

**Report on Examination**  
**of**  
**Best Meridian Insurance Company**  
**Miami, Florida**  
**as of**  
**December 31, 2011**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
Tallahassee, Florida

Dear Sir:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Best Meridian Insurance Company as of December 31, 2011. Our report on the examination follows.

Florida Office of Insurance Regulation  
April 15, 2013

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2011 of Best Meridian Insurance Company (the "Company"), a single-state insurer domiciled in Florida. The examination covered the period of January 1, 2007 through December 31, 2011 and took place primarily in the Company's Miami, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2006.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **COMPANY HISTORY**

The Company was incorporated in Florida on June 23, 1986 as First American Life Insurance Company and licensed by the Office as an insurer on April 7, 1987. Its name was changed to Best Meridian Insurance Company on July 2, 1987. The Company was authorized by the State of Florida to operate as an insurer in accordance with Section 624.401, Florida Statutes (F.S.).

### Dividends and Capital Contributions

The Company neither distributed dividends nor received capital contributions during the period examined.

### Mergers and Acquisitions

On May 23, 2011, the Company purchased a 99% interest in BMI Compañía de Seguros de Guatemala, S.A., a foreign insurance company, for \$2.1 million. BMI Compañía de Seguros de Guatemala, S.A. was licensed in Guatemala to sell life and health insurance.

## **CORPORATE RECORDS**

We reviewed the minutes of meetings held by the Company's shareholder, board of directors, and audit and finance committees. The Board's approval of Company transactions, including the authorization of its investments as required by Section 625.304, F.S., was recorded in the minutes of its meetings.

## MANAGEMENT AND CONTROL

The Company was wholly owned by BMI Financial Group, Inc. (BMIFG) and was affiliated through common ownership and control with various other entities. Its senior officers, directors, and members of its principal board committees were:

### Senior Officers

<u>Name</u>	<u>Title</u>
Anthony F. Sierra	President and Chief Executive Officer
Andrew Sierra	Secretary and Compliance Officer
Manuel Pelati	Vice President and Chief Financial Officer
Karen M. Michell	Vice President - Product Development and Pricing
Michael W. Morgan	Vice President and Actuary
Rosario P. Duncan	General Counsel

### Board of Directors

<u>Name</u>	<u>Location</u>
Brent M. Bush	Miami, Florida
Rosario P. Duncan	Miami, Florida
Carlos Garcia-Velez	Miami, Florida
Anthony F. Sierra	Coral Gables, Florida
Antonio M. Sierra	Miami, Florida

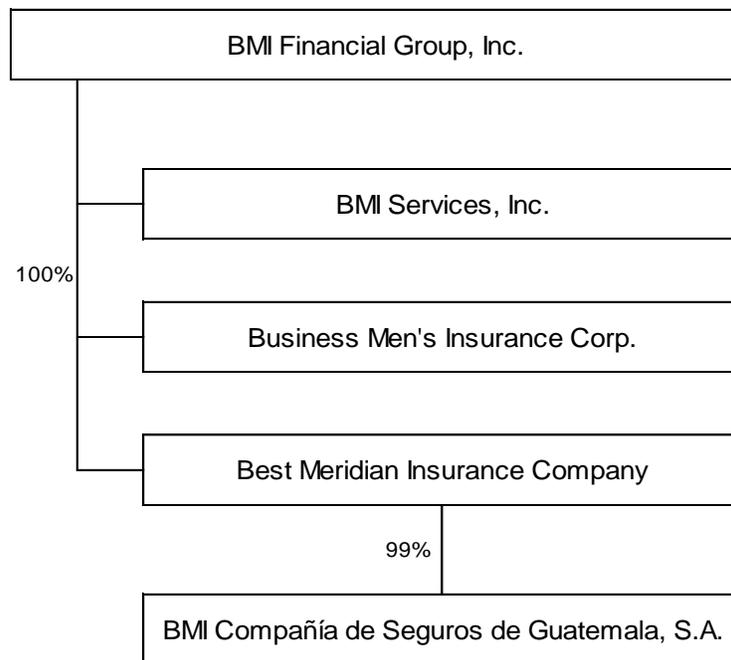
### Audit and Investment Committees

Brent M. Bush  
Rosario P. Duncan  
Carlos Garcia-Velez  
Anthony F. Sierra  
Antonio M. Sierra

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code, on March 25, 2013.

An abbreviated organizational chart reflecting a holding company system is shown below.

**Best Meridian Insurance Company  
Abbreviated Organizational Chart  
December 31, 2011**



The following agreements were in effect between the Company and affiliates of the Company:

General Agent's Agreement

The Company contracted with Business Men's Insurance Corp. to provide general agent services, open and develop new markets and products, manage the Company's anti-money laundering practices, and provide various other services. The agreement was originally effective July 2, 1987 and subsequently amended.

Marketing and Service Agreement

Business Men's Insurance Corp. provided marketing support and insurance services to the Company pursuant to an agreement effective November 13, 1995.

Management and Service Agreements

BMIFG provided management services to the Company pursuant to a September 1, 1994 agreement as later amended. BMI Services, Inc. provided management and data processing services to the Company pursuant to an October 8, 1997 agreement as later amended.

Cost Allocation and Reimbursement Agreement

The Company and BMIFG entered into an agreement providing for the allocation and reimbursement of costs incurred in providing services to each other. The agreement was originally effective September 1, 1994 and later amended.

Individual Medical Underwriting Agreement

Multi Assistance Services, Inc. provided individual medical underwriting and policy administration services to the Company under a June 1, 2008 agreement which was subsequently amended.

### Lease Agreements

The Company leased office space in Miami, Florida to BMIFG under a five year lease beginning October 1, 2010. In addition, the Company leased office space in Ecuador to Masecuador S.A. and BMI del Ecuador Compañía de Seguros de Vida, S.A., and in the Dominican Republic to BMI Compañía de Seguros, S.A. and ARS BMI, S.A.

### Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax return of BMIFG pursuant to a tax allocation agreement dated January 1, 1998. Income taxes were allocated to the Company and other members of the consolidated group based upon separate return calculations with current credit for net losses.

### **FIDELITY BONDS AND OTHER INSURANCE**

The Company maintained fidelity bond coverage of \$900,000 with a deductible of \$50,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$800,000.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company provided various benefits to eligible employees including educational assistance and health, dental, life and disability insurance. It also participated in a section 401(k) defined contribution retirement plan sponsored by BMIFG to which Company employees were allowed to contribute up to 15% of their salaries. The Company matched a portion of employee contributions to the plan.

### **TERRITORY AND PLAN OF OPERATION**

The Company marketed ordinary life and accident and health insurance. It was licensed as an insurer in the State of Florida; however, most of its insurance business was written in Latin America and Asia.

## COMPANY GROWTH

The Company reported the following for years 2007 through 2011:

*(In millions)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Premiums	\$ 46.9	\$ 73.5	\$ 60.7	\$ 63.9	\$ 69.5
Total revenue	\$ 59.9	\$ 86.3	\$ 73.5	\$ 76.9	\$ 81.9
Net income	\$ 3.5	\$ 3.7	\$ 5.8	\$ 6.4	\$ 3.6
Stockholder dividends	\$ -	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 153.2	\$ 164.8	\$ 181.8	\$ 200.1	\$ 216.8
Liabilities	\$ 130.2	\$ 137.2	\$ 148.9	\$ 161.1	\$ 175.5
Capital and surplus	\$ 23.0	\$ 27.5	\$ 32.9	\$ 39.0	\$ 41.3

## REINSURANCE

The Company assumed and ceded reinsurance pursuant to agreements with various affiliated and unaffiliated companies, primarily on coinsurance, modified coinsurance and quota share bases. It reported details of assumed and ceded reinsurance on Schedule S of its 2011 annual statement.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with other jurisdictions as required:

Description	Face Value	Market Value
U.S. Treasury bond	\$ 150,000	\$ 234,570
U.S. Treasury bond	100,000	138,090
<u>Total</u>	<u>\$ 250,000</u>	<u>\$ 372,660</u>

**Best Meridian Insurance Company**  
**Admitted Assets**  
**December 31, 2011**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 138,625,052	\$ -	\$ 138,625,052
Common stocks	2,058,476	-	2,058,476
Mortgage loans on real estate, first liens	10,556,500	-	10,556,500
Properties occupied by the company	18,686,560	-	18,686,560
Cash, cash equivalents and short-term investments	10,430,327	-	10,430,327
Contract loans	5,807,994	-	5,807,994
	186,164,909	-	186,164,909
Investment income due and accrued	1,754,945	-	1,754,945
Uncollected premiums and agents' balances	19,431,243	-	19,431,243
Deferred premiums, agents' balances and installments	79,430	-	79,430
Amounts recoverable from reinsurers	291,790	-	291,790
Other amounts receivable under reinsurance contracts	4,372,672	-	4,372,672
Current federal and foreign income tax recoverable	860,123	-	860,123
Net deferred tax asset	3,454,506	-	3,454,506
Aggregate write-ins for other than invested assets	422,525	-	422,525
<b>Total admitted assets</b>	<b>\$ 216,832,143</b>	<b>\$ -</b>	<b>\$ 216,832,143</b>

**Best Meridian Insurance Company**  
**Liabilities, Capital and Surplus**  
**December 31, 2011**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Aggregate reserve for life contracts	\$ 145,217,755	\$ -	\$ 145,217,755
Aggregate reserve for accident and health contracts	16,312,978	-	16,312,978
Liability for deposit-type contracts	519,464	-	519,464
Contract claims - life	3,830,100	-	3,830,100
Contract claims - accident and health	5,686,435	-	5,686,435
Surrender values on canceled contracts	36,166	-	36,166
Interest maintenance reserve	507,955	-	507,955
Commissions to agents due or accrued	577,811	-	577,811
Commissions and allowances on reinsurance assumed	4,364	-	4,364
General expenses due or accrued	310,616	-	310,616
Taxes, licenses and fees due or accrued	197,779	-	197,779
Remittances and items not allocated	55,091	-	55,091
Asset valuation reserve	1,016,569	-	1,016,569
Payable to parent, subsidiaries and affiliates	149,329	-	149,329
Aggregate write-ins for liabilities	1,085,179	-	1,085,179
<b>Total liabilities</b>	<b>175,507,591</b>	<b>-</b>	<b>175,507,591</b>
<b>Capital and Surplus</b>			
Common capital stock	750,000	-	750,000
Gross paid in and contributed surplus	5,650,000	-	5,650,000
Unassigned funds	34,924,552	-	34,924,552
<b>Total capital and surplus</b>	<b>41,324,552</b>	<b>-</b>	<b>41,324,552</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 216,832,143</b>	<b>\$ -</b>	<b>\$ 216,832,143</b>

**Best Meridian Insurance Company**  
**Summary of Operations**  
**(As reported by the Company)**  
**Year Ended December 31, 2011**

Premiums and annuity considerations	\$ 69,467,025
Net investment income	8,198,460
Amortization of interest maintenance reserve	(1,623)
Commissions and expense allowances on reinsurance ceded	2,641,416
Reserve adjustments on reinsurance ceded	234,990
Aggregate write-ins for miscellaneous income	1,362,378
	<hr/> 81,902,646
Death benefits	6,563,113
Disability benefits and benefits under accident and health contracts	23,268,360
Surrender benefits and withdrawals for life contracts	3,362,703
Interest and adjustments on contract or deposit-type contract funds	26,186
Increase in aggregate reserves for life and accident and health contracts	12,646,057
	<hr/> 45,866,419
Commissions on premiums and annuity considerations	18,012,918
Commissions and expense allowances on reinsurance assumed	1,737,495
General insurance expenses	11,116,613
Insurance taxes, licenses and fees	361,450
Increase in loading on deferred and uncollected premiums	8,170
	<hr/> 77,103,065
Income before income taxes and capital losses	4,799,581
Federal and foreign income taxes	1,106,717
Net realized capital losses	96,139
Net income	<hr/> <hr/> \$ 3,596,725

**Best Meridian Insurance Company**  
**Statement of Changes in Capital and Surplus**  
**Five Years Ended December 31, 2011**

Capital and surplus - December 31, 2006	\$ 20,095,863
Net income	3,516,034
Change in net unrealized capital gains (losses)	8,457
Change in net deferred income tax	4,723,402
Change in nonadmitted assets	(4,817,896)
Change in asset valuation reserve	(94,371)
Change in surplus as a result of reinsurance	(467,569)
<hr/>	
Capital and surplus - December 31, 2007	22,963,920
Net income	3,718,426
Change in net unrealized capital gains (losses)	4,701
Change in net deferred income tax	(180,268)
Change in nonadmitted assets	725,538
Change in asset valuation reserve	308,200
<hr/>	
Capital and surplus - December 31, 2008	27,540,517
Net income	5,807,690
Change in net deferred income tax	847,191
Change in nonadmitted assets	(1,086,222)
Change in asset valuation reserve	(145,902)
Cumulative effect of changes in accounting principles	(99,762)
<hr/>	
Capital and surplus - December 31, 2009	32,863,512
Net income	6,361,271
Change in net unrealized capital gains (losses)	(21,279)
Change in net deferred income tax	(480,552)
Change in nonadmitted assets	607,070
Change in asset valuation reserve	(320,022)
<hr/>	
Capital and surplus - December 31, 2010	39,010,000
Net income	3,596,725
Change in net unrealized capital gains (losses)	(180,582)
Change in net deferred income tax	(125,834)
Change in nonadmitted assets	(494,576)
Change in asset valuation reserve	(481,181)
<hr/>	
	41,324,552
Examination adjustments	-
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Capital and surplus - December 31, 2011	<u>\$ 41,324,552</u>

**Best Meridian Insurance Company**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2011**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

	<b>Per Company</b>	<b>Per Examination</b>	<b>Increase (Decrease) In Capital &amp; Surplus</b>	
<b>Capital and surplus, December 31, 2011 - per annual statement</b>				\$ 41,324,552
Total admitted assets	\$ 216,832,143	\$ 216,832,143	\$ -	
Total liabilities	\$ 175,507,591	\$ 175,507,591	\$ -	
Net change in capital and surplus				-
<b>Capital and surplus, December 31, 2011 - per examination</b>				<b>\$ 41,324,552</b>

## **SUBSEQUENT EVENTS**

In its annual statement, the Company reported total capital and surplus of \$45.9 million as of December 31, 2012 and net income of \$7.8 million for the year then ended.

On February 15, 2013, A.M. Best Company affirmed the Company's financial strength rating of A- (excellent) and issuer credit rating of a-, but revised its outlook for the Company from stable to negative. The rating agency indicated that its revised outlook reflected the Company's significant increase in commercial mortgage loan exposure over the preceding two years, sharp increase in assumed premiums in 2012, and geographic concentration in certain Latin American companies where there is financial and political instability.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Best Meridian Insurance Company consistent with the insurance laws of the State of Florida.

At December 31, 2011, the Company's capital and surplus was \$41,324,552 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, the following individuals participated in the examination: Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; Kerry Krantz, Actuary; and Scott R. Slaughter, CPA, Financial Examiner/Analyst.

Respectfully submitted,

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Stephen Feliu, CFE (Fraud)  
Financial Examiner/Analyst  
Florida Office of Insurance Regulation