

**REPORT ON EXAMINATION
OF THE
INDEPENDENCE INSURANCE INC.
AS OF
DECEMBER 31, 2016**

NAIC CODE 60254

Trinidad Navarro
Commissioner



Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2016 of

INDEPENDENCE INSURANCE INC.

is a true and correct copy of the document filed with this Department.

Attest By: Rylynn Brown

Date: March 28, 2018



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 28th day of March, 2018.

Trinidad Navarro

Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF
INDEPENDENCE INSURANCE INC.
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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.

A handwritten signature in blue ink that reads "Trinidad Navarro".

Trinidad Navarro
Insurance Commissioner

Dated this 28th day of March, 2018

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January 9, 2018

Honorable Trinidad Navarro
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Certification Number 17.009, dated April 15, 2017, an examination has been made of the affairs, financial condition and management of the

INDEPENDENCE INSURANCE INC.

hereinafter referred to as (Company or III), incorporated under the laws of the State of Delaware as a stock company, with its home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the main administrative office of the Company, located at 1901 Market Street, Philadelphia, Pennsylvania.

The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) has performed a risk-focused financial examination of the Company. The last examination of the Company was conducted as of December 31, 2011. This examination covered the period of January 1, 2012 through December 31, 2016, and encompassed a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate

matters, with a determination of the financial condition of the Company at December 31, 2016. Transactions after the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of the multi-state coordinated examination of the Independence Health Group, Inc. (IHG) insurance group of companies as of December 31, 2016. The Pennsylvania Insurance Department was the lead state. To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted the examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that the Department 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, pursuant to the General Corporation Law of the State of Delaware as required by 18 Del. C. §321, along with general

information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

This examination had no material adverse findings, significant non-compliance findings, material changes in financial statements, or updates on other significant regulatory information disclosed in the previous examination.

COMPANY HISTORY

The Company was organized and incorporated as a stock insurance company under the laws of the State of Delaware on October 8, 1996. Since its organization, the Company's parent had been AmeriHealth Inc., in turn a subsidiary of Independence Health Group (IHG), f/ka Independence Blue Cross. To date, the Company has not written any insurance business and there are no plans to activate the Company. Effective July 1, 2014, IHG underwent a corporate restructuring and HCD became a wholly-owned subsidiary of Independence Blue Cross, LLC (IBC LLC); all outstanding shares of the Company are owned by IBC LLC.

Capitalization

The Company's Certificate of Incorporation provides that the Company is authorized to issue 10,000 shares of common capital stock with a par value of \$100 per share. As of December 31, 2016, the Company had 3,500 common shares issued and outstanding, resulting in common capital stock of \$350,000. On July 1, 2014, the stock was transferred from Amerihealth

Independence Insurance Inc

Inc. to Independence Blue Cross, LLC, a subsidiary of IHG. Additional paid in capital of \$1,850,000 has remained unchanged during the examination period.

Dividends

The Company did not authorize, declare or pay dividends during the examination period.

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Articles of Incorporation and Bylaws, all corporate powers are exercised by or under the direction of the Board of Directors (Board). The bylaws provide that the Company's business and affairs shall be under the control of its Board. The Board shall consist of one (1) or more directors. Each director shall hold office until the next annual meeting of the shareholders or until his successor shall have been elected and qualified.

At December 31, 2016, the members of the Board together with their principal business affiliations were as follows:

<u>Director's Name</u>	<u>Principal Occupation</u>
Richard Joseph Neeson	Executive Vice President and Chief Development and Innovation Officer, IHG

The minutes of the meetings of the Shareholders and Board, which were held during the period of examination, were obtained and reviewed. Attendance at meetings, election of directors and officers, and approval of investment transactions were also noted.

Board Committees

The Company's bylaws state that the Board may designate one or more committees, including an Executive Committee, which shall consist of one (1) or more directors of the

Company. The Executive Committee shall have and may exercise the powers of the Board in the management of the business and affairs of the Company. Committees other than the Executive Committee shall have such names, powers and duties as may be determined by the Board. As of December 31, 2016, the Board had no designated committees.

Officers

The Company's bylaws state that the Company's officers shall consist of a President, one (1) or more Vice Presidents, a Secretary, and a Treasurer, all of whom shall be elected at the annual meeting of the Directors and shall hold office for a period of one year or until their successors are elected and qualified. The Board shall have the power to employ a President to administer the affairs of the Company under its direction.

At December 31, 2016, the Company's principal officers and their respective titles were as follows:

<u>Officer's Name</u>	<u>Position</u>
Michael Walsh Sullivan	President and Chief Executive Officer
Gregory Eugene Deavens	Executive Vice President, Treasurer and CFO
Lilton Roosevelt Taliaferro, Jr.	Secretary

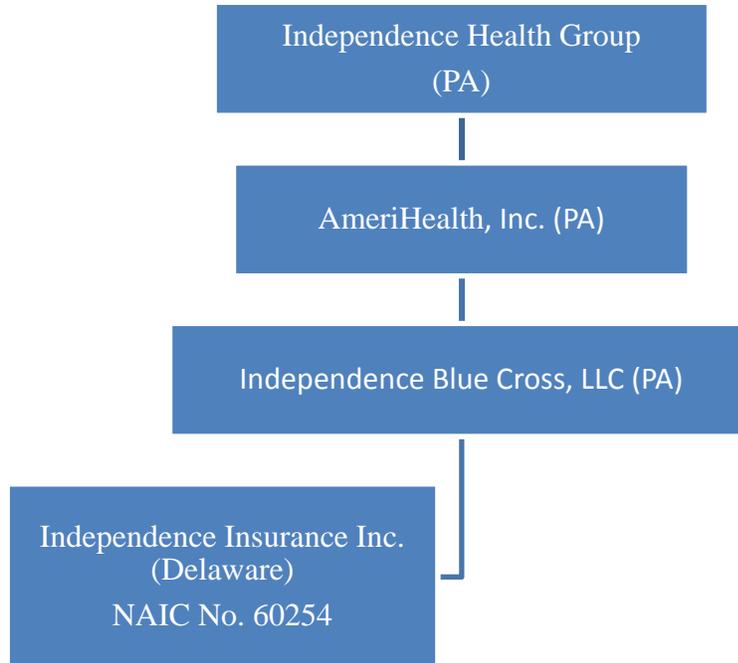
Additionally, inspection of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. §4919. The group maintains a formal written Code of Conduct, which sets out the standards of ethical conduct that apply to all employees, officers and directors. Incorporated into the Code of Conduct is a Conflict of Interest Policy. On an annual basis all officers and directors of the Company are required to complete a

Conflict of Interest Disclosure Statement. A review of the Company's annual Conflict of Interest Disclosure Statement for officers, directors and key employees was performed, with no concerns or issues identified. Finally, review of the Company's Board meeting minutes over the examination period reflected accordance with the Company's bylaws. From review of such minutes, the attendance at Board meetings, the elections of directors and officers and the approvals of investment transactions were noted.

Holding Company System

The Company is a member of an insurance holding company system as defined under 18 Del. C. §5001(6) "Insurance Holding Company System". The Company's Insurance Holding Company System Registration Statement (Annual Form B) was filed timely for each year under examination with the Department.

The Company is part of the IHG holding company system, whereby IHG operates as the ultimate controlling entity. The Company, unlike certain affiliate companies within the holding company system, is inactive. The following is an abbreviated organizational chart which reflects the interrelationships between the Company and its immediate holding companies as of December 31, 2016:



Affiliated Management and Service Agreements

As of December 31, 2016, the Company was party to the following affiliated agreements, which were disclosed in the annual Form B filings with the Department:

Master Services Agreement

Effective January 1, 1999, and most recently amended July 1, 2014, IHG provides executive administration; legal, data processing services, treasury, including cash management and investment portfolio management services. Fees for these services are allocated on a cost basis, overhead and administration costs for which direct costs allocation is impractical shall be allocated consistent with Statutory Accounting Principles. All balances are settled monthly between the parties. No fees were paid under this agreement in 2016.

Tax Sharing Agreement

Effective February 21, 2001, and most recently amended on July 1, 2014, the Company entered into a consolidated tax sharing agreement between and among IHG and its qualifying

subsidiaries. The agreement was approved by the Company's Board and states that the total consolidated federal income tax for all entities is allocated to each entity based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled monthly.

Treasury Services Agreement

Effective January 1, 1999, and most recently amended July 1, 2014, IHG provides daily cash management and investment of cash flows for the Company. Costs for this agreement shall be pro-rated with respect to program balances of all participants. During 2016, \$5,462 of fees were paid under this agreement.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2016, the Company was licensed to transact business in Delaware. The Company is authorized as a stock insurer to transact the business of life, including annuities, credit life, health and credit health insurance as defined in 18 Del. C. § 902 "Life insurance" and 18 Del. C. § 903 "Health insurance", with the principal office facilities of the Company located in Philadelphia, Pennsylvania.

Plan of Operation

The Company is inactive.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. There were no examination adjustments for the years covered by the exam.

Assets
Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Reconciliation of Capital and Surplus

Assets
December 31, 2016

	Assets	Non Admitted Asset	Admitted Assets	Notes
Cash, Cash				
Equivalents and Short				
term investments	\$ 1,705,452		\$ 1,705,452	1
Receivables from				
parent, subsidiaries and				
affiliates	674		674	
 Total Assets	\$ 1,706,126		\$ 1,706,126	

Liabilities, Capital and Surplus
December 31, 2016

Total Liabilities	-
 Common Capital Stock	 \$ 350,000
Gross paid in and contributed capital	1,850,000
Unassigned funds (surplus)	(493,874)
Total capital and Surplus	\$ 1,706,126
 Total liabilities, capital and surplus	\$ 1,706,126

Summary of Operations
December 31, 2016

Premiums	\$ -
Net investment income (expense)	<u>(2,500)</u>
Total	<u>(2,500)</u>
General insurance expenses	\$ 2,962
Insurance taxes licenses and fees	<u>1,111</u>
Total	\$ 4,073
Net gain (loss) from operations after dividends and income taxes	<u>(6,573)</u>
Net Income (Loss)	<u><u>\$(6,573)</u></u>

Reconciliation of Capital and Surplus
December 31, 2011 to December 31, 2016

	Common Capital Stock	Gross Paid-In & Contributed Surplus	Unassigned Surplus	Total
December 31, 2011	\$ 350,000	\$ 1,850,000	\$ (468,222)	\$ 1,731,778
Operations 2012 (1)			(3,300)	\$ 1,728,478
Operations 2013 (1)			(6,311)	\$ 1,722,167
Operations 2014 (1)			(4,548)	\$ 1,717,619
Operations 2015 (1)			(4,920)	\$ 1,712,699
Operations 2016 (1)			(6,573)	\$ 1,706,126
December 31, 2016	<u>\$ 350,000</u>	<u>\$ 1,850,000</u>	<u>\$ (493,874)</u>	<u>\$ 1,706,126</u>

(1) Operations defined as: Net income (loss), change in unrealized capital gains (loss), change in net deferred income tax and change in non-admitted assets.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS FROM EXAMINATION

There were no financial adjustments to the Company's financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENTS

Note (1) Cash and Short-term investments **\$ 1,705,452**

The Company holds cash of \$1,557,316. Additionally, the Company holds short-term investments, of \$146,136 as special deposits with the State of Delaware rated as NAIC Class 1 (100%).

SUBSEQUENT EVENTS

There were no significant subsequent events that warranted disclosure in this examination report.

COMPLIANCE WITH PRIOR REPORT OF EXAMINATION

There were no recommendations in the prior report of examination.

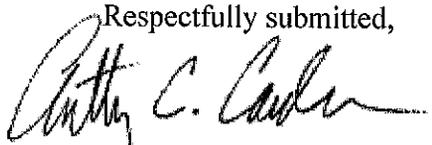
SUMMARY OF RECOMMENDATIONS

No examination report recommendations were noted as a result of this examination.

CONCLUSION

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Tony Cardone, CFE
Examiner-In-Charge
State of Delaware Department of Insurance



Ann Preutt, CFE
Supervising Examiner
State of Delaware Department of Insurance