

Report on Limited Scope Examination

of

Best Meridian Insurance Company

Miami, Florida

as of

June 30, 2019



**FLORIDA OFFICE OF
INSURANCE REGULATION**



OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER
COMMISSIONER

David Altmaier, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399

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 limited-scope examination of Best Meridian Insurance Company as of June 30, 2019. Our report on the examination follows.

Florida Office of Insurance Regulation
September 25, 2019

**FINANCIAL SERVICES
COMMISSION**

RON DESANTIS
GOVERNOR

JIMMY PATRONIS
CHIEF FINANCIAL OFFICER

ASHLEY MOODY
ATTORNEY GENERAL

NICOLE "NIKKI" FRIED
COMMISSIONER OF
AGRICULTURE

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SCOPE OF EXAMINATION

We have completed a limited-scope examination as of June 30, 2019 of Best Meridian Insurance Company (Company), a single-state insurer domiciled in Florida. The examination covered a review of the Company's reinsurance operations, premium transactions and any affiliated or other transactions relevant to these areas through the period ending June 30, 2019, including subsequent events. The examination 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 (Office) was as of December 31, 2016.

We conducted our limited-scope examination in accordance with the guidance of the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). Our limited-scope examination procedures included a reconciliation of the general ledger to direct and assumed premiums at the policy and country level; a review of underlying transactions and reinsurance contracts on a sample basis, including affiliated and non-affiliated reinsurance transactions; a detailed review of underlying transactions and reinsurance contracts regarding assumed business from (1) the Republic of Kazakhstan and (2) Romania, detailed in the "Republic of Kazakhstan" and "Romania" sub-sections within the reinsurance section below; interviews with Company officers and reinsurance brokers; confirmation with reinsurance brokers; a review of CPA work papers; and completing analytical and subsequent event procedures. Our review of transactions included vouching to respective reinsurance rates per underlying contracts; a review of bordereaux reports and collections; recalculation of premiums accruals for reasonableness; and subsequent collections.

In addition, we performed a review of the Florida Statutes, code and rules; and selected foreign jurisdiction rules to determine the Company's eligibility or authorization to write and assume business in respective lines of business and jurisdictions.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes (F.S.). There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report but were separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings to include in this report.

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. It was authorized by the State of Florida to operate as a life and accident and health insurer in accordance with Section 624.401, F.S.

TERRITORY AND PLAN OF OPERATION

The Company offers life and accident and health insurance products. Most of its business written and assumed is from outside of the United States in Latin America, Europe and Asia. The Company has direct and assumed premiums from forty-eight (48) jurisdictions outside of the United States including thirty-six (36) from direct business only, four (4) from assumed business only and eight (8) with both direct and assumed business for policies in-force as of December 31, 2018. Refer to Subsequent Events for changes during 2019.

The Company is currently authorized for the following coverages as of June 30, 2019: Life; group life; variable life; credit life; credit disability; group annuities; and accident and health.

CORPORATE GOVERNANCE

The Company's senior officers and directors as of June 30, 2019 were:

Senior Officers

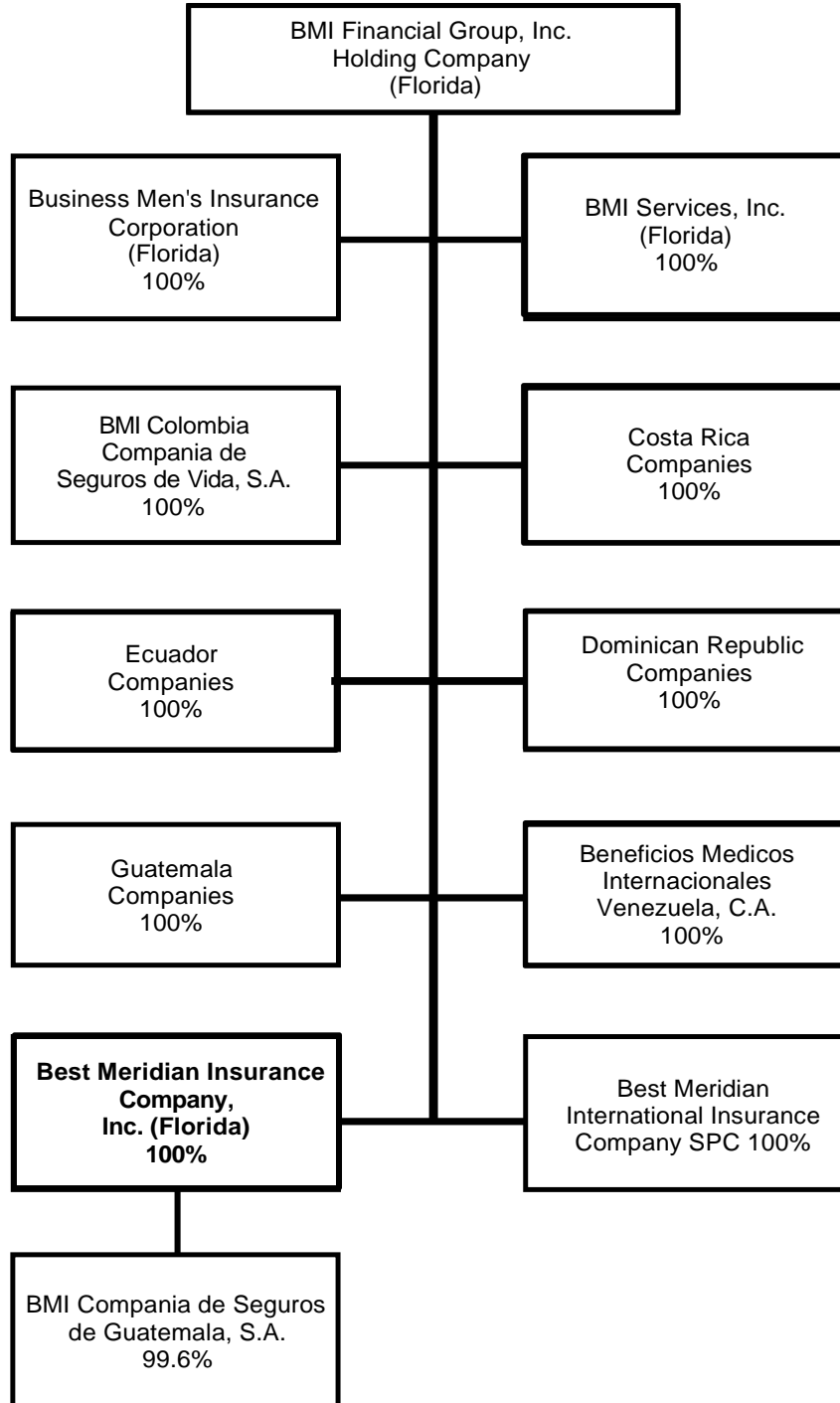
<u>Name</u>	<u>Title</u>
Anthony F. Sierra	President, Chief Executive Officer
Manuel Pelati	Vice President, Treasurer & CFO
Andrew Sierra	Secretary

Board of Directors

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

The Company was a member of an insurance holding company system. The Holding Company Registration Statement for 2018 was filed timely with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C.

An abbreviated organizational chart reflecting the holding company system as of June 30, 2019 is shown below.



REINSURANCE

In the ordinary course of business, the Company assumes reinsurance premiums from affiliated and unaffiliated reinsurance companies in both life and accident and health business. The Company also cedes reinsurance premiums to affiliated and unaffiliated reinsurance companies on life business only.

Assumed Reinsurance

The Company assumed 100% of the health business from Best Meridian International Insurance Company SPC (BMIC), an affiliated Company domiciled in the Grand Caymans. Total written and assumed premium on the health business were \$61,022,602 for the year ended December 31, 2018, and \$28,789,264 for the period ended June 30, 2019. The Company also assumed health business from other affiliates for which the total assumed premium amounted to \$9,346,579 for the year ended December 31, 2018, and \$5,084,744 for the period ended June 30, 2019. Assumed health premiums from various non-affiliated companies amounted to \$690,603 for the year ended December 31, 2018, and \$263,706 for the period ended June 30, 2019.

The Company assumed up to \$500,000 of the life business from BMIC after a retention of \$100,000 for policies issued beginning June 1, 2013 (before such date it was \$150,000). Total assumed premium on the life business were \$5,697,720 for the year ended December 31, 2018, and \$2,753,841 for the period ended June 30, 2019. The Company also assumed life business from other affiliates for which the total assumed premium amounted to \$1,714,830 for the year ended December 31, 2018, and \$990,196 for the period ended June 30, 2019. Assumed life premiums from various non-affiliated companies amounted to \$9,340,158 for the year ended December 31, 2018, and \$5,379,240 for the period ended June 30, 2019. Of these assumed life premiums from non-affiliated companies, the amount from the Republic of Kazakhstan was \$1,096,359 for the year December 31, 2018, and \$0 for the period ended June 30, 2019.

Ceded Reinsurance

The Company writes and cedes 100% of the Best-Indexed Universal Life Product (Best-Indexed) to BMIC. Total written and ceded premium on the Best-Indexed business was \$17,777,785 for the year ended December 31, 2018, and \$13,754,398 for the period ended June 30, 2019; of these, the amounts ceded to various non-affiliated companies amounted to \$5,157,551 for the year ended December 31, 2018, and \$2,820,105 for the period ended June 30, 2019.

After a retention of \$100,000 per life, the Company received a retrocession of up to \$500,000 of the Best-Indexed business from BMIC.

The retrocession premiums were included in the 2018 and 2019 assumed premiums of \$5,697,720 and \$2,753,841, respectively; noted in the assumed reinsurance section above.

Republic of Kazakhstan

We performed the following procedures to determine if the Company may be writing workers compensation business for which it was not authorized to write on Property and Casualty (P&C) line of business:

(1) We reviewed the insurance product and requirements of obligatory employees' personal accident insurance through a combination of various articles/websites regarding this insurance in the Republic of Kazakhstan; and an English translation document on the law and requirements from the webpage of the Ministry of Justice of the Republic of Kazakhstan. The corroborating information supported the English translation of the webpage and a certified translation was not deemed necessary.

(2) We reviewed a standard policy of obligatory employees' personal accident insurance. We obtained the standard policy from the Company and noted that the stated object of insurance is "compulsory insurance of an employee against accidents when he/she performs employment duties." We also noted the policy stated insured accident covers accident and death type of incident and does not state that it covers loss of wages. According to the Company, the policy does not cover loss of wages.

(3) We reviewed the general insurance and reinsurance requirements from the Republic of Kazakhstan. We obtained the requirements and noted that foreign reinsurers (in this case, the Company) can only reinsure the risk of a domestic insurer, have a minimum rating of "A-" as per recognized rating agency, and that the reinsurer is not in the banned, non-resident reinsurers of the Republic of Kazakhstan (Blacklist). We determined that all three (3) requirements were met.

(4) We reviewed a letter to the Company from the National Bank of the Republic of Kazakhstan (Insurance Regulator) confirming that they are not on the Blacklist. We also obtained a second, updated confirmation, which includes a statement that there are no registration requirements for foreign insurers other than not being listed in the Blacklist.

(5) We obtained a copy of a confirmation from Nomad Insurance, domiciled in the Republic of Kazakhstan, regarding the line of business written and assumed by the Company. The confirmation letter dated May 13, 2019, addressed to the CFO of the Company stated that Reinsurance cover notes (slips) NM170701/1 and NM171104/1 are known in Republic of Kazakhstan as employee's compulsory accident insurance and not worker's compensation; thus, classified as life, accident & health insurance rather than casualty.

(6) We reviewed the reinsurance agreement/cover slips for those premiums assumed during 2018, which included two reinsurance cover slips NM170701/1 and NM171104/1 from Nomad related to 2 separate policy/risks: KazakhExport and Temir Zholy. We performed testing of 2018 recorded assumed premiums and subsequent collections; and verified agreements with respective contract terms. We noted that the KazakhExport contract is a retrocession contract originating from a life insurance company, “Khalyk-Life” a subsidiary life insurance company of the Peoples Bank of Kazakhstan. No concerns or exceptions were noted.

(7) We reviewed the policy-detail by line of business and contract, for 2018 of assumed premiums from the Republic of Kazakhstan and tested for agreement to Company’s general ledger and respective reinsurance contract terms. No concerns or exceptions were noted.

(8) We interviewed TNB Reinsurance Brokers (UK). We confirmed the two (2) reinsurance covers slips previously discussed. No concerns or exceptions were noted.

(9) We interviewed Company’s reinsurance executives and the Chief Financial Officer. No concerns or exceptions were noted.

(10) We reviewed Florida Statutes 624.603 and 624.406, which may allow a Health carrier to write workers compensation.

The recorded amounts of assumed business in 2018 from Kazakhstan seem to be stated accurately and the Company seems to be in good standing to act as reinsurer in that country. As a subsequent event, the Company decided not to renew such business; and therefore, there are no recorded assumed premiums from the Republic of Kazakhstan as of June 30, 2019.

Romania

We performed the following procedures to determine if the Company may be writing motor third party liability business for which it was not authorized to write on P&C lines:

(1) We reviewed the duly executed agreements and addendums for the periods October 1, 2016 through December 31, 2019 and noted that no risk has been placed at the Company. The original 2016/2017 reinsurance agreement was obtained through the Office and confirmed with the Company during fieldwork. The addendum dated October 11, 2016 made a correction to reflect the Company's affiliate, Best Meridian International Insurance Company SPC (BMIIC) from the Grand Caymans, as the reinsurer. There was never an exchange of funds or accounting recognition at the Company. No concerns or exceptions were noted.

(2) We verified that no transactions originating from the country of Romania or for motor third party liability business have been made. As part of the reconciliation performed of the 2018 Trial Balance to the Annual Statement Schedule S to the policy level detail, we noted there were no assumed premiums received from a policy originating from the country of Romania or for the motor third party liability business. We verified that there was no 2018 direct, in-force business as of December 31, 2018, reinsurance, or retrocession through an affiliated party. No concerns or exceptions were noted.

(3) We obtained and reviewed the 2016, 2017 and 2018 Annual Statement Schedule S, Part I and verified that there were no assumed premiums reported by the Company from an insurer of, or policies originating from, the country of Romania. No concerns or exceptions were noted.

(4) We performed detail testing of BMIIC's record of the motor third party liability business to verify that the risk was placed with BMIIC per the amended treaty terms. This included sample testing on reinsurance cessions and subsequent collections. No concerns or exceptions were noted.

(5) We interviewed NDI Insurance Brokers (UK). We confirmed the placement of the business at BMIIC. No concerns or exceptions were noted.

(6) We interviewed the Company's reinsurance executives and the Chief Financial Officer regarding this transaction. No concerns or exceptions were noted.

There was no Romania / motor third party liability business placed at the Company. The Romania / motor third party liability business was placed with the affiliate, BMIIC.

SUMMARY OF RECOMMENDATIONS

There were no recommendations to include in this report.

SUBSEQUENT EVENTS

In 2019, the Company decided not to renew their Kazakhstan business; and therefore, there are no recorded assumed premiums from the Republic of Kazakhstan through the period covered by this report.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed to the extent deemed applicable and relevant to the limited scope of this examination and ascertaining the findings consistent with the insurance laws of the State of Florida.

The following individuals participated in the examination: Jan Pierre Santiago, CFE, CPA, Examiner-in-Charge; Kelly Willison, CFE, CPA, CFE (Fraud), Examination Manager; Joseph Fritsch, CFE, ARe, AIAF, Reinsurance Specialist; and Frank Edwards, ASA, MAAA, Actuary of The INS Companies.

The following individual from the Florida Office of Insurance Regulation also participated in the examination: Marshay Spencer, APIR, Financial Examiner/ Analyst Supervisor.

Respectfully submitted,



Carolyn M. Morgan, APIR
Director, Life & Health Oversight
Florida Office of Insurance Regulation