

REPORT OF EXAMINATION  
OF THE  
HOMESURE PROTECTION OF CALIFORNIA, INC  
AS OF  
DECEMBER 31, 2021

A handwritten signature in blue ink, appearing to be 'D. DeLoe', is positioned above the text 'Insurance Commissioner'.

*Insurance Commissioner*

*Filed on October 24, 2023*

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Los Angeles, California  
August 10, 2023

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

HOMESURE PROTECTION OF CALIFORNIA, INC.

(hereinafter also referred to as the Company) The Company's main administrative office and its primary location of its books and records is located at 4700 Exchange Court, Suite 300, Boca Raton, Florida 33431.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2016. This examination covered the period from January 1, 2017 through December 31, 2021.

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

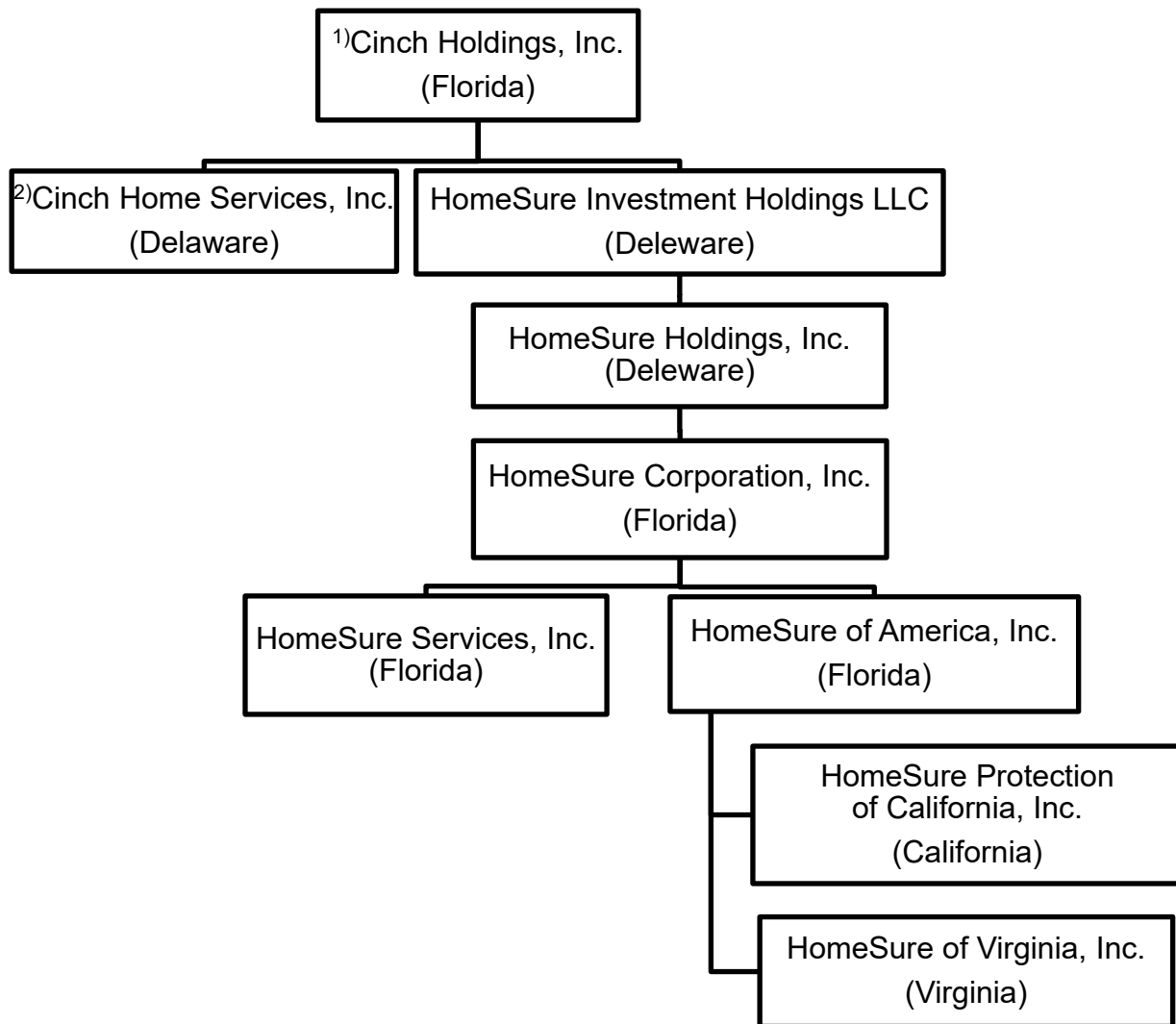
The Company was incorporated on February 6, 1979 under the laws of the state of California, and is licensed to write home protection business in the state of California.

The Company has 100,000 shares of \$20 par value common stock authorized, and 1,000 shares of issued and outstanding. All outstanding shares of the Company's common stock are owned by its parent company, HomeSure of America, Inc., a Florida company.

As of December 31, 2021, the Company meets the minimum net worth requirement of \$400,000 pursuant to California Insurance Code (CIC) Section 12750(a). The Company also meets the requirement of CIC Section 12750(b) that at least \$20,000 of net worth shall consist of paid-in capital.

## MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of HomeSure of America, Inc. The ultimate parent is Cinch Holdings, Inc., which is owned by four individuals from the Wolk Family: Howard Wolk (35%), Jeffrey Wolk (35%), Robin Wolk (16%), and Sidney Wolk (14%). The following abridged organizational chart depicts the relationship of the Company and its affiliates (all ownership is 100%):



<sup>1)</sup> Formerly known as Cross Country Home Holdings, Inc.

<sup>2)</sup> Formerly known as Cross Country Home Services, Inc.

The two 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, 2021:

## Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Jeffrey C. Wolk Chestnut Hill, Massachusetts	Vice President Cinch Holdings, Inc.
Sidney D. Wolk Boston, Massachusetts	Vice President Cinch Holdings, Inc.

## Principal Officers

<u>Name</u>	<u>Title</u>
Steven E. Upshaw	Chief Executive Officer and President
Ramesh Outram <sup>1)</sup>	Vice President
Margaret G. Ward	Secretary and Treasurer
James E. Faulkner <sup>2)</sup>	Assistant Treasurer

<sup>1)</sup> On April 14, 2022, Ramesh Outram resigned as Vice President and replaced by Thomas D' Ambrosio.

<sup>2)</sup> On April 14, 2022, Gregory Kasprzak replaced James E. Faulkner as Assistant Treasurer.

## Management Agreements

Management Agreement: Effective December 18, 2009, the Company entered into a management agreement with its affiliate, Cinch Home Services, Inc. (CHS), formerly known as Cross Country Home Services, Inc. The management agreement was approved by the California Department of Insurance (CDI) on July 21, 2010. Under the terms of the management agreement, CHS manages the Company's home warranty business, which includes appointing independent service contractors, settlement of claims, payment of expenses, accounting, and regulatory matters. The premiums collected by CHS shall be held in a fiduciary capacity and paid to the Company within 30 days after month end closing. Direct costs are reimbursed on an actual cost basis and indirect costs are allocated among the affiliates based on the percentage of home protection contracts written by each company within the CHS group of companies. The Company did not update the agreement to reflect the new name of CHS. It is recommended the Company update the management agreement to reflect the new name of CHS and submit it to the CDI pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

Under the terms of the management agreement, the Company paid CHS in the amount of \$22,668,435, \$32,400,864, \$38,050,823, \$35,263,215, and \$34,799,932 in 2017, 2018, 2019, 2020, and 2021, respectively.

Tax Sharing Agreement: Effective March 1, 2005, the Company entered into a tax sharing agreement with Cinch Holdings, Inc. (CHI), formerly known as Cross County Home Holdings, Inc., and its subsidiaries and affiliates. Under the terms of the tax sharing agreement, CHI prepares and files a consolidated federal income tax return, and the annual tax liability of the participants to the agreement is based on each participant's separate taxable income with credits for operating losses or other items used in the consolidated return. The tax sharing agreement was approved by the CDI on June 6, 2005. A review of the consolidated federal tax return revealed that HomeSure Holdings, Inc. filed a consolidated federal income tax return instead of CHI. It is recommended the Company amend the tax sharing agreement to reflect the proper name of the entity that prepares and files consolidated federal income tax returns and submit it to the CDI pursuant to CIC Section 1215.5(b)(4).

In addition, a review of the Insurance Holding Company System Annual Registration Statement (Form B) noted that HomeSure Corporation, Inc. filed the consolidated federal income tax returns instead of HomeSure Holding, Inc. It is recommended the Company properly reflect the correct name of the affiliate who files the consolidated federal income returns in the Form B filing.

During the examination period, the Company paid federal income taxes in the amount of \$34,260, \$61,578, \$555,399, \$546,075, and \$546,075 in 2017, 2018, 2019, 2020, and 2021, respectively.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed to write home protection contracts only in the state of California. The Company's only source of underwriting income is the sale of home protection contracts through third party clients, such as Sears Holdings Management Corporation and other real estate brokers, to their existing customers. During the examination period, the Company wrote the home protection contracts fees in the amount of \$39,474,934, \$49,638,609, \$51,131,362, \$47,381,818, and \$48,416,167 for the year 2017, 2018, 2019, 2020, and 2021, respectively.

## REINSURANCE

### Assumed

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

### Ceded

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



## ACCOUNTS AND RECORDS

The Company's affiliates Cinch Home Services, Inc. (CHS), formerly known as Cross Country Home Services, Inc., and HomeSure Investment Holdings LLC (HIH), were not properly included in the organizational chart attached to the Annual Statements and the Insurance Holding Company System Annual Registration Statement (Form B) filed for the years 2017 through 2022. It is recommended that the Company properly disclose CHS and HIH in the organizational chart attached to the Annual Statements and the Form B filings.

## 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, 2021. There were no examination adjustments made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Contract Holders from December 31, 2016 through December 31, 2021

Statement of Financial Condition  
as of December 31, 2021

<u>Assets</u>	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	<u>Note</u> <u>s</u>
Bonds	\$ 8,581,515	\$	\$ 8,581,515	
Cash Equivalents	5,148,274		5,148,274	
Home Protection Contract Fees Receivable	18,342,205		18,342,205	
Federal Income Tax Recoverable	424,458		424,458	
Interest, Dividends and Real Estate Income Due and Accrued	51,549		51,549	
Total Assets	\$ 32,548,001	\$	\$ 32,548,001	
<u>Liabilities and Surplus</u>				<u>Note</u> <u>s</u>
Claims Adjusted and Unpaid or in Process of Adjustment			\$ 3,998,424	(1)
Claims Service Expenses			132,247	
Other Expenses			6,577	
Taxes, Licenses and Fees			74,238	
Current Federal Income Taxes			546,075	
Unearned Home Protection Contract Fees			19,908,248	(2)
Payable to Parent, Subsidiaries and Affiliates			6,416,105	
Total Liabilities			31,081,914	
Common Capital Stock	\$ 20,000			
Gross Paid-in and Contributed Surplus		902,604		
Unassigned Funds (Surplus)		555,983		
Less: Treasury Stock, at Cost		12,500		
Total Surplus as Regards Contract Holders			1,466,087	
Total Liabilities and Surplus			\$ 32,548,001	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2021

Statement of Income

<u>Underwriting Income</u>		<u>Current Year</u>
Home Protection Contract Fees Earned		\$ 48,449,609
Deductions:		
Claims Incurred	\$ 21,402,005	
Claims Service Expenses Incurred	7,978,269	
Other Underwriting Expenses Incurred	<u>18,843,394</u>	
Total Underwriting Deductions	<u>48,223,668</u>	
Net Underwriting Gain		225,941
 <u>Investment Income</u>		
Net Investment Income Earned		\$ 166,769
Net Realized Capital Gain		<u>10,660</u>
Net Investment Gain		177,429
Net Income		<u>\$ 403,369</u>
 <u>Capital and Surplus Account</u>		
Surplus as Regards Contract Holders, December 31, 2020		\$ 2,028,816
Net Income	\$ 403,369	
Change in Nonadmitted Assets	172,696	
Other Gains or Losses in Surplus:		
Other Changes in Equity	(1,563,252)	(3)
Change in Deferred Tax Assets	<u>424,458</u>	
Change in Surplus as Regards Contract Holders for the Year		<u>(562,729)</u>
Surplus as Regards Contract Holders, December 31, 2021		<u>\$ 1,466,087</u>

Reconciliation of Surplus as Regards Contract Holders  
from December 31, 2016 through December 31, 2021

Surplus as Regards Contract Holders, December 31, 2016					\$ 2,444,124
	Gain in Surplus	Loss in Surplus			
Net income	\$ 875,705	\$			
Change in Nonadmitted Assets			519,054		
Other Changes in Equity			812,546	(3)	
Changes in Deferred Tax Assets	424,458				
Change in Retained Earnings due to Change in Revenue Recognition			<u>946,600</u>	(4)	
Total Gains and Losses	<u>\$ 1,300,163</u>	<u>\$</u>	<u>2,278,200</u>		
Net Decrease in Surplus as Regards Contract Holders					<u>(978,037)</u>
Surplus as Regards Contract Holders, December 31, 2021					<u>\$ 1,466,087</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

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

Based on a review of claim payments and reserves for claims adjusted and unpaid or in process of adjustment as of December 31, 2021, the examination determined the Company's reserves appear to be both reasonable and adequate, and has been accepted for purposes of this examination.

### (2) Unearned Home Protection Contract Fees

According to California Insurance Code (CIC) Section 12753(a), a home protection company shall maintain a reserve for unearned premiums in an amount not less than 40 percent of the aggregate premiums charged on its contracts currently in force. Based on a review and testing performed on this account, the Company has complied with CIC Section 12753(a).

### (3) Other Changes in Equity

A decrease in equity of \$1,563,252 as of December 31 2021 and a cumulative decrease in equity of \$812,546 for the period from January 1, 2017 through December 31, 2021, represent the elimination of Generally Accepted Accounting Principles (GAAP) income tax related balances for these periods.

### (4) Change in Retained Earnings due to Change in Revenue Recognition

In 2019, the Company adopted Accounting Standards Codification 606, Revenue from Contracts with Customers (ASC 606), effective as of January 1, 2019, utilizing the modified retrospective method. The cumulative effect of initially applying ASC 606 of \$946,600 was recorded as an adjustment to the retained earnings as of the date of adjustment.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Management and Control – Management Agreement (Page 4): It is recommended the Company properly update the management agreement to reflect the new name of Cinch Home Services, Inc. (CHS) and submit it to the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

Management and Control – Tax Sharing Agreement (Page 5): It is recommended the Company amend the tax sharing agreement to reflect the proper name of the entity that prepares and files consolidated federal income tax returns and submit it to the CDI pursuant to CIC Section 1215.5(b)(4). It is also recommended the Company properly reflect the correct name of the affiliate who files the consolidated federal income returns in the Insurance Holding Company System Annual Registration Statement (Form B) filing.

Accounts and Records (Page 7): It is recommended that the Company properly disclose CHS and HomeSure Investment Holdings LLC in the organizational chart attached to the Annual Statements and the Form B filings.

### Previous Report of Examination

Summary of Significant Findings (Page 2): It was recommended that the Company maintain its accounts and records on a semi-annual statutory accounting basis and submit them, pursuant to CIC Section 12752(a), semi-annually to the CDI, so that their surplus position can be substantiated, and to ensure they are meeting their minimum surplus level in accordance with CIC Section 12750(a). In addition, it was recommended that the Company submit its quarterly financial statements, which are performed on a Generally Accepted Accounting Principles basis, to the CDI. Based on the current examination, the Company met the CIC Section 12750(a) and therefore this recommendation is no longer applicable.

Summary of Significant Findings (Page 2): It was recommended that the Company submit a consolidated business plan to the CDI for the ultimate parent company, Cross Country Home Holdings, Inc. and subsidiaries with pro forma financials and their overall plan to reverse its adverse loss experience. Based on the current examination, it was determined the Company is no longer posing adverse loss experience, and therefore this recommendation is no longer applicable.

ACKNOWLEDGMENT

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

Respectfully submitted,

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Tzuwen Meyer, CFE  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California

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Sayaka Dillon, CFE  
Bureau Chief  
Department of Insurance  
State of California