

JUN 10 2020

FILED

CERTIFICATION

June 10, 2020

I, Bruce R. Range, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

OMAHA INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Range

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

Omaha Insurance Company

Mutual of Omaha Plaza

Omaha, NEBRASKA 68175

dated as of December 31, 2020, verified under oath by the examiner-in-charge on
April 10, 2020 and received by the company on May 14, 2020 has been adopted
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 29th day of May 2020.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read "Justin C. Schrader", written over a horizontal line.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

OMAHA INSURANCE COMPANY

as of

December 31, 2018



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Omaha, Nebraska
April 3, 2020

Honorable Bruce Ramage
Director of Insurance
Nebraska Department of Insurance
1135 M Street, Suite 300
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

OMAHA INSURANCE COMPANY
Mutual of Omaha Plaza
Omaha, Nebraska 68175

(hereinafter also referred to as the “Company”) and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2014, by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2018, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska and New York participated in this examination and assisted in the preparation of this report.

The same examination staff conducted concurrent financial condition examinations of the Company’s ultimate parent, Mutual of Omaha Insurance Company (Mutual of Omaha), and subsidiaries, United of Omaha Life Insurance Company, Companion Life Insurance Company, Omaha Reinsurance Company, United World Life Insurance Company, Mutual of Omaha Medicare Advantage Company, Omaha Health Insurance Company, and Medicare Advantage Insurance Company of Omaha.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the Nebraska Department of Insurance as the coordinating state and the New York State Department of Financial Services serving as the participating state. The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Stockholder, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions, and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension plans. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Deloitte &

Touche, LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2017 and 2018. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated in the State of Nebraska in November 2006 as a wholly-owned subsidiary of Mutual of Omaha Holdings, Inc.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the "Ultimate Controlling Person", as reported in the 2018 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Mutual of Omaha Insurance Company
 - East Campus Realty, LLC
 - Mutual of Omaha Holdings, Inc.
 - Mutual of Omaha Investor Services, Inc.
 - Mutual of Omaha Marketing Corporation
 - Omaha Insurance Company
 - Mutual of Omaha Medicare Advantage Company
 - Omaha Financial Holdings, Inc.
 - Mutual of Omaha Bank
 - OMAFIN, INC.
 - SB Capital Investment Fund, LLC (99.9%)
 - PHX SB Capital LLC (99.9%)
 - Synergy One Lending, Inc.
 - Mutual Community Development Company

Mutual of Omaha LoanPro, L.L.C.
Omaha Health Insurance Company
Turner Park North, LLC
United of Omaha Life Insurance Company
Companion Life Insurance Company
Fulcrum Growth Partners III, L.L.C. (80%)
Medicare Advantage Insurance Company of Omaha
Mutual of Omaha Structured Settlement Company
Omaha Reinsurance Company
UM Holdings, LLC
United World Life Insurance Company

Shareholder

Article III of the Company's Articles of Incorporation states that, "the aggregate number of shares which the Corporation shall have authority to issue is two million (2,000,000) shares of common stock with a par value of each of said shares to be one dollar (\$1.00)." At December 31, 2018, Company records indicated that 2,000,000 shares were issued and outstanding, which were all owned by Mutual of Omaha Holdings, Inc.

Article I, Section 1 of the Company's By-Laws provides that, "the Stockholders shall meet annually on or before the 30th day of June in each and every calendar year, for the purpose of receiving the report of its Officers and Directors, to elect Directors whose terms expire, and transact such other business as may be lawful for it to do." There was no evidence of this meeting to receive the report of its Officers and Directors for 2017; however, these meetings have occurred in the following years.

Board of Directors

Article II, Section 1 of the Company's By-Laws states that, "the Board of Directors shall consist of not less than five nor more than fifteen Directors. Not less than one of the Directors shall be a resident of Nebraska. The Board of Directors shall be elected at the annual meeting of the Stockholders by a majority vote of the stock presented in person or by proxy at the meeting for a

term of one year each. The Directors shall hold office until their successors are elected and qualified.”

The following persons were serving as Directors at December 31, 2018:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Stephen J. Abels Omaha, NE	Executive Vice President Mutual of Omaha Insurance Company
James T. Blackledge Elkhorn, NE	Chief Executive Officer Mutual of Omaha Insurance Company
Bradley N. Buechler Omaha, NE	Executive Vice President Mutual of Omaha Insurance Company
Laura A. Fender Omaha, NE	Senior Vice President and Assistant Treasurer Mutual of Omaha Insurance Company
Lance D. Grigsby Omaha, NE	Senior Vice President and Corporate Chief Actuary Mutual of Omaha Insurance Company

The Directors are not paid for their Board service.

During the review of the Board of Director meeting minutes, it was noted that the Board did not approve the investment transactions for the first and fourth quarters of 2017. Quarterly approval was noted in subsequent periods.

Officers

Article IV, Section 1 of the Company’s By-Laws states that, “the Board of Directors may elect such Officers as are necessary to conduct the business of the Corporation, including a President, Secretary, and Treasurer, and employ such other Officers and employees as may be required to carry on the business of the Corporation and may fix their terms of office or employment and their salaries and compensation. Other Officers of the Corporation may be appointed from time to time by other Officers pursuant to authority granted by resolution of the Board of Directors.”

The following is a partial listing of Senior Officers elected and serving the Company at December 31, 2018:

Name

James T. Blackledge
Scott M. Priebe
Jay A. Vankat
Alan D. Brinkman

Office

President
Treasurer
Secretary
Appointed Actuary

Committees

Article II, Section 4 of the Company’s By-Laws states that, “from time to time, the Board of Directors may create such committees as they may see fit and may designate the duties and powers of such committees; provided, however, that no such committee shall be given authority to amend the Articles of Incorporation of the Corporation.”

TRANSACTIONS WITH AFFILIATES

Intercompany Service Agreement

The Company’s ultimate parent, Mutual of Omaha, and certain of its direct and indirect subsidiaries, including the Company, share certain resources such as personnel, operational and administrative services, facilities, information and communication services, employee benefit administration, investment management, advertising and general management services. Most of the expenses related to these resources were paid by Mutual of Omaha and subject to allocation among Mutual of Omaha and its subsidiaries.

Regular operating expenses of the companies are paid through the Accounts Payable and Expense Accounting Department of Mutual of Omaha. In general, these expenses are processed through an electronic allocation system maintained by the Budget and Expense Management Department. This system, through the use of department ID’s, allocates operating expenses based on cost drivers such as number of employees, square footage utilized, number of transactions processed, etc., to redistribute operating expenses to product lines within each of the companies receiving the services.

Statistical bases or theories used in allocation formulas are developed by the Finance Operation's staff and reviewed by the companies' external auditors during their annual audit of the expense allocations.

Revolving Lines of Credit

The Company entered into a revolving credit lending agreement with Mutual of Omaha that allows the Company to borrow up to \$30,000,000. There is also a revolving credit borrowing agreement that allows the Company to lend up to \$30,000,000 to Mutual of Omaha. The interest for borrowing under these agreements in 2018 was from 1.5% to 2.43%. Each of these lending agreements renew annually for a one-year term.

Tax Allocation Agreement

A consolidated federal income tax return is filed for Mutual of Omaha and its eligible subsidiaries pursuant to a written agreement approved by the Board of Directors. Each company's provision for federal income tax expense is based on separate return calculations with credit for net operating losses and capital losses allowed only as each company would utilize such losses on a separate return basis with limited exceptions.

Capital Contributions

The Company received capital contributions from its ultimate parent, Mutual of Omaha, over the course of the examination. The capital contributions were \$40,000,000 in 2015 and \$10,000,000 in 2018.

Parental Guarantee

Mutual of Omaha issued a parental guarantee to maintain the Company's capital at above state required levels for Iowa, Maine, and New Jersey.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states, with the exception of California, Florida, Nevada, New Hampshire, New York, and Wisconsin, and the District of Columbia. The Certificate of Authority, granted by the Nebraska Department of Insurance, authorizes the Company to write sickness and accident insurance.

Beginning in 2012, the Company began selling Medicare Supplement insurance. The Medicare Supplement business is sold using three distribution methods: Agency, Brokerage, and Direct to Consumer. Currently the Company's operations are limited to writing Medicare Supplement insurance.

REINSURANCE

Under the terms of a reinsurance agreement, effective April 1, 2012, the Company cedes to Mutual of Omaha, 90% of all individual Medicare Supplement business. This agreement contains appropriate insolvency and intermediary clauses, as well as a proper termination provision.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Bonds	\$65,452,970	\$90,468,880	\$88,891,056	\$84,173,721
Total admitted assets	88,216,808	99,152,174	98,271,420	98,911,912
Aggregate A&H reserves	810,842	1,135,829	1,758,058	2,842,500
Total liabilities	34,110,509	49,949,576	53,026,794	49,631,708
Capital and Surplus	54,106,298	49,202,598	45,244,626	49,280,204
Premium earned	29,324,502	44,423,441	56,221,106	65,522,568
Net investment income	1,191,772	2,470,881	2,809,676	2,745,613
Disability benefits	22,215,118	35,001,287	45,043,943	54,871,163
Net income	(5,366,778)	(5,441,112)	(5,303,788)	(6,743,964)

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2018. 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. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT **December 31, 2018**

Assets

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 84,173,721		\$ 84,173,721
Cash and cash equivalents	4,714,181		4,714,181
Other invested assets	<u>2,550,011</u>		<u>2,550,011</u>
Subtotals, cash and invested assets	\$ 91,437,913		\$ 91,437,913
Investment income due and accrued	506,594		506,594
Uncollected premiums and agents' balances	(53,102,835)	\$ 333	(53,103,169)
Amounts recoverable from reinsurers	40,778,985		40,778,985
Other amounts receivable under reinsurance contracts	16,832,885		16,832,885
Guaranty funds receivable or on deposit	2,260,153		2,260,153
Receivable from parent, subsidiaries and affiliates	70,049		70,049
Other amounts receivable	149	149	
Suspense items	10,017,664	9,889,162	128,502
Disallowed interest maintenance reserve	<u>83,792</u>	<u>83,792</u>	<u></u>
Totals	<u>\$108,885,349</u>	<u>\$9,973,437</u>	<u>\$ 98,911,912</u>

Liabilities, Surplus and Other Funds

Aggregate reserve for accident and health contracts	\$ 2,842,500
Accident and health contract claims	6,003,441
Premiums and annuity considerations received in advance	967,329
Commissions to agents due or accrued	283,651
General expenses due or accrued	900,755
Taxes, licenses and fees due or accrued	4,937,720
Amounts withheld or retained by company as agent or trustee	1,984,686
Remittances and items not allocated	69,778
Asset valuation reserve	383,657
Payable to parent, subsidiaries, and affiliates	14,958,575
Drafts outstanding	13,347,823
Payable for securities	2,550,011
Miscellaneous liabilities	<u>401,783</u>
Total liabilities	<u>\$ 49,631,708</u>
Common capital stock	\$ 2,000,000
Gross paid in and contributed surplus	88,126,000
Unassigned funds (surplus)	<u>(40,845,796)</u>
Total capital and surplus	<u>\$ 49,280,204</u>
Totals	<u>\$ 98,911,912</u>

SUMMARY OF OPERATIONS – 2018

Premiums and annuity considerations	\$ 65,522,568
Net investment income	2,745,613
Amortization of interest maintenance reserve	(5,664)
Commissions and expense allowances on reinsurance ceded	<u>171,008,024</u>
Totals	\$239,270,542
Disability benefits and benefits under accident and health contracts	54,871,163
Increase in aggregate reserves for life and accident and health contracts	<u>1,084,441</u>
Totals	\$ 55,955,604
Commissions on premiums, annuity considerations, and deposit-type contracts	113,390,511
General insurance expenses	61,749,333
Insurance taxes, licenses and fees	14,882,017
Other deductions	<u>7,079</u>
Totals	\$245,984,543
Net gain from operations before federal income taxes	(6,714,001)
Federal income taxes incurred	26,952
Net realized capital gain (loss)	<u>(3,011)</u>
Net income (loss)	<u>\$ (6,743,964)</u>

CAPITAL & SURPLUS ACCOUNT

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and surplus, beginning	<u>\$21,099,974</u>	<u>\$54,106,298</u>	<u>\$49,202,598</u>	<u>\$45,244,626</u>
Net income (loss)	\$(5,366,778)	\$ (5,441,112)	\$(5,303,788)	\$(6,743,964)
Change in non-admitted assets	(1,557,215)	637,312	1,444,944	864,016
Change in asset valuation reserve	(69,684)	(99,899)	(99,128)	(84,474)
Surplus adjustment paid in	<u>40,000,000</u>	<u> </u>	<u> </u>	<u>10,000,000</u>
Net change for the year	<u>\$33,006,323</u>	<u>\$(4,903,699)</u>	<u>\$ (3,957,972)</u>	<u>\$ 4,035,578</u>
Capital and surplus, ending	<u>\$54,106,298</u>	<u>\$49,202,598</u>	<u>\$45,244,626</u>	<u>\$49,280,204</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$(40,845,796), as reported in the Company's 2018 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

No recommendations were made as a result of the previous examination.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There are no comments or recommendations that have been made as a result of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations that have been made as a result of this examination.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Joel Tapsoba, CFE, Michael Sullivan, CFE, and Daniel Rousseau, Financial Examiners; Gary Evans, CFE, CISA, AES, Information Systems Specialist; and Rhonda Ahrens, FSA, and Derek Wallman, Actuarial Examiners; all with the Nebraska Department of Insurance; and Financial Examiners, Information System Specialists, and Actuarial Examiners with or contracted by the New York State Department of Financial Services; participated in this examination and the preparation of this report.

Respectfully submitted,



Eric Dercher, CFE
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the Department of Insurance
State of Nebraska



Andrea Johnson, CFE
Assistant Chief Examiner - Field
Department of Insurance
State of Nebraska

State of Kansas,

County of Johnson,

Eric C. Dercher, CFE, being duly sworn, states as follows:

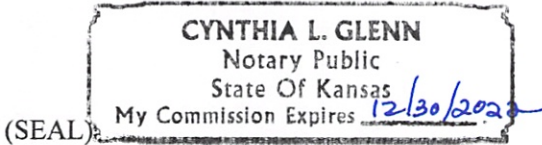
1. I have authority to represent the Department of Insurance State of Nebraska in the examinations of Mutual of Omaha Insurance Company, United of Omaha Life Insurance Company, Medicare Advantage Insurance Company of Omaha, Mutual of Omaha Medicare Advantage Company, Omaha Health Insurance Company, Omaha Insurance Company, Omaha Reinsurance Company, and United World Life Insurance Company.
2. The Department of Insurance State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination reports, and the examinations of Mutual of Omaha Insurance Company, United of Omaha Life Insurance Company, Medicare Advantage Insurance Company of Omaha, Mutual of Omaha Medicare Advantage Company, Omaha Health Insurance Company, Omaha Insurance Company, Omaha Reinsurance Company, and United World Life Insurance Company were performed in a manner consistent with the standards and procedures required by the Department of Insurance State of Nebraska.

The affiant says nothing further.

Eric C. Dercher

Examiner's Signature

Subscribed and sworn before me by Eric C. Dercher on this 10th day of April, 2020.



Cynthia L. Glenn
Notary Public

My commission expires 12/30/2022 [date].