



STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION

of

UNIVANTAGE INSURANCE COMPANY

of

Sandy, Utah

as of

December 31, 2013



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June 6, 2014

Honorable Todd Kiser, Commissioner
State of Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114-6901

Commissioner:

Pursuant to your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination, as of December 31, 2013, has been made of the financial condition and business affairs of:

UNIVANTAGE INSURANCE COMPANY
Sandy, Utah

hereinafter referred to in this report as the Company or Univantage, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The Company was last examined as of December 31, 2008. The current examination covered the period from January 1, 2009 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedures Employed

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook) to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Utah, and insurance rules promulgated by the Utah Insurance Department (the Department). The 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. An examination also includes 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 (SSAPs) and annual statement instructions when applicable to domestic state regulations.

The Company is exempt from the requirement to file audited financial statements.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The initial phase of the examination focused on evaluating the Company's governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A functional activity approach was determined to be appropriate.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and control environment, work performed by external audit functions, and work performed by internal audit. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk, examination procedures were reduced where considered appropriate.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and is included in the examination working papers.

SUMMARY OF EXAMINATION FINDINGS

Number of Directors

- 1) According to the Univantage Articles of Incorporation, Article VII, Directors, *"The business and affairs of the Corporation shall be conducted by a Board of Directors consisting of not less than five or more than nine persons..."* According to the Univantage bylaws, Article III, Section 3.01, *"The number of Directors of the Corporation shall be not less than three or more than nine persons..."* As of December 31, 2008 and December 31, 2013, the Company had three Directors.

Recommendation

This was noted during the last examination and no corrective measures were taken. It is strongly recommended that the Company's Articles of Incorporation and bylaws should be consistent.

SUBSEQUENT EVENTS

There were no subsequent events impacting the Company.

COMPANY HISTORY

General

In December 1995, Workers Compensation Fund (WCF) entered into an agreement with the Utah Insurance Commissioner, acting in his capacity as court-appointed liquidator of Bonneville Life Insurance Company, to purchase Bonneville Life Insurance Company's corporate charter and the right to its state licenses. The purchase agreement was executed on January 8, 1996. After Workers Compensation Fund purchased Bonneville Life Insurance Company, it was renamed Univantage Insurance Company

As of December 31, 2013, the Company was authorized to transact life, annuity, and disability lines of insurance. Subsequent to the formation of the Company, WCF was restricted by statute from offering insurance lines other than workers' compensation, either directly or through subsidiaries. The Company has not transacted insurance business since its acquisition by WCF.

Capital Stock

As of December 31, 2013, the Company had 1,000,000 shares of \$10.00 par value common stock authorized and 500,000 shares issued with 90,000 shares outstanding. The Company holds the remaining 410,000 of its issued shares as treasury stock that were purchased from its parent company in 1998. WCF owns 100 percent of the outstanding shares of common stock.

Dividends to Stockholders

The Company neither declared nor paid any dividends during the examination period.

CORPORATE RECORDS

The board of directors meeting minutes indicated the board of directors adequately approved and supported the Company's transactions and events. In accordance with U.C.A. § 31A-2-204(8), the Company promptly furnished a copy of the prior examination report to each member of the board of directors.

MANAGEMENT AND CONTROL

The bylaws of the Company indicated the number of directors would consist of not less than three or more than nine persons. The Articles of Incorporation indicated the number of directors would consist of not less than five or more than nine persons. On December 31, 2008 and December 31, 2013, a three-member board of directors, consisting of the President and two former directors from WCF, governed the Company.

The following persons served as directors of the Company as of December 31, 2013:

<u>Name</u>	<u>Principal Occupation</u>
Ray David Pickup Chairman Salt Lake City, Utah	President, Chief Executive Officer Workers Compensation Fund
Melvin Carl Green Salt Lake City, Utah	Owner, Chairman Creative Color
Robert Day Myrick Salt Lake City, Utah	Retired Former President and Chief Executive Officer Morgan Stanley Dean Witter Bank

The following persons served as officers of the Company as of December 31, 2013:

<u>Principal Officer</u>	<u>Office</u>
Ray David Pickup	President
Dennis Vaughn Lloyd	Secretary
Scott Edward Westra	Treasurer

Conflict of Interest Procedure

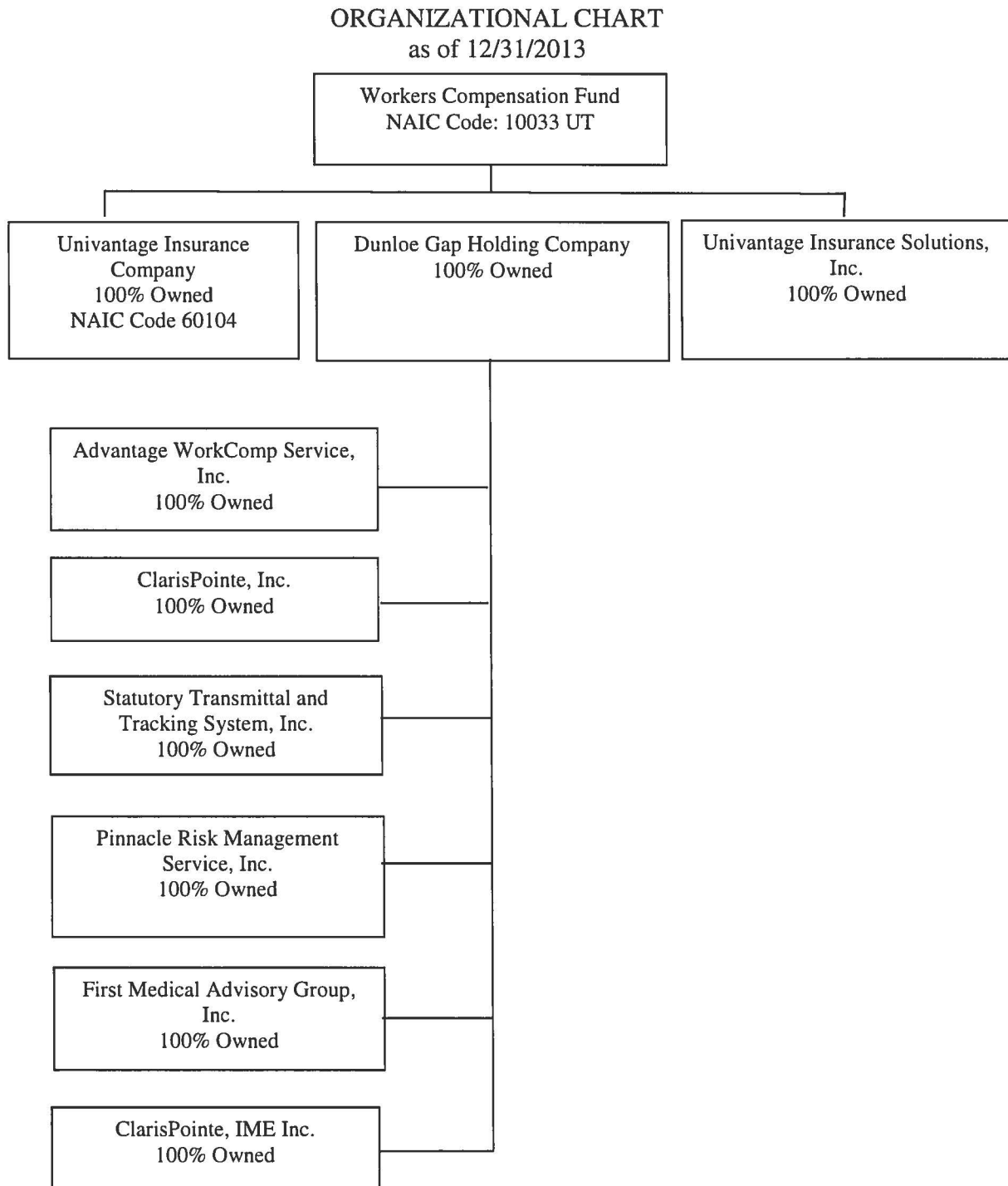
During the period covered by the examination, directors and officers of the Company completed conflict of interest statements annually. No exceptions were noted.

Corporate Records

The board of directors meeting minutes indicated the board of directors adequately approved and supported the Company's transactions and events. In accordance with U.C.A. § 31A-2-204(8), the Company promptly furnished a copy of the prior examination report to each member of the board of directors.

Affiliated Companies

The Company is the ultimate controlling member of an insurance holding company system. An organizational chart presenting the identities of and interrelationships between the Company and its affiliates on December 31, 2013, follows:



- Workers Compensation Fund (WCF) was created by U.C.A. § 31A-33, to insure Utah employers against liability for compensation based on job-related accidental injuries and occupational diseases and to assure payment of this compensation to Utah employees who are entitled to it. In accordance with U.C.A. § 31A-33-103.5(2), the Company may only offer:
 - a. workers' compensation insurance in Utah;
 - b. workers' compensation insurance in a state other than Utah to the extent necessary to accomplish its purpose under U.C.A. § 31A-33-102(1)(b); and to provide workers' compensation or occupational disease insurance coverage to Utah employers and their employees engaged in interstate commerce; and
 - c. workers' compensation products and services in Utah and other states.

The WCF maintained approximately a 50 percent market share of all workers' compensation insurance written in the State of Utah.

- Univantage Insurance Solutions, Inc. (UIS), is a managing general agent licensed in the State of Utah. UIS was incorporated on October 13, 2009, to facilitate non-workers' compensation coverage solutions to policyholders of WCF..
- Dunloe Gap Holding Company (Dunloe Gap) was incorporated in July 1, 2012, as a holding company for Pinnacle Risk Management Services, Inc. and other wholly owned subsidiaries which provide third-party claims administration, medical case management, fraud investigation, bill review, and independent medical evaluations for self-insured entities and other insurance companies.
- Pinnacle Risk Management Services, Inc. (Pinnacle) is a wholly owned subsidiary under Dunloe Gap that provides third-party administration of workers' compensation claims. Pinnacle provides claims administration services to Advantage WorkComp Insurance Company (AWCIC) and WCF for claims incurred in states other than Utah by employees of WCF's Utah-based policyholders.
- Advantage WorkComp Services, Inc. (AWCS) is a wholly owned subsidiary under Dunloe Gap that provides bill review, utilization review, medical case management and other services to WCF, clients of Pinnacle and to other workers' compensation insurers.
- ClarisPointe, Inc. (Claris) is a wholly owned subsidiary under Dunloe Gap that provides medical services as a Preferred Provider Organization (PPO).

- Statutory Transmittal and Tracking Systems, Inc. is a wholly owned subsidiary under Dunloe Gap that is dormant and currently providing no services.
- First Medial Advisory Group, Inc. is a wholly owned subsidiary under Dunloe Gap that provides independent medical exams.
- ClarisPointe, IME, Inc. is a wholly owned subsidiary under Dunloe Gap and is currently inactive.

Transactions with Affiliates

No major transactions with affiliates were noted during this examination other than those transactions under the agreements below.

As of December 31, 2013, the Company was party to the following agreements with affiliated companies:

On January 1, 2011, the Company entered into a Service Agreement with WCF.

Pursuant to the service agreement, WCF provides operational support including labor, materials and equipment to administer, market, and service insurance policies and related services. Operational support includes:

- Clerical services
- Legal services
- Financial and accounting services
- Marketing services
- Human resource and payroll services
- Physical location and operating suite
- Information technology services

Fees are based on hourly services performed at commercially reasonable rates. Payment is due 30 days after the receipt of invoice. Invoices are sent monthly.

On April 29, 1998, the Company entered into an Investment Agreement with WCF. Pursuant to the agreement, the WCF agrees to invest and manage the funds of the Company in accordance with the Company's investment guidelines. Fees are based on hourly services performed at commercially reasonable rates. Payment is due within 30 days after receipt of invoice.

FIDELITY BOND AND OTHER INSURANCE

The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Company's size is \$25,000. The Company was a named insured on WCF's fidelity coverage in the form of an aggregate bond with a single loss limit of \$10,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no direct employees and is not a party to any pension, stock ownership, or insurance plans. The Company's parent was responsible for the business operations of the Company under a cooperative and joint use agreement.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was authorized to transact life, annuity, and disability insurance in the State of Utah. No insurance business was conducted during the examination period.

REINSURANCE

During the period covered by the examination, the Company neither ceded nor assumed reinsurance.

ACCOUNTS AND RECORDS

WCF maintains the Company's accounting records. The general ledger is maintained on a full accrual basis of accounting. The annual statement is prepared by mapping the general ledger account balances to the appropriate annual statement line items in conformity with the annual statement instructions and requirements.

An examination trial balance, as of December 31, 2013, was prepared from the Company trial balance sheet. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-5-211(2) (a) and U.C.A. § 31A-4-105, the Company is required to maintain a statutory deposit equal to \$400,000. The examination confirmed the Company maintained a statutory deposit with the State of Utah consisting of U.S. Treasury Notes with a statement value of \$500,693 and a market value of \$504,375, which was adequate to cover the required deposit of \$400,000.

FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2013, and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

BALANCE SHEET as of December 31, 2013

STATEMENT OF REVENUE AND EXPENSES for the Year Ended December 31, 2013

RECONCILIATION OF CAPITAL AND SURPLUS – 2009 through 2013

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

UNIVANTAGE INSURANCE COMPANY
BALANCE SHEET
as of December 31, 2013

ASSETS

	<u>Amount</u>
Bonds	\$ 1,790,550
Cash, cash equivalents and short-term investments	91,510
Interest income due and accrued	11,564
Receivable from parent, subsidiaries and affiliates	<u>1,898</u>
Total assets	<u><u>\$ 1,895,522</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Taxes, licenses and fees due or accrued	\$ 429
Current federal and foreign income tax	<u>1,556</u>
Total liabilities	\$ 1,985
 Common capital stock	 \$ 5,000,000
Gross paid in and contributed surplus	34,123
Unassigned funds (surplus)	959,414
Less treasury stock, at cost	<u>(4,100,000)</u>
Total capital and surplus	<u><u>\$ 1,893,537</u></u>
 Total liabilities, capital and surplus	 <u><u>\$ 1,895,522</u></u>

UNIVANTAGE INSURANCE COMPANY
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2013

Net investment income	\$ 25,308
Total	<u>\$ 25,308</u>
General insurance expenses	9,927
Insurance taxes, licenses and fees excluding federal income taxes	927
Totals	<u>\$ 10,854</u>
Federal and foreign income taxes incurred	1,424
Net income (loss)	<u>\$ 13,030</u>

UNIVANTAGE INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2009 through 2013

	2009	2010	2011	2012	2013
Capital and surplus, December 31, previous year	\$1,790,936	\$1,821,649	\$1,853,192	\$1,869,224	\$1,880,507
Net Income or (loss)	30,713	31,543	16,032	11,283	13,030
Change in net unrealized capital gains (losses)	-	-	-	-	-
Change in net deferred income tax	-	-	-	-	-
Change in non-admitted assets	-	-	-	-	-
Dividends to stockholders	-	-	-	-	-
Net change in capital and surplus for the year	30,713	31,543	16,032	11,283	13,030
Capital and surplus, December 31, current year	<u>\$1,821,649</u>	<u>\$1,853,192</u>	<u>\$1,869,224</u>	<u>\$1,880,507</u>	<u>\$1,893,537</u>

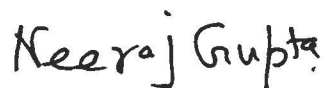
NOTES TO FINANCIAL STATEMENTS

No adverse findings, material changes in the financial statements, or other significant regulatory information was disclosed by the examination.

ACKNOWLEDGEMENT

In addition to the undersigned, Donald R. Catmull, Assistant Chief Examiner, supervised the examination. In addition to the undersigned, John V. Normile, CFE, of INS Regulatory Insurance Services, Inc., and Robert E. Ficken, CISA, CIA, CFE, AES, of INS Services, Inc., participated in the examination representing the Utah Insurance Department. In addition, Cory L. Starley and James W. Borrowman, examiners for the Utah Insurance Department also participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

A handwritten signature in black ink that reads "Neeraj Gupta". The signature is written in a cursive, slightly slanted style.

Neeraj Gupta, CFE
Examiner-in-Charge
INS Regulatory Insurance Services, Inc.
Representing the Utah Insurance Department