

REPORT OF EXAMINATION
OF THE
NATIONS INSURANCE COMPANY
AS OF
DECEMBER 31, 2018

Filed on December 20, 2019

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San Francisco, California
November 8, 2019

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

NATIONS INSURANCE COMPANY

(hereinafter also referred to as the Company). Its home office located at 12800 Center Court Drive South Suite 550, Cerritos, California 90703.

SCOPE OF EXAMINATION

We have performed our single state examination of the Company. The previous examination of the Company was as of December 31, 2014. This examination covered the period from January 1, 2015 through December 31, 2018.

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 system controls and procedures used to mitigate those risks. An examination also includes 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 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.

COMPANY HISTORY

The Company was incorporated under the laws of California on November 29, 2006, and commenced transacting business on March 6, 2008. The Company was previously owned by its Chief Executive Officer and President, Elias Assaf, and its Board of Director, Raimundo Ruiz, as they owned 86 percent and 14 percent of the Company's stock, respectively. On October 19, 2018, a new holding company, Nations Holding Company (NHC) was created for the purpose of holding the common capital stock of the Company. All issued and outstanding common capital stock of the Company owned by the previous two owners were transferred to NHC. Therefore, the Company became a wholly-owned subsidiary of NHC, and in turn, NHC became privately held by two stockholders, majority stockholder Elias Assaf, with 86 percent, and minority stockholder Raimundo Ruiz, with 14 percent.

Capitalization

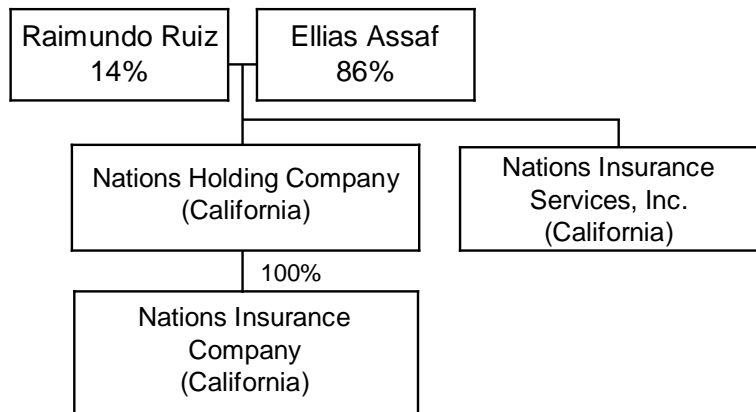
The Company is authorized to issue 100,000 shares with a par value of \$60 per share. As of December 31, 2018, its direct owner, NHC, holds 43,334 shares of the issued and outstanding common stock of the Company.

Dividends

On December 20, 2018, the Company's Board of Directors declared an ordinary cash dividend of \$100,000 to the sole shareholder, NHC, and it was paid on January 10, 2019.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Nations Holding Company. The following organizational chart depicts the inter-relationship of the Company within the holding company system:



The three members of the Board of Directors, who are elected annually, manage 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

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Elias Assaf Huntington Beach, California	Chairman of the Board, President, and Chief Executive Officer Nations Insurance Company
Zeina Assaf Huntington Beach, California	Secretary Nations Insurance Company
Raimundo Ruiz Valencia, California	Nations Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Elias Assaf	President and Chief Executive Officer
Daniel Sherrin	Chief Financial Officer and Treasurer
Zeina Assaf	Secretary

Affiliated Management Agreements

Program Administrator Agreement: Effective January 1, 2015, the Company entered into a Program Administrator Agreement with its affiliate, Nations General Insurance Agency (NGIA). On March 10, 2017, NGIA legally changed its name to Nations Insurance Services, Inc. (NIS). Pursuant to the agreement, the Company appoints NIS as its exclusive Program Administrator to produce private passenger automobile, liability and physical damage lines of business. NIS's responsibilities include soliciting, binding, and servicing insurance policies on behalf of the Company. NIS did not commence business until September 1, 2016. For compensation, NIS receives: (a) 100% of all policy fees received less the State of California premium tax; (b) 100% of all other fees charged and collected by NIS in connection with the policies written, except for State of California fraud fees. This agreement was approved by the California Department of Insurance (CDI) on January 5, 2015. For the years, 2016, 2017, and 2018, NIS received \$0.6 million, \$2.2 million, and \$2.0 million, respectively, in policy fees and other fees.

Non Affiliate Management Agreements

General Management Agreement: Effective September 27, 2013, the Company entered into a General Agency Agreement with Multi-State Insurance Services, Inc. (MSIS). MSIS provides the Company with general agency functions for the sale, marketing, production, issuing, servicing and management of the Company policies. For compensation, MSIS receives (a) 75% of all policy fees charged and collected in connection with the policies, except for State of California fraud fees; (b) the remaining 25% of all other fees charged are kept by the Company. This agreement was approved by the California Department of Insurance (CDI) on January 5, 2015. For the years, 2015, 2016, 2017 and 2018, MSIS

received \$3.4 million, \$3.8 million, \$4.1 million, and \$3.8 million, respectively, in policy fees and other fees.

General Agency Agreement: Effective April 1, 2018, the Company entered into a General Agency Agreement with Access General Insurance Agency of California, LLC, (AGIAC). Under the terms of the agreement, AGIAC grants the Company the right to offer replacement policies to the insureds of Access Insurance Company (Access). This is in consideration of AGIAC owing the expiration of Access' California book of non-standard auto insurance business. This occurred because all policies of Access were terminated by the Liquidation Order of the Texas Department of Insurance effective not later than April 12, 2018. In 2018, the Company wrote \$2.3 million in premium under this agreement. On August 17, 2018, AGIAC assigned its authority under the General Agency Agreement to Embark General Insurance Agency, LLC, (Embark). For compensation, Embark receives 100% of all policy fees charged and collected in connection with the policies, except for State of California fraud fees. For the 2018 year, Embark received \$0.3 million in policy fees and other fees in relation to this agreement.

Claims Management Agreement: On April 12, 2009, the Company entered into a Claims Management Agreement with AFA Claim Services, Inc. (AFA). Under the terms of the agreement, AFA provides the Company with processing, investigating, adjusting, compromising, defending, litigating, supervising and payment of claims. On November 1 2015, AFA's compensation rate for its services was increased to 6.5 percent of the Company's gross earned premium, as the previous rate was 5.5 percent. This agreement was approved by the California Department of Insurance (CDI) on June 9, 2009. For the years, 2015, 2016, 2017, and 2018, the fees paid by the Company to AFA were \$1.2 million, \$1.8 million, \$2.5 million, and \$2.3 million, respectively.

Claims Management Agreement: On April 12, 2018, the Company entered into a Claims Management Agreement with Access General Insurance Adjusters, LLC (AGIA). Under the terms of the agreement, AGIA provides the Company with processing, investigating, adjusting, Compromising, defending, litigating, supervising and payment of claims. On August 17, 2018, under a provision with the Claims Management Agreement, AGIA

assigned its authority to Embark General Insurance Adjusters, LLC (EGIA). For compensation, EGIA receives 9.5% of the Company's gross net earned premium of the Access Program in California. For 2018, the fees paid by the Company to AGIA were \$99,700.

Special Investigative Unit Services Agreement: Effective March 11, 2013, the Company was party to a Special Investigative Unit Service Agreement (SIU) with AFA. Under the terms of the agreement, AFA served as the primary contact with the CDI for anti-fraud matters on behalf of the Company, and after evaluating claims matters, referred all suspected fraud claims to the CDI's Fraud Division and to relevant law enforcement agencies. AFA prepared all reports as required by the CDI. AFA was also responsible for the development, preparation, ongoing revision, and implementation of written anti-fraud policies and procedures. Furthermore, AFA periodically prepared written instructional material on anti-fraud issues for the SIU, and integral anti-fraud personnel, and conducted in-house training sessions. This ensured the sufficiency and accuracy of the application of anti-fraud procedures. For compensation, the Company paid AFA their actual costs incurred in providing such services. This agreement was approved by the CDI on March 11, 2013, and was terminated on April 1, 2017. For the years, 2015, 2016, and 2017, the fees paid by the Company to AFA were \$72,000, \$72,000, and \$18,000, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company is only licensed in the State of California to underwrite non-standard private passenger automobile physical damage and liability insurance coverages. Its business is produced through approximately 650 independent brokers, and also through an affiliated general agent, Nations Insurance Services, Inc. (NIS), and two unaffiliated general agents: Multi-State Insurance Services, and Embark General Insurance Agency.

The direct premium written during the examination period, is as follows:

2015	\$25,385,408
2016	\$34,985,374
2017	\$39,383,169
2018	\$37,275,943

REINSURANCE

Assumed

The Company did not assume reinsurance during the period covered by this examination.

Ceded

Effective January 1, 2017, the Company entered into a quota share reinsurance agreement with Greenlight Reinsurance, Limited, and Tokio Millennium Re AG ceding 30% and 20% of direct/gross written premiums, respectively.

Effective January 1, 2018, the Company entered into a 60% quota share reinsurance contract with Greenlight Reinsurance, Limited, Tokio Millennium Re AG and Maiden Re Insurance Services, LLC, ceding 30%, 20%, and 10% of direct/gross written premiums respectively. During 2018, Maiden Re sold the renewal rights of its US treaty reinsurance underwriting business to global reinsurance firm Transatlantic Reinsurance Company.

Effective April 12, 2018, the Company entered into a 90% quota share agreement with Endurance Assurance and Tokio Millennium ceding 70% and 20% of direct/gross written premium respectively with the business bound through Newco Agency (formely known as Access).

As of the examination date, and under the terms of its reinsurance agreements, the Company reported total net reinsurance recoverables of \$9.9 million or 83% of the reported surplus.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory 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. No adjustments were made to the statutory financial statements filed by the Company.

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, 2014 through December 31, 2018

Statement of Financial Condition
as of December 31, 2018

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 18,202,582	\$	\$ 18,202,582	
Cash and short-term investments	2,949,033		2,949,033	
Receivable for securities	234,907		234,907	
Investment income due and accrued	178,009		178,009	
Premiums and agents' balances in course of collection	3,807,549		3,807,549	
Premiums, agents' balances and installments booked but deferred and not yet due (including \$ earned but unbilled premiums.	11,018,368		11,018,368	
Amount recoverable from reinsurers	2,297,453		2,297,453	
Current federal and foreign income tax recoverable and interest there on	338,140		338,140	
Net deferred tax asset	310,915		310,915	
Electronic data processing equipment and software	16,220	16,220		
Furniture and equipment	30,505	30,505		
Aggregate write-ins for other than invested assets	36,700	36,700		
Total assets	<u>\$ 39,420,381</u>	<u>\$ 83,425</u>	<u>\$ 39,336,956</u>	

Liabilities, Surplus and Other Funds

	<u>Current Year</u>	<u>Notes</u>
Losses	\$ 7,932,768	(1)
Loss adjustment expenses	2,231,331	(1)
Commissions payable, contingent commissions and other similar charges	1,021,684	
Other expenses	513,545	
Taxes, licenses and fees	159,546	
Unearned premiums	6,370,455	
Dividend declared and unpaid:		
Stockholders	100,000	
Ceded reinsurance payable (net of ceding commission)	<u>9,057,661</u>	
Total liabilities	27,386,990	
Common capital stock	2,600,040	
Gross paid in and contributed surplus	7,400,147	
Unassigned funds (surplus)	1,949,779	
Surplus as regards policyholders	<u>11,949,966</u>	
Total liabilities, Surplus, and other funds	<u>\$ 39,336,956</u>	

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

State of Income

	<u>Underwriting Income</u>	<u>Current Year</u>
Premium earned		\$ 17,748,194
Deductions:		
Losses		\$ 11,227,197
Loss adjustment expenses incurred		2,060,711
Other underwriting expenses incurred		<u>5,217,863</u>
Total underwriting deductions		<u>18,505,771</u>
Net underwriting loss		(757,577)
	<u>Investment Income</u>	
Net investment income earned		\$ 546,575
Net realized capital gain		<u>(19,400)</u>
Net investment gain		527,175
	<u>Other Income</u>	
Net loss from agents' or premium balances charged off (amount recovered \$0 amount charged off \$109,743)		\$ (109,743)
Finance and service charges not included in premiums		1,080,678
Aggregate write-ins for miscellaneous income		<u>10,048</u>
Total other income		<u>980,983</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		750,581
Federal and foreign income taxes incurred		<u>11,402</u>
Net income		<u>\$ 739,179</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2017		\$ 11,366,235
Net income	\$ 739,179	
Change in net unrealized capital gains	59,587	
Change in net unrealized foreign exchange capital loss	(6,341)	
Change in net deferred income tax	(161,585)	
Change in nonadmitted assets	52,891	
Dividends to stockholders	<u>(100,000)</u>	
Change in surplus as regards policyholders for the year		<u>583,731</u>
Surplus as regards policyholders, December 31, 2018		<u>\$ 11,949,966</u>

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2014 through December 31, 2018

Surplus as regards policyholders, December 31, 2014					\$ 11,538,377
	Gain in Surplus	Loss in Surplus			
	<u> </u>	<u> </u>			
Net income	\$ 740,432	\$			
Net unrealized capital loss			723		
Change in net deferred income tax			305,926		
Change in nonadmitted assets	77,806				
Dividends to stockholders			<u>100,000</u>		
Total gains and losses	<u>\$ 818,238</u>	<u>\$</u>	<u>406,649</u>		
Net increase in surplus as regards policyholders				<u>411,589</u>	
Surplus as regards policyholders, December 31, 2018					<u>\$ 11,949,966</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A senior Casualty Actuary of the California Department of Insurance (CDI), reviewed the loss and loss adjustment expense reserves carried by the Company as of December 31, 2018. Although the CDI analysis estimated that the carried gross reserves were deficient by \$319,000, the carried net reserves were estimated to be redundant and are therefore reasonably stated as of December 31, 2018.

SUBSEQUENT EVENTS

Services and Expenses Sharing Agreement: Effective January 1, 2019, the Company entered into a Services and Expenses Sharing Agreement with its parent, Nations Holding Company (NHC). Under the terms of the agreement, NHC provides the Company with accounting, tax and auditing, functional support services, website, marketing services, supplies, premium collection and handling. NHC also subleases office space to the Company. For compensation, the Company reimburses NHC the pro rata share of the actual costs and expenses incurred by NHC in providing the services under the agreement. The agreement was approved by CDI on December 4, 2018

Income Tax Sharing/Allocation Agreement: Effective January 1, 2019, the Company entered into an Income Tax Sharing/Allocation Agreement with its parent, NHC. Under the terms of the agreement, NHC will file a consolidated tax return with the Company. For compensation, the Company reimburses NHC the Company's pro rata share of the actual costs and expenses incurred by NHC in preparing the consolidated tax returns and performing other duties under the terms of the agreement, with no profit factor built into such costs or expenses. The agreement was approved by the CDI on December 4, 2018.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Accounts and Records (Page 6): As a result of the review made of the Company's information systems controls, some findings were noted and were presented to the Company along with recommendations to strengthen its controls. The Company should evaluate the recommendations and make appropriate changes to strengthen its information systems controls. The Company complied with the recommendation.

ACKNOWLEDGMENT

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/ _____

Bridget Lopez, CFE
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