

REPORT OF EXAMINATION
OF THE
NRG PROTECTS INC.
AS OF
DECEMBER 31, 2022

Commissioners Signature

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

Filed on September 17, 2024

TABLE OF CONTENTS

	PAGE
SCOPE OF EXAMINATION	1
COMPANY HISTORY:	2
Capitalization	2
MANAGEMENT AND CONTROL:.....	3
Management Agreements.....	4
TERRITORY AND PLAN OF OPERATION.....	5
LOSSES EXPERIENCE.....	6
ACCOUNTS AND RECORDS:.....	7
Insurance Holding Company System Annual Registration Statement (Form B)	7
FINANCIAL STATEMENTS:	8
Statement of Financial Condition as of December 31, 2022	9
Underwriting and Investment Exhibit for the Year Ended December 31, 2022	10
Reconciliation of Surplus as Regards Contract Holders from December 31, 2017 through December 31, 2022	11
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	12
Other Assets	12
Claims Adjusted and Unpaid or in Process of Adjustment	12
Other Expenses	12
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	13
Current Report of Examination	13
Previous Report of Examination	13
ACKNOWLEDGMENT	14

Los Angeles, California
May 29, 2024

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

NRG PROTECTS INC.

(hereinafter also referred to as the Company). The Company's main administrative office and the primary location of its books and records are located at 910 Louisiana Street, Suite B200, Houston, Texas 77002.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2017. This examination covered the period from January 1, 2018 through December 31, 2022.

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 incorporated on November 6, 2000, as Home Warranty of America, Inc., and obtained a license to write home protection contracts in the state of California on July 25, 2005.

The Company is a wholly-owned subsidiary of NRG Protects Inc., an Illinois corporation, formerly known as Home Warranty of America, Inc., an Illinois corporation, which in turn is wholly-owned by Home Warranty Holdings Corp. (HWHC), a Delaware corporation. Effective March 1, 2012, HWHC was purchased by RSG Holding Corp., a Delaware corporation and an indirect subsidiary of Centrica plc (Centrica), a public limited company organized under the laws of England and Wales and a multinational company traded on the London Stock Exchange.

On October 2, 2020, NRG Energy, Inc. (NRG), a publicly traded Delaware corporation, filed a Form A with California Department of Insurance (CDI) pursuant to California Insurance Code Section 1215.2(d) to acquire and become the new ultimate controlling parent of the Company. The Form A was approved by the CDI on December 21, 2020 and the transaction was closed on January 5, 2021, making NRG the new ultimate controlling parent of the Company.

On June 28, 2022, the Company amended its certificate of authority and changed its name from Home Warranty of America, Inc. to NRG Protects Inc.

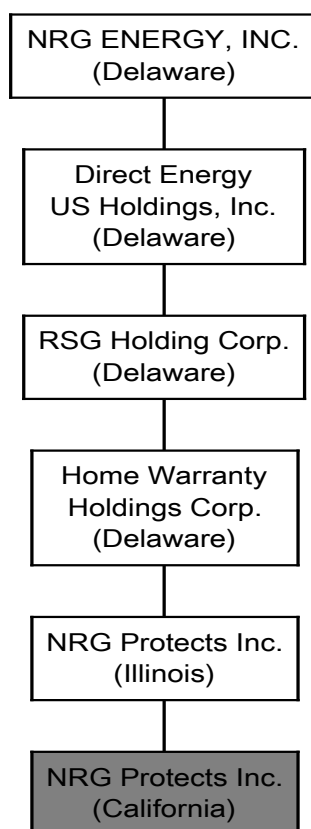
Capitalization

The Company is authorized to issue 10,000 shares of common stock with a par value of \$10 per share. As of December 31, 2022, there were 8,000 shares outstanding.

In December 2023, the Company received a \$500,000 capital cash contribution from its parent, NRG Protects Inc., an Illinois corporation.

MANAGEMENT AND CONTROL

The Company is a member of a holding company system of which NRG Energy, Inc., is the ultimate controlling entity. Following is an abridged organizational chart as of December 31, 2022. All ownership is 100%.



Management of the Company is under the control of a single-member board elected by the shareholders annually. Following are member of the board and principal officers of the Company serving at December 31, 2022:

Director

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Bruce Chung ^(a) Princeton, New Jersey	President and Director NRG Protects Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Bruce Chung ^(a)	President
Gaetan Frotte ^{(b)(e)}	Vice President and Treasurer
Thomas Anthony Smith ^{(c)(d)}	Vice President
Paolo Berard	Vice President and Secretary
Louis Teuscher	Vice President

The following changes in management occurred subsequent to the examination date:

- (a) Effective July 18, 2023, Donna Benefield replaced Bruce Chung as Director and President
- (b) Effective February 25, 2023, Kevin Cole was appointed as Vice President and Treasurer and replaced Gaetan Frotte.
- (c) Effective May 17, 2023, Novera Khan was appointed as Vice President and replaced Thomas A. Smith.
- (d) Effective October 5, 2023, Shawnie McBride was appointed as Vice President and replaced Novera Khan.
- (e) Effective October 11, 2023, Jean-Pierre Breaux was appointed as Vice President and Treasurer and replaced Kevin Cole.

Management Agreements

Services Agreement: Effective January 1, 2013, the Company and its parent, NRG Protects Inc., an Illinois corporation (NRG Illinois), formerly known as Home Warranty of America, Inc. and Home Warranty of America, Inc., an Illinois corporation, respectively, entered into a Services Agreement (Agreement). Under the terms of the Agreement, NRG Illinois provides the Company with certain administrative support services, including but not limited to the following: claims payment and adjusting, underwriting, producer's commissions computation and payment, appointment and cancellation of agents, issuance of policies and endorsements, cancellation of policies, collection and handling

of premiums and other funds, payroll administration, facility sharing, preparation of financial reports, advertising, sales promotion and agency development, and reserving for claims and expenses. Compensation is based on actual cost under the terms of this Agreement. This Agreement was approved by the California Department of Insurance (CDI) on March 15, 2013. No amendments have been made to the Agreement since 2013. During the course of the examination, it was recommended the Company update the Agreement to reflect the new names. On May 8, 2024, the Company filed its First Amended and Restated Services Agreement to reflect the current names of the parties with CDI, which is currently under review. The Company paid \$4,839,689, \$4,157,446, \$4,644,660, \$3,285,000, and \$2,297,455 to NRG Illinois under the Agreement for the years 2018, 2019, 2020, 2021, and 2022, respectively.

Tax Sharing Agreement: During the examination period, the Company's parent, NRG Illinois filed consolidated federal tax returns that included the Company without a formal written tax sharing agreement in place. It is recommended that the Company enter into a written tax sharing agreement with NRG Illinois and file it with the CDI pursuant to California Insurance Code Section 1215.5(b)(4). The Company filed a Form D with the CDI on May 8, 2024, which is currently under review.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company is licensed to sell home protection contracts in California and Florida. The Company is exempt from the licensing requirements to sell home protection contracts in the state of Virginia.

The home protection contracts sold in all three states are stand-alone maintenance and/or repair/replacement contracts. These include Heating, Ventilation, and Air Conditioning (HVAC), plumbing, electrical/surge, water and sewer lines, and appliance-only plans. The protection plans generally cover the specified covered items up to stated coverage limits, as long as the items are in good working order on the effective date of the contract and become inoperative due to normal wear and tear.

Prior to January 2022, the Company provided whole home warranty plans (WHWPs),

which were marketed both directly to consumers and through real estate professionals in the states of California, Florida, and Virginia. After January 2022, the Company ceased offering WHWPs in the states of California, Florida, and Virginia and focused on sales of its stand-alone maintenance and/or repair/replacement contracts. Consequently, on January 31, 2022, the Company sold substantially all of the assets related to its WHWPs business in Florida and Virginia to a third-party home protection provider.

As of December 31, 2022, direct contract fees written totaled \$1,128,390, with \$589,087 (52.2%) written in California, \$398,774 (35.3%) written in Florida, and \$140,529 (12.5%) written in Virginia.

LOSSES EXPERIENCE

A review of the Company's loss experience during the examination period disclosed a historical trend of net underwriting losses and net losses since the last examination as follows:

<u>Year</u>	<u>Net Underwriting Gain/(Loss)</u>	<u>Net Income/(Loss)</u>	<u>Contract Holders Surplus</u>
2018	\$ (635,055)	\$ (1,113,956)	\$ 5,818,711
2019	550,059	138,841	5,935,530
2020	(2,781,774)	(3,157,715)	2,216,091
2021	(1,247,981)	(416,475)	2,822,640
2022	(2,096,495)	(2,033,894)	903,190
2023*	(940,232)	(938,548)	468,664

*Subsequent date after the examination period.

The Company experienced net underwriting losses and net losses in all years, except for 2019, under the examination. The negative impact on operations was primarily due to the non-renewal of certain protection plans sold, higher than usual claims expenses, and lower sales revenue during the pandemic. In addition, strategic operational changes to reduce business in California, Florida, and Virginia as discussed in the TERRITORY AND PLAN OF OPERATION section above further contributed to net underwriting losses and net losses. Despite the losses experienced during the examination period, the Company maintained its capital and surplus above the minimum requirements pursuant to California

Insurance Code (CIC) Section 12750(a).

As noted in the Capitalization section, in December 2023, the Company received a \$500,000 capital cash contribution from its parent, NRG Protects Inc., an Illinois corporation, to alleviate the losses.

ACCOUNTS AND RECORDS

Insurance Holding Company System Annual Registration Statement (Form B)

A review of the Company's Form B filed pursuant to California Insurance Code (CIC) Section 1215.4 for the calendar year ending December 31, 2022, noted that Item 5.e Transactions and Agreements did not include amounts paid to and received from affiliates under each listed agreement. The filing instructions of the Form B require transactions and agreements listed in Item 5 to be described "in a manner to permit the proper evaluation thereof by the Director, and shall include at least the following: the nature and purpose of the transaction, the nature and amounts of any payments or transfers of assets between the parties, the identity of all parties to the transaction, and relationship of the affiliated parties to the Registrant". It was 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. A review of the Company's Form B for the subsequent calendar year ending December 31, 2023 noted the Company complied with the recommendation.

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, 2022. 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, 2022

Underwriting and Investment Exhibit for the Year Ended December 31, 2022

Reconciliation of Surplus as Regards Contract Holders from December 31, 2017
through December 31, 2022

Statement of Financial Condition
as of December 31, 2022

<u>Assets</u>		<u>Notes</u>
Cash	\$ 3,315,867	
Home protection contract fees receivable	281,152	
Other assets	<u>1,080,833</u>	(1)
Total assets	<u>\$ 4,677,852</u>	
<u>Liabilities, Surplus, and Other Funds</u>		<u>Notes</u>
Claims adjusted and unpaid or in process of adjustment	\$ 98,692	(2)
Other expenses	1,651,011	(3)
Taxes, licenses, and fees	18,350	
Unearned home protection contracts	247,352	
Payable to parent, subsidiaries, and affiliates	1,588,419	
All other liabilities:		
Escheat payable	152,262	
Unearned service contract fees	<u>18,576</u>	
Total liabilities	3,774,662	
Common capital stock	\$ 80,000	
Gross paid-in and contributed surplus	16,620,000	
Unassigned funds (surplus)	<u>(15,796,810)</u>	
Surplus as regards contract holders	<u>903,190</u>	
Total liabilities, surplus, and other funds	<u>\$ 4,677,852</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2022

Statement of Income

Underwriting Income

Home protection contract fees earned		\$ 2,793,497
Deductions:		
Claims incurred	\$ 1,199,639	
Claims service expenses incurred	744,681	
Other underwriting expenses incurred	<u>2,945,672</u>	
Total underwriting deductions		<u>4,889,992</u>
Net underwriting loss		(2,096,495)

Investment Income

Net investment income earned	\$ 1,927	
Net investment gain		1,927

Other Income

Receivables balance written off	\$ (86,218)	
Miscellaneous income	4,424	
Reseller Revenue	<u>142,468</u>	
Total other income		<u>60,674</u>
Net loss		<u><u>\$ (2,033,894)</u></u>

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2021		\$ 2,822,640
Net loss	\$ (2,033,894)	
Change in nonadmitted assets	<u>114,444</u>	
Change in surplus as regards contract holders for the year		<u>(1,919,450)</u>
Surplus as regards contract holders, December 31, 2022		<u><u>\$ 903,190</u></u>

Reconciliation of Surplus as Regards Contract Holders
from December 31, 2017 through December 31, 2022

Surplus as regards contract holders, December 31, 2017			\$	6,898,667
	Gain in Surplus	Loss in Surplus		
Net loss	\$	\$		6,256,308
Change in nonadmitted assets	260,831			
Total gains and losses	\$ 260,831	\$ 6,256,308		
Net decrease in surplus as regards contract holders				<u>(5,995,477)</u>
Surplus as regards contract holders, December 31, 2022			\$	<u>903,190</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Other Assets

As previously discussed in the TERRITORY AND PLAN OF OPERATION section above, the Company sold substantially all of the assets related to its whole home warranty plan business in Florida and Virginia. As a result of the sale, the Company received a total consideration of \$4,274,736, including \$1,000,000 in cash, and a promissory note for the remaining balance. As of December 31, 2022, the remaining promissory note receivable of \$888,359 was included in the Other Assets. In 2023, the promissory note receivable was received in full.

(2) Claims Adjusted and Unpaid or in Process of Adjustment

Based on a review of claim payments and reserve subsequent to the examination date, it was concluded that the claims adjusted and unpaid or in process of adjustment reported as of December 31, 2022 were deemed reasonable and have been accepted for the purpose of this examination.

(3) Other Expenses

Formerly, the Company was party to a reseller and service agreement to market, solicit, and sell home warranty products on behalf of a third-party provider in Florida and Virginia. In conjunction with the sale of assets noted in Other Assets, the Company terminated the agreement and incurred a termination fee of \$1,620,000. As of December 31, 2022, the adjusted termination fee payable of \$1,350,000 was included in the Other Expenses. In January 2023, the outstanding balance was paid in full.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Services Agreement (Page 4): It was recommended that the Company file an amendment with the California Department of Insurance (CDI) to reflect the current names of the companies. On May 8, 2024, the Company filed its First Amended and Restated Services Agreement to reflect the current names of the parties with CDI, which is currently under review.

Management and Control – Tax Sharing Agreement (Page 5): It was recommended that the Company enter into a written tax sharing agreement with NRG Protects Inc., an Illinois corporation, and file it with CDI pursuant to California Insurance Code Section 1215.5(b)(4). The Company filed a Form D with the CDI on May 8, 2024, which is currently under review.

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

Anjanette Briggs, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California