

REPORT OF EXAMINATION
OF THE
CSAA INSURANCE EXCHANGE
AS OF
DECEMBER 31, 2019

Filed on February 22, 2021

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Oakland, California
January 15, 2021

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CSAA INSURANCE EXCHANGE

(hereinafter also referred to as the Exchange) with its home office located at 3055 Oak Road, Walnut Creek, California 94597.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Exchange. The previous examination of the Exchange was as of December 31, 2015. This examination covered the period from January 1, 2016 through December 31, 2019.

This 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 Exchange's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause the Exchange's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Exchange 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 an adjustment is identified during the course of the

examination, the impact of such adjustment would be documented separately following the Exchange's financial statements.

This examination report includes findings of fact and general information about the Exchange 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 Exchange.

This was a coordinated examination with California as the lead state of the CSAA Insurance Group. It was conducted concurrently with other insurance entities in the holding company group, including CSAA Affinity Insurance Company, CSAA Fire & Casualty Insurance Company, CSAA General Insurance Company, CSAA Mid-Atlantic Insurance Company of New Jersey, Mobilitas Insurance Company, Mobilitas Insurance Company of Arizona, and Mobilitas General Insurance Company. The Arizona Department of Insurance and Financial Institutions, Indiana Department of Insurance, and New Jersey Department of Banking and Insurance participated in the examination.

COMPANY HISTORY

The Exchange is a reciprocal insurer that was organized on June 20, 1914 and commenced business on August 14, 1914. Effective April 19, 2013, the Exchange changed its name from AAA Northern California, Nevada & Utah Insurance Exchange to CSAA Insurance Exchange.

The Exchange was sponsored by interests allied with the California State Automobile Association, now called AAA Northern California, Nevada & Utah (AAA NCNU), an automobile club (Club) incorporated in 1907. The Club is a member of the American Automobile Association, Inc. (AAA) which serves territories of Northern California, Nevada and Utah. The Exchange primarily writes private passenger automobile and homeowners coverage in Northern California, marketing to AAA members.

On June 6, 2014, the Exchange amended its Certificate of Authority and Rules and Regulations to replace its attorney-in-fact from individual executives to a corporate attorney-in-fact, CSAA Insurance Services, Inc. (CSAA IS). CSAA IS is a wholly-owned subsidiary of the Exchange that was originally formed as a limited liability company on December 16, 2013 and commenced business on January 1, 2014. The amended Certificate of Authority and Rules and Regulations was approved by the California Department of Insurance (CDI) on November 19, 2015.

The Exchange is a reciprocal insurer without equity owners and its corporate governance structure is designed to replicate the governance structure of a stock corporation. The Exchange’s basic corporate governance structure is established by its Rules and Regulations, which are agreed to by the Exchange’s subscribers when they become policyholders. The Rules and Regulations, which are similar to the bylaws of a stock corporation, establish, among other things, that the Insurance Board has oversight over the business and affairs of the Exchange and that CSAA IS will act as the attorney-in-fact for subscribers.

The following changes were made to the Exchange’s organization chart during the examination period:

Companies Added:

Effective Date:

Orbit Ventures LLC (1)	December 16, 2016
Orbit Ventures LLC (2)	July 25, 2017
Mobilitas Insurance Company	June 21, 2018
Mobilitas Insurance Company of America	January 30, 2019

Companies Removed:

AAA Member Services Company, LLC	July 5, 2016
Ceres Re Protected Cell No. I (Western and Central), LLC	
Ceres Reinsurance Inc.	August 17, 2016
ROOM8 Lab	November 25, 2019

Companies Added:

The ACP Innovation Fund, LP

Effective Date:

December 31, 2019

Name Changes:

CSAA Insurance Services LLP changed its name to CSAA Insurance Services, Inc.	August 10, 2015
Orbit Ventures LLC (1) changed its name to Orbit Labs LLC	July 25, 2017
Club Insurance Services, Inc. changed its name to ROOM8 Lab	April 25, 2018
Orbit Labs LLC Changed its name to Avanta Studios LLC	January 30, 2019
Orbit Ventures LLC (2) changed its name to Avanta Ventures LLC	January 30, 2019
Mobilitas Insurance Company of America changed its name to Mobilitas Insurance Company of Arizona	September 27, 2019
CSAA Mid-Atlantic Insurance Company changed its name to Mobilitas General Insurance Company	September 27, 2019

MANAGEMENT AND CONTROL

As a reciprocal insurer, the Exchange has no shareholders and is not directly owned by any party. As of December 31, 2019, the Exchange is the ultimate parent of a holding company system with fourteen directly owned and nine indirectly owned subsidiaries. The following organizational chart depicts the entities the Exchange had interrelationships with during the examination period (all ownership is 100% unless otherwise indicated):

- CSAA Insurance Exchange (California)
 - CSAA General Insurance Company (Indiana)
 - CSAA Fire & Casualty Insurance Company (Indiana)
 - 2445 St. Rose Parkway LLC (Delaware)*
 - CSAA Insurance Services, Inc. (California)**
 - Club Marketing Services, Inc. (California)
 - Mobilitas Insurance Company (Arizona)
 - CSAA Affinity Insurance Company (Arizona)
 - Mobilitas General Insurance Company (Arizona)
 - CSAA Mid-Atlantic Insurance Company of New Jersey (New Jersey)

Mobilitas Insurance Company of Arizona (Arizona)
 Avanta Ventures LLC (California)
 Avanta Studios LLC (California)
 2011 Equity Investment Fund, LLC (Delaware)
 CSAA Investment Fund, LLC (California)
 CSAA Life and Financial Services, Inc. (California)
 Pacific Beacon Life Reassurance, Inc. (Hawaii)

(*) 2445 St. Rose Parkway LLC is owned 50% by CSAA General Insurance Company and 50% by CSAA Fire & Casualty Insurance Company

(**) CSAA Insurance Services, Inc. is the attorney-in-fact for CSAA Insurance Exchange

As of December 31, 2019, the Board consisted of twelve (12) elected directors and two ex-officio voting members of the Board, one of whom is the Chief Executive Officer of the Exchange, and the other of whom is the Chief Executive Officer of AAA Club Partners, Inc. Following are members of the board and principal officers of the Exchange serving at December 31, 2019:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Spencer S. Angerbaurer South Jordan, Utah	Chief Executive Officer Venture Slopes, LLC
Robert N. Barone Reno, Nevada	Principal Universal Value Advisors
Jack E. Brown Cincinnati, Ohio	Retired
Paula R. Collins San Francisco, California	Retired
Mary B. Cranston San Rafael, California	Retired
Allen J. DeWalle Williamsburg, Virginia	Retired

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Robert A. Elliott** Tucson, Arizona	Owner and President Robert A. Elliot, Inc.
Donald R. Gagnon* Wilmington, Delaware	President and Chief Executive Officer AAA Club Partners, Inc.
Mary R. Hennessy Moorestown, New Jersey	Independent Consultant (Self-employed)
Ralph S. Michael, III Cincinnati, Ohio	Chairman of the Cincinnati Region Fifth Third Bancorp
James L. Pease, III Cincinnati, Ohio	Chairman AAA Club Alliance
Gerald W. Pettit Bethesda, Maryland	Chairman and Chief Executive Officer CHA Management LLC
Donald A. Smith, Jr. Carefree, Arizona	Retired
Thomas M. Troy Walnut Creek, California	President and Chief Executive Officer CSAA Insurance Exchange

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

- (*) Effective May 31, 2020, Donald R. Gagnon retired from the Board of Directors and the position is currently vacant.
- (**) Effective December 10, 2020, Robert A. Elliott ceased service as Chairman of Mountain West Group and thus ceased service as one of the ex-officio members of the Board of Directors. Wendy Paskin-Jordan assumed the role of the Mountain West Group Board Chair and will assume the ex-officio director role on the Exchange Board of Directors upon completion of the Exchange's customary background check and other diligence reviews.

Principal Officers

<u>Name</u>	<u>Title</u>
Thomas M. Troy	President and Chief Executive Officer
Andrea K. Hecht	Executive Vice President, Chief Financial Officer
Michael J. Zukerman	Executive Vice President, Chief Legal Officer

Management Agreements

Consolidated Intercompany Services Agreement: Effective October 1, 2017, CSAA Insurance Services, Inc. (CSAA IS) entered into a Consolidated Intercompany Services Agreement (Agreement) with the Exchange and the following affiliates: CSAA Fire & Casualty Insurance Company, CSAA General Insurance Company, CSAA Affinity Insurance Company, Mobilitas General Insurance Company (formerly known as CSAA Mid-Atlantic Insurance Company), CSAA Mid-Atlantic Insurance Company of New Jersey, 2011 Equity Investment Fund, LLC, 2445 St. Rose Parkway LLC, Club Marketing Services, LLC, CSAA Investment Fund, LLC, CSAA Life and Financial Services, Inc., Avanta Studios LLC (formerly Orbit Labs LLC), Avanta Ventures LLC (formerly Orbit Ventures LLC), and Pacific Beacon Life Reassurance, Inc. This Agreement replaces the Second Restated Services Agreement that was in effect since January 1, 2017. Pursuant to the Agreement, CSAA IS will provide the following services to the Exchange and its affiliates: facilities, accounting, tax, auditing, information technology, advertising and marketing, insurance production, and servicing, policy and claims administration, investments, attorney-in-fact, and other functional support services. Each affiliate agrees to compensate CSAA IS for services and facilities provided pursuant to this Agreement. The Agreement was approved by the California Department of Insurance (CDI) on November 7, 2017. Mobilitas Insurance Company and Mobilitas Insurance Company of Arizona became party to the Agreement effective June 21, 2018 and January 30, 2019, respectively. Total fees incurred by the Exchange for services rendered under this Agreement in 2017, 2018, and 2019 were \$466,891,822, \$455,195,908, and \$448,521,403.

Intercompany Managed Investment Fund Agreement: Effective January 1, 2018, the Exchange entered into an Intercompany Managed Investment Fund Agreement (Agreement) with CSAA Investment Fund, LLC (CSAA Investment Fund). Pursuant to the Agreement, the Exchange appoints CSAA Investment Fund to provide investment services related to capital contributions placed by the Exchange with CSAA Investment Fund and CSAA Investment Fund may charge the Exchange for investment services provided pursuant to this Agreement. The Agreement was approved by the CDI on January 15, 2020. The Exchange did not incur any fees for services rendered under this Agreement in 2018 and 2019.

Second Amended Restated Tax Allocation Agreement: Effective January 1, 2011, the Exchange entered into a Second Amended Restated Tax Allocation Agreement (Agreement) with the following subsidiaries and affiliates: CSAA Affinity Insurance Company, CSAA Fire & Casualty Insurance Company, CSAA General Insurance Company, Mobilitas General Insurance Company (formerly known as CSAA Mid-Atlantic Insurance Company), CSAA Mid-Atlantic Insurance Company of New Jersey, 2011 Equity Investment Fund, LLC, CSAA Life and Financial Services, Inc., and Pacific Beacon Life Reassurance, Inc. The Agreement allocates federal income taxes among the companies on a separate company basis. This Agreement supersedes the Restated Intercompany Tax Allocation Agreement that was approved by the CDI on August 1, 2005. The purpose of the amendment was to add CSAA Affinity Insurance Company, CSAA Mid-Atlantic Insurance Company of New Jersey, and Mobilitas General Insurance Company as participants to the tax allocation agreement. It was determined that subsequent amendments to the Agreement to add or remove companies did not require filing with the CDI pursuant to CIC Section 1215.5(b)(4). Mobilitas Insurance Company and Mobilitas Insurance Company of Arizona became party to the Agreement effective 21, 2018 and January 30, 2019, respectively.

Second Restated Technology Usage and Service Agreement: Effective January 1, 2017, the Exchange entered into a Second Restated Technology Usage and Service Agreement (Agreement) with its attorney-in-fact, CSAA Insurance Services, Inc. (CSAA IS). This Agreement supercedes the Technology Usage & Service Agreement that

was in effect since January 1, 2014. Pursuant to this Agreement, CSAA IS agrees to provide the Exchange with services that may include, but are not limited to: information technology acquisitions, development, management, maintenance, support services and other related responsibilities. The Exchange agrees to compensate CSAA IS for services provided pursuant to this Agreement. The Agreement was approved by the CDI on June 19, 2017. Effective December 31, 2019, the Agreement was terminated and CSAA IS transferred information technology assets with a net book value of \$282.5 million to the Exchange. The entire amount was non-admitted and there was no impact to policyholders' surplus as a result of the transfer. Total fees incurred by the Exchange for services rendered under this Agreement in 2017, 2018, and 2019 were \$3,606,421, \$8,789,470 and \$16,603,357.

TERRITORY AND PLAN OF OPERATION

The Exchange is licensed to write business in California and Nevada. In 2019, \$2.7 billion (100.0%) of the Exchange's direct premium was written in Northern California and only members in good standing of the not-for-profit automobile club organized under American Automobile Association, Inc. (AAA) in select service areas are eligible to apply for insurance. The Exchange's primary lines of business written include private passenger automobile liability with \$1.2 billion (40.0%), automobile physical damage with \$1.0 billion (37.6%), and homeowners multiple peril with \$574.9 million (21.0%).

The Exchange is the lead insurer within the holding company group (Group) with several insurance subsidiaries. As of December 31, 2019, the Group operated in 23 states and the District of Columbia, and business is produced mostly through 16 AAA auto clubs.

REINSURANCE

Intercompany Reinsurance

Restated Pooling Agreement: Effective January 1, 2019, the Exchange (lead insurer) entered into a Restated Pooling Agreement (Agreement) with six of its insurance

subsidiaries (participating insurers): CSAA Affinity Insurance Company, CSAA Mid-Atlantic Insurance Company of New Jersey, Mobilias General Insurance Company, and Mobilias Insurance Company. This Agreement replaced the Reinsurance Pooling Agreement that was in effect since January 1, 2011. Pursuant to the Agreement, the participating insurers cede 100% of its covered risks and the lead insurer accepts and assumes the covered risks of the participating insurers. There is no retrocession from the lead insurer to any participating insurers. Effective September 1, 2019, Mobilias Insurance Company of Arizona (MICA) became a participating insurer to the Agreement. The amendment to add MICA to the Agreement was approved by the California Department of Insurance on December 16, 2019.

Assumed

The Exchange earns premiums by entering into quota share reinsurance arrangements with Renaissance Reinsurance. The Exchange assumes risk from Renaissance Reinsurance's global portfolio, which is primarily composed of various risks in the United States of America, wind risk in Europe, and earthquake and typhoon risks in Japan. The contract provides the Exchange a stated written premium of \$30 million per year for the policy term of January 1, 2019 – December 31, 2020 and the Exchange shares in the ultimate outcome.

Ceded

The Exchange is party to a four-layer Catastrophe Excess of Loss treaty and cedes to various subscribing reinsurers, brokered through AON Benfield, for business defined as Homeowners Multiple Peril (property only), Automobile Physical Damage (comprehensive only), Earthquake, Fire, and Inland Marine.

The Catastrophe Excess of Loss treaty for 2019 provides protection in a series of layers up to \$1.1 billion in excess of \$200 million per occurrence and was 73.5% placed for the first layer of \$150 million in excess of \$200 million, with 100% placement for layers 2, 3 and 4. The contracts for layer 2, 3, and 4 are multi-year, with 40% of the limit expiring

annually, 30% expiring in 2 years, and 30% expiring in 3 years. Total limit purchased was \$1.1 billion with one reinstatement.

There is also a Top and Drop layer on the Catastrophe Excess of Loss treaty. It provides coverage of \$100 million in excess of \$1.3 billion for the first event. If the first event does not breach \$1.3 billion, then the layer provides \$100 million in excess of \$100 million after an aggregate annual deductible of \$100 million, with one reinstatement.

The following is a summary of the principal ceded reinsurance treaties in-force as of December 31, 2019:

<u>Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Catastrophe Excess of Loss (2019 Combined Program)			
Layer One	<u>Authorized:</u> Transatlantic Reinsurance Company (5.5%), Partner Reinsurance Company LTD (4.0%), Swiss Reinsurance America Corporation (4.0%), and several others.	<u>Expires Annually</u> 26.5% of \$150 million in excess of \$200 million, per occurrence	<u>Expires Annually</u> 73.5% of \$150 million in excess of \$200 million, per occurrence
	<u>Unauthorized:</u> Chubb Tempest Reinsurance Ltd (4.9%), Munchener Ruckversicherungs – Gesellschaft AG (4.8%), XL Bermuda Ltd (4.0%), and several others.		
Layer Two	<u>Authorized:</u> Lloyds Syndicate 510 (3.1%), Transatlantic Reinsurance Company (0.5%), and several others.		<u>Expires Annually</u> 40% of \$200 million in excess of \$350 million, per occurrence
	<u>Unauthorized:</u> Munchener Ruckversicherungs – Gesellschaft AG (0.6%), Chubb Tempest Reinsurance Ltd (0.4%), Hannover Re (Bermuda) Ltd (0.4%), and several others.		<u>Expires Year End 2019</u> 30% of \$250 million in excess of \$350 million, per occurrence
			<u>Expires Year End 2020</u> 30% of \$250 million in excess of \$350 million, per occurrence

<u>Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Layer Three	<u>Authorized:</u> Lloyds Syndicate 510 (2.5%), Tokio Mill Re AG, Bermuda (0.7%), Renaissance Reinsurance Ltd (0.5%), and several others.		<u>Expires Annually</u> 40% of \$300 million in excess of \$550 million, per occurrence
	<u>Unauthorized:</u> Munchener Ruckversicherungs – Gesellschaft AG (0.6%), Validus Reinsurance Ltd. (0.4%), Hannover Re (Bermuda) Ltd. (0.4%), and several others.		<u>Expires Year End 2019</u> 30% of \$350 million in excess of \$600 million, per occurrence
Layer Four	<u>Authorized:</u> Arch Reinsurance Limited (0.6%), Renaissance Reinsurance Ltd. (0.6%), Swiss Reinsurance America Corporation (0.5%), and several others.		<u>Expires Annually</u> 40% of \$450 million in excess of \$850 million, per occurrence
	<u>Unauthorized:</u> Munich Re (Germany) (5.8%), SCOR Global P&C Zurich Branch (1.5%), Munchener Ruckversicherungs – Gesellschaft AG (0.6%), and several others.		<u>Expires Year End 2019</u> 30% of \$350 million in excess of \$950 million, per occurrence
			<u>Expires Year End 2020</u> 30% of \$350 million in excess of \$950 million, per occurrence

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by the Exchange with the California Department of Insurance and present the financial condition of the Exchange for the period ending December 31, 2019. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2015 through December 31, 2019

Analysis of Changes to Surplus as of December 31, 2019

Statement of Financial Condition
as of December 31, 2019

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 4,548,997,998	\$	\$ 4,548,997,998	
Preferred stocks	72,915,338		72,915,338	
Common stocks	811,964,281		811,964,281	
Real estate (properties occupied by the company)	121,167,736		121,167,736	
Cash, cash equivalents and short-term investments	728,939,121		728,939,121	
Other invested assets	446,873,138	83,052,760	363,820,378	
Receivable for securities	2,187,309		2,187,309	
Securities lending reinvested collateral assets	27,407,870		27,407,870	
Investment income due and accrued	40,428,675		40,428,675	
Uncollected premiums and agents' balances in the course of collection	361,103,419	493,560	360,609,860	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	686,620,779		686,620,779	
Amount recoverable from reinsurers	78,690,258		78,690,258	
Current federal and foreign income tax recoverable and interest thereon	18,578,706		18,578,706	
Net deferred tax asset	205,057,238	83,518,317	121,538,876	(1)
Guaranty funds receivable or on deposit	195		195	
Electronic data processing equipment and software	262,047,720	262,047,720		
Furniture and equipment	9,261,132	9,261,132		
Receivable from parent, subsidiaries and affiliates	38,340,516		38,340,516	
Aggregate write-ins for other than invested assets	<u>35,731,131</u>	<u>29,005,529</u>	<u>6,725,602</u>	
Total assets	<u>\$ 8,496,312,515</u>	<u>\$ 467,379,018</u>	<u>\$ 8,028,933,497</u>	(1)
 <u>Liabilities, Surplus, and Other Funds</u>				
Losses and loss adjustment expenses			\$ 1,994,414,595	(2)
Reinsurance payable on paid losses and loss adjustment expenses			80,255,232	
Commissions payable, contingent commissions and other similar charges			31,754,397	
Other expenses			10,838,786	
Taxes, licenses and fees			2,932,752	
Current federal and foreign income taxes			28,684,300	
Unearned premiums			2,005,123,252	
Advance premiums			26,838,282	
Ceded reinsurance premiums payable			19,381,345	
Amounts withheld or retained by company for account of others			1,844,008	
Remittances and items not allowed			911,929	
Payable to parent, subsidiaries and affiliates			154,071,913	
Payable for securities			6,991,097	
Payable for securities lending			27,406,603	
Aggregate write-ins for liabilities			<u>7,585,145</u>	
Total liabilities			4,399,033,636	
Aggregate write-ins for special surplus funds		\$ (7,980,940)		
Unassigned funds (surplus)		<u>3,637,880,801</u>		(1)
Surplus as regards policyholders			<u>3,629,899,860</u>	(1)
			<u>\$ 8,028,933,497</u>	(1)

Underwriting and Investment Exhibit
for the Year Ended December 31, 2019

State of Income

Underwriting Income

Premiums earned		\$ 4,004,240,392
Deductions:		
Losses incurred	\$ 2,413,855,122	
Loss adjustment expenses incurred	454,204,623	
Other underwriting expenses incurred	<u>1,120,302,808</u>	
Total underwriting deductions		<u>3,988,362,553</u>
Net underwriting gain		15,877,839

Investment Income

Net investment income earned	\$ 192,820,600	
Net realized capital losses	<u>(211,524,678)</u>	
Net investment loss		(18,704,078)

Other income

Net loss from agent's or premium balances charged off (amount recovered \$0 amount charged off \$621,633)	\$ (10,713,720)	
Finance and service charges not included in premiums	52,065,844	
Aggregate write-ins for miscellaneous income	(9,671,905)	
Total other income		<u>31,680,219</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		28,853,980
Federal and foreign income taxes incurred		<u>(23,309,772)</u>
Net income		<u>\$ 52,163,752</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		\$ 2,910,740,680
Net income	\$ 52,163,752	
Change in net unrealized capital gains	801,226,144	
Change in net unrealized foreign exchange capital gain	32,236,314	
Change in net deferred income tax	199,020,138	(1)
Change in nonadmitted assets	(365,460,994)	
Change in provision for reinsurance	3,239	
Aggregate write-ins for losses in surplus	<u>(29,413)</u>	
Change in surplus as regards policyholders for the year		<u>719,159,180</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 3,629,899,860</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2015 through December 31, 2019

Surplus as regards policyholders, December 31, 2015			\$ 3,378,075,164
	Gain in Surplus	Loss in Surplus	
Net income	\$ 23,648,999	\$	
Change in unrealized capital gains	461,766,642		
Change in net unrealized foreign exchange capital gains	72,038,290		
Change in net deferred income tax	118,590,194		(1)
Change in nonadmitted assets		400,809,254	
Aggregate write-ins for losses in surplus		23,420,005	
Total gains and losses	\$ 627,088,778	\$ 424,229,259	
Net gain in surplus as regards policyholders			251,824,696 (1)
Surplus as regards policyholders, December 31, 2019			<u>\$ 3,629,899,860 (1)</u>

Analysis of Examination Adjustments as of December 31, 2019

As a result of the audit performed by the Exchange’s independent auditors, the Exchange’s tax department prepared a revised Statement of Statutory Accounting Principles No. 101 – Income Taxes (SSAP No. 101) admissibility test calculation for the period ended December 31, 2019. The impact to admitted deferred tax assets (DTAs) was driven by the “with and without” test under SSAP No. 101, paragraph 11(b), which measures the cash tax benefit of DTAs expected to reverse in future years, based on 2020 – 2022 taxable income forecasts prepared for management. When performing the “with and without” test at year-end, the tax department did not include temporary differences originating in future years. By including future originating temporary differences, forecast taxable income increased, resulting in a larger admitted DTA. The sum of the effect on surplus is shown below:

Surplus as regards policyholders, December 31, 2019, per annual statement		\$3,580,934,683		
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"><u>Increase</u></td> <td style="width: 50%; text-align: center;"><u>Decrease</u></td> </tr> </table>	<u>Increase</u>	<u>Decrease</u>	
<u>Increase</u>	<u>Decrease</u>			
Net deferred tax asset	\$ 48,965,177	\$		
Total gains and losses	\$ 48,965,177			
Net gain in surplus as regards policyholders		48,965,177		
Surplus as regards policyholders, December 31, 2019, after adjustments		\$3,629,899,860		

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Net Deferred Tax Asset

As a result of the audit performed by the Exchange's independent auditors, the following adjustments were made to the Exchange's reported balance sheet items. Net deferred tax assets increased by \$48,965,177, resulting in a net gain in policyholders' surplus in the amount of \$48,965,177.

(2) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the California Department of Insurance, the Exchange's loss and loss adjustment expense reserves as of December 31, 2019 were found to be reasonably stated and have been accepted for the purpose of this examination.

SUBSEQUENT EVENTS

During the first quarter of 2020, Coronavirus Disease 2019 (COVID-19) was declared a pandemic by the World Health Organization. The Exchange closed its offices beginning March 13, 2020 and requested all employees work from home and comply with local "stay at home" orders to reduce the risk of infection to the staff and families. Operations have not been materially impacted by the office closure. The Exchange is analyzing the impact of this pandemic on several of its lines of business, as well as the impact of business interruption for the Exchange and its policyholders. Currently, the Exchange cannot reasonably estimate the scope, length, or severity of this pandemic, or the extent to which the business or economic disruptions may materially impact the Exchange's Statement of Assets, Liabilities and Policyholders' Surplus, and the related Statement of Cash Flows in 2020.

The Exchange faces loss exposure from wildfires in accident year 2020. The exposure is primarily in the Exchange's homeowner and automobile physical damage lines of

business. The Exchange estimates the exposure of losses as of December 31, 2020 to be \$287.8 million.

On July 14, 2020, CSAA Specialized Services LLC (CSAA SS) was formed and added to the Exchange's organization chart. CSAA SS is a wholly-owned subsidiary of CSAA Insurance Services, Inc. and was formed to provide COVID-19 contact tracing and unemployment claims processing services.

Effective October 1, 2020, the Exchange (Lead Insurer) amended its Restated Pooling Agreement (Agreement) to remove Mobilitas General Insurance Company (MGIC) as a member of the pool. The remaining pool participants will continue to cede 100% of their insurance business to the Exchange. Concurrently, a new pooling agreement was established between CSAA Fire & Casualty Insurance Company (FCIC) as the assuming insurer and MGIC as the ceding insurer, whereby MGIC will cede 100% of its business to FCIC. The California Department of Insurance issued a non-disapproval letter for the amended Agreement on September 10, 2020.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Management and Control – Management Agreements (Page 17): It was recommended that the Exchange enter into an investment management agreement with CSAA Investment Fund, LLC (CSAA Investment Fund). Additionally, it was recommended that the investment management agreement be filed with the California Department of Insurance (CDI) in accordance with California Insurance Code (CIC) Section 1215.5(b)(4). The Exchange entered into an Intercompany Managed Investment Fund Agreement (Agreement) with CSAA Investment Fund and the Agreement was approved by the CDI on January 15, 2020. The Exchange is now in compliance.

ACKNOWLEDGMENT

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

Respectfully submitted,

_____/S/_____

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