboa Insurance Company (BIC), and its affiliate, Newport Insurance Company (NIC), participated in the Property and Casualty Companies Pooling Agreement. Under the terms of this agreement, all business net of non-affiliated reinsurance is pooled. The pooled premiums, losses, and expenses are reapportioned and shared by the three companies, using the following percentages: 92% for BIC, and 4% each for the Company and NIC. The pooling agreement was approved by California Department of Insurance on April 4, 2005.

### Assumed

Other than the Property and Casualty Companies Pooling Agreement, the Company has no other active assumed reinsurance business as of the examination date.

## Ceded

Effective April 1, 2011, as discussed in the “COMPANY HISTORY” section of this report, the Company entered into the 100% Quota Share Reinsurance Agreement with QBE Insurance Corporation (QBE). Pursuant to this agreement, QBE assumes substantially all of the insurance liabilities of the Company, whether arising before or after the effective time of the reinsurance, for contracts of insurance or reinsurance (1) issued by the Company on or before June 1, 2011, relating to property and casualty business (other than involuntary unemployment insurance and warranty/service contract insurance) or (2) issued by the Company after June 1, 2011, at the direction of QBE.

## 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, 2017. The accompanying comments on financial statements should be considered an integral part of the financial statements. There were no adjustments to the amounts reported in the annual statements.

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders from December 31, 2012 through December 31, 2017

Statement of Financial Condition  
as of December 31, 2017

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Net Admitted Assets</u>	Notes
Bonds	\$ 5,777,900	\$ 5,777,900	
Cash and cash equivalents	7,560,610	7,560,610	
Receivable for securities	21,938	21,938	
Investment income due and accrued	43,608	43,608	
Uncollected premiums and agents' balances in course of collection	(121,102)	(121,102)	
Amount recoverable from reinsurers	(2,745,094)	(2,745,094)	(1)
Receivable from parent, subsidiaries and affiliates	2,380,414	2,380,414	
Aggregate write-ins for other than invested assets	<u>60,667</u>	<u>60,667</u>	
 Total assets	 <u>\$ 12,978,941</u>	 <u>\$ 12,978,941</u>	
 <u>Liabilities, Surplus and Other Funds</u>			
Losses		\$ 61,929	(2)
Reinsurance payable on paid loss and loss adjustment expenses		(125,920)	(3)
Loss adjustment expenses		60,795	(2)
Other expenses (excluding taxes, licenses and fees)		27,668	
Taxes licenses and fees (excluding federal and foreign income taxes)		4,414	
Current federal and foreign income taxes		7,048	
Ceded reinsurance premiums payable		(340,077)	
Funds held by company under reinsurance treaties		300	
Provision for reinsurance		1,614	
Retroactive reinsurance reserve		<u>(122,724)</u>	(4)
 Total liabilities		 (424,953)	
 Special surplus from gain on retroactive reinsurance ceded		 \$ 122,724	(4)
Common capital stock		5,640,000	
Gross paid-in and contributed surplus		6,547,919	
Unassigned funds (surplus)		<u>1,093,251</u>	
 Surplus as regards policyholders		 <u>13,403,894</u>	
 Total liabilities, surplus and other funds		 <u>\$ 12,978,941</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income

Premiums earned		\$ (4,841)
Deductions:		
Losses incurred	\$ 65,099	
Loss adjustment expenses incurred	(12,584)	
Other underwriting expenses incurred	<u>17,467</u>	
Total underwriting deductions		<u>69,982</u>
Net underwriting loss		(74,823)

Investment Income

Net investment income earned	\$ 190,695	
Net realized capital gains less capital gain tax	<u>15,513</u>	
Net investment gain		206,208

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>64,002</u>	
Total other income		<u>64,002</u>
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		195,387
Federal and foreign income taxes incurred		<u>62,823</u>
Net income		<u>\$ 132,564</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		\$ 13,268,945
Net income	\$ 132,564	
Change in provision for reinsurance	<u>2,385</u>	
Change in surplus as regards policyholders for the year		<u>134,949</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 13,403,894</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2012 through December 31, 2017

Surplus as regards policyholders, December 31, 2012				\$ 76,428,459
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 2,079,524	\$		
Change in net deferred income tax			410,784	
Change in nonadmitted assets	293,459			
Change in provision for reinsurance	13,236			
Surplus: Paid in			30,000,000	
Dividends to stockholders			<u>35,000,000</u>	
Total gains and losses	<u>\$ 2,386,219</u>	<u>\$</u>	<u>65,410,784</u>	
Net decrease in surplus as regards policyholders				<u>63,024,565</u>
Surplus as regards policyholders, December 31, 2017				<u>\$ 13,403,894</u>



## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Amount Recoverable from Reinsurers

The reported amount is due to a reinsurance recovery of catastrophe losses in Mississippi for the Company. The amount recovered from a third-party reinsurer was then refunded back to QBE Insurance Corporation (QBE) based on the 100% Quota Share Reinsurance Agreement with QBE, which produced the negative amount.

### (2) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary for the California Department of Insurance, the Company's losses and loss adjustment expense reserves as of December 31, 2017, were found to be reasonably stated and have been accepted for purposes of this examination.

### (3) Reinsurance Payable on Paid Losses and Loss Adjustment Expenses

The reinsurance recovery described in Note (1) above caused a negative assumed loss payable for the Company, net of amounts ceded under the pooling agreement with Balboa Insurance Company.

### (4) Retroactive Reinsurance Reserve

This amount represents losses and loss adjustment expense reserves that were ceded retroactively to QBE Holdings, Inc., under a 100% Quota Share Reinsurance agreement effective April 1, 2011. The amount equals the sum of the reported losses and loss adjustment expense reserves, and is also reported as a gain to surplus.

## SUBSEQUENT EVENTS

On November 12, 2018, the Company submitted its application for the removal of the automobile class of insurance from its California Certificate of Authority. This amended Certificate of Authority deletes the automobile class of insurance in California. The Company's remaining 12 policies of private passenger automobile will not be renewed. The California Department of Insurance approved the application on December 21, 2018.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

None.

### 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,

/S/ \_\_\_\_\_

Bridget Lopez, CFE  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California

/S/ \_\_\_\_\_

Edward Aros, CFE  
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