

REPORT ON EXAMINATION
OF
INDEPENDENCE INSURANCE, INC.
AS OF
DECEMBER 31, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

INDEPENDENCE INSURANCE, INC.

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

Attest By: *Brante Biddle*

Date: March 13, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 13th day of March, 2013.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
INDEPENDENCE INSURANCE, INC.
AS OF
DECEMBER 31, 2011

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 black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 13th day of March, 2013

TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS	3
SUBSEQUENT EVENTS	3
COMPANY HISTORY	3
MANAGEMENT AND CONTROL	3
Insurance Holding Company System.....	4
Intercompany Management and Service Agreements	5
Administrative Services Agreement with IBC.....	6
Tax Sharing Agreement	6
TERRITORY AND PLAN OF OPERATION	6
GROWTH OF THE COMPANY	7
FINANCIAL STATEMENTS	7
Analysis of Assets.....	8
Statement of Liabilities, Surplus and Other Funds	8
Underwriting and Investment Exhibit - Statement of Income	9
Reconciliation of Surplus from Prior Examination	9
SCHEDULE OF EXAMINATION ADJUSTMENTS.....	10
NOTES TO FINANCIAL STATEMENTS.....	10
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS	10
SUMMARY OF RECOMMENDATIONS	10
CONCLUSION.....	11

SALUTATION

November 16, 2012

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner,

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 11.036 dated May 9, 2012, an examination has been made of the affairs, financial condition and management of the

INDEPENDENCE INSURANCE, INC

hereinafter referred to as the "Company" or "III" and incorporated under the laws of the state of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, DE 19801. The examination was conducted at the administrative offices of the Company, located at 1901 Market Street, Philadelphia, PA 19103. A coordinating examination of the Company was conducted concurrently with that of its affiliates, Healthcare Delaware Inc., and AmeriHealth Casualty Insurance Company. Separate reports of examination were filed for each company. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2006. This examination covered the period of January 1, 2007 through December 31, 2011, and encompasses 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, 2011. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our 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 Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

- Corporate Records
- Fidelity Bonds and Other Insurance
- Loss Experience
- Pensions, Stock Ownership and Insurance Plans
- Statutory Deposits
- Accounts and Records

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, adjustments to the financial statements, or specific recommendations as a result of this examination.

SUBSEQUENT EVENTS

No significant subsequent issues noted. The company remained inactive during the examination period.

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 has been AmeriHealth Inc., who is a subsidiary of Independence Blue Cross of Philadelphia, PA (IBC).

To date, the Company has not written any insurance business and there are no plans to activate the Company.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board of Directors (Board). The Board shall consist of at least two members and is subject to a maximum of seven members.

The control and management of the Company is vested in the Board of Directors. The persons elected and serving as Directors of the Company at December 31, 2011 were:

Director
John Christopher Cashman, III
Alan Krigstein

Principal Business Affiliation
President & CEO
EVP, CFO & Treasurer, IBC

As indicated, all of the Company's directors are executives of the ultimate parent, IBC.

The Officers of Company are elected by the Board annually. Those persons serving as of December 31, 2011 were:

<u>Name</u>	<u>Title</u>
John Christopher Cashman, III	Chairman, President & CEO
Alan Krigstein	Executive Vice President, Treasurer & CFO
Lilton R. Taliaferro Jr.	Secretary
Richard Levens, Esq.	Assistant Secretary

The Company does not meet in person, however, the election of directors, election of officers, approval of the investment functions and other business is done by unanimous consent of directors. The minutes of the meetings of the Stockholder, which were held during the period of examination, were read and noted. Signatories of those meetings, election of directors and officers and approval of investment transactions were also noted.

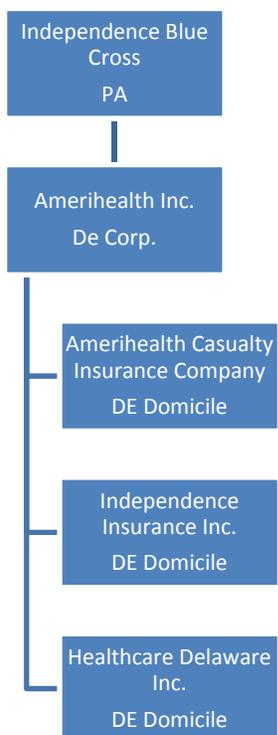
Inspection of Company files indicated that ethics statement/conflict of interest affidavits were distributed, completed and returned by all employees at the Assistant Secretary level or above for the examination period.

During our review for compliance with 18 Del. C. §4919, it was noted that the Company properly reported changes in directors and principal officers.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001 (4) "Insurance Holding Company System". The Company's Holding Company Registration Statements were properly filed with the Delaware Insurance Department for the years under examination. The Company is a direct wholly-owned subsidiary of Independence Blue Cross (the "Parent").

The following is an abbreviated organization chart:



At December 31, 2011, IBC reported the following:

Assets	\$2,505,375,021
Unassigned Funds	\$1,912,976,045
Underwriting Income for 2011	\$ (42,057,117)
Net Income	\$ 116,952,738

Intercompany Management and Service Agreements

The Company had the following intercompany agreements in effect as of December 31, 2011.

Administrative Services Agreement with IBC

The Company entered into an Administrative Services Agreement with IBC effective January 1, 1999 wherein IBC 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 and are settled monthly between the parties.

Tax Sharing Agreement

Effective February 21, 2001 the Company entered into a consolidated tax sharing agreement between and among IBC 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.

TERRITORY AND PLAN OF OPERATION

The Company's Certificate of Authority from the Delaware Insurance Department permits the writing of the following lines of business:

Life, including annuities; and Health

Originally, it was the intention of IBC management to have the Company write health insurance in the British Virgin Islands (BVI). For several years, the Company was licensed to write health insurance in the BVI but the Company never commenced operations. In December, 2003 the Company notified the Financial Services Commission in the BVI of the intention not to renew its license effective December 31, 2003. The Company has never written any business. IBC management has indicated to the examination that there are no plans to activate the Company at the present time.

GROWTH OF THE COMPANY

The following information was obtained from the Company’s filed Annual Statements and covers the five preceding years since its last examination (2006).

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus</u>	<u>Net Premiums Written</u>	<u>Net Income</u>
2006	\$ 1,675,447	\$ 1,672,447	\$ -	\$ 49,253
2007	\$ 1,721,371	\$ 1,718,201	\$ -	\$ 45,754
2008	\$ 1,742,592	\$ 1,742,287	\$ -	\$ 24,086
2009	\$ 1,739,035	\$ 1,738,735	\$ -	\$ (3,552)
2010	\$ 1,734,583	\$ 1,733,879	\$ -	\$ (4,856)
2011	\$ 1,732,012	\$ 1,731,778	\$ -	\$ (2,101)

Since December 31, 2006, the Company’s financial results were as follows:

- 3.38 % increase in admitted assets
- 3.55 % increase in capital and surplus
- 104.27% decrease in net income

As stated above, the Company is inactive. The Company’s total assets remained relatively unchanged and consisted primarily of cash and cash equivalents. There was an insignificant increase in capital and surplus and net income decreased due to operating losses relating to investment income and administrative expenses. The Company is sufficiently capitalized and maintains a liquid investment portfolio to meet current and future cash requirements needed for future business operations.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2011, as determined by this examination, along with supporting exhibits as detailed below:

- Analysis of Assets, December 31, 2011
- Statement of Liabilities, Surplus and Other Funds, December 31, 2011
- Underwriting and Investment Exhibit, Statement of Income, December 31, 2011
- Reconciliation of Surplus Since last Examination

Analysis of Assets

As of December 31, 2011

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$ 142,121		\$ 142,121	
Cash and short-term investments	1,587,959		1,587,959	1
Interest income due and accrued	932		932	
Current federal and foreign income tax	1,000		1,000	
Total Assets	<u>\$ 1,732,012</u>	<u>\$ -</u>	<u>\$ 1,732,012</u>	

Statement of Liabilities, Surplus and Other Funds

As of December 31, 2011

<u>Liabilities, Surplus and Other Funds</u>		<u>Notes</u>
Payable to parent, subsidiaries and affiliates	\$ 234	
Total Liabilities	<u>\$ 234</u>	
Common capital stock	\$ 350,000	2
Gross paid in and contributed surplus	1,850,000	
Unassigned funds (surplus)	(468,222)	
Surplus as regards policyholders	<u>\$ 1,731,778</u>	
Total Liabilities, Capital and Surplus	<u>\$ 1,732,012</u>	

Underwriting and Investment Exhibit - Statement of Income

As of December 31, 2011

UNDERWRITING INCOME

Premium and annuity consideration	\$ -
Net investment income	\$ (813)

DEDUCTIONS

General administrative expense	2,300
Taxes, licenses and fees	988
Total underwriting deductions	<u>3,288</u>
Net gains from operations before tax	(4,101)
Federal and foreign income taxes incurred	(2,000)
Net gains from operations	<u>(2,101)</u>
Net income	<u><u>\$ (2,101)</u></u>

Reconciliation of Surplus from Prior Examination

Capital and surplus, December 31, 2006	\$ 1,672,447
Net Income	59,331
Change in capital and surplus	<u>59,331</u>
Capital and surplus, December 31, 2011	<u><u>\$ 1,731,778</u></u>

SCHEDULE OF EXAMINATION ADJUSTMENTS

The examination will propose no financial adjustments.

NOTES TO FINANCIAL STATEMENTS

Note 1	
Cash	<u>\$ 1,531,291</u>
Short-term Investments	<u>56,668</u>

Cash and short-term investments consisted primarily of Class 1 money market mutual funds.

Note 2 – Capitalization	<u>\$350,000</u>
-------------------------	------------------

At December 31, 2011, the Company has 10,000 shares authorized and 3,500 shares were issued and outstanding with a par value of \$100.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The following recommendations were noted:

1. It is recommended the Company comply with Section 18 Del. C. § 1304 by having the Board of Directors approve investment transactions.

The Company has complied

2. It is recommended the Company comply with Section 18 Del. C.4919 of the Insurance Code and promptly notify the Delaware Insurance Department of changes in officers and directors.

The Company has complied.

SUMMARY OF RECOMMENDATIONS

The examination did not warrant any recommendations.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2006</u>	<u>December 31, 2011</u>	<u>Increase (Decrease)</u>
Assets	\$ 1,675,447	\$ 1,732,012	\$ 56,565
Liabilities	\$ 3,000	\$ 234	\$ (2,766)
Common Capital Stock	350,000	350,000	-
Gross Paid In and Contributed Surplus	1,850,000	1,850,000	-
Unassigned Funds (Surplus)	<u>(527,553)</u>	<u>(468,222)</u>	<u>59,331</u>
Capital and surplus	<u>\$ 1,672,447</u>	<u>\$ 1,731,778</u>	<u>\$ 59,331</u>
Totals	<u><u>\$ 1,675,447</u></u>	<u><u>\$ 1,732,012</u></u>	<u><u>\$ 56,565</u></u>

In addition to the undersigned, Anthony Cardone, CFE, CPA (Examination Supervisor) participated in the examination.

Respectfully submitted,

Albert M. Piccoli, Sr.

Albert M. Piccoli, Sr., CFE
Examiner-In-Charge
State of Delaware