

Report on Examination
of
BEST MERIDIAN INSURANCE COMPANY
Miami, Florida
as of
December 31, 2016



**FLORIDA OFFICE OF
INSURANCE REGULATION**



OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER
COMMISSIONER

**FINANCIAL SERVICES
COMMISSION**

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ATTORNEY GENERAL

ADAM PUTNAM
COMMISSIONER OF
AGRICULTURE

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 financial condition examination of Best Meridian Insurance Company as of December 31, 2016. Our report on the examination follows.

Florida Office of Insurance Regulation
April 4, 2018

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2016 of Best Meridian Insurance Company (the "Company"), a single-state insurer domiciled in Florida. The examination covered the period of January 1, 2012 through December 31, 2016 and took place primarily in the Company's Miami, Florida office. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2011.

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, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. Our examination also included identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statute (F.S.) and general information about the insurer and its financial condition. 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.

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, Florida Statutes.

Dividends and Capital Contributions

The Company distributed stockholder dividends in the amounts of \$3,500,000, \$750,000 and \$4,000,000 in years 2013, 2015 and 2016, respectively. No dividends were distributed in 2012 and 2014.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments, as required by Section 625.304, Florida Statutes.

MANAGEMENT AND CONTROL

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2016, are shown below:

Senior Officers	
Name	Title
Anthony F. Sierra	President, Chief Executive Officer
Manuel Pelati	Chief Financial Officer
Andrew Sierra	Secretary

Board of Directors

Name	Location
Antonio M. Sierra	Miami, Florida
Anthony F. Sierra	Miami, Florida
Carlos Garcia-Velez	Miami, Florida
Brent M. Bush	Miami, Florida
Rosario P. Duncan	Miami, Florida

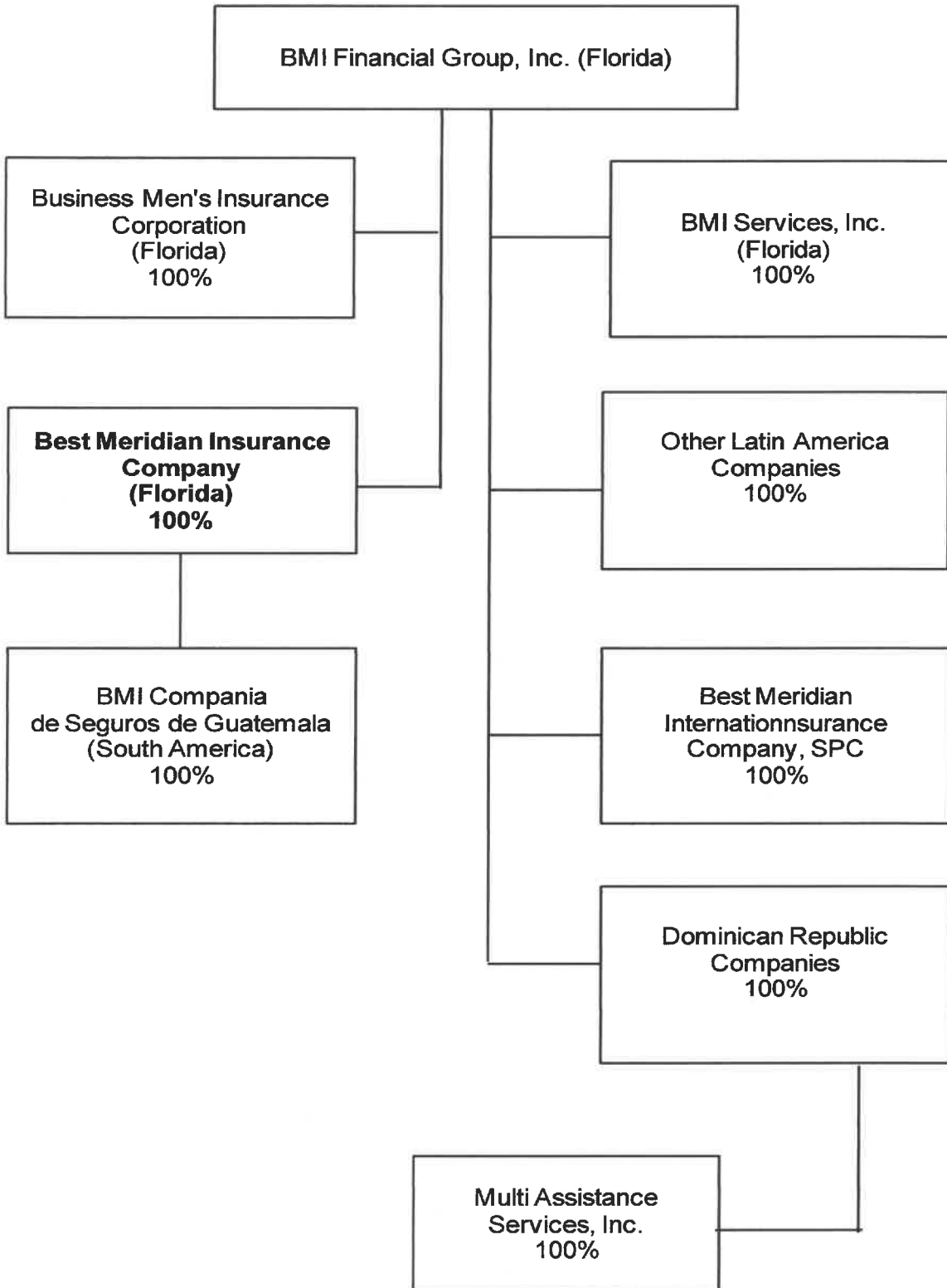
Audit Committee

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

Finance Committee

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

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



The Company is a wholly owned subsidiary of BMI Financial Group, Inc. (the Parent), of which 71.4% is owned by one private individual. Of the remaining 28.6%, no single investor has more than 4.7% ownership of the Parent.

Within the holding company structure, the Company has numerous domestic and foreign affiliates all of which are owned 100% by BMI Financial Group, Inc.

The Company owns 99.6% of BMI Compañía de Seguros de Guatemala, S.A. The Company has no other subsidiaries.

AFFILIATED AND OTHER AGREEMENTS

The following agreement(s) were in effect between the Company and its affiliates.

Consolidated Federal Income Tax Liability Allocation Agreement

The Company entered into a Consolidated Tax Agreement with its parent BMI Financial Group, Inc. and its subsidiaries, effective January 1, 1998. Per the agreement, the parties are declared members of an affiliated group as defined by Section 1504 of the Internal Revenue Code of 1986. 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.

Cost Allocation and Reimbursement Agreement

The Company entered into a Cost Allocation and Reimbursement Agreement between its parent BMI Financial Group, Inc., effective September 1, 1994. Per the agreement parties may, in the ordinary course of business, expend costs and generate expenses on behalf of, or for the benefit of, the other, and each may receive reimbursement for work performed by one party on behalf of the other.

General Agent's Agreement

The Company entered into a General Agent's Agreement 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. In 2016, the Company paid \$1,200,000 under the terms of this agreement.

Management and Service Agreements

BMI Financial Group, Inc. provided management services to the Company pursuant to a September 1, 1994 agreement as later amended. In 2016, the Company paid \$3,544,417 under the terms of this agreement.

BMI Services, Inc. provided management and data processing services to the Company pursuant to an October 8, 1997 agreement as later amended. In 2016, the Company paid \$3,600,000 under the terms of this agreement.

Multi-Assistance Services, Inc. provided medical underwriting, policy issuance, policy maintenance and statistical reporting to Best Meridian Insurance Company effective June 1, 2008. In 2016, the Company paid \$635,345 under the terms of this agreement.

Multi Assistance Services, Latin America provides Best Meridian Insurance Company with risk management services including, but not limited to, services of: (1) concurrent and recurrent medical audit; (2) settlement of claims; (3) coordination and management of medical services for the insured; (4) provider networks and (5) subscription and selection of risks. In 2016, the Company paid \$262,301 under the terms of this agreement.

Insurance Custodial Agreement

The Company maintained a custodial agreement with US Bank executed on October 1, 2008. The Examiner found that the agreement did not comply with Rule 69O-143.042, Florida Administrative Code as all required provisions of the Rule were not included. This was corrected during the examination as discussed in subsequent events on page 16.

Investment Accounting Agreement

The Company maintained an Investment Accounting Agreement with Asset Allocation and Management Company, LLC effective January 1, 2011 until terminated by either party with a 30-

day written notice. A quarterly Based Processing Fee is charged and fees related to NAIC filing are charged as incurred.

Investment Management Agreement

The Company maintained an Investment Management Agreement with Asset Allocation and Management Company, LLC. effective July 29, 2003 indefinitely. A fixed asset management fee is charged based on asset size.

Long Term Care Management Agreement

The Company maintained a five-year Long-Term Care Management Agreement with AUL Long Term Care Solutions, Inc. effective April 1, 2002 and continues until terminated by either party with 90 days written notice. AUL Long Term Care Solutions, Inc. provides consulting and administrative services for long term care insurance. A monthly administration fee is incurred as disclosed in the agreement.

Network Access Point of the Americas Hosting Agreement

The Company maintained a Network Access Point of the Americas Hosting Agreement with Verizon Business Network Services, Inc. effective April 7, 2016 until terminated by either party. NAP of the Americas provides co-location services. Monthly fees are incurred as disclosed in the agreement.

United Healthcare Agreement

The Company maintained an agreement with United Healthcare to provide claims administration, provider network services, benefits determination, care coordination and after-hours enrollment and assistance. This agreement was effective April 15, 2006 and continues until terminated by either party with 90 days written notice. A Network Access Fee, Out of Network Fee, Maternity Care Services and Assistance Services fees are incurred according to schedules disclosed in the agreement.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage \$1,000,000 with no deductible, which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company was allocated its pro-rata share of costs associated with various benefits to eligible employees including health and dental insurance, education assistance, paid leave, and participation in 401(k) retirement 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.

The Company was authorized to transact insurance in Florida on June 23, 1986, and is currently authorized for the following coverage(s) as of December 31, 2016: Life; group life; variable life; credit life; credit disability; group annuities; and accident and health.

COMPANY GROWTH

The Company reported the following for 2016:

(Dollars are in millions)

	<u>2012</u>	-	<u>2013</u>	-	<u>2014</u>	-	<u>2015</u>	-	<u>2016</u>
Premiums	\$ 202.5		\$ 100.8		\$ 138.9		\$ 142.6		\$ 158.2
Revenues	\$ 215.0		\$ 112.6		\$ 150.7		\$ 155.8		\$ 171.5
Net income (loss)	\$ 7.8		\$ 7.0		\$ 7.2		\$ 8.0		\$ 0.6
Shareholder dividends	\$ -		\$ 3.5		\$ -		\$ 0.8		\$ 4.0
Paid-in surplus received	\$ -		\$ -		\$ -		\$ -		\$ -
Admitted assets	\$ 239.2		\$ 254.5		\$ 277.8		\$ 303.2		\$ 317.2
Liabilities	\$ 193.3		\$ 206.5		\$ 224.8		\$ 242.5		\$ 260.7
Capital and surplus	\$ 45.9		\$ 47.9		\$ 53.0		\$ 60.8		\$ 56.5

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

Reinsurance Assumed

The Company assumes life insurance premiums from an unaffiliated life insurance company under a modified coinsurance agreement. Under this agreement, the Company, as reinsurer, does not maintain reserves for future policy benefits related to the reinsured policies. The Company assumes life and accident and health premiums from affiliated as well as unaffiliated entities. The Company retains a maximum exposure of \$500,000 per life on life insurance policies.

Reinsurance Ceded

In the ordinary course of business, the Company purchases reinsurance from several unaffiliated reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the liability associated with the reinsured business.

A portion of the Company's reinsurance is placed with MAPFRE RE Compañía de Reaseguros S.A., an unauthorized reinsurer. As of December 31, 2016, the Company is the beneficiary of a standby letter of credit pledged by MAPFRE RE Compañía de Reaseguros S.A. to cover its share of losses recoverable. The amount of this standby letter of credit exceeds the amount recoverable from this reinsurer.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Miami, Florida.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
Florida	U.S. Treasury Bond	\$ 150,000	\$ 208,050
Florida	U.S. Treasury Bond	100,000	100,350
Total Florida deposits		<u>250,000</u>	<u>308,400</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment would be documented separately following the Company's financial statements. Financial Statements, as reported and filed by the Company with the Office, are reflected in the following pages:

**Best Meridian Insurance Company
Admitted Assets
December 31, 2016**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 146,502,543	\$ -	\$ 146,502,543
Stocks			
Common Stocks	3,146,991	-	3,146,991
Mortgage loans on real estate			
First Liens	36,865,791	-	36,865,791
Real estate			
Properties occupied by the company	23,216,757	-	23,216,757
Properties held for the production of income	7,826,729	-	7,826,729
Cash, cash equivalents and short-term investments	35,127,378	-	35,127,378
Contract loans	4,297,380	-	4,297,380
Other invested assets	1,469,129	-	1,469,129
Receivable for securities	278	-	278
Investment income due and accrued	1,799,732	-	1,799,732
Premiums and considerations			
Uncollected premiums and agents' balances	8,442,225	-	8,442,225
Deferred premium	150,670	-	150,670
Reinsurance			
Amounts recoverable from reinsurers	636,804	-	636,804
Other amounts receivable under reinsurance contracts	21,243,237	-	21,243,237
Current income tax recoverable and interest thereon	6,136,569	-	6,136,569
Net deferred tax asset	3,909,117	-	3,909,117
Receivables from parent, subsidiaries and affiliates	9,308,359	-	9,308,359
Aggregate write-ins for other than invested assets	7,112,113	-	7,112,113
Total admitted assets	\$ 317,191,802	\$ -	\$ 317,191,802

**Best Meridian Insurance Company
Admitted Liabilities, Capital and Surplus
December 31, 2016**

	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$206,094,439	\$ -	\$ 206,094,439
Aggregate reserver for accident and health contracts	22,758,688	-	22,758,688
Liabililty for deposit-type contracts	439,017	-	439,017
Contract claims		-	
Life	7,291,072	-	7,291,072
Accident and health	15,341,155	-	15,341,155
Contract liabilities not included elsewhere		-	
Surrender values on canceled contracts	236,444	-	236,444
Interest maintenance reserve	1,639,941	-	1,639,941
Commissions to agents due on accrued-life and annuity contracts	69,576	-	69,576
Commissions and expenses allowance payable on reinsurance as	986,081	-	986,081
General expenses due or accrued	719,384	-	719,384
Taxes licenses and fees due or accrued	186,817	-	186,817
Remittances and items not allocated	369,265	-	369,265
Miscellaneous liabilities		-	
Asset valuation reserve	3,046,896	-	3,046,896
Payable to parent, subsidiaries and affiliates	166,670	-	166,670
Aggregate write-ins for liabilities	1,307,979	-	1,307,979
Total liabilities	\$260,653,424	\$ -	\$ 260,653,424
Capital and Surplus			
Common capital stock	\$ 750,000	-	\$ 750,000
Gross paid in and contributed surplus	5,650,000	-	5,650,000
Unassigned funds (deficit)	50,138,378	-	50,138,378
Total capital and surplus	56,538,378	-	56,538,378

**Best Meridian Insurance Company
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2016**

Premium and annuity considerations for life and accident and health contracts	\$ 158,210,354
Net investment income	10,782,299
Amortization of interest maintenance reserve	215,229
Commissions and expense allowance on reinsurance ceded	1,660,832
Reserve adjustments on reinsurance ceded	352,357
Aggregate write-ins for miscellaneous income	258,160
Totals	171,479,231
Death benefits	18,882,530
Disability benefits and benefits under accident and health contracts	58,184,186
Surrender benefits and withdrawals for life contracts	7,812,414
Interest and adjustments on contract or deposit-type contract funds	16,658
Increase for aggregate reserves for life and accident and health contracts	11,984,931
Totals	96,880,719
Commissions on premiums, annuity considerations and deposit-type contract funds	9,888,100
Commissions and expense allowance on reinsurance assumed	46,720,834
General insurance expense	17,127,299
Insurance taxes licenses and fees	753,880
Increase in loading on deferred and uncollected premiums	46,752
Totals	171,417,584
Net gain from operations before dividends to policyholders	61,647
Net gain from operations after dividends to policyholders	61,647
Federal and foreign income taxes incurred	(590,417)
Net gain from operations after dividends to policyholders and federal income taxes	652,064
Net realized capital gains (losses)	(64,307)
Net Income	\$ 587,757
Capital and Surplus Account	
Capital and surplus, December 31, prior year	\$ 60,793,651
Net income	587,757
Change in net unrealized capital gains (losses)	410,916
Change in net deferred income tax	(297,413)
Change in non-admitted assets	(732,423)
Change in asset valuation reserve	(224,110)
Dividends to stockholders	(4,000,000)
Net change in capital and surplus for the year	(4,255,273)
Capital and surplus, December 31, current year	\$ 56,538,378

**Best Meridian Insurance Company
Statement of Changes in Capital and Surplus
For the One Year Ended December 31, 2016**

Capital/Surplus Change During Examination Period

Surplus at December 31, 2011, per Examination			\$41,324,552
	<u>Increase</u>	<u>Decrease</u>	
Net Income (loss)	\$30,543,310		\$30,543,310
Change in net unrealized capital gain (loss)		\$698,438	(\$698,438)
Change in net deferred income tax		\$1,511,199	(\$1,511,199)
Change in non-admitted assets		\$2,839,520	(\$2,839,520)
Change in asset valuation reserve		\$2,030,326	(\$2,030,326)
Dividends to stockholders		\$8,250,000	(\$8,250,000)
Rounding			(\$1)
Net increase (or decrease)			<u>\$15,213,826</u>
Surplus at December 31, 2016, per Examination			<u>\$56,538,378</u>

**Best Meridian Insurance Company
Comparative Analysis of Changes in Capital and Surplus
December 31, 2016**

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

Capital and surplus, December 31, 2016 - per annual statement				\$ 56,538,378
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Total assets	\$ 317,191,802	\$ 317,191,802	\$ -	
Total liabilities	\$ 260,653,424	\$ 260,653,424	\$ -	-
Capital and surplus, December 31, 2016 - per examination				<u>\$ 56,538,378</u>

Subsequent Events

The Company had the following events occurring after December 31, 2016:

On February 15, 2018, the Company submitted a new custody agreement with all required terms.

This finding was resolved subsequent to the examination date.

Michael W. Morgan (former company Actuary) passed away January 2018. William M. Sayre, FSA, MAAA of Milliman Inc. was appointed as the Company's actuary.

The holding company began the process for obtaining licensure of an affiliate company in Peru.

The Office was properly notified concerning this.

The Company introduced an Equity Indexed Universal Life product. The Company cedes 100% of premium and losses to their affiliate, Best Meridian International Insurance Company SPC (BMIIC). Since the Company is also dependent on assumed business from BMIIC, this new cession activity will be part of their affiliated transactions.

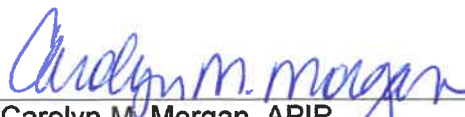
CONCLUSION

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, 2016, the Company's surplus as regards to policyholders was \$56,538,378, which exceeded the minimum of \$12,620,960 required by Section 624.408, Florida Statutes.

The following individuals participated in the examination: Tracy D. Gates CISA, CFE (Examiner-in-Charge and IT Specialist), Travis Harrison, Sam Hebert, and Lori Greene, Participating Examiners, of Highland Clark, LLC., participated in the examination; and from the Florida Office of Insurance Regulation: Marshay Spencer, APIR, Examination Manager; Kerry Krantz, FSA, MAAA Actuary; and Thomas Ciavarella, ASA, Actuary.

Respectfully submitted,



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