

EXAMINATION REPORT
OF
DELAWARE AMERICAN LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2018

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
DELAWARE AMERICAN LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2018

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro
Insurance Commissioner

Dated this 11 day of June, 2020

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April 30, 2020

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street
Suite 101
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 19.011, dated May 9, 2019, an examination has been made of the affairs, financial condition and management of the

DELAWARE AMERICAN LIFE INSURANCE COMPANY

hereinafter sometimes referred to as the Company or DELAM incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware 19801. The examination was conducted at the main administrative offices of the Company, located at 18210 Crane Nest Drive, Tampa, Florida 33647. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of DELAM. The last examination was conducted as of December 31, 2014, by the Delaware Department of Insurance (Department). This examination covers the four-year period from January 1, 2015 through December 31, 2018. The examination was a coordinated examination, and was conducted concurrently with

examination of MetLife, Inc. (MetLife), and life insurance entities within the Metropolitan Group, including: Metropolitan Life Insurance Company (MLIC), Metropolitan Tower Life Insurance Company, American Life Insurance Company (ALICO), MetLife Reinsurance Company of Charleston, SafeGuard Health Plans, Inc., and SafeHealth Life Insurance Company. The State of New York was the assigned lead state by the National Association of Insurance Commissioners (NAIC). To the fullest extent, the efforts, resources, project materials, and findings were coordinated and made available to all examination participants. Separate reports of examination were filed for each company.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the 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. An examination also includes 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 may include 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 statements.

This examination report includes significant findings of fact, as mentioned in 18 *Del. C.* § 321, 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 separately communicated to other regulators and/or the company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Deloitte & Touche LLP (D&T). Certain auditor work papers of the 2018 audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in financial statements as a result of this examination.

COMPANY HISTORY

The Company was incorporated under the laws of the State of Delaware on November 4, 1964, as a subsidiary of ALICO, and commenced business on August 1, 1966.

The Company became a member of the American International Group, Inc. (AIG) holding company system in 1968 when ALICO was acquired by AIG. In 1992, the Company became a direct, wholly owned subsidiary of AIG when it was acquired from ALICO as a dividend.

On November 30, 2009, AIG contributed all the outstanding shares of ALICO to a special purpose vehicle, ALICO Holdings, LLC (ALICO Holdings) in exchange for all common and preferred shares of ALICO Holdings. AIG subsequently transferred the preferred membership interest in ALICO Holdings to the Federal Reserve Bank of New York (FRBNY) in satisfaction of \$9 billion in outstanding obligations to the FRBNY credit facility provided to AIG.

On November 1, 2010, the Company became a wholly-owned subsidiary of MetLife, a Delaware corporation. MetLife acquired the Company from AIG, along with its affiliate ALICO from ALICO Holdings, for approximately \$16 billion. In connection with the acquisition, MetLife filed with the Department a Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer on Form A, dated April 14, 2010, (Form A), seeking the approval of the Department to acquire control of the Company. The Form A was approved by the Department on August 26, 2010.

Capitalization

The amended Articles of Incorporation provides that the amount of authorized Capital Stock was \$5 million, divided into 50,000 shares with a par value \$100 each. As of December 31, 2018, 25,000 shares were issued and outstanding, resulting in total capital stock of \$2,500,000. As of December 31, 2018, all outstanding shares of the Company's common stock were owned by MetLife.

During the period under examination, the Company did not receive any surplus contributions from MetLife.

As of December 31, 2018, the Company reported gross paid in and contributed surplus of \$35,971,736.

Dividends

The Company's Board of Directors (Board) approved the following dividends during the exam period:

<u>Year</u>	<u>Dividend</u>
2015	\$ 9,000,000 ⁽¹⁾
2016	\$ 6,000,000 ⁽²⁾
2017	\$ 15,000,000 ⁽³⁾
2018	\$ 7,000,000 ⁽⁴⁾

- (1) On December 24, 2015, the Company paid an ordinary cash dividend of \$9,000,000 to MetLife.
- (2) On December 27, 2016, the Company paid an ordinary cash dividend of \$6,000,000 to MetLife.
- (3) On December 27, 2017, the Company paid an ordinary cash dividend of \$15,000,000 to MetLife.
- (4) On December 27, 2018, the Company paid an ordinary cash dividend of \$7,000,000 to MetLife.

All dividends were approved in the Board minutes and proper filings were made to the Department for the ordinary dividends.

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Articles of Incorporation and bylaws, the property, business and affairs of the Company shall be managed by a Board. The bylaws, as amended December 10, 2010, require that the Board consist of three (3) or more directors. The Board shall be elected at the annual meeting of stockholders and each director shall be elected to hold office until the next succeeding annual meeting and until his successor is elected and qualified or until his earlier death, resignation, or removal.

As of December 31, 2018, the members of the Board, together with their principal business affiliations, were as follows:

<u>Name and Location</u>	<u>Principal Occupation</u>
Ann Bernadette Deugo Washington, New Jersey	Chairman, President, and Chief Executive Officer
Roberto nmn Baron Manhasset, New York	Senior Vice President
Dermot Michael Cryan ⁽¹⁾ Brooklyn, New York	Vice President and Chief Financial Officer

- (1) Effective September 30, 2019, Mr. Cryan resigned as Director and Chief Financial Officer of the Company. Effective September 30, 2019, Mr. Tamer Farag Bayoumi was appointed as a Director and Chief Financial Officer

Committees

Article III, Section 6 of the amended and restated bylaws states that the Board may appoint from among its members any committees, standing or special which it shall deem advisable.

As of December 31, 2018, the Board had one designated committee: the Audit Committee, established on March 31, 2011, for the purpose of assisting the Board in fulfilling its responsibilities to the shareholders(s) for the oversight and management of (i) the quality and integrity of the Company's financial statements and accounting practices, (ii) DELAM's compliance with legal and regulatory requirements, (iii) the independent auditors qualifications, performance and independence, and (iv) the performance of DELAM's internal auditors and audit function.

During the period covered by this examination, the full Board served as the Audit Committee of the Company. None of the members of the Audit Committee were considered independent.

Officers

Article IV, Section 1 of the Company's restated and amended bylaws states, "The company officers shall be a Chief Executive Officer, a President, a Treasurer, and a Secretary, all of whom shall be elected by the Board of Directors and shall hold office until their successors are elected and qualified. In addition, the Board may elect a Chairman, one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers as they may deem proper. The Chief Executive Officer shall be a director; however, none of the other officers need be directors, unless required by law. The officers shall be elected at each annual meeting. More than two

offices may be held by the same person except that the President shall not also hold the office of Secretary...”

As of December 31, 2018, the Company’s principal officers and their respective titles were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Ann Bernadette Deugo	Chairman of the Board, President, and Chief Executive Officer
Robert Seth Raphael ⁽¹⁾	Secretary
William Charles O’Donnell ⁽²⁾	Executive Vice President and Chief Accounting Officer
Charles Patrick Connery	Vice President and Treasurer
Roberto mnm Baron	Senior Vice President
Dermot Michael Cryan ⁽³⁾	Vice President and Chief Financial Officer
Douglas Andrew Wesley Turner	Vice President and Appointed Actuary
Richard Andrew Stevens	Vice President

(1) Effective December 12, 2019, Mr. Robert Raphael resigned as Secretary. Effective December 13, 2019, Ms. Kelli Jean Buford was appointed Secretary of the Company.

(2) Effective June 1, 2019, Mr. O’Donnell resigned as Chief Accounting Officer. Effective June 1, 2019, Ms. Tamara Lynn Schock, Executive Vice President, was appointed as Chief Accounting Officer of the Company.

(3) Effective September 30, 2019, Mr. Cryan resigned as Chief Financial Officer. Effective September 30, 2019, Mr. Tamer Farag Bayoumi, Vice President, was appointed as Chief Financial Officer of the Company.

In addition to the above, other officers were also appointed.

The directors and officers of the Company are subject to MetLife’s formal written Code of Business Ethics, which sets out minimum standards of ethical conduct that applies to all employees, officers and directors. Incorporated into the Code of Business Ethics are conflict of interest disclosure requirements. Each year, all officers and directors are required to complete a Conflict of Interest Disclosure, disclosing all actual and potential conflicts of interest and any

outside business activities or personal relationships that could lead to a conflict or the appearance of a conflict.

In accordance with the Department Examination Handbook, Section 12, a review of biographies and inquiries with Management noted that there was no indication of any criminal conviction of officers, directors, or key employees of the Company.

Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919, with minor exception.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in 18 *Del. C.* §5001 of the Delaware Insurance Code. The Company's holding company registration Statements were timely filed with the Department for the years under examination. As noted above, the Company is a wholly-owned subsidiary of MetLife. MetLife's common stock is publicly traded on the New York Stock Exchange under the ticker symbol MET.

An abbreviated organizational chart of the MetLife holding company system as of December 31, 2018, is as follows:

<u>Company</u>	<u>Domicile</u>	<u>% own</u>
MetLife Inc.	Delaware	
Metropolitan Life Insurance Company	New York	100%
Metropolitan Property and Casualty Insurance Company	Rhode Island	100%
Metropolitan Tower Life Insurance Company	Nebraska	100%
SafeGuard Health Enterprises, Inc.	Delaware	100%
MetLife Investment Advisors, LLC	Delaware	100%
MetLife Investment Management Holdings, LLC	Delaware	100%
MetLife Chile Inversiones Limitda ⁽¹⁾	Chile	72.351%
MetLife Global, Inc.	Delaware	100%
Newbury Insurance Company, Limited	Delaware	100%
MetLife Reinsurance Company of Charleston	South Carolina	100%
MetLife Reinsurance Company of Vermont	Vermont	100%
MetLife European Holdings, LLC	Delaware	100%
MetLife Group, Inc.	New York	100%
MetLife Services and Solutions, LLC	Delaware	100%
MetLife Investors Group, LLC	Delaware	100%
Delaware American Life Insurance Company	Delaware	100%
American Life Insurance Company	Delaware	100%
MetLife Life Insurance K.K.	Japan	100%
Communication One Kabushiki Kaisha	Japan	100%
International Investment Holding Company Limited	Russia	100%
Borderland Investments Limited	Delaware	100%
ALICO Hellas Single Member Limited Liability Company	Greece	100%
International Technical and Advisory Services Limited	Delaware	100%
MetLife, American International Group and Arab National Bank Cooperative Insurance Company ^(2, 3)	Saudi Arabia	30%
ALICO Properties, Inc. ⁽⁴⁾	Delaware	51%
Global Properties, Inc.	Delaware	100%
MetLife Global Holding Company I GmbH	Switzerland	100%
MetLife, Life Insurance Company ⁽⁵⁾	Egypt	84.125%
MetLife Global Holding Company II GmbH	Switzerland	100%
ALICO European Holdings Limited	Ireland	100%
MetLife Emeklilik ve Hayat A.S. ⁽⁶⁾	Turkey	99.98%
MetLife Reinsurance Company of Bermuda Ltd.	Bermuda	100%
MM Global Operations Support Center, S.A. de C.V. ⁽⁷⁾	Mexico	99.999%
PJSC MetLife ⁽⁸⁾	Ukraine	99.998%
MetLife International Holdings, LLC	Delaware	100%
MetLife Investments Management Limited	United Kingdom	100%
MetLife Innovation Centre Limited	Ireland	100%
MetLife Asia Holding Company Pte. Ltd.	Singapore	100%
MetLife Columbia Seguros de Vida S.A. ⁽⁹⁾	Colombia	89.999%
ALICO Operations LLC.	Delaware	100%
MetLife EU Holding Company Limited	Ireland	100%
MetLife Investment Management Holdings Limited	Ireland	100%

Delaware American Life Insurance Company

MetLife Investment Asia Limited	Hong Kong	100%
MetLife Investments Limited ⁽¹⁰⁾	United Kingdom	99.9%
MetLife Latin America Asesorias e Inversiones Limitada ⁽¹¹⁾	Chile	99.9%
MetLife Global Infrastructure LUX GP, S.a.r.l	Luxembourg	100%

- (1) 72.35109659% of MetLife Chile Inversiones Limitada is owned by MetLife, 24.8823628% is owned by ALICO, 2.76654057% is owned by Inversiones MetLife Holdco Dos Limitada and 0.00000004% is owned by Natiloportem Holdings, LLC (Natiloportem)
- (2) The Department approved a disclaimer of affiliation and therefore, this company is not considered an affiliate under Delaware Law.
- (3) 30% of MetLife American International Group and Arab National Bank Cooperative Insurance Company is owned by ALICO and the remaining interest by third parties.
- (4) 51% of ALICO Properties, Inc. is owned by ALICO and the remaining by third parties.
- (5) 84.125% of MetLife, Life Insurance Company (Egypt) is owned by MetLife Global Holding Company I GmbH (Global I) and the remaining interest by third parties.
- (6) 99.98% of MetLife Emeklilik ve Hayat A.S. is owned by MetLife Global Holding Company II GmbH (Global II) and the remaining by third parties.
- (7) 99.999509% of MM Global Operations Support Center S.A. de C.V. (Mexico) is held by Global II and 0.00049095% is held by Global I.
- (8) 99.9988% of PJSC MetLife is owned by Global II, 0.0006% is owned by International Technical and Advisory Services Limited (ITAS) and the remaining 0.0006% is owned by Borderland Investments Limited (Borderland).
- (9) 89.9999657134583% of MetLife Columbia Seguros de Vida S.A. is owned by Global II, 10.0000315938813% is owned by Global I and ITAS, Borderland and Natiloportem each owns 0.000000897553447019009%.
- (10) 99.9% of MetLife Investments Limited is owned by MetLife Investment Management Holdings Limited (MIMHL) and 0.1% is owned by Global II.
- (11) 99.99% of MetLife Latin American Asesorias e Inversiones Limitada is owned by MIMHL and 0.01% is owned by Global II.

Agreements with Affiliates

Administrative Agreement with MetLife Europe d.a.c. pobočka pro Českou republiku

Effective September 1, 2015, the Company entered into an Administrative Services Agreement with pobočka pro Českou republiku (ME Czech Branch), whereby the Company provides administrative services to ME Czech Branch in connection with the group medical business coverage provided by ME Czech Branch to certain employers to cover their expatriate employees actively performing work in the Czech Republic and their eligible dependents. A total of \$2,461 was received by the Company under this agreement in 2018.

Administrative Agreement with Sino-US United MetLife Insurance Co., Ltd

Effective July 1, 2016, the Company entered into an Administrative Services Agreement with Sino-US United MetLife Insurance Co., Ltd (MetLife China), whereby the

Company provides administrative services to MetLife China in connection with the group medical business coverage provided by MetLife China to certain employers to cover their expatriate employees actively performing work in China and their eligible dependents. A total of \$579,580 was received or receivable by the Company under this agreement in 2018.

Administrative Services Agreement with Metropolitan Life Insurance Company

Effective January 1, 2017, the Company entered into an Administrative Services Agreement with MLIC whereby the Company provides services to MLIC in respect of certain group life (including accidental death and dismemberment coverage (AD&D)) and disability policies issued by MLIC. A total of \$0 was received or receivable by the Company under this agreement in 2018.

Master Services and Facilities Agreement

Effective October 1, 2018, the Company entered into a Master Services and Facilities Agreement with Metlife Services and Solutions, LLC (MSS) that provides for a broad range of services to be rendered and facilities and equipment to be provided to the Company. Services, facilities, and equipment are requested by the recipient as deemed necessary to its operations. The agreement provides that the Company is to pay MSS a charge equal to all expenses, direct and indirect, reasonably and equitably determined to be attributable to the services, facilities and equipment provided. A total of \$3,721,620 was paid or payable by the Company for services and facilities under this agreement for the year ended December 31, 2018.

Other Intercompany Agreements

The following agreements became effective prior to the examination period and remained in-force as of December 31, 2018:

<u>Description</u>	<u>Effective Date</u>
Master Services and Facilities Agreement with Affiliates	November 1, 2010
Master Services Agreement with MLIC	November 1, 2010
Assignment and Assumption Agreements with AAM and MIA	November 1, 2010
Common Paymaster Agreement with MIHL	November 1, 2010
Service Agreement with MetLife Group, Inc.	November 1, 2010 ⁽¹⁾
Tax Sharing Agreement with MetLife	November 1, 2010 ⁽²⁾
Metropolitan Money Market Pool Partnership (MMMP) Agreement	July 11, 2011 ⁽³⁾
Service Agreement with MetLife Mexico S.A.	February 9, 2012 ⁽⁴⁾
Service Agreement – ALICO Gulf	January 1, 2013
Administrative Services Agreement with MetLife Biztosito Zrt	July 1, 2013 ⁽⁵⁾
Administrative Services Agreement with MGB	August 1, 2013
Global Service Agreement with MIHL	June 19, 2014

- (1) This agreement was terminated effective April 1, 2019. It was replaced by the Master Services and Facilities Agreement with MSS, effective October 1, 2018.
- (2) The Company was eligible to participate in the Consolidated Tax Allocation Agreement with MetLife beginning in 2015.
- (3) The MMMP is a general partnership consisting of certain affiliates of MLIC. The MMMP was originally managed by MLIC, and beginning in 2018, MIA became the manager of the MMMP.
- (4) This agreement was amended effective January 1, 2013 to include language pertaining to Administrative Fees charged.
- (5) This agreement was terminated in 2015.

Acronym Legend

AAM – AIG Asset Management (US), LLC

MIA – MetLife Investment Advisors, LLC, (formerly known as MetLife Investment Management, LLC)

MIHL – MetLife International Holdings, LLC (formerly known as MetLife International Holdings, Inc.)

ALICO Gulf – Consists of ALICO's branch operations in Bahrain, Kuwait, ME Pensions, Oman, Qatar, Qatar Financial Center, the United Arab Emirates Branch of ALICO and Saudi Arabia

MGB – MetLife Global Benefits Ltd.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2018, the Company was licensed in the District of Columbia and all States. The Company is authorized as a stock insurer to transact the business of life and health insurance as defined in 18 *Del. C.* § 902 "Life insurance" defined and 18 *Del. C.* § 903 "Health insurance" defined.

The principal office facilities of the Company are located in Wilmington, Delaware.

Plan of Operation

As of December 31, 2018, approximately 93.2% of direct premium was produced outside of the U.S.

The geographical breakdown of direct written premiums as of December 31, 2018, was: Aggregate Other Alien, \$69,769,462 (91.5%); Canada, \$1,239,301 (1.7%); Michigan, \$644,036 (0.8%); Delaware, \$454,839 (0.6%); New Jersey, \$432,006 (0.6%); other jurisdictions, \$3,691,987 (4.8%).

The Company's operations consist of affiliated reinsurance, and expatriate business, the focus of which is on multi-national organizations with employees on international assignments, i.e., executives working outside their own country of citizenship. Lines of business marketed include life, AD&D, medical, dental, long-term disability (LTD), and International Business Travel Medical (IBTM) on a group basis through its sales force and independent brokers and consultants. DELAM operates in the Americas (which is part of the U.S. business segment) and MetLife's Corporate & Other.

Corporate & Other contains various start-up, developing and run-off businesses. Also, included in Corporate & Other are: the excess capital not allocated to the segments, as well as certain charges and activities, not allocated to segments, interest expense related to the majority of MetLife's outstanding debt, expenses associated with certain legal proceeding and income tax audit issues, the elimination of intersegment amounts, and MetLife's investment management business.

Agency Relations and Sales Distribution

The Company markets group life, AD&D, medical, dental, LTD, and IBTM business on a group basis. The customer focus of this business is on employees working outside their own

country of citizenship. This "expatriate benefits" business is marketed through its sales force, consisting of 7 sales associates and 1 sales leader. The sales force is organized by regional sales areas covering the North, Mid-Atlantic, Southeast, South, and West Coast regions. The regional sales personnel are licensed agents who work with various licensed brokers/agencies throughout the United States. All policies are written in the State of Delaware, either directly (if the client has a presence in Delaware) or through a group insurance trust. As the Company's insured memberships are not necessarily U.S. residents, this approach allows the Company to offer a streamlined, simple product to its customer base.

MetLife's expatriate benefits operating model utilizes a foundation of leveraging existing MetLife and partner operations to complement the Company's global headquarters in Wilmington, Delaware. The Expatriate Unit (in Wilmington, Delaware) provides a local-service model for its global membership providing three foundation pillars: 1) local multilingual customer service support, 2) local health claim processing service, and 3) access to proprietary networks of hospitals and clinics. Using a traditional "hub and spoke" approach, the Company headquarters in Wilmington, Delaware, is responsible for overall program management, underwriting/pricing, business/network development, claim processing/service, as well as overall client management.

The Expatriate Unit utilizes Regional Service Centers to provide local administration of policies. Over the span of years, the Expatriate Unit has selected a collection of 9 geographical hubs and MetLife wholly owned offices to provide global service support for its global membership. At the basis of each partnership, is a set of core elements, which include:

- Dedicated Account Executive / Key Contact
- Dedicated Claims / Service / Case Management teams
- Network Management

- Access to established networks of hospitals and clinics with local fee schedules and discount arrangements
- A local team with knowledge of reasonable and customary rates
- Local fraud detection support teams.

Through the use of these local partners, the global membership is able to access the same type of service as the local book of business. Using data specific to the Expatriate Unit in the U.S., local partners are able to activate members in their system in order to access network providers, provide customer assistance, and pay claims on behalf of the Company's policy.

REINSURANCE

For 2018, the Company reported the following breakdown of premiums:

Direct	\$	77,079,699
Reinsurance assumed (from affiliates)		12,294,801
Reinsurance assumed (from non-affiliates)		7,281,119
Total direct and assumed	\$	<u>96,655,619</u>
Reinsurance ceded (to affiliates)		884,374
Reinsurance ceded (to non-affiliates)		2,820,138
Net premium written	\$	<u><u>92,951,107</u></u>

The Company enters into reinsurance agreements as a purchaser of reinsurance for its insurance products and also as a provider of reinsurance for some insurance products issued by affiliated and unaffiliated companies. The Company participates in reinsurance activities in order to limit losses, minimize exposure to significant risks, and provide additional capacity for future growth.

The Company historically entered into agreements with reinsurers to cover individual risks, group risks or defined blocks of business, primarily on an excess of retention or quota share basis. These reinsurance agreements spread risk and minimize the effect of losses. The Company reinsures, for selected large corporate customers, its group employee benefits or credit insurance business with client-affiliated reinsurance companies, covering policies issued to the

employees or customers of the clients. Additionally, the Company cedes and assumes risk with other insurance companies when either company requires a business partner with the appropriate local licensing to issue certain types of policies in certain countries. In these cases, the assuming company typically underwrites the risks, develops the products, and assumes most or all of the risk. The Company evaluates its reinsurance programs routinely and may increase or decrease its retention at any time.

The Company has exposure to catastrophes, which could contribute to significant fluctuations in the Company's results of operations. In the past, DELAM was both a provider of catastrophe (CAT) coverage for affiliated companies, as well as a purchaser of CAT coverage for its own business operations.

The Company reinsures its business through a diversified group of reinsurers. The Company analyzes recent trends in arbitration and litigation outcomes in disputes, if any, with its reinsurers. The Company monitors ratings and evaluates the financial strength of its reinsurers by analyzing their financial statements. In addition, the reinsurance recoverable balance due from each reinsurer is evaluated as part of the overall monitoring process. No single unaffiliated reinsurer has a material obligation to the Company nor is the Company's business substantially dependent upon any reinsurance agreement. The Company is contingently liable with respect to ceded reinsurance should any reinsurer be unable to meet its obligations under these agreements.

Credit for Reinsurance

The letters of credit and the trust agreements for unauthorized reinsurers were reviewed and were determined to comply with the requirements of 18 *Del. Admin. Code* 1003 "Credit for Reinsurance" and the NAIC *Accounting Practices and Procedures Manual*, SSAP No. 61.

Reinsurance Contract Review

A review was performed of significant reinsurance contracts put into place during the examination period for compliance with 18 *Del. Admin Code* §1000, NAIC Guidelines, and Statutory Accounting Principles (SSAP). No exceptions were noted.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

General Account:

- Statement of Assets and Liabilities as of December 31, 2018
- Statement of Income for the year ended December 31, 2018
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2014 to December 31, 2018

Statement of Assets and Liabilities
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	\$ 84,114,219	\$	\$ 84,114,219	
Cash, cash equivalents and short-term investments	7,880,470		7,880,470	
Other invested assets	5,300,421		5,300,421	
Investment income due and accrued	734,230		734,230	
Premiums and considerations				
Uncollected premiums and agents' balances in course of collection	12,255,792	1,151,530	11,104,262	
Reinsurance:				
Amounts recoverable from reinsurers	3,876,518		3,876,518	
Funds held by or deposited with reinsured companies	1,465,000		1,465,000	
Other amounts receivable under reinsurance contracts	455,306		455,306	
Net deferred tax asset	2,556,859	795,789	1,761,070	
Guarantee funds receivable or on deposit	24,022		24,022	
Receivable from parent, subsidiaries and affiliates	262,597		262,597	
Aggregate write-ins for other than invested assets	3,031,060	3,031,060	-	
Total assets excluding Separate Accounts	<u>\$ 121,956,494</u>	<u>\$ 4,978,379</u>	<u>\$ 116,978,115</u>	
From Separate Accounts		-	-	
Total	<u><u>\$ 121,956,494</u></u>	<u><u>\$ 4,978,379</u></u>	<u><u>\$ 116,978,115</u></u>	

Delaware American Life Insurance Company

		<u>Notes</u>
Aggregate reserves for life contracts	\$ 735,710	1
Aggregate reserves for accident and health contracts	11,781,741	1
Contract claims:		
Life	6,250,352	1
Accident and health	13,862,133	1
Premiums and annuity considerations for life and accident and health contracts received in advance	1,261,924	
Contract liabilities not included elsewhere:		
Provision for experience rating refunds	4,597,885	
Other amounts payable on reinsurance	5,404,402	
Interest maintenance reserve	320,841	
Commissions to agents due or accrued	24,324	
Commissions and expense allowances payable on reinsurance assumed	1,829,287	
General expenses due or accrued	25,453	
Taxes, licenses and fees	110,898	
Current federal and foreign income taxes	1,850,510	
Remittances and items not allocated	877,444	
Miscellaneous liabilities:		
Asset valuation reserve	355,432	
Reinsurance in unauthorized and certified companies	699,691	
Funds held under reinsurance treaties and unauthorized reinsurers	21,566	
Payable to parent, subsidiaries and affiliates	1,058,471	
Aggregate write-ins for liabilities	781,788	
Total liabilities excluding Separate Accounts	<u>\$ 51,849,852</u>	
From Separate Accounts Statement	-	
Total Liabilities	<u>\$ 51,849,852</u>	
Common capital stock	2,500,000	
Preferred capital stock		
Gross paid-in and contributed surplus	35,971,736	
Unassigned funds	26,656,527	
Capital and surplus	<u>\$ 65,128,263</u>	
Total Liabilities, Capital and Surplus	<u>\$ 116,978,115</u>	

Statement of Income
For the Year Ended December 31, 2018

		<u>Notes</u>
Premiums and annuity considerations for life and accident and health contracts	\$ 92,951,107	
Net investment income	3,313,139	
Amortization of Interest Maintenance Reserve	126,145	
Commissions and expense allowances on reinsurance ceded	459,301	
Aggregate write-ins for miscellaneous income	55,683	
Totals	\$ 96,905,375	
Death benefits	\$ 4,435,910	
Disability benefits and benefits under accident and health contracts	43,826,915	
Increase in aggregate reserves for life and accident and health contracts	1,528,173	
Totals	\$ 49,790,998	
Commissions on premiums, annuity considerations and deposit-type contracts funds	4,969,575	
Commissions and expense allowances on reinsurance assumed	5,477,551	
General insurance expenses	20,585,442	
Insurance taxes, licenses and fees, excluding federal income taxes	1,037,597	
Increase in loading on deferred and uncollected premiums	(173,366)	
Aggregate write-ins for deductions	67,967	
Totals	\$ 81,755,764	
Net gain from operations before dividends to policyholders and federal income taxes	\$ 15,149,611	
Net gain from operations after dividends to policyholders and before federal income taxes	15,149,611	
Federal and foreign income taxes incurred	2,610,228	
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	12,539,383	
Net realized capital gains (losses)	(1,896)	
Net Income	\$ 12,537,487	

**Reconciliation of Capital and Surplus
For the Period from the Prior Examination
As of December 31, 2014, to December 31, 2018**

	Correction of Errors	Common Capital Stock	Gross Paid-in and Contributed Surplus	Aggregate Write-ins for Special Surplus Funds	Unassigned Surplus	Total
12/31/14 ⁽¹⁾	\$ (1,267,498)	\$ 2,500,000	\$ 35,971,736	\$ 544,923	\$ 31,532,583	\$ 69,281,744
12/31/15 ⁽²⁾	2,981,916			(544,923)	(8,265,388)	(5,828,395)
12/31/16					9,096,257	9,096,257
12/31/17 ⁽³⁾	931,515				(11,653,339)	(10,721,824)
12/31/18 ⁽⁴⁾	(2,490,619)				5,791,100	3,300,481
Rounding						-
	<u>\$ 155,314</u>	<u>\$ 2,500,000</u>	<u>\$ 35,971,736</u>	<u>\$ -</u>	<u>\$ 26,501,213</u>	<u>\$ 65,128,263</u>

- (1) Correction of errors decreased surplus by (\$1,267,498). The decrease was recorded in "Aggregate write-ins for gains and losses in surplus" related to an understatement of unauthorized reinsurance and an understatement of pension expenses in prior years. These adjustments were recorded as a prior period decrease to capital and surplus. The increase in pension expenses was offset by a non-cash capital contribution (forgiveness of intercompany payable) from the Company's parent, MetLife.
- (2) Correction of errors increased surplus by \$2,981,916. The increase was recorded in "Aggregate write-ins for gains and losses in surplus" related to an overstatement of accident and health contract claims incurred but unreported in prior years.
- (3) Correction of errors increased surplus by \$931,515. During 2017, the Company discovered an error in the calculation of the provision for experience rating refunds related to releasing the liability for certain prior clients. The correction of this error was reported as a prior period adjustment within aggregate write-ins for gains and losses in surplus.
- (4) Correction of errors decreased surplus by (\$2,490,619). During 2018, the Company discovered an error in the settlement calculation on several experience rated contracts. The correction of this error was reported as a prior period adjustment within aggregate write-ins for gains and losses in surplus. The impact of this correction on surplus was a decrease of (\$2,349,028). In addition, the Company reevaluated its review process of several expatriate suspense and global service center funding accounts. During the review process, it was identified that net assets of \$2,982,344 would be required to be written-off. Included in the net write-off was \$3,354,266 of non-admitted assets originally included in aggregate write-ins for other than invested assets. The correction of this error was reported as a prior period adjustment within aggregate write-ins for gains and losses in surplus. The impact of this correction on surplus was an increase in surplus of \$293,817. Other adjustments also identified in 2018, and included in the correction of errors was (1) a refund of prior year premiums discovered upon termination of coverage, decreasing surplus by (\$663,789) and (2) payment of prior year claims of an affiliated, MGB, increasing surplus by \$228,381.

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE
EXAMINATION**

There were no changes made to the Financial Statements as a result of this Examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities – General Account

Note 1:

Aggregate reserve for life contracts	\$ 735,710
Aggregate reserve for Accidend & Health (A&H) contracts	\$11,781,741
Contract claims:	
Life	\$ 6,250,352
A&H	\$13,862,133

In order for the examination team to gain an adequate comfort level with the Company’s reserve estimates for Aggregate reserve for life contracts, Aggregate reserve for A&H contracts, and Contract claims: life and A&H, the Department retained the actuarial services of INS Consultants (INS) to perform a risk-focused review of the Company’s reserving and pricing activities. Certain risks within the reserving processes required Phase 5 substantive test work to assess the reasonableness of carried reserves.

Based on the procedures performed and results obtained by INS, the examination team obtained sufficient evidence to support the conclusion that the Company’s net reserves for the aforementioned balance sheet items are reasonably stated as of December 31, 2018, subject to the following two recommendation,

The Actuarial Opinion and Memorandum Regulation (AOMR) indicates that the Appointed Actuary should address specified items in the Actuarial Opinion and Memorandum (AOM). The documentation should be such that an actuary reviewing the AOM could form a conclusion as to the reasonableness of the assumptions. Accordingly, it is recommended that:

- The Appointed Actuary sign and date the AOM;
- Disclose the Appointed Actuary’s review of data, projections and supporting analysis for reasonableness and consistency in the Actuarial Opinion and Memorandum;
- Include an expanded section of the reserve methodology and basis including the valuation methods used in enough detail for a reviewing actuary to conclude the methodology was appropriate and reasonable;

- Disclose the material asset and liability assumptions used in the cash flow testing (CFT) projections in enough detail so that a reviewing actuary can determine if the assumption is reasonable;
- Disclose the projection period for all business subject to modeling (CFT and Duration Analysis);
- Provide all validations (static and dynamic) to document that the amounts modeled are reasonable; and
- Disclose the material changes in assumptions and methodology from the prior year's analysis. If there are no material changes in assumptions and methodology, the AOM should disclose this

SUBSEQUENT EVENTS

The following material subsequent events occurred, requiring disclosure in this examination report.

Dividend Payment

On December 16, 2019, DELAM submitted a request to pay an ordinary dividend in the amount of \$12 million to MetLife on or before December 27, 2019. The Department approved the payment on December 19, 2019.

Other - COVID-19

The Company noted the following in its 2019 Statutory Management Discussion & Analysis, which was filed on or about March 31, 2020: "The novel coronavirus COVID-19 pandemic is causing illnesses and deaths. This pandemic, other pandemics, and their related major public health issues are having a major impact on the global economy and financial markets. Governmental and non-governmental organizations may not effectively combat the spread and severity of such a pandemic, increasing its harm to the company. Any of these events could materially adversely affect the company's operations, business, financial results, or financial condition."

SUMMARY OF RECOMMENDATIONS

1. The AOMR indicates that the Appointed Actuary should address specified items in the AOM. The documentation should be such that an actuary reviewing the AOM could form a conclusion as to the reasonableness of the assumptions. Accordingly, it is recommended that:
 - The Appointed Actuary sign and date the AOM;
 - Disclose the Appointed Actuary's review of data, projections, and supporting analysis for reasonableness and consistency in the AOM;
 - Include an expanded section of the reserve methodology and basis including the valuation methods used in enough detail for a reviewing actuary to conclude the methodology was appropriate and reasonable;
 - Disclose the material asset and liability assumptions used in the CFT projections in enough detail so that a reviewing actuary can determine if the assumption is reasonable;
 - Disclose the projection period for all business subject to modeling (CFT and Duration Analysis);
 - Provide all validations (static and dynamic) to document that the amounts modeled are reasonable; and
 - Disclose the material changes in assumptions and methodology from the prior year's analysis. If there are no material changes in assumptions and methodology, the AOM should disclose this. (Comments on Financial Statement Items, Liabilities – General Account, page 22)

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS, the Company's outside audit firm, D&T, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Keith E. Misenheimer, CFE, ALMI, CFE, ARM
Examiner-In-Charge
State of Delaware



James Call, CFE
Supervising Examiner
State of Delaware

I, Keith E. Misenheimer, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 19.011.

A handwritten signature in black ink, appearing to read "Keith E. Misenheimer", written over a horizontal line.

Keith E. Misenheimer, CFE, ALMI, CFE, ARM