

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
HCC Life Insurance Company)
225 TownPark Drive NW, Suite 350)
Kennesaw, GA 30144-3710)

Examination of: **HCC Life Insurance Company**

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of HCC Life Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on May 22, 2020, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of HCC Life Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

June 29, 2020
Date


Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7017 3040 0000 9294 9193

STATE OF INDIANA) BEFORE THE INDIANA
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
HCC Life Insurance Company)
225 TownPark Drive NW, Suite 350)
Kennesaw, GA 30144-3710)

Examination of: **HCC Life Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the HCC Life Insurance Company (hereinafter “Company”) for the time period January 1, 2014 through December 31, 2018.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on April 15, 2020.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on May 22, 2020 and was received by the Company on June 4, 2020.

The Company did not file any objections.

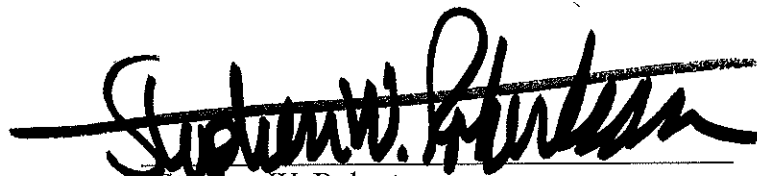
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the HCC Life Insurance Company as of December 31, 2018.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the HCC Life Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 29 day of
June, 2020.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

[Handwritten signature]

15
[Handwritten signature]

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
HCC LIFE INSURANCE COMPANY
NAIC COMPANY CODE 92711
NAIC GROUP CODE 3098

As of
December 31, 2018

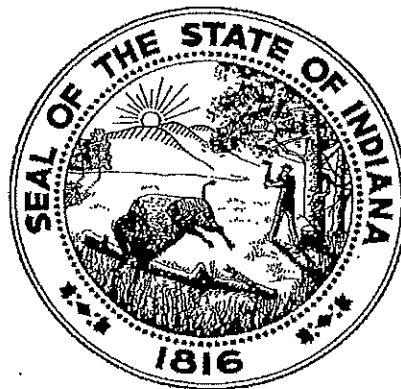


TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION.....	2
HISTORY.....	2
CAPITAL AND SURPLUS.....	3
DIVIDENDS TO STOCKHOLDERS.....	4
TERRITORY AND PLAN OF OPERATION.....	4
GROWTH OF THE COMPANY.....	4
LOSS EXPERIENCE.....	5
MANAGEMENT AND CONTROL.....	5
Directors.....	5
Officers.....	6
Corporate Governance.....	7
CONFLICT OF INTEREST.....	7
OATH OF OFFICE.....	7
CORPORATE RECORDS.....	8
Articles of Incorporation.....	8
Bylaws.....	8
Minutes.....	8
AFFILIATED COMPANIES.....	8
Organizational Structure.....	8
Affiliated Agreements.....	9
FIDELITY BOND AND OTHER INSURANCE.....	10
STATUTORY AND SPECIAL DEPOSITS.....	10
REINSURANCE.....	11
Reinsurance Assumed.....	11
Reinsurance Ceded.....	11
RESERVES.....	12
ACCOUNTS AND RECORDS.....	13
FINANCIAL EXHIBITS.....	14
Assets.....	15
Liabilities, Surplus and Other Funds.....	16
Summary of Operations.....	17
Capital and Surplus Account.....	18
COMMENTS ON THE FINANCIAL STATEMENTS.....	19
OTHER SIGNIFICANT FINDINGS.....	19
SUBSEQUENT EVENTS.....	20
MANAGEMENT REPRESENTATION.....	21
AFFIDAVIT.....	22



STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

Indiana Department of Insurance

Stephen W. Robertson, Commissioner
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204-2787
Telephone: 317-232-2385
Fax: 317-232-5251
Website: in.gov/doi

April 15, 2020

Honorable Stephen W. Robertson
Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 4005, an examination has been made of the affairs and financial condition of:

HCC Life Insurance Company
150 West Market Street, Suite 800
Indianapolis, Indiana 46204

an Indiana domestic life and health insurance company, hereinafter referred to as the "Company." The examination was conducted at the corporate offices of the Company located at 225 TownPark Drive NW, Suite 350, Kennesaw, Georgia 30144.

The Report of Examination, showing the financial status of the Company as of December 31, 2018, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2389 COMPANY COMPLIANCE 317-232-8495 CONSUMER SERVICES 317-232-2395/1-800-622-4461 FINANCIAL SERVICES 317-232-2390 MEDICAL MALPRACTICE 317-232-2402 COMPANY RECORDS 317-232-5692 STATE HEALTH INSURANCE PROGRAM 1-800-452-4800

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2013. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2014 through December 31, 2018, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was performed on a coordinated basis with the California Department of Insurance, the Maryland Insurance Administration, the Oklahoma Insurance Department, and the Texas Department of Insurance (TDI). The TDI served as the lead state for the coordinated examination. The INDOI relied upon a portion of the coordinated examination work performed by the TDI in its examination of the Company's parent, HCC Insurance Holdings, Inc. (HCC), and HCC's U.S. domiciled insurers.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by PricewaterhouseCoopers LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

The actuarial firm of Alberts Actuarial Consulting, LLC was appointed by the INDOI and conducted a review of the following accounts as of December 31, 2018: Uncollected premiums and agent balances, Aggregate reserves for life contracts, Aggregate reserves for accident and health contracts, Contract claims: life, Contract claims: accident and health, and Provision for experience rating refunds.

In accordance with the 2018 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, Thomas Consulting performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code (IC). All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company was incorporated as a stock life insurance company under the laws of the State of Indiana on December 3, 1980, as Indianapolis Life Pension and Insurance Company, and commenced business on March 12, 1981. The Company adopted the name VASA Life Insurance Company in 1991 after being acquired by Brougher Insurance Group. The ownership was transferred to Eureko B.V. in 1993 and later was contributed to Eureko Canadian subsidiary, Seaboard Life Insurance Company (USA). The Company merged with Enumclaw Life Insurance in 1994 and California Casualty and Life Insurance Company in 1995 as the surviving entity.

In December 1998, the Company was acquired by Centris Group, Inc. and its name changed to Centris Life Insurance Company on March 1, 1999. On December 20, 1999, the Company was acquired by HCC, a Delaware corporation formed in 1991 as a holding company for insurance companies, underwriting

agencies, and intermediary operations. After the acquisition, the Company became a subsidiary of Houston Casualty Company. The Company changed its name to HCC Life Insurance Company on December 28, 1999.

In 2005, the Company acquired Perico Life Insurance Company (Perico), a Delaware domestic insurer that specializes in writing small medical stop-loss insurance.

On October 2, 2006, the Company acquired the assets of the Health Products Division of Allianz Life Insurance Company of North America for a cash consideration of \$140,000,000 and assumed the outstanding loss reserves.

On December 20, 2007, the Company's parent, HCC, acquired MultiNational Underwriters and began writing short term medical insurance products on the Company's policy forms.

On September 28, 2012, the Company formed HCC Risk Solutions Company (HCCRS), a sponsored captive in Nevada, for self-funded employees who desire to share limited additional layers of risk on their stop-loss insurance.

Under the terms of a purchase agreement effective June 30, 2014, the Company sold its subsidiary, Perico, to MAPFRE U.S.A. Corp.

On October 27, 2015, Tokio Marine Holdings, Inc. (TMHD) acquired all outstanding shares of HCC and became the Company's ultimate controlling parent.

On October 15, 2017, HCC acquired the medical stop-loss operations of American International Group, Inc. (AIG) through its wholly-owned subsidiary, the Company, for a cash consideration of \$295,000,000. As part of the transaction, the Company assumed AIG's medical stop-loss outstanding loss reserves, for which the Company received cash equal to the reserves. The acquisition included renewal rights, in-force business, and employees.

CAPITAL AND SURPLUS

Pursuant to the Articles of Incorporation, the capital stock authorized for the Company is 1,000 shares of common stock with a par value of \$10,000 per share. As of December 31, 2018, the Company's reported total capital and surplus was \$561,548,979, which included: common stock of \$2,500,000, consisting of 250 issued and outstanding shares; gross paid-in and contributed surplus of \$317,289,323; and unassigned funds (surplus) of \$241,759,656. All issued and outstanding shares were 100% owned by Houston Casualty Company. (Please see the "Comments on the Financial Statements" section of this Report of Examination.)

DIVIDENDS TO STOCKHOLDERS

The following exhibit represents the dividends paid by the Company to its sole shareholder, Houston Casualty Company, during the examination period:

<u>Year</u>	<u>Dividends</u>
2018	\$ -
2017	-
2016	55,000,000
2015	116,082,000
2014	-
Total	<u>\$ 171,082,000</u>

The Company notified the INDOI of all declared ordinary dividends to HCC during the examination period in accordance with the requirements of IC 27-1-23-1.5. There were no extraordinary dividends declared or paid during the period covered by this examination.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in all fifty (50) states and the District of Columbia as of December 31, 2018. The Company's primary lines of business are medical stop-loss, organ transplant, group life, and disability. The Company exited from short-term medical insurance in June of 2017. The Company concentrates its writings on selected narrowly defined lines of business where the Company believes it can achieve an underwriting profit. The Company markets its current insurance products primarily through third-party administrators, independent, or affiliated agents and brokers.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company for the period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Net Premiums Earned</u>	<u>Net Income /(Loss)</u>
2018	\$ 1,096,984,253	\$ 574,003,911	\$ 522,980,342	\$ 1,365,756,125	\$ 121,363,577
2017	994,757,871	588,600,160	406,157,711	1,095,489,141	90,872,159
2016	981,612,046	379,762,638	601,849,408	987,676,299	104,763,203
2015	921,472,064	368,794,961	552,677,103	973,272,151	112,109,057
2014	923,464,635	369,192,378	554,272,257	956,438,927	116,082,539

Note: Amounts are shown in whole dollars and rows may not total due to rounding.

The increase in liabilities for 2017 was in part attributed to a net increase of \$120,927,925 in aggregate reserves and contract claims liabilities for life, and accident and health. This increase was primarily due to the assumption of outstanding loss reserves related to the acquisition of AIG's medical stop-loss division.

The Company's capital and surplus decreased by \$195,691,697 during 2017. This decrease is primarily due to the acquisition of AIG's medical stop-loss division for a cash consideration of \$295,000,000 offset by the Company's 2017 net income of \$90,872,159.

The increase in net premiums earned for 2018 is mainly attributed to a combination of organic growth of the Company's business and the acquisition of AIG's medical stop-loss business.

The 2018 liabilities, and capital and surplus presented above were adjusted by \$38,568,637 as a result of this examination. (Please see the "Comments on the Financial Statements" section of this Report of Examination.)

LOSS EXPERIENCE

The loss experience of the Company's accident and health business is presented in the following exhibit:

Year	Accident and Health Premiums Earned	Claims and Containment Expenses (CCE) Incurred	Other Expenses Incurred	Claims and CCE Incurred Ratio	Other Expenses Incurred Ratio	Combined Ratio
2018	\$ 1,366,118,598	\$ 1,074,940,790	\$ 179,512,112	78.69%	13.14%	91.83%
2017	1,112,474,366	988,668,460	135,486,424	88.87%	12.18%	101.05%
2016	988,925,298	733,825,374	133,724,723	74.20%	13.52%	87.73%
2015	973,865,036	720,444,044	127,292,910	73.98%	13.07%	87.05%
2014	940,649,736	671,501,600	132,763,201	71.39%	14.11%	85.50%

The amounts presented above were obtained from the Company's Annual Statement, Schedule H – Accident and Health Exhibit. A combined ratio below 100% indicates an underwriting profit. As noted above, the Company reported an underwriting profit on its accident and health business in 2014, 2015, 2016, and 2018. The combined ratio above 100% in 2017 was primarily attributed to an increase in expenses due to the acquisition of AIG's medical stop-loss division.

MANAGEMENT AND CONTROL

Directors

The Company's Amended and Restated Bylaws (Bylaws) specify that the number of directors, which shall constitute the whole Board of Directors (Board), shall be fixed from time to time by resolution of the Board or Shareholders. By a resolution of the Board, the following eight (8) persons were serving as directors as of December 31, 2018:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Frank J. Bramanti Houston, Texas	Retired, Executive Vice President HCC Insurance Holdings, Inc.

Mark A. Carney Carmel, Indiana	President and Chief Executive Officer Tokio Marine HCC – Medical Insurance Services Group
Brad T. Irick Houston, Texas	Executive Vice President and Chief Financial Officer, Tokio Marine HCC
Susan Rivera Houston, Texas	Chief Executive Officer Tokio Marine HCC
Robert A. Rosholt Chicago, Illinois	Retired, formerly Chief Financial Officer and Executive Vice President Nationwide Mutual Insurance Company
Mark R. Sanderford Marietta, Georgia	Chief Financial Officer HCC Life Insurance Company
Daniel A. Strusz Kennesaw, Georgia	President and Chief Executive Officer HCC Life Insurance Company
Joseph M. Thomas Rancho Santa Fe, California	Managing Principal Castle Creek Capital LLC

Officers

The Company's Bylaws state that the officers of the Company shall be a President, one (1) or more Vice Presidents, a Secretary, and such other officers as may be appointed by the Board. The following is a list of key officers and their respective titles as of December 31, 2018:

<u>Name</u>	<u>Title</u>
Daniel A. Strusz	President and Chief Executive Officer
William N. Burke, Jr.	Executive Vice President
Mark W. Callahan	Executive Vice President
Mark A. Carney	Executive Vice President
Brad T. Irick	Executive Vice President
Susan Rivera	Executive Vice President
Andrew J. Ritchie	Executive Vice President and Assistant Secretary
Mark R. Sanderford	Executive Vice President and Chief Financial Officer
Steven M. Harrison	Chief Information Officer
John M. Kelbel	Senior Vice President
Michael J. Lee	Senior Vice President
Beata A. Madey	Senior Vice President
Charles G. Carlson	Senior Vice President – Accident and Health
Jeffrey T. Gavlick	Senior Vice President – Accident and Health
Thomas E. Weist	Senior Vice President and Chief Actuary
Lawrence J. Stewart	Senior Vice President and Chief Underwriting Officer
John D. Grider	Senior Vice President - Marketing and Sales
William E. Edrington	Senior Vice President – Distribution

Lori J. Austin	Senior Vice President - Underwriting – A&H
Shelly L. Jacobell	Vice President
Bradley T. Long	Vice President
Deborah L. Riffe	Vice President
Anthony J. Budreski	Vice President
Joycelyn M. Ray	Vice President and Assistant Secretary
Randy D. Rinicella	Vice President and Assistant Secretary
Alexander M. Ludlow	Vice President and Secretary
Dwayne J. Lee	Vice President and Treasurer
Mike S. Lanza	Vice President - Claims
Robert K. Kerr, III	Vice President - Organ Transplant
John W. Richert	Vice President - Medical Management

The Company's President and Chief Executive Officer, Daniel A. Strusz, resigned subsequent to the period covered by this examination. (Please see the "Subsequent Events" section of this Report of Examination)

Corporate Governance

The Company's Board has an Audit Committee. The following directors were serving on the Company's Audit Committee as of December 31, 2018:

Susan Rivera
 Robert A. Rosholt (Chair)
 Joseph M. Thomas

All members of the Audit Committee were independent directors and therefore the Company met the supermajority requirements of 760 IAC 1-78-13 (h) for insurers with annual written premiums of \$500,000,000 or more.

In addition to its Audit Committee, the Company receives oversight from the Board and Board committees of HCC and TMHD. The HCC Board committees included an Audit Committee, Compensation Committee, Enterprise Risk Oversight Committee, Investment and Finance Committee, and Remuneration and Nomination Committee.

CONFLICT OF INTEREST

The Company's conflict of interest disclosure process requires directors and officers to complete a conflict of interest disclosure statement on an annual basis. From a review of the directors and officers signed statements, there were no material conflicts of interest noted for the period under examination.

OATH OF OFFICE

IC 27-1-7-10(i) requires that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. During the period covered by this

examination, certain directors did not take and subscribe to an oath of office when elected as required by IC 27-1-7-10 (i). (Please see the "Other Significant Findings" section of this Report of Examination regarding this issue.)

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Company's Articles of Incorporation during the period under examination.

Bylaws

On October 27, 2015, the Company amended Section 3.1 of its Bylaws to specify the number of directors shall be fixed from time to time by resolution of the Board or Shareholders. The amended Bylaws were properly filed with the INDOI.

Minutes

The Board and Shareholders Meeting minutes were reviewed for the period under examination through the fieldwork completion date and significant actions taken during each meeting were noted. For the period under examination, the Annual Meetings of the Shareholders were held in accordance with IC 27-1-7-7(b) and the Company's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

The Company is a member of an insurance holding company system as defined within IC 27-1-23 and Regulation of Insurance Holding Company Systems. An Insurance Holding Company System Registration Statement has been filed annually with the INDOI for each year of the examination period. The following abbreviated organizational chart depicts the Company's relationship within the holding company system:

	<u>NAIC Co. Code</u>	<u>Domiciliary Country/State</u>
Tokio Marine Holdings, Inc.		Japan
HCC Insurance Holdings, Inc.		Texas
Illium, Inc.		Delaware
Houston Casualty Company	42374	Texas
U.S. Specialty Insurance Company	29599	Texas
HCC Life Insurance Company	92711	Indiana
HCC Risk Solutions Company	16114	Nevada
US Holdings, Inc.		Delaware
HCC Intermediate Holdings, Inc.		Delaware
HCC Service Company, Inc.		Delaware
Avemco Corporation		Delaware
Avemco Insurance Company	10367	Maryland

HCC Specialty Insurance Company	11243	Oklahoma
HCC Acquisition Sub, Inc.		New York
HCC Specialty Underwriters, Inc.		Massachusetts
Surety Associates Holding Company, Inc.		New Mexico
American Contractors Indemnity Company	10216	California
USSC Holdings, Inc.		Maryland
United States Surety Company	10656	Maryland
LifeTrac, Inc.		Delaware
HCC Medical Insurance Services, LLC		Wisconsin
Producers Ag Insurance Group, Inc.		Delaware
Pro Ag Management, Inc.		Illinois
Producers Agriculture Insurance Company	34312	Texas
Producers Lloyds Insurance Company	33170	Texas

Affiliated Agreements

The following significant affiliated agreements were disclosed as part of the Form B Holding Company Registration Statement and were filed with and not disapproved by the INDOI, in accordance with IC 27-1-23-4(b)(4).

Intercompany Service and Cost Allocation Agreement

Effective January 1, 2000, the Company entered into an Intercompany Service and Cost Allocation Agreement with HCC Service Company, Inc. (HCC Service). Under this agreement, HCC Service agrees to provide personnel, administrative, and other services and facilities to the Company. HCC Service charges the Company monthly for its proportionate share of the costs. During 2018, the Company incurred \$9,973,370 of allocated costs from affiliates under the terms of this agreement.

Managing General Underwriter Agreement

Effective September 2, 2003, the Company entered into a Managing General Underwriter Agreement entitled Memorandum of Understanding (MOU) with ASU International, Inc., whose name changed to HCC Specialty Underwriters, Inc. (HCCSU) effective November 1, 2005. Under the terms of the MOU, the Company uses HCCSU to write disability policies. Multiple amendments have been made to the MOU since its inception primarily to change the lines of business written, limits of liability and/or commission amounts. The latest amendment to the MOU was made effective January 1, 2014. The Company paid \$8,393,094 in commissions under the terms of this agreement in 2018.

Captive Consulting and Administrative Services Agreement

Effective January 1, 2015, the Company entered into a Captive Consulting and Administrative Services Agreement with HCCRS. Under this agreement, the Company agrees to perform certain administrative services for HCCRS, which were stated in Exhibit A of the agreement. The Company is compensated for its services through the commissions paid by the protected cell captives.

Financial and Statutory Accounting Tax Allocation Agreement

Effective January 1, 2000, the Company entered into to a Financial and Statutory Accounting Tax Allocation Agreement with various affiliates within the HCC holding company system. This agreement

provides for the filing of consolidated federal income tax returns by HCC on behalf of the insurers and non-insurer affiliates in the holding company system, and the allocation of tax liabilities among those entities under this agreement. Each party's respective obligation or benefit is calculated on a separate return basis.

Reinsurance Contracts

Please refer to the "Reinsurance" section of this Report of Examination for a summary of intercompany reinsurance contracts.

FIDELITY BOND AND OTHER INSURANCE

The Company is protected by a Financial Institution Bond of HCC, whereby the Company is a named insured. The Company is insured for a single loss of up to \$10,000,000 and an aggregate loss limit of \$20,000,000 with a \$250,000 deductible. The fidelity bond limit was adequate to meet the prescribed minimum coverage specified by the NAIC. Other various interests of the Company are protected by appropriate policies of insurance.

Contrary to the requirements of IC 27-1-7-14, the Company's Financial Institution Bond was not approved by the Company's Board at any time during the examination period ending December 31, 2018. (Please see the "Other Significant Findings" and "Subsequent Events" sections of this Report of Examination regarding this issue.)

STATUTORY AND SPECIAL DEPOSITS

The Company reported special deposits comprised of U.S. Treasury Notes held by various Departments of Insurance as of December 31, 2018:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Deposits For the Benefit of All Policyholders:		
Indiana	\$5,005,499	\$4,977,529
All Other Special Deposits:		
Georgia	45,185	45,501
Massachusetts	99,994	99,856
New Hampshire	499,971	499,280
New Mexico	205,686	205,497
New York	401,640	404,452
North Carolina	404,991	404,094
South Carolina	527,153	530,843
Virginia	125,024	124,086
Total Deposits	<u>\$7,315,143</u>	<u>\$7,291,138</u>

Note: Amounts are shown in whole dollars and columns may not total due to rounding.

REINSURANCE

The Company periodically evaluates the need to purchase reinsurance on its medical stop-loss, life, and accident and health business primarily based on its current level of surplus, actuarial projection models, and reinsurance market price analyses. As of December 31, 2018, the Company's reinsurance program included the following significant coverages:

Reinsurance Assumed

AIG Medical Stop-loss and Organ Transplant

Effective October 1, 2017, the Company began to assume medical stop-loss and organ transplant business from National Union Fire Insurance Company of Pittsburgh, PA (NUFIC) through the acquisition of AIG's medical stop-loss division. The NUFIC business is assumed under the terms of a 100% Quota Share Reinsurance Agreement.

The 2018 medical stop-loss assumed premium from NUFIC was \$188,522,038. The Company began to write this as direct business as policies renewed in 2018. The 2018 organ transplant assumed premium from NUFIC was \$36,602,397. The Company obtained policy filing approval except in eleven (11) states and the District of Columbia on this line of business. As of January 1, 2019, for those approved states, the Company intends to renew the business on its own policy forms.

Affiliated Medical Stop-loss

Effective January 1, 2018, the Company began to assume medical stop-loss business from its affiliates Reliance Standard Life Insurance Company and First Reliance Standard Life Insurance Company. The 2018 assumed affiliated medical stop-loss premium was \$14,640,291.

Captive Medical Stop-loss

The Company assumes medical stop-loss business through its captive program with HCCRS, whereby protected cell captives retrocede to the Company losses above a specified retention under various reinsurance agreements.

Reinsurance Ceded

Medical Stop-loss

The Company cedes medical stop-loss to unaffiliated reinsurers who are accepted to participate in underwriting risk for production they originate.

The Company also cedes medical stop-loss under various quota share agreements to protected cells within HCCRS. The Company receives ceding fees for this quota share agreement. The Company ensures collateralization from protected cells.

Group Term Life, Short-Term Disability, and Long-Term Disability

Effective January 1, 2018, the Company entered into a quota share agreement with The Hartford, whereby it cedes 90% of its group term life, short-term disability, and long-term disability business marketed as a

complementary product to its medical stop-loss business.

Life Insurance and Annuities

The Company's Seaboard Life Insurance Company (USA) run-off business of individual life and annuity products is primarily reinsured on a 100% coinsurance basis by Swiss Re Life & Health America Inc. under an Indemnity Reinsurance Agreement which became effective July 1, 1998.

Accident and Health Insurance

During the period covered by this examination, the Company ceded a portion of its accident and health business to the European reinsurance market through a number of quota share treaties. As of December 31, 2018, the Company ceded accident and health business under certain treaties for the following major lines of business:

<u>Line of Business</u>	<u>Percentage Retained by the Company</u>	<u>Percentage Ceded</u>	<u>Reinsurer Maximum Limits</u>
Accidental Death and Dismemberment	20%	80%	\$50,000,000/Individual, \$250,000,000/Group
Sports Disability Individual and Team	20%	80%	\$50,000,000/Individual, \$250,000,000/Team
Non-Sports Disability Individual and Group	20%	80%	\$50,000,000/Individual, \$250,000,000/Group

In addition to the treaty reinsurance coverages described above, the Company ceded business under various facultative arrangements.

RESERVES

Mark R. Allyn, FSA, MAAA, of HCC Life Insurance Company, is the Appointed Actuary for the Company. Mr. Allyn was appointed by the Board to render an actuarial opinion on the statutory-basis reserves of the Company. He rendered an opinion on such reserves for 2015 to 2018. Jinn-Feng Lin, FSA, MAAA, of the firm PricewaterhouseCoopers LLP, rendered an opinion on such reserves for 2014 covered by this examination.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining reserves and related actuarial items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials as of December 31, 2018. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used, and such tests of the calculations as considered necessary.

The 2018 opinion stated that the amounts carried in the balance sheet on account for policy reserves and related actuarial items: 1) are computed in accordance with presently accepted Actuarial Standards of

Practice consistently applied and are fairly stated in accordance with sound actuarial principles, 2) are based on assumptions and methods that produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions, 3) meet the requirements of the insurance laws and regulations of the State of Indiana, and are at least as great as the minimum aggregate amounts required by any State, 4) are computed on the basis of assumptions and methods consistent with those used in computing the corresponding items in the Annual Statement of the preceding year-end, and 5) include provisions for all reserves and related actuarial items that ought to be established.

During the examination, it was generally determined that the significant actuarial items in the Company's 2018 Annual Statement are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the INDOI. However, an examination adjustment was made to the Company's Annual Statement line item for Contract claims: accident and health. (Please see the "Comments on the Financial Statements" and "Subsequent Events" sections of this Report of Examination.)

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The detail trial balance prepared from the Company's general ledger for the year ending December 31, 2018, was agreed to the Annual Statement without exception. The Company's independent auditors issued unqualified opinions on the Company's audited Statutory Financial Statements for each year during the examination period. The audited Statutory Financial Statements were agreed to the Annual Statement for the year ending December 31, 2018, with no exceptions noted. All of the independent audit work papers were made available to Thomas Consulting during the examination.

Overall, Thomas Consulting determined the Company's accounting procedures, practices, and accounting records were satisfactory. However, two (2) exceptions were noted concerning the Company's investments.

As required by IC 27-1-12-2(b)(24), no investment, other than commercial bank deposits and loans on life insurance policies, shall be made unless authorized by the life insurance company's board of directors or a committee designated by the board of directors and charged with the duty of supervising loans or investments. Thomas Consulting did not identify authorizations by the Board or a Board committee for the Company's investment transactions after 2014. As of that time, the Board of the Company's parent, HCC, assumed the responsibility to review and approve the Company's investments. However, specific authorizations for the Company's investment transactions were not identified from a review of the HCC Board and committee minutes for meetings held after 2014. (Please see the "Other Significant Findings" section of this Report of Examination regarding this issue.)

The provisions of IC 27-1-12-2(b)(21) specify that investments in obligations (other than real estate mortgage indebtedness) and capital stock of, and in real estate and tangible personal property leased to, a single corporation shall not exceed two percent (2%) of the life insurance company's admitted assets. As of December 31, 2018, the Company held a collateralized loan obligation (CLO) issued by Neuberger Berman with a book value of \$25,000,000. The Neuberger Berman CLO exceeded the maximum allowable limit of two percent (2%) of the Company's net assets (\$21,939,685) by \$3,060,315 as of December 31, 2018. (Please see the "Other Significant Findings" and "Subsequent Events" sections of this report of examination regarding this issue.)

FINANCIAL EXHIBITS

Comparative Exhibit – Statutory Statement of Assets
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds
Comparative Exhibit - Statutory Summary of Operations
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

HCC LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

As of December 31, 2018

	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Bonds	\$ 1,000,980,901	\$ -	\$ 1,000,980,901	\$ 911,870,274
Common stocks	1,503,897	-	1,503,897	1,503,680
Cash, cash equivalents, and short-term investments	21,839,061	-	21,839,061	2,875,949
Receivables for securities	125,000	-	125,000	-
Subtotals, cash and invested assets	<u>\$ 1,024,448,859</u>	<u>\$ -</u>	<u>\$ 1,024,448,859</u>	<u>\$ 916,249,903</u>
Investment income due and accrued	\$ 8,923,343	\$ -	\$ 8,923,343	\$ 7,759,328
Uncollected premiums and agents' balances in the course of collection	31,665,218	-	31,665,218	34,828,731
Amounts recoverable from reinsurers	427,224	-	427,224	2,014,139
Other amounts receivable under reinsurance contracts	2,479,033	-	2,479,033	2,498,824
Current federal and foreign income tax recoverable and interest thereon	4,075,056	-	4,075,056	14,791,805
Net deferred tax asset	21,959,722	-	21,959,722	13,476,244
Guaranty funds receivable or on deposit	1,071,239	-	1,071,239	820,856
Electronic data processing equipment and software	729,135	-	729,135	-
Receivables from parent, subsidiaries and affiliates	75,314	-	75,314	44,520
Aggregate write-ins for other-than-invested assets	1,130,110	-	1,130,110	2,273,521
Totals	<u>\$ 1,096,984,253</u>	<u>\$ -</u>	<u>\$ 1,096,984,253</u>	<u>\$ 994,757,871</u>

HCC LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

As of December 31, 2018

	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Aggregate reserve for life contracts	\$ 14,342	\$ -	\$ 14,342	\$ 12,855
Aggregate reserve for accident and health contracts	4,279,962	-	4,279,962	4,724,624
Contract claims: life	165,614	-	165,614	275,056
Contract claims: accident and health (Note 1)	406,198,679	38,568,637	444,767,316	431,769,417
Provision for experience rating refunds	14,977,436	-	14,977,436	10,724,182
Interest maintenance reserve	-	-	-	2,537,425
Commissions to agents due or accrued	8,706,103	-	8,706,103	5,488,848
Commissions and expense allowances payable on reinsurance assumed	6,153,740	-	6,153,740	1,587,975
General expenses due or accrued	6,954,507	-	6,954,507	11,839,565
Taxes, licenses and fees due or accrued	6,333,641	-	6,333,641	3,962,777
Remittances and items not allocated	6,390,336	-	6,390,336	4,132,402
Asset valuation reserve	3,069,964	-	3,069,964	2,812,223
Reinsurance in unauthorized and certified companies	369,613	-	369,613	96,974
Funds held under reinsurance treaties with unauthorized and certified	44,942,630	-	44,942,630	26,352,538
Payable to parent, subsidiaries and affiliates	11,168,176	-	11,168,176	81,026,951
Aggregate write-ins for liabilities	15,710,531	-	15,710,531	1,265,349
Total liabilities	<u>\$ 535,435,274</u>	<u>\$ 38,568,637</u>	<u>\$ 574,003,911</u>	<u>\$ 588,600,160</u>
Common capital stock	\$ 2,500,000	\$ -	\$ 2,500,000	\$ 2,500,000
Gross paid in and contributed surplus	317,289,323	-	317,289,323	317,289,323
Unassigned funds (surplus) (Note 1)	241,759,656	(38,568,637)	203,191,019	86,368,388
Surplus	<u>\$ 559,048,979</u>	<u>\$ (38,568,637)</u>	<u>\$ 520,480,342</u>	<u>\$ 403,657,711</u>
Total capital and surplus	<u>\$ 561,548,979</u>	<u>\$ (38,568,637)</u>	<u>\$ 522,980,342</u>	<u>\$ 406,157,711</u>
Totals	<u>\$ 1,096,984,253</u>	<u>\$ -</u>	<u>\$ 1,096,984,253</u>	<u>\$ 994,757,871</u>

HCC LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Summary of Operations

As of December 31, 2018

	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Premiums and annuity considerations for life and accident and health contracts	\$ 1,365,756,125	\$ -	\$ 1,365,756,125	\$ 1,095,489,141
Net investment income	30,315,109	-	30,315,109	28,591,518
Amortization of Interest Maintenance Reserve	918,379	-	918,379	1,148,219
Commissions and expense allowances on reinsurance ceded	31,594,793	-	31,594,793	28,519,698
Aggregate write-ins for miscellaneous income	<u>(14,502,474)</u>	-	<u>(14,502,474)</u>	<u>106,095,447</u>
Totals	<u>\$ 1,414,081,932</u>	<u>\$ -</u>	<u>\$ 1,414,081,932</u>	<u>\$ 1,259,844,023</u>
Death benefits	\$ 23,644	\$ -	\$ 23,644	\$ 39,607
Disability benefits and benefits under accident and health contracts	1,073,510,911	-	1,073,510,911	987,270,993
Increase in aggregate reserves for life and accident and health contracts	<u>(443,175)</u>	-	<u>(443,175)</u>	<u>(17,142,022)</u>
Totals	<u>\$ 1,073,091,380</u>	<u>\$ -</u>	<u>\$ 1,073,091,380</u>	<u>\$ 970,168,578</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	85,874,064	-	85,874,064	80,345,373
Commissions and expense allowances on reinsurance assumed	22,521,301	-	22,521,301	7,560,320
General insurance expenses	65,390,413	-	65,390,413	49,072,774
Insurance taxes, licenses and fees, excluding federal income taxes	<u>24,068,449</u>	-	<u>24,068,449</u>	<u>28,396,707</u>
Totals	<u>\$ 1,270,945,607</u>	<u>\$ -</u>	<u>\$ 1,270,945,607</u>	<u>\$ 1,135,543,752</u>
Net gain from operations before dividends to policyholders and federal income taxes	143,136,325	-	143,136,325	124,300,271
Federal and foreign income taxes incurred	<u>21,772,748</u>	-	<u>21,772,748</u>	<u>33,428,112</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	<u>\$ 121,363,577</u>	<u>\$ -</u>	<u>\$ 121,363,577</u>	<u>\$ 90,872,159</u>
Net income	<u>\$ 121,363,577</u>	<u>\$ -</u>	<u>\$ 121,363,577</u>	<u>\$ 90,872,159</u>

HCC LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Capital and surplus, December 31, prior year	\$406,157,711	\$601,849,408	\$552,677,103	\$554,272,257	\$436,892,573
Net income	\$121,363,577	\$ 90,872,159	\$104,763,203	\$112,109,057	\$116,082,539
Change in net unrealized capital gains (losses) less capital gains tax	376,880	124,683	614,902	200,342	4,840,646
Change in net deferred income tax	(3,628,421)	50,259,815	(1,694,010)	(4,775,700)	(1,189,546)
Change in nonadmitted assets	8,237,160	(49,814,382)	54,429	4,371,039	1,654,370
Change in liability for reinsurance in unauthorized and certified companies	(272,639)	198,289	715,374	1,689,032	(2,699,669)
Change in asset valuation reserve	(257,741)	(53,749)	(281,593)	(179,750)	(776,573)
Surplus adjustment: Paid in	-	-	-	1,072,827	(11,929)
Dividends to stockholders	-	-	(55,000,000)	(116,082,000)	-
Aggregate write-ins for gains and losses in surplus	29,572,452	(287,278,512)	-	-	(520,154)
Examination adjustments (<i>Note I</i>)	(38,568,637)	-	-	-	-
Net change in capital and surplus for the year	<u>\$116,822,631</u>	<u>\$(195,691,697)</u>	<u>\$ 49,172,305</u>	<u>\$ (1,595,153)</u>	<u>\$117,379,684</u>
Capital and surplus, December 31, current year	<u>\$522,980,342</u>	<u>\$406,157,711</u>	<u>\$601,849,408</u>	<u>\$552,677,103</u>	<u>\$554,272,257</u>

COMMENTS ON THE FINANCIAL STATEMENTS

The Company's surplus as of December 31, 2018, was reduced by \$38,568,637 based on the results of this examination. The following examination issue was noted which changed balances of certain Financial Statement accounts.

Note 1 – Contract Claims: Accident and Health

Alberts Actuarial Consulting, LLC, the INDOI's Consulting Actuary, determined that the reported year-end loss ratio estimates have consistently developed as deficient since 2014, resulting in corresponding Incurred But Not Reported (IBNR) deficiencies. The INDOI's Consulting Actuary estimated annual medical stop-loss IBNR deficiencies of approximately \$40,000,000 for 2016, 2017, and 2018, which is consistent with overall deficiencies reported in the Company's Annual Statement, Schedule H. The following factors have contributed to these deficiencies:

- Year-end Bornhuetter-Ferguson estimates have consistently been deficient since 2016. A contributing factor is that adverse development for prior renewal months is not captured in projection model loss ratio estimates for more recent months.
- Actuarial midpoint loss ratios for the current treaty year have consistently been set toward the lower end of the actuarial development scenario values, while ultimate loss ratios have developed above the high end.

The 2018 Annual Statement was adjusted by the INDOI's Consulting Actuary to include an additional \$38,568,637 reserve on Page 3, Line 4.2. This adjustment covers the reserve deficiencies noted above and represents the amount of reserve deficiency indicated in the 2018 Appointed Actuary testing. **(Please also see the "Subsequent Events" section of this Report of Examination.)**

OTHER SIGNIFICANT FINDINGS

Oath of Office

During the period covered by this examination, certain directors did not take and subscribe to an oath of office when elected as required by IC 27-1-7-10 (i) (See page 7).

It is recommended that all directors take and subscribe to an oath of office when elected as required by the requirements of IC 27-1-7-10 (i).

Fidelity Bond

Contrary to the requirements of IC 27-1-7-14, the Company's Financial Institution Bond was not approved by its Board at any time during the five (5) year examination period ending December 31, 2018 (See page 10). **(Please also see the "Subsequent Events" section of this Report of Examination.)**

Board Approval of Investments

As required by IC 27-1-12-2(b)(24), no investment, other than commercial bank deposits and loans on life insurance policies, shall be made unless authorized by the life insurance company's board of directors or a committee designated by the board of directors and charged with the duty of supervising loans or

investments. Thomas Consulting did not identify authorizations by the Board or a Board committee for the Company's investment transactions after 2014. As of that time, the Board of the Company's parent, HCC, assumed the responsibility to review and approve the Company's investments. However, specific authorizations for the Company's investment transactions were not identified from a review of the HCC Board and committee minutes for meetings held after 2014 (See page 13).

It is recommended the Company comply with IC 27-1-12-2(b)(24) regarding investment authorizations.

Investment Limitation

The provisions of IC 27-1-12-2(b)(21) specify that investments in obligations (other than real estate mortgage indebtedness) and capital stock of, and in real estate and tangible personal property leased to, a single corporation shall not exceed two percent (2%) of the life insurance company's admitted assets. As of December 31, 2018, the Company held a CLO issued by Neuberger Berman with a book value of \$25,000,000. The Neuberger Berman CLO exceeded the maximum allowable limit of two percent (2%) of the Company's net assets (\$21,939,685) by \$3,060,315 as of December 31, 2018 (See page 13). (Please also see the "Subsequent Events" section of this Report of Examination.)

SUBSEQUENT EVENTS

President and Chief Executive Officer Succession

The Company's President and Chief Executive Officer, Daniel A. Strusz, resigned on August 1, 2019, and Andrew J. Ritchie was appointed as the Company's new President and Chief Executive Officer as of August 1, 2019.

Fidelity Bond

The Board approved the Company's Financial Institution Bond at the Board meeting held on June 7, 2019. As a result, the Company is in compliance with the provisions of IC 27-1-7-14.

CLO Investment

On October 28, 2019, the Company sold \$5,000,000 of its Neuberger Berman CLO investments. As a result, the Company is in compliance with the provisions of IC 27-1-12-2(b)(21).

Contract Claims: Accident and Health

The Company implemented corrective action concerning the reserve deficiency disclosed in Note 1 of the "Comments on the Financial Statements" section of this Report of Examination. The INDOI's Consulting Actuary noted the following regarding the Company's booked reserves for its Contract claims: accident and health liability as of December 31, 2019:

1. The Company's booked reserves as of December 31, 2019, have been strengthened significantly.
2. The work files that support the Appointed Actuary's 2019 actuarial opinion and modeling of a moderately adverse scenario indicates that the Company's booked reserves as of December 31, 2019, include a margin in both the independent base estimate and the moderately adverse estimate.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, Thomas Consulting obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to Thomas Consulting.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., performed an examination of the **HCC Life Insurance Company** as of **December 31, 2018**.


The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2018 NAIC *Financial Condition Examiners Handbook* and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of the **HCC Life Insurance Company** as of **December 31, 2018**, as determined by the undersigned.



D. Patrick Huth, CFE
The Thomas Consulting Group, Inc.




Jerry Ehlers, CFE, CPA
Indiana Department of Insurance

State of:
County of:

On this 10th day of June, 2020, before me personally appeared, D. Patrick Huth and Jerry Ehlers to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires October 4, 2025 

Notary Public

DARCY L. SHAWVER
NOTARY PUBLIC
SEAL
MARION COUNTY, STATE OF INDIANA
MY COMMISSION EXPIRES OCTOBER 4, 2025
COMMISSION NO 708053

