

REPORT OF EXAMINATION  
OF THE  
AMT HOME PROTECTION COMPANY  
AS OF  
DECEMBER 31, 2018

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San Francisco, California  
September 9, 2019

Honorable Ricardo Lara  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

**AMT HOME PROTECTION COMPANY**

(hereinafter also referred to as the Company). The Company's statutory home office is located at 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California 95833. Its administrative office is located at 59 Maiden Lane, 43rd Floor, New York, New York 10038.

**SCOPE OF EXAMINATION**

We have performed our single-state examination of the Company. The previous examination of the Company was a qualifying examination as of August 28, 2013. This examination covered the period from January 1, 2014 through December 31, 2018.

The examination also includes an assessment of the principles used and the significant estimates made by management, as well as management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered.

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 findings of fact and general information about the Company 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.), were not included within the examination report but separately communicated to the Company.

### COMPANY HISTORY

The Company was formed under the laws of the State of California on March 12, 2012 for the purpose of transacting home protection business.

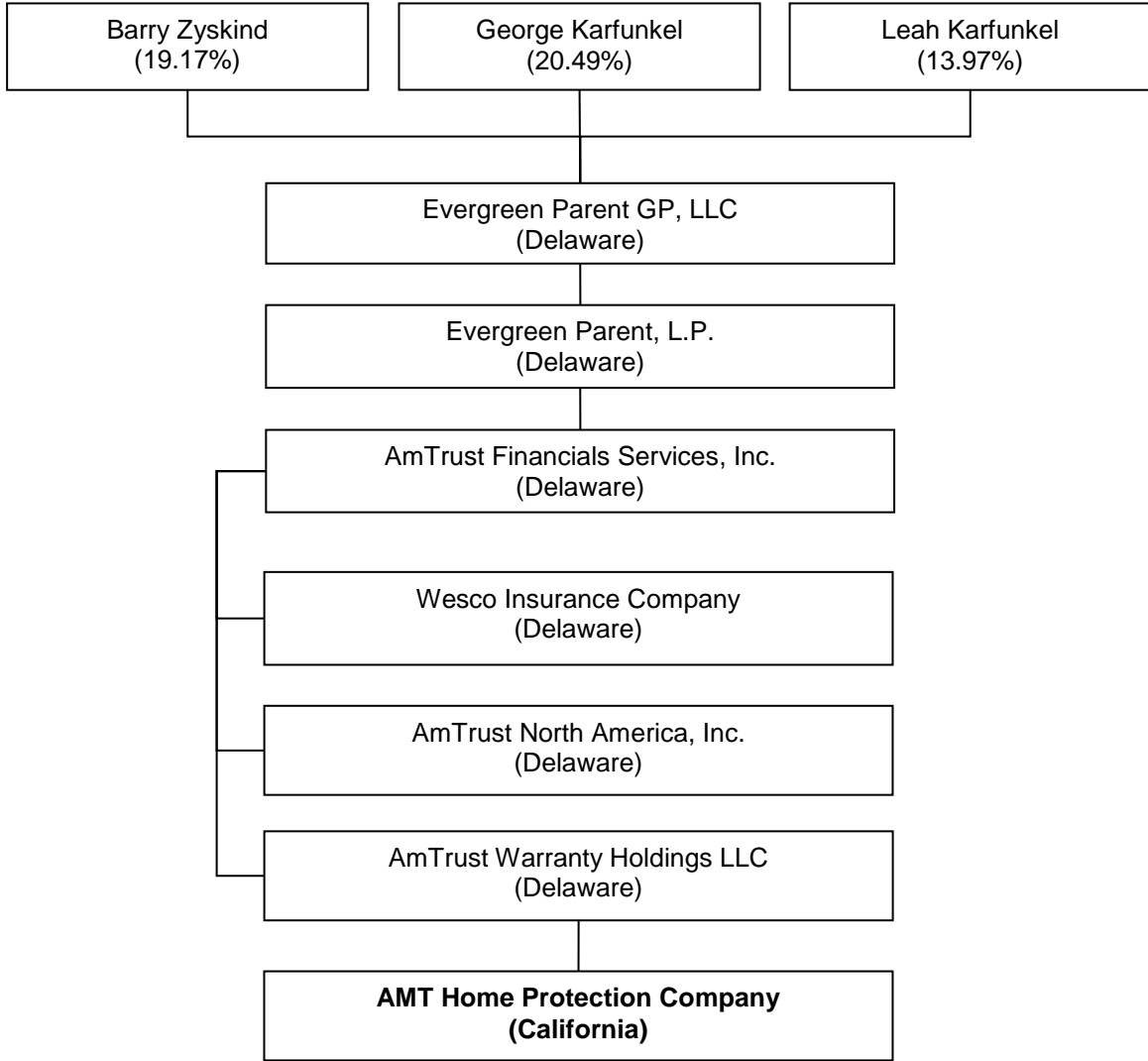
On January 23, 2018, the Company filed with the Secretary of State of California its Certificate of Amendment of Articles of Incorporation for the increase in the par value of each share of common stock from \$2 to \$20. The Company has a total of 1,000 shares of common stock authorized and outstanding.

On February 28, 2018, AmTrust closed on the transfer of a 51% equity interest in certain of its U.S.-based fee businesses, including without limitation, AMT Warranty Corp. As a result of the transfer, 100% of the issued and outstanding shares of the Company were assigned to AmTrust Warranty Holdings LLC, a wholly-owned entity of AmTrust.

### MANAGEMENT AND CONTROL

The Company is a direct subsidiary of AmTrust Warranty Holdings LLC, which is ultimately controlled by the beneficial owners of the common stock of the parent company, AmTrust Financial Services, Inc. (AmTrust), a Delaware corporation. Individuals who own more than 10% of the common stock are George Karfunkel, Leah Karfunkel, and Barry D. Zyskind.

The following abridged organization chart depicts the relationship of the companies within the group at December 31, 2018 (all ownership is 100% unless otherwise indicated):



The two members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2018:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Harry Schlachter New York, New York	Senior Vice President and Treasurer AmTrust Financial Services, Inc.
Stephen Ungar New York, New York	Senior Vice President, General Counsel, and Secretary AmTrust Financial Services, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Jeffrey Leo <sup>(a)</sup>	President
Harry Schlachter	Treasurer
Stephen Ungar	Secretary

The following changes in management occurred subsequent to the examination date:

- (a) Jeffrey Leo retired from the Company on December 31, 2018. Effective January 1, 2019, Christopher Foy was named the President.

Service Contract Reimbursement Insurance Policy

Effective June 15, 2012, the Company entered into a Service Contract Reimbursement Insurance Policy (also known as Contractual Liability Insurance Policy (CLIP)) with an affiliate, Wesco Insurance Company (Wesco). The Company's claims obligations are insured under the CLIP issued by Wesco. Pursuant to the CLIP, in consideration of the payment of premiums, Wesco may reimburse the Company for payments made or services rendered to the contract holder, or Wesco may itself pay or service the contract holder on the Company's behalf. Although the Company is obligated to service the contract holder, under the CLIP, if the contract holder does not timely receive its covered service, Wesco will fulfill the Company's obligations. Total reimbursement received under the CLIP by the Company in 2018 were \$15,779,360

## Management Agreements

Intercompany Management Agreement: Effective October 17, 2013, the Company entered into an Intercompany Management Agreement (the Agreement) with its parent, AmTrust Financial Services, Inc. (AmTrust). Under the terms of the Agreement, AmTrust will provide services that include legal, financial, and other professional services necessary to establish the Company's internal office procedures, as well as its accounting and financial reporting operations. As compensation for these services, the Company shall reimburse AmTrust for all direct and directly allocable expenses determined to be attributable to the Company by AmTrust. The services are to be provided by employees of AmTrust as the Company does not currently have employees. The total fees incurred by the Company in 2018 for services rendered under the Agreement were \$0.

Administrative Services Agreement: Effective October 17, 2013, the Company entered into an Administrative Services Agreement (the Agreement) with an affiliate, AmTrust North America, Inc. (AmTrust NA). Under the terms of the Agreement, AmTrust NA will perform certain processing functions pertaining to the administration of certain warranty contracts. Services provided in the Agreement include regulatory, claims review, and underwriting. As compensation for these services, the Company shall reimburse AmTrust NA for all direct and directly allocable expenses determined to be attributable to the Company by AmTrust NA. The Company will have the ultimate and final authority regarding underwriting and determining whether to pay or reject claims payments. The total fees incurred by the Company in 2018 for services rendered under the Agreement were \$0.

General Agency Agreement: Effective October 17, 2013, the Company entered into a General Agency Agreement (the Agreement) with an affiliate, AmTrust North America, Inc. (AmTrust NA). Under the terms of the Agreement, AmTrust NA will provide or arrange for the provision of certain processing functions pertaining to the administration of certain warranty contracts. The Company will reimburse AmTrust NA for all direct and directly allocable expenses determined to be attributable to the Company. As compensation for these services, the Company shall reimburse AmTrust NA for all direct and directly

allocable expenses determined to be attributable to the Company by AmTrust NA. The total fees incurred by the Company in 2018 for services rendered under the Agreement were \$0.

General Agency and Services Agreement: Effective November 25, 2013, the Company entered into a General Agency and Services Agreement (the Agreement) with HomeServe USA Repair Management Corp (HomeServe). Under the terms of the Agreement, HomeServe will administer, market, and sell Warranty Contracts on behalf of the Company. As compensation for the services, the Company shall provide a commission. The total fees incurred by the Company in 2018 for services rendered under the Agreement were \$53,179,932.

#### TERRITORY AND PLAN OF OPERATION

The Company's home protection business provides service contracts that cover residential systems. The Company offers its products to California homeowners through utility partners, affinity groups and through other strategic relationships with managing general agencies. The Company has delegated the responsibility to HomeServe USA Repair Management Corp. to sell and administer each warranty contract in compliance with all applicable laws. During 2018, 854,210 home warranty contracts were issued, totaling \$53.3 million in contract fees.

#### ACCOUNTS AND RECORDS

Pursuant to California Revenue and Taxation Code (CRTC) Section 12201(a), every insurer doing business in this state shall annually pay to the state a tax on the bases, at the rate specified in Section 12202. For each year during the examination period, the Company did not file a home protection premium tax return. However, the Company stated premium taxes were filed and paid by its affiliate, Wesco Insurance Company, based on the reported direct premiums written. It is recommended that the Company file and pay home protection tax returns under its own name in accordance with CRTC Section 12201(a).



## FINANCIAL STATEMENTS

The following financial statements are based on the annual financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments to the amounts reported in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Assets, Liabilities, Surplus and Other Funds as of  
December 31, 2018

Statement of Income for the Year Ended December 31, 2018

Reconciliation of Surplus as Regards Contract Holders from December 31, 2013  
through December 31, 2018

Statement of Financial Condition  
as of December 31, 2018

<u>Assets</u>			<u>Notes</u>
Cash, cash equivalents, and short-term investments	\$	\$ 1,947,412	
Receivable from parent, subsidiaries and affiliates		455,152	
Interest, dividends and real estate income due and accrued		<u>1902</u>	
 Total assets		 <u>\$ 2,404,466</u>	
 <u>Liabilities, Surplus and Other Funds</u>			
Claims adjusted and unpaid or in process of adjustment		\$ 677,749	
Unearned home protection contract fees		21,332,898	
Less: Loss reserves maintained under reimbursement insurance policy		(677,749)	(1)
Less: Unearned premium maintained under reimb insurance policy		<u>(21,332,898)</u>	(1)
 Total liabilities			 0
 Common capital stock	\$	20,000	
Gross paid-in and contributed surplus		1,890,000	
Unassigned funds (surplus)		<u>494,466</u>	
 Surplus as regards contract holders		 <u>2,404,466</u>	
 Total liabilities and surplus		 <u>\$ 2,404,466</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2018

State of Income

Underwriting Income

Home protection contract fees earned	\$	49,948,867
Deductions:		
Claims incurred	\$	12,395,981
Other underwriting expenses incurred		38,112,847
Service contract reimbursement insurance policy expense		15,079,089
Total underwriting deductions		<u>65,587,917</u>
Net underwriting loss		(15,639,050)

Investment Income

Net investment income earned	\$	<u>18,946</u>
Net investment gain		18,946

Other income

Claim reimbursement made under reimbursement insurance policy	\$	12,395,981
Reserve increase maintained under reimbursement insurance policy		3,383,379
Debt forgiveness – Intercompany balance		29,505
Total other income		<u>15,808,865</u>
Net income before federal income taxes		188,761
Federal and state income taxes incurred		<u>39,640</u>
Net Income	\$	<u>149,121</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2017	\$	2,255,345
Net income	\$	<u>149,121</u>
Change in surplus as regards contract holders for the year		<u>149,121</u>
Surplus as regards policyholders, December 31, 2018	\$	<u>2,404,466</u>

Reconciliation of Surplus as Regards Contract Holders  
from December 31, 2013 through December 31, 2018

Surplus as regards contract holders, December 31, 2013			\$ 1,908,700
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 495,766	\$ 0	
Total gains and losses	<u>\$ 495,766</u>	<u>\$ 0</u>	
Net increase in surplus as regards contract holders			<u>495,766</u>
Surplus as regards policyholders, December 31, 2018			<u>\$ 2,404,466</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Service Contract Reimbursement Insurance Policy

Pursuant to the Service Contract Reimbursement Insurance Policy between the Company and Wesco Insurance Company (Wesco), the Company's claims obligations are insured by Wesco. As of December 31, 2018, \$677,749 in loss reserves maintained under reimbursement insurance policy and \$21,332,898 in unearned premium maintained under reimbursement insurance policy, are receivable from Wesco for its claims obligations.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Accounts and Records (Page 6): It is recommended that the Company file and pay home protection tax returns under its own name in accordance with California Revenue and Taxation Code Section 12201(a).

## ACKNOWLEDGMENT

Acknowledgment is made of the assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

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Allen Lau, CFE  
Senior Insurance Examiner (Specialist)  
Department of Insurance  
State of California

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Senior Insurance Examiner (Supervisor)  
Department of Insurance  
State of California