REPORT OF EXAMINATION
OF THE
FIREMAN'S FUND INSURANCE COMPANY
AS OF
DECEMBER 31, 2018

Filed on May 22, 2020

TABLE OF CONTENTS

PAGE

Oakland, California
April 23, 2020

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FIREMAN'S FUND INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 1465 N. McDowell Boulevard, Suite 100, Petaluma, California 94954.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2013. This examination covers the period from January 1, 2014 through December 31, 2018.

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 Company'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 an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes 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 was identified during the course of the examination, the impact of such adjustment would 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 the Company.

This was a coordinated examination whereby Minnesota is the lead state for the Allianz Insurance Group. Illinois was designated as the exam facilitator for the property and casualty subgroup of this coordinated examination. The examination of the Company was performed concurrently with the examination of the property and casualty insurers of this subgroup. The following states also participated in this coordinated exam: Missouri, New Jersey, and Ohio.

COMPANY HISTORY

Capitalization

The Company is authorized to issue 1,000,000 shares of common stock with a par value of $15 per share. As of December 31, 2018, there were 280,000 shares issued and outstanding.

Dividends

On December 30, 2014, the Company paid an extraordinary cash dividend of $247 million to its former parent, Allianz of America, Inc. (AZOA). The California Department of Insurance (CDI) approved this transaction pursuant to California Insurance Code (CIC) Section 1215.5(g).

In 2017, the Company paid an ordinary dividend of $371 million to its direct parent, Allianz Global Risks US Insurance Company (AGR US) in cash of $90 million with the remainder in securities.

On September 27, 2018, the Company paid an extraordinary dividend of $122 million to AGR US through the transfer of securities. The CDI approved this transaction pursuant to CIC Section 1215,5(g).

On September 27, 2019, the Company paid an ordinary cash dividend of $46 million to AGR US.

Corporate Reorganizations

On January 1, 2015, AZOA contributed all of the issued and outstanding shares of common stock of the Company to AGR US. The value of the contribution was equal to the statutory surplus of the Company at approximately $1,822 million as of the contribution date. On the same date, the Company made a capital contribution of $321 million in the form of cash to its wholly owned subsidiary San Francisco Reinsurance Company (SFRe), and distributed all of the issued and outstanding shares of common stock of SFRe to Allianz of America, Inc. at the statutory book value of $395.0 million. The CDI did not disapprove these transactions on December 15, 2014. Following receipt of the approval from the CDI, the Company entered into several reinsurance agreements with SFRe (refer to the “Reinsurance” ceded section for further information). Effective September 14, 2018, SFRe’s name was changed to Allianz Reinsurance of America, Inc.

Effective January 1, 2017, Fireman’s Fund Insurance Company of Ohio (FFOH), a wholly-owned subsidiary of the Company was sold to a third party, United Specialty Insurance Company, a Delaware domiciled company. Effective with the sale, FFOH transferred all existing and outstanding losses and loss adjustment expenses reserves to the Company under an Indemnity Reinsurance and Assumption Agreement.

Effective December 31, 2018, in an effort to simplify the Allianz organizational structure, Fireman’s Fund Insurance Company of Hawaii, Inc. (FFHI) was merged into the Company with the Company being the surviving entity. The CDI consented to the merger pursuant to CIC Section 1011(c) on December 11, 2018. Under the terms of the Merger Agreement, the Company assumed all debts, liabilities, and obligations of FFHI, including but not limited to all policyholder liabilities, reserves, and liabilities for taxes. No cash consideration was paid or exchange for the merger. All prior year amounts in the annual statement had been restated as if the merger had occurred January 1 of the prior year pursuant to Statement of Statutory Accounting Principles No. 3 paragraph 12.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Allianz SE (AZSE), a Societas Europaea incorporated in the Federal Republic of Germany and organized under the laws of the European Union is the ultimate controlling entity. The following abridged organizational chart is limited to the Company's intercompany relationship within the holding company system and does not depict all entities under AZSE as of December 31, 2018 (all ownership is 100% unless otherwise noted):

- Allianz SE (Germany)
  - Allianz Technology SE (Germany)
    - Allianz Technology International B.V. (Netherlands)
      - Allianz Technology of America, Inc. (Delaware) (95% ownership)
  - Allianz Europe B.V. (Netherlands)
    - Allianz of America, Inc. (Delaware)
      - Allianz Life Insurance Company of North America (Minnesota)
        - Allianz Life Insurance Company of New York (New York)
        - Allianz Investment Management, LLC (Minnesota)
      - Allianz Reinsurance America, Inc. (California)
      - Allianz Global Risks US Insurance Company (Illinois) (80% ownership)
        - **Fireman's Fund Insurance Company (California)**
          - American Automobile Insurance Company (Missouri)
          - Associated Indemnity Corporation (California)
          - Chicago Insurance Company (Illinois)
          - Fireman's Fund Indemnity Corporation (New Jersey)
          - Interstate Fire & Casualty Company (Illinois)
          - National Surety Corporation (Illinois)
          - The American Insurance Company (Ohio)
          - Fireman's Fund Financial Services, LLC (Delaware)
          - Par Holdings, LTD (Bermuda) (14.3% ownership)
        - Allianz Renewable Energy Partners of America, LLC (Delaware) (33.3% ownership)
      - AZOA Services Corporation (New York)
      - Allianz Real Estate of America, LLC (Delaware)
      - Allianz Technology of America, Inc. (Delaware) (5% ownership)

Allianz Renewable Energy Partners of America, LLC (Delaware) (66.7% ownership)
Allianz Asset Management of America, LLC (Delaware) (99.8% ownership)
Allianz Asset Management of America LP (Delaware) (95% ownership)
Allianz Global Investors U.S. Holdings LLC (Delaware)
Allianz Capital Partners of America, Inc. (Delaware)
Allianz Global Corporate & Specialty SE (Germany)
ACGS International Holding B.V. (Delaware)
Allianz Global Risks US Insurance Company (Illinois) (20% ownership)
Allianz Underwriters Insurance Company (Illinois)
AGCS Marine Insurance Company (Illinois)
Allianz Partners S.A.S (France)
AWP P&C SA (France)
AWP USA Inc. (District of Columbia)
Jefferson Insurance Company (New York)
AGA Service Company (Virginia)
Allianz Argos 14 GmbH (Germany)
Allianz Holding France SAS (France)
Allianz France S.A. (France)
Euler Hermes Group (France) (98.6% ownership)
Euler Hermes North America Holding, Inc. (Delaware)
Euler Hermes North America Insurance Company (Maryland)

A four-member of the Board of Directors, elected annually, oversees the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2018:

Directors

Name and Location	Principal Business Affiliation
Julie A. Garrison Chicago, Illinois	Senior Vice President, General Counsel and Secretary Allianz Global Risks US Insurance Company
Vinko Markovina New York, New York	Senior Vice President, Regional Head Corporate and Global Head Midcorp Allianz Global Risks US Insurance Company
Katalin Noe Chicago, Illinois	Assistant Vice President Allianz Global Risks US Insurance Company

Name and Location	Principal Business Affiliation

Directors (continued)

Name and Location	Principal Business Affiliation
Douglas R. Renn Chicago, Illinois	Senior Vice President, Chief Financial Officer and Treasurer Allianz Global Risks US Insurance Company

Principal Officers

Name	Title
William Scaldaferri	President and Chief Executive Officer
Julie Garrison	Senior Vice President and General Counsel and Secretary
Douglas Renn	Senior Vice President, Chief Financial Officer and Treasurer
Peter Locy	Vice President, Controller and Assistant Treasurer

Management Agreements

Intercompany Service Agreement: This agreement was entered into by and between the Company and its wholly owned subsidiaries effective January 1, 2012 and approved by the California Department of Insurance (CDI) on February 23, 2012. Under the terms of the agreement, the Company agrees to provide services to each of its subsidiaries in the conduct of its operations and the administration of reinsured liabilities. The parties to the agreement agree to reimburse the Company for the actual cost of services provided. Services provided include managerial, operational, strategic consulting, investment operations and support, treasury operations, accounting and finance, legal matters, risk management functions, facilities, fixtures, furniture and supplies, corporate audit functions, information technology, underwriting, claims handling, reinsurance operations and collections, and ad hoc consultation and support with non-recurring matters. No fees were received as all costs were assumed under the pooling agreement.

Second Amended and Restated Group Service Agreement: Effective January 1, 2013, the Company is a party to the agreement by and among Allianz of America, Inc., AZOA Services Corporation, Allianz Global Risks US Insurance Company, Allianz Life Insurance Company of North America, Allianz Capital Partners of America, Inc., AGA Service Company, Allianz Real Estate of America LLC, Allianz Technology of America Inc., Allianz Renewable Energy Partners of America LLC, and Allianz Reinsurance America, Inc. Under the terms of the agreement, each member agrees to provide services for any requesting member necessary for that member's continuing operation. Any member can decline to provide requested services if it would interfere with the member's ability to meet its obligations to its policyholders or would otherwise adversely affect the performing member. Each member must reimburse other members for direct and directly allocable expenses attributable to recipient members, plus a reasonable charge for overhead. This agreement was amended with a third amendment on October 26, 2016 to add an affiliate to the agreement and to clarify records retention standards. The Company did not incur any fees for the services under this agreement. The CDI did not disapprove the agreement pursuant to California Insurance Code (CIC) Section 1215.5(b)(4) on September 29, 2016.

Amended and Restated Intercompany Service Agreement: Effective January 1, 2016, the Company became a member of this group service agreement among Allianz Global Risks US Insurance Company, Allianz Global Corporate & Specialty SE, and other US and global affiliates. Under the terms of this agreement, each group member agrees to provide services for each other in a manner that would not interfere with the member's ability to meet its obligations to its policyholders. Each performing group member shall promptly disclose to the applicable recipient group members any development, which may have a material impact on its ability to carry out the services under the agreement. The recipient group members reimburse the performing group members based on the actual cost of services and facilities provided to and received from business units domiciled or established within the United States. Services provided include managerial, operational, strategic consulting, investment operations and support, treasurer's operations, accounting and finance, legal matters, risk management functions, facilities, fixtures, furniture and supplies, corporate audit functions, information technology, underwriting, claims handling, reinsurance operations and collections, and ad hoc consultation and support with non-recurring matters. The fees incurred by the Company for services under this agreement were $14,432,000, $26,829,510, and $45,902,042 in 2016, 2017, and 2018, respectively with no fees incurred in 2014 and 2015. The CDI did not disapprove the agreement pursuant to CIC Section 1215.5(b)(4) on December 8, 2015.

Second Amended and Restated Investment Management Agreement: The Company and Allianz Investment Management, LLC (AIM) entered into this agreement effective December 21, 2016. The CDI did not disapprove and authorized the companies to proceed with the transaction pursuant to CIC Section 1215.5(b)(4) on December 7, 2016. Under the terms of the agreement, AIM provides investment and cash management services for a fee for asset management services based on actual cost without profit. The fees incurred by the Company for services under this agreement were $3,043,700, $1,694,649, $825,954, $2,278,946, and $580,510 in 2014, 2015, 2016, 2017, and 2018, respectively.

Tax Sharing Agreement: Effective January 1, 2018, the Company is a participant in a Tax Sharing Agreement entered into with Allianz of America, Inc, (AZOA) and other affiliates. Under the terms of the agreement, AZOA provides for computation of federal income taxes on a separate company basis and reimburses the Company for separate tax attributes, including credits and losses utilized in the consolidated federal income tax return. The amounts of federal income tax paid by the Company during the examination years were $397,375,241, $1,120,000, $137,498,137, $54,816,847, $5,928,746 in 2014, 2015, 2016, 2017, and 2018, respectively. The CDI approved the agreement on December 13, 2018.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company is licensed to transact property and casualty insurance business in all fifty states, the District of Columbia, the territories of Guam and Puerto Rico. Direct premiums written during 2018 totaled $438.0 million, of which 26.7% was written in California, 16.5% was written in New York, and the remaining 56.8% was written in all other states and territories where the Company is licensed. The majority of the premiums were written in commercial multiple peril (39.8%), other liability occurrence (24.0%), and inland marine (10.5%) lines of business.

The Company's home office is located in Petaluma, California. Its parent, Allianz Global Risks US Insurance Company located in Chicago, Illinois, manages the day-to-day operations of the Company.

REINSURANCE

Second Amended and Restated Intercompany Reinsurance Agreement

Effective January 1, 2012, the Company and its affiliates entered into a Second Amended and Restated Intercompany Reinsurance Agreement. Under the terms of this agreement, each participating affiliates cedes and the Company assumes the liabilities of all policies and contracts of insurance issued, assumed, or otherwise reinsured by the affiliates. The liabilities of the affiliated insurers are pooled with the liabilities arising from policies and contracts of insurance issued directly by the Company. The Company retains 100 percent of the pooled liabilities and the other participating affiliates do not assume any portion of the pooled results. As of December 31, 2018, members in the pool were the Company, Associated Indemnity Corporation, The American Insurance Company, National Surety Corporation, Interstate Fire and Casualty Company, American Automobile Insurance Company, and Chicago Insurance Company.

Restated Pooling Agreement

Effective January 1, 2016, the Company, Allianz Global Risks US Insurance Company (AGR US), ACGS Marine Insurance Company (AMIC), and Allianz Underwriters Insurance Company (AUIC) entered into a Restated Pooling Agreement. This agreement amended the existing AGCS Pooling Agreement. In the Restated Pooling Agreement, all of the insurance business and assumed reinsurance of the Company, AMIC, and AUIC written before or after the agreement effective date are combined and pooled. All assets of the Company, AMIC, and AUIC from and relating to the pooled business, and all liabilities arising out of or relating to the pooled business are pooled as intercompany reinsurance. AGR US assumes one hundred percent of the pooled liabilities and assets with no retrocession to the Company, AMIC, and AUIC. Reinsurance agreements to which the Company's subsidiaries cede business to the Company remain in place and unchanged. The Company in turn retrocede its direct business and assumed business from its subsidiaries to AGR US. Pursuant to California Insurance Code (CIC) Section 1011(c), the California Department of Insurance (CDI) consented to the agreement on March 18, 2016.

<u>Assumed</u>

During the examination period, other than the business assumed under the Second Amended and Restated Intercompany Reinsurance described above, the Company assumed immaterial amounts of reinsurance from other affiliates in the Allianz group and mandatory pools.

<u>Ceded</u>

Amended and Restated Asbestos and Environmental Reinsurance Agreement: The Company and its affiliate Allianz Reinsurance of America, Inc. (AZRA) are parties to an Asbestos and Environmental Reinsurance Agreement effective as of January 1, 2015 to which AZRA reinsures certain direct and assumed asbestos and environmental liabilities of the Company. On July 31, 2015, the agreement was amended and restated to confirm the final agreed dollar values of the transferred reserves, reinsurance premium, reinsurance limit, and to add a claim control. The CDI issued a non-disapproval to the amended and restated agreement pursuant to CIC Section 1215.5(b)(3) on August 27, 2015.

On April 1, 2015, the Company closed the sale of it personal insurance line of business to ACE American Insurance Company (ACE), a Pennsylvania domiciled company under a Master Transaction Agreement (Agreement) in the form of a quota share reinsurance and service agreements. The personal line business transferred to ACE consists of private passenger auto, liability, homeowners, and personal inland marine policies. Under this transaction, the Company and ACE entered into a run-off agreement for liabilities as of March 31, 2015, which included loss and adjusted loss expense reserves and unearned premium reserves. In this transaction, the Company and ACE also entered into a one hundred percent quota share reinsurance agreement for business written on policies effective April 1, 2015 and subsequent until the policies can be renewed on ACE paper. The CDI consented to the Agreement on March 18, 2015.

Reinsurance Agreement: Effective July 1, 2015, the Company and AZRA entered into a Reinsurance Agreement. Under the terms of the agreement, the Company cedes and AZRA accepts on a one hundred percent indemnity reinsurance basis all workers compensation liabilities occurring on or before December 31, 2012, written directly, and assumed and reinsured by the Company net of inuring recoveries and inuring reinsurance, up to the workers compensation reinsurance limit. Additionally, the Company cedes and AZRA accepts on a one hundred percent indemnity reinsurance basis any and all construction defect liabilities occurring on or before December 31, 2014 written directly and assumed and reinsured by the Company net of inuring recoveries and inuring reinsurance up to the construction defect reinsurance limit. The CDI issued a non-disapproval to the agreement pursuant to CIC Section 1215.5(b)(3) on July 23, 2015.

Professional Liability/Allied Healthcare Professionals Reinsurance Agreement: Effective January 1, 2016, the Company and AZRA entered into the agreement. Under the reinsurance agreement, the Company cedes and AZRA accepts on a one hundred percent indemnity reinsurance basis all direct and assumed professional liability/allied healthcare professionals liabilities arising prior to, on or after January 1, 2016, net of existing reinsurance collected by the Company, up to a definitive reinsurance limit. The CDI issued a non-disapproval to the agreement pursuant to CIC Section 1215.5(b)(3) on March 23, 2016.

ACCOUNTS AND RECORDS

Vehicle Assessment

Each insurer doing business in California is required to pay an annual special purpose assessment for each vehicle it insures in this state pursuant to Sections 1872.8, 1872.81, and 1874.8 of the California Insurance Code. In addition, according to the California Code of Regulations, Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62 (10 CCR § 2698.62), an insurer is required to maintain an Automobile Assessment File to identify the assessment due for each vehicle by its vehicle identification number for which a policy insurance was in force for each quarter or any part thereof.

In 2006, pursuant to 10 CCR § 2698.62, the California Department of Insurance (CDI) granted the Company's request for an exemption and approved the use of an alternative method for calculating the assessment. During the examination, it was observed that the Company did not consistently utilize the approved method for some years.

It is recommended that the Company use the method for counting vehicles that was approved by the CDI to comply with the requirements of 10 CCR § 2698.62. It is also recommended that the Company notify the CDI of any deviation from the method previously granted and to request for approval of any new method used to produce the number of vehicle count. The Company agrees with the recommendations to comply with 10 CCR § 2698.62.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance 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 Financial Condition as of December 31, 2018

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

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

Statement of Financial Condition
as of December 31, 2018

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 532,410,467	$	$ 532,410,467	
Common stocks	477,537,181	1,532,856	476,004,325	
Mortgage loans on real estate first liens	153,657,239		153,657,239	
Cash and short-term investments	32,342,416		32,342,416	
Other invested assets	23,556,694		23,556,694	
Receivable for securities	180,892		180,892	
Aggregate write-ins for invested assets	17,930,859		17,930,859	
Investment income due and accrued	6,068,304		6,068,304	
Uncollected premiums and agents' balances in course of collection	215,102,307		215,102,307	
Amount recoverable from reinsurers	396,878,783		396,878,783	
Funds held by or deposited with reinsured companies	870,475		870,475	
Current federal and foreign income tax recoverable and interest thereon	1,153,016		1,153,016	
Net deferred tax asset	4,861,012		4,861,012	
Electronic data processing equipment and software	777,416	777,416		
Furniture and equipment	146,607	146,607		
Receivables from parent, subsidiaries, and affiliates	18,615,207	615,904	17,999,303	
Aggregate write-ins for other than invested assets	74,360,632	9,458,522	64,902,110	
Total assets	$ 1,956,449,507	$ 12,531,305	$ 1,943,918,202	

Liabilities, Surplus and Other Funds			Notes
Losses and loss adjustment expenses		$ 0	(1)
Reinsurance payable on paid losses and loss adjustment expenses		242,229,794	
Other expenses		20,026,021	
Ceded reinsurance premiums payable		306,827,567	
Funds held by company under reinsurance treaties		80,003	
Provision for reinsurance		15,163,983	
Payable to parent, subsidiaries and affiliates		8,432,430	
Payable for securities		70,053	
Aggregate write-ins for liabilities		37,804,492	
Total liabilities		630,634,343	
Common capital stock	$ 4,200,000		
Gross paid-in and contributed surplus	924,300,173		
Unassigned funds (surplus)	384,783,686		
Surplus as regards policyholders		$ 1,313,283,859	
Total liabilities, surplus and other funds		$ 1,943,918,202	

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

Underwriting Income		
Premiums earned		$ 0
Deductions:		
Losses and loss adjustment expenses incurred	$ 0	
Other underwriting expenses incurred	0	
Total underwriting deductions		0
Net underwriting gain or loss		0
Investment Income		
Net investment income earned	$ 30,833,159	
Net realized capital losses	(652,216)	
Net investment gain		30,180,943
Other income		
Aggregate write-ins for miscellaneous income	$ (669,532)	
Total other income		(669,532)
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		29,511,411
Federal and foreign income taxes incurred		(4,360,569)
Net income		$ 33,871,980

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2017		$ 1,387,384,500
Net income	$ 33,871,980	
Change in net unrealized capital gains	3,855,543	
Change in net unrealized foreign exchange capital loss	(104,892)	
Change in net deferred income tax	(10,823,965)	
Change in nonadmitted assets	23,493,247	
Change in provision for reinsurance	6,661,863	
Cumulative effect of changes in accounting principles	4,240,677	
Dividends to stockholders	(120,909,775)	
Aggregate write-ins for losses in surplus	(14,385,319)	
Change in surplus as regards policyholders for the year		(74,100,641)
Surplus as regards policyholders, December 31, 2018		$ 1,313,283,859

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2013 through December 31, 2018

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2013			$ 2,478,652,440
Net income	$ 877,416,889	$	
Change in net unrealized capital losses		258,043,003	
Change in net unrealized foreign exchange capital losses		5,059,827	
Change in net deferred income tax		597,472,758	
Change in nonadmitted assets	403,279,983		
Change in provision for reinsurance	2,391,659		
Cumulative effect of changes in accounting principles	4,240,677		
Surplus adjustments: paid-in		849,302,724	
Dividends to stockholders		738,898,295	
Aggregate write-ins for losses in surplus		3,921,182	
Total gains and losses	$ 1,287,329,208	$ 2,452,697,789	
Net decrease in surplus as regards policyholders			(1,165,368,581)
Surplus as regards policyholders, December 31, 2018			$ 1,313,283,859

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the actuarial work prepared by the lead state's consulting actuary, Merlinos & Associates and concurred that Allianz's group losses and loss adjustment expense reserves as of December 31, 2018 were reasonable and have been accepted for purpose of this examination. As of December 31, 2018, the Company reported zero net loss and loss adjustment expense reserves (LAE) because one hundred percent of its losses and LAE expenses were ceded to Allianz Global Risks US Insurance Company.

SUSEQUENT EVENTS

Coronavirus Disease 2019 (COVID-19)

On January 30, 2020, the World Health Organization (WHO) declared the outbreak of COVID-19, a Public Health Emergency of International Concern. The pandemic has triggered unprecedented government mandates and health and safety measures, which have significantly impacted the U.S. and global financial markets, in particular, U.S. publicly traded equity securities, and impacts on yields and interest rates in the U.S. bond market. As the pandemic still unfolds, it is too early to draw any definite conclusions as to its overall impact to the Company at this time.

U.S. Agribusiness

Pursuant to a strategic decision to exit the U.S. Agribusiness (agriculture and farm) sector, effective February 24, 2020, an agreement was reached to sell the renewal rights to the U.S. Agribusiness book of business of the Company, Fireman's Fund Insurance Company, The American Insurance Company National Surety Corporation and American Automobile Insurance Company to ACE American Insurance Company. With a transition process beginning immediately and anticipated through August 2021.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Vehicle Assessment – Vehicle Assessment (Page 12): It is recommended that the Company use the method for counting vehicles that was approved by the California Department of Insurance (CDI) to comply with the requirements of California Code of Regulations, Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62 (10 CCR § 2698.62). It is also recommended that the Company notify the CDI of any deviation from the method previously granted and to request for approval of any new method used to produce the number of vehicle count. The Company agrees with the recommendations to comply with 10 CCR § 2698.62.

Previous Report of Examination

Accounts and Records – Information Systems Controls (Page 23): As the result of the review of the Company's information systems controls, recommendations for improving these controls were presented to the Company. The Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems. The Company has taken steps to address the recommendations.

<u>ACKNOWLEDGMENT</u>

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

Respectfully submitted,

___/S/________________________

Li Lim, CFE
Examiner-In-Charge
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California

___/S/________________________

Ber Vang, CFE, AES, CISA
Supervising Insurance Examiner
Department of Insurance
State of California