REPORT OF EXAMINATION

OF THE

HOME WARRANTY OF AMERICA, INC.

AS OF

DECEMBER 31, 2017

Field on April 19, 2019

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Los Angeles, California
February 08, 2019

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

HOME WARRANTY OF AMERICA, INC.

(hereinafter also referred to as the Company). The Company's administrative office and primary location of books and records are located at 1371 Abbott Court, Suite A, Buffalo Grove, Illinois 60089.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2012. This examination covered the period from January 1, 2013 through December 31, 2017.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated, both currently and prospectively.

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 findings of fact and general information about the Company and its financial condition. There might 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 other regulators and/or the Company.

COMPANY HISTORY

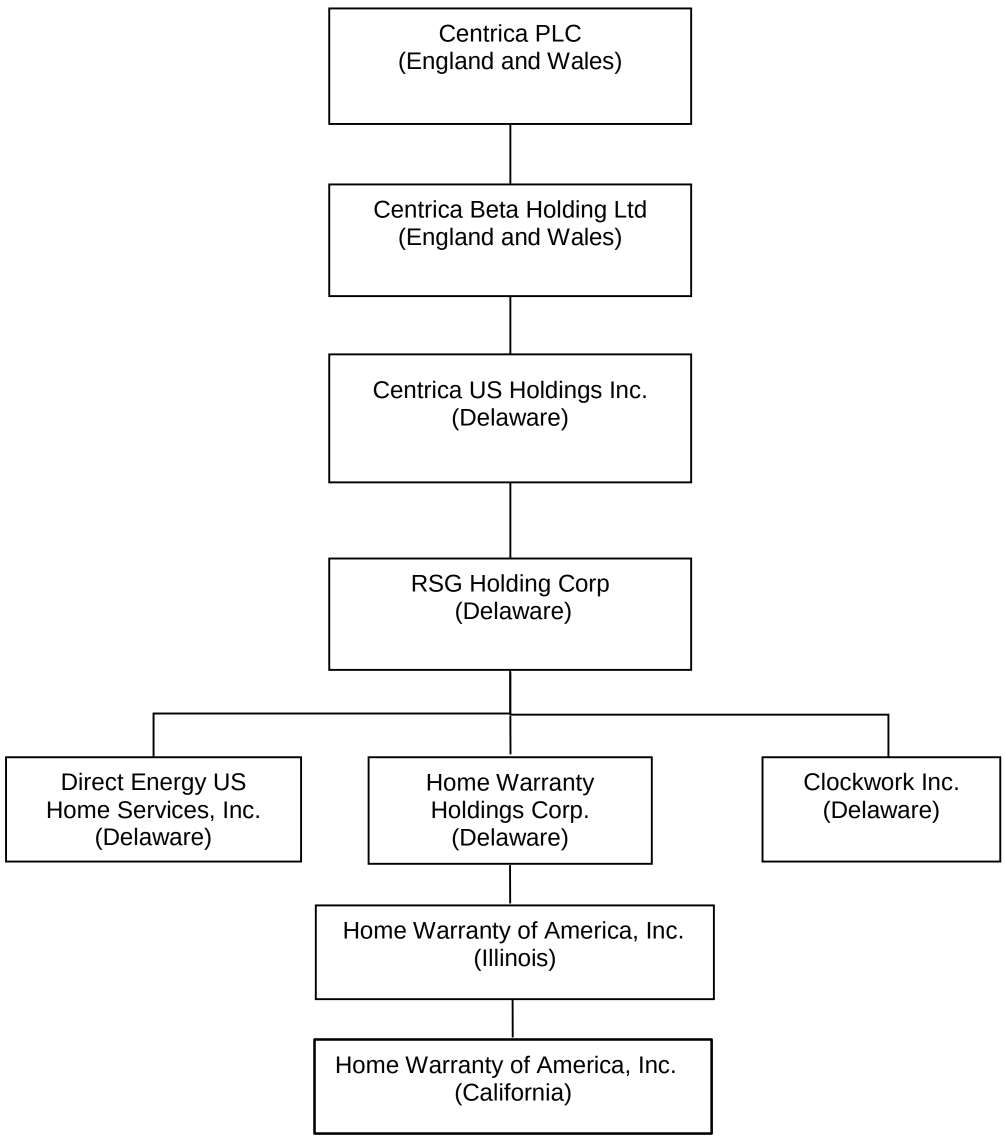
Cash Contribution from Parent

During the examination period, the parent company, Home Warranty of America, Inc., an Illinois corporation, contributed capital cash contributions to Home Warranty of America, Inc., the California corporation, in the following amounts:

Type of Contribution	Year	Amount Paid
Cash	2015	$ 1,300,000
Cash	2016	8,700,000
Cash	2017	5,000,000
Total		$15,000,000

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Home Warranty of America, Inc., an Illinois corporation, which in turn is wholly-owned by Home Warranty Holdings Corp., a Delaware corporation. The Company's ultimate parent, Centrica PLC, is a multi-national company traded on the London Stock Exchange. The following organizational chart excerpt depicts the Company's position within the overall corporate structure as of December 31, 2017 (All ownership is 100%):



Management of the Company is under the control of a single-member board elected annually. A listing of the members of the board and principal officers serving on December 31, 2017 follows:

<u>Directors</u>

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Manu Asthana [(1)] Houston, TX	Director and President Home Warranty of America, Inc. (California)

<u>Principal Officers</u>

<u>Name</u>	<u>Title</u>
Manu Asthana [(1)]	President
Dana Mason	Treasurer
Paolo Berard	Secretary
Erin Miles	Assistant Treasurer

<u>Management Agreements</u>

Service Agreement: Effective October 10, 2013, the Home Warranty of America, Inc. ("the Company") entered into a Service Agreement with its U.S. affiliate Clockwork, Inc., a Delaware corporation ("Clockwork"). Under the terms of this agreement, Clockwork provides the Company with services to enable the Company to sell plumbing, electrical, and HVAC system-specific home protection plans ("Protection Plans") through various sales channels in Florida. Clockwork provides services to the Company which include but are not limited to: utilization of Clockwork's call centers for sales and Protection Plan claim administration; selling Protection Plans in the field to Clockwork's customer base in Florida; and servicing claims made by Protection Plan customers in Florida.

[(1)] Mr. Manu Asthana was elected Director and appointed President of the Company on May 1, 2016. He resigned as Director and President effective January 1, 2019 and was replaced by Mr. Bruce Stewart on the same day.

Compensation is based on direct cost, as well as sales and servicing fees as set forth under the terms of this agreement. This Service Agreement was approved by the California Department of Insurance (CDI) on January 6, 2014. For the years 2013, 2014, 2015, 2016, and 2017, the Company paid Clockwork $19,744, $382,127, $1,766,944, $1,193,375, and $1,429,282, respectively.

Service Agreement: Effective January 1, 2013, the Company entered into a Service Agreement with Home Warranty of America, Inc., an Illinois corporation (HWA IL). Under the terms of the agreement, HWA IL provides the Company with certain administrative support services, including but not limited to the following: claims payment and adjusting, underwriting, producer's commissions computation and payment, appointment and cancellation of agents, issuance of policies and endorsements, cancellation of policies, collection and handling of premiums and other funds, payroll administration, facility sharing, preparation of financial reports, advertising, sales promotion and agency development, and reserving for claims and expenses. Compensation is based on actual cost under the terms of this agreement. This Agreement was approved by the CDI on March 15, 2013. For the years 2013, 2014, 2015, 2016, and 2017, the Company paid HWA IL $1,268,952, $1,836,090, $3,383,838, $3,166,448, and $3,297,483, respectively.

Tax Allocation Agreement: Effective March 1, 2012, the Company and its affiliates were parties to a consolidated federal income tax agreement ("Tax Allocation Agreement") with Centrica US Holdings, Inc., a Delaware corporation ("CUSHI"). As of January 1, 2013, the Tax Allocation Agreement with CUSHI was terminated and is no longer in effect. The Company's taxes are recorded and filed in accordance with the rules of the Internal Revenue Service.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company is licensed to sell home protection contracts in California, Florida, and Virginia. The home protection contracts sold in all three states provide coverage for major mechanical systems and appliances to residential homeowners. The contracts provide for repair and/or replacement of covered items up to stated coverage limits, as long as the items are in good working order on the effective date of the contract and become inoperative due to normal wear and tear. The Company sells whole home protection contracts through real estate and direct to consumer sales channels.

The Company sells home protection contracts throughout California. Sales and marketing efforts are directly supported by nine in-state sales representatives as well as a regional sales manager, sales director, and shared marketing resources.

The Company also offers Direct Energy Protection Plans (Protection Plans) in Virginia and Florida. The Protection Plans are “a la carte” individual repair and maintenance plans covering major mechanical systems and appliances in residential homes.

During 2017, the Company wrote $18.24 million of total direct premiums, with $5.38 million (29.5%) written in California, $9.54 million (52.3%) written in Florida, and $3.32 million (18.2%) written in Virginia.

LOSS EXPERIENCE

A review of the Company’s loss experience during the examination period disclosed a historical trend of net underwriting losses and net losses that commenced in 2015, and has continued through the subsequent date of November 30, 2018 as follows:

Year	Net Underwriting Gain/(Loss)	Net Income or (Loss)	Company Surplus
2015	$ (2,853,461)	$ (2,909,788)	$ 605,593
2016	(4,471,723)	(4,908,486)	4,482,107
2017	(2,129,223)	(2,552,440)	6,898,667
11/30/2018(*)	(210,097)	(646,829)	6,281,838

(*) Subsequent date after examination period

The Company's above noted loss experience during the examination period is trending in a more favorable position during the current years, as net underwriting losses and net losses have been declining. The net underwriting losses and net losses occurred because the Company started a strategic expansion in 2013 into the states of Virginia and Florida, and pricing and claims frequency issues were matters that came about during their startup. It appears that these adverse issues have been strengthened and improved for the states of Virginia and Florida, as the operating results have been more favorable in current years. During the examination period, the company has been well capitalized, and well above the minimum capital requirements of the California Insurance Code Section 12750. This surplus position has remained adequate, mainly due to the capital contributions from the Company's parent, as discussed within the Company History section of this report.

REINSURANCE

The Company did not assume or cede any reinsurance during the examination period.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Contract Holders from December 31, 2012 through December 31, 2017

Statement of Financial Condition
as of December 31, 2017

Assets	Ledger and Nonledger Assets		Net Admitted Assets	Notes
Cash, Cash Equivalents and short-term investments	$ 12,357,678		$ 12,357,678	
Home protection contract fees receivable	4,673,899		4,673,899	
Receivable from parent, subsidiaries and affiliates	89,129		89,129	
Other Assets	300,000		300,000	
Total assets	$ 17,420,706		$ 17,420,706	
Liabilities, Surplus and Other Funds				
Claims adjusted and unpaid or in process of adjustment			$ 1,136,680	(1)
Other expenses			482,189	
Taxes, licenses and fees			208,278	
Unearned home protection contract fees			8,105,613	
All other liabilities			589,279	
Total liabilities			10,522,039	
Common capital stock		$ 80,000		
Gross paid-in and contributed surplus		16,620,000		
Unassigned funds (surplus)		(9,801,333)		
Surplus as regards contract holders			6,898,667	
Total liabilities, surplus and other funds			$ 17,420,706	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income		
Home protection contract fees earned		$ 16,939,333
Deductions:		
Claims incurred	$ 11,784,717	
Claims service expenses incurred	2,229,152	
Other underwriting expenses incurred	5,054,687	
Total underwriting deductions		19,068,556
Net underwriting loss		(2,129,223)
Investment Income		
Net investment income earned	$ 30,940	
Net realized capital gain		
Net investment gain		30,940
Other Income		
Receivable Balance Written Off	$ (448,406)	
Processing fee	(5,751)	
Total other income		(454,157)
Net loss before federal income taxes		(2,552,440)
Federal income taxes incurred		0
Net loss		$ (2,552,440)

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2016		$ 4,482,107
Net loss	$ (2,552,440)	
Change in nonadmitted assets	(31,000)	
Capital changes:		
Paid in	5,000,000	
Change in surplus as regards contract holders for the year		2,416,560
Surplus as regards contract holders, December 31, 2017		$ 6,898,667

Reconciliation of Surplus as Regards Contract Holders
from December 31, 2012 through December 31, 2017

	Gain in Surplus	Loss in Surplus	
Surplus as regards contract holders, December 31, 2012 per Examination			$ 1,878,618
Net losses	$	$ 9,752,951	
Change in nonadmitted assets		227,000	
Paid in capital	15,000,000		
Change in net deferred tax	31,000	31,000	
Total gains and losses	$ 15,031,000	$ 10,010,951	
Net increase in surplus as regards contract holders			5,020,049
Surplus as regards contract holders, December 31, 2017, per Examination			$ 6,898,667

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Claims Adjusted and Unpaid or in Process of Adjustment

Based on a review of claim payments and reserves subsequent to the examination date, the reserve for the above captioned account appears to be reasonable and has been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None

Previous Report of Examination

Corporate Records: It was recommended that the Company implement procedures to ensure compliance with the provision of California Insurance Code Sections (CICS) 735. The Company has complied with this recommendation.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Company's officers and parent's employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Thuan Khong
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

/S/

Edward Aros, CFE
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California