

**Report on Examination**  
**of**  
**Florida Combined Life Insurance Company, Inc.**  
**Jacksonville, Florida**  
**as of**  
**December 31, 2018**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**



## OFFICE OF INSURANCE REGULATION

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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 Florida Combined Life Insurance Company, Inc., as of December 31, 2018. Our report on the examination follows.

Florida Office of Insurance Regulation  
April 24, 2020

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2018 of Florida Combined Life Insurance Company, Inc. (Company), a multi-state insurer domiciled in Florida. The examination covered the period of January 1, 2014 through December 31, 2018 and took place primarily in the Company's Jacksonville office and Tallahassee, Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (Office) was as of December 31, 2013.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (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. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statement.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes (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.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings to include in this report.

### **COMPANY HISTORY**

The Company was incorporated in Florida on October 29, 1987 and licensed by the Office as an insurer on May 11, 1988. It was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, F.S.

#### **Mergers and Acquisitions**

Prior to December 31, 2018, the Company was a wholly owned subsidiary of LSV Partners, LLC (LSVP). USABLE Mutual Insurance Company (USAL) and Diversified Health Services, Inc. (DHS) jointly owned LSVP. LSVP and the Company held a 41.1% and a 13.3% economic interest in Life and Specialty Ventures, LLC (LSV), respectively. Effective December 31, 2018, LSVP was restructured. As part of the restructuring, the Company was distributed from LSVP and became a wholly owned subsidiary of DHS. The Company also distributed its interest in LSV to DHS. DHS holds a 40.8% ownership interest in LSV. As a result, the Company no longer had a direct economic interest in LSV.

### **CORPORATE RECORDS**

The minutes of meetings held by the Company's Board of Directors (Board) and its Audit Committee were reviewed for the period under examination. The Board's approval of Company

transactions, including the authorization of its investments as required by Section 625.304, F.S., were recorded in the minutes of its meetings.

### **DIVIDENDS AND CAPITAL CONTRIBUTIONS**

The Company distributed stockholder dividends in the following amounts: \$463.8 thousand in 2015, \$377.0 thousand in 2016, and \$36.9 million in 2018. As a result of the 2018 restructuring, the Company had a return of capital of \$11.9 million.

### **MANAGEMENT AND CONTROL**

The Company was wholly owned by DHS. DHS was a wholly owned subsidiary of GuideWell Group, Inc. (GGI) and GGI was owned by GuideWell Mutual Holding Corporation.

Its senior officers, directors, and members of principal board committees were:

#### **Senior Officers**

<b>Name</b>	<b>Title</b>
Jon R. Urbanek	President and Chief Executive Officer
Arezou C. Jolly	Secretary
Carl J. Bailey	Treasurer

#### **Board of Directors**

<b>Name</b>	<b>Location</b>
Carl J. Bailey	Jacksonville, Florida
Rachel H. Bechtel	Jacksonville, Florida
Charles Divita, III	Jacksonville, Florida
Sondra M. Tucker	St. Augustine, Florida
Jon R. Urbanek	Jacksonville, Florida

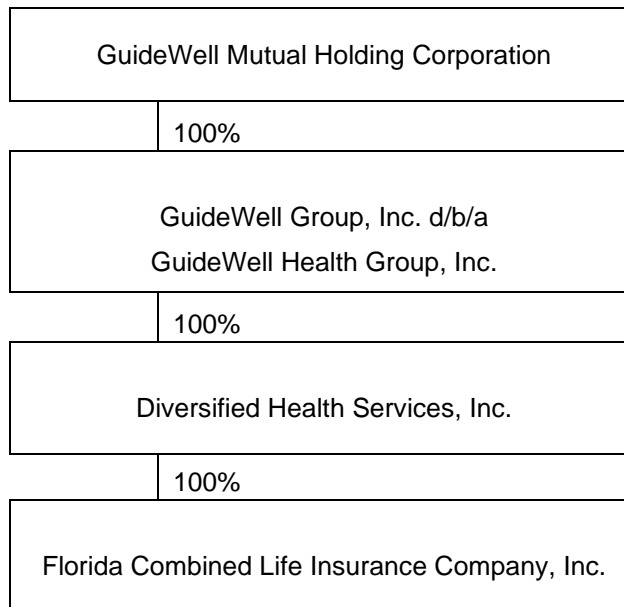
**Audit Committee**

Carl J. Bailey  
Charles Divita, III  
Sondra M. Tucker

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, Florida Administrative Code (F.A.C.).

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

**Florida Combined Life Insurance Company, Inc.  
Abbreviated Organizational Chart  
December 31, 2018**



## **AFFILIATED AND OTHER AGREEMENTS**

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

### Administrative Services Agreements

The Company and USAL were party to an administrative services agreement effective January 1, 2008. Pursuant to the agreement, each affiliate was entitled to provide and/or receive administrative services. As of the December 31, 2018 restructuring, the agreement was superseded with the new administrative services agreement.

The Company, Blue Cross and Blue Shield of Florida, Inc. (BCBSFL), USAL, and LSV provided administrative and other services to each other pursuant to an agreement effective December 16, 2010.

### Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of the group pursuant to an amended tax allocation agreement, effective January 1, 2014, and amended subsequent to the period under examination. Per the agreement, federal income taxes of the group were allocated to the Company as if it were filing on a separate return basis with credit given for the tax benefit of any net operating losses, capital losses and tax credits to the extent they reduced the consolidated federal income tax liability.

## **TERRITORY AND PLAN OF OPERATION**

The Company marketed its primary products including group life, disability income, and dental insurance in authorized states. The Company was authorized to transact insurance in the states of Alabama, Florida, Georgia, North Carolina and South Carolina.



## COMPANY GROWTH

The Company reported the following for years 2014 through 2018:

*(Dollars are in millions)*

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Premiums*	\$ -	\$ -	\$ -	\$ -	\$ -
Revenues	\$ 14.4	\$ 12.7	\$ 13.4	\$ 13.0	\$ 14.5
Net income (loss)	\$ 0.1	\$ 0.3	\$ 0.1	\$ 0.5	\$ (3.6)
Shareholder dividends	\$ -	\$ 0.5	\$ 0.4	\$ -	\$ 37.0
Paid in surplus received	\$ -	\$ -	\$ -	\$ -	\$ (11.9)
Admitted assets	\$ 46.9	\$ 50.2	\$ 50.7	\$ 59.8	\$ 20.6
Liabilities	\$ 21.1	\$ 23.2	\$ 21.8	\$ 24.5	\$ 16.5
Capital and surplus	\$ 25.8	\$ 27.0	\$ 28.9	\$ 35.3	\$ 4.1

\*100% of the Company's premiums, both direct and assumed, were ceded under reinsurance agreements.

## REINSURANCE

Effective January 1, 2008, the Company entered into a dental insurance reinsurance agreement with USAL. Under the agreement, the Company ceded 100% of certain dental plan liabilities to USAL.

Effective July 1, 2005 and later amended, the Company entered into a group life and disability insurance proportional share reinsurance agreement, and an individual life insurance proportional share reinsurance agreement with USAL. As part of the agreements, the Company will perform certain administrative duties involved in the marketing, sales, servicing and administration of policies reinsured, and USAL shall at its sole cost, perform all administrative functions not specifically delegated to the Company.

Effective January 1, 2008, the Company entered into a dental insurance indemnity reinsurance agreement whereby the Company ceded 100% of certain dental insurance products to USABLE Life Little Rock, Arkansas.

Effective October 1, 2004, the Company entered into a coinsurance agreement with Swiss Re Life and Health America, Inc. Under the agreement, the Company ceded certain life and accidental death liabilities. The Company ceded eligible expenses in excess of the \$50,000 retention, up to \$100,000 subject to \$1,000,000 in force or applied for on any one life.

Effective July 1, 2008, the Company assumed certain dental risks from BCBSFL under a 100% quota share participation basis reinsurance agreement.

#### **ACCOUNTS AND RECORDS**

There were no significant examination findings related to the Company's accounts and records.

#### **SURPLUS NOTES**

There were no surplus notes issued by the Company during the examination period.

## 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:

<b>Holder</b>	<b>Description</b>	<b>Par Value</b>	<b>Market Value</b>
Florida	U.S. Treasury bond	\$ 250,587	\$ 242,935
Georgia	U.S. Treasury bond	50,811	50,065
North Carolina	U.S. Treasury bond	572,870	574,655
South Carolina	U.S. Treasury bond	249,623	238,025
Total deposits			\$ 1,105,680

## **FINANCIAL STATEMENTS**

The examination does not attest to the fair presentation of the financial statements included herein. If, during 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:

**Florida Combined Life Insurance Company, Inc.**  
**Admitted Assets, Liabilities, Surplus and Other Funds**  
**December 31, 2018**

<b>Admitted Assets</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$ 6,350,529	\$ -	\$ 6,350,529
Cash, cash equivalents and short-term investments	1,769,895	-	1,769,895
	8,120,424	-	8,120,424
Investment income due and accrued	53,384	-	53,384
Amounts recoverable from reinsurers	5,755,505	-	5,755,505
Other amounts receivable under reinsurance contracts	3,118,975	-	3,118,975
Amounts receivable relating to uninsured plans	1,074,789	-	1,074,789
Current federal and foreign income tax recoverable	68,676	-	68,676
Net deferred tax asset	34,567	-	34,567
Guaranty funds receivable or on deposit	2,022,937	-	2,022,937
Receivables from parent, subsidiaries and affiliates	72,360	-	72,360
Aggregate write-ins for other-than-invested-assets	316,233	-	316,233
<b>Total admitted assets</b>	<b>\$ 20,637,850</b>	<b>\$ -</b>	<b>\$ 20,637,850</b>
<b>Liabilities</b>			
Other amounts payable on reinsurance	\$ 11,200,052	\$ -	\$ 11,200,052
Commissions to agents due or accrued	1,636,971	-	1,636,971
General expenses due or accrued	3,000	-	3,000
Taxes, licenses and fees due or accrued	550,509	-	550,509
Amounts withheld or retained by company	269,021	-	269,021
Remittances and items not allocated	1,767,357	-	1,767,357
Asset valuation reserve	19,700	-	19,700
Payable to parent, subsidiaries and affiliates	539,819	-	539,819
Aggregate write-ins for liabilities	558,698	-	558,698
<b>Total liabilities</b>	<b>\$ 16,545,127</b>	<b>\$ -</b>	<b>\$ 16,545,127</b>
<b>Surplus and Other Funds</b>			
Common capital stock	\$ 1,500,000	\$ -	\$ 1,500,000
Gross paid in and contributed surplus	2,577,856	-	2,577,856
Unassigned funds (surplus)	14,867	-	14,867
<b>Total surplus and other funds</b>	<b>4,092,723</b>	<b>-</b>	<b>4,092,723</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$ 20,637,850</b>	<b>\$ -</b>	<b>\$ 20,637,850</b>

**Florida Combined Life Insurance Company, Inc.**  
**Statement of Revenue and Expenses**  
**Year Ended December 31, 2018**

Net investment income	\$ 232,556
Amortization of interest maintenance reserve	4,091
Commissions and expense allowances on reinsurance ceded	14,310,132
	<hr/> 14,546,779
Commissions on premiums, annuity considerations and deposit-type contract fun	9,614,586
Commissions and expense allowances on reinsurance assumed	29,207
General insurance expenses	1,112,036
Insurance taxes, licenses and fees	4,413,950
	<hr/> 15,169,779
Net gain from operations before dividends to policyholders and federal income taxes	(622,999)
Federal and foreign income taxes incurred	2,965,812
Net realized capital gains (losses)	(4,324)
Net income (loss)	<hr/> \$ (3,593,135) <hr/>

**Florida Combined Life Insurance Company, Inc.**  
**Statement of Changes in Capital and Surplus**  
**Five Years Ended December 31, 2018**

Capital and surplus - December 31, 2013	\$ 23,363,367
Net income	133,146
Change in net unrealized capital gains	3,323,434
Change in net deferred income tax	(399,983)
Change in nonadmitted assets	89,458
Change in asset valuation reserve	(671,151)
<hr/>	
Capital and surplus - December 31, 2014	25,838,271
Net income	312,275
Change in net unrealized capital gains	1,972,710
Change in net deferred income tax	(254,228)
Change in nonadmitted assets	45,185
Change in asset valuation reserve	(399,872)
Dividends to stockholders	(463,821)
<hr/>	
Capital and surplus - December 31, 2015	27,050,520
Net income	80,228
Change in net unrealized capital gains	2,644,730
Change in net deferred income tax	38,830
Change in nonadmitted assets	27,341
Change in asset valuation reserve	(533,216)
Dividends to stockholders	(377,099)
<hr/>	
Capital and surplus - December 31, 2016	28,931,334
Net income	512,734
Change in net unrealized capital gains	6,619,739
Change in net deferred income tax	(23,161)
Change in nonadmitted assets	(38,613)
Change in asset valuation reserve	(699,112)
<hr/>	
Capital and surplus - December 31, 2017	35,302,921
Net loss	(3,593,135)
Change in net unrealized capital gains	9,203,084
Change in net deferred income tax	(194,300)
Change in nonadmitted assets	297,048
Change in asset valuation reserve	4,859,464
Paid in surplus	(11,922,144)
Dividends to stockholders	(36,979,578)
Aggregate write-ins for gains and losses in surplus	7,119,362
<hr/>	
	4,092,723
Examination adjustments	-
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Capital and surplus - December 31, 2018	\$ 4,092,723

**Florida Combined Life Insurance Company, Inc.  
Comparative Analysis of Changes in Capital and Surplus  
December 31, 2018**

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

<b>Capital and surplus, December 31, 2018 - per annual statement</b>				\$ 4,092,723
	<b>Per Company</b>	<b>Per Examination</b>	<b>Increase (Decrease) In Capital &amp; Surplus</b>	
Total assets	\$ 20,637,850	\$ 20,637,850	\$ -	
Total liabilities	\$ 16,545,127	\$ 16,545,127	\$ -	
<b>Capital and surplus, December 31, 2018 - per examination</b>				\$ 4,092,723



## **COMMENTS ON FINANCIAL STATEMENTS**

### Capital and Surplus

The Company reported capital and surplus of \$4,092,723 as of December 31, 2018. The Company's capital and surplus, and other long-term invested assets decreased in 2018 as a result of the restructuring discussed on page 2. The Company decreased its other long-term invested assets and recorded the distribution of LSV as dividend to stockholders and reduction to paid in capital.

## **SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.

## **SUBSEQUENT EVENTS**

As noted previously, the Company was party to a reorganization effective December 31, 2018, where the Company was distributed from LSVP and became a wholly owned subsidiary of DHS. As part of the restructuring, beginning mid-year 2019 and continuing into mid-year 2020, the Company and USAL will begin at policy anniversary, to re-write group life and disability products for approximately 200 large groups on USAL paper.

In addition to reviewing board minutes and financial statements, the examination also considered notable subsequent events occurring after the December 31, 2018 examination date. On June 27, 2019, the Company received a capital contribution from DHS in the amount of \$10 million.

In March 2020, the World Health Organization recognized the coronavirus (COVID-19) outbreak as a pandemic. While the complete effects of COVID-19 on the economy and financial markets are still unknown, the Office recognizes that it could have a significant impact on all domestic

insurers, including the Company. The Office will continue to closely monitor this situation and share information with the Company as appropriate regarding these developments.

## CONCLUSION

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

At December 31, 2018, the Company's capital and surplus was \$4,092,723 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

The following individuals participated in the examination: Joseph R. May, CFE, CPA, CMA, CIE, Examiner-in-Charge; Francois Houde, CFE, CISA, AES, CPA, CA, IT Specialist; Sharon Stuber, CPA, Participating Examiner; Robin Brown, CFE, Participating Examiner, associated with the firm of Carr, Riggs & Ingram, LLC; as well as Kirk Braunius, ASA, MAAA, Actuary associated with the firm of Merlinos & Associates, Inc.

The following individuals from the Florida Office of Insurance Regulation also participated in the examination: Marshay Spencer, APIR, Examination Manager and Glenn Coats, APIR Participating Examiner.

Respectfully submitted,



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