

REPORT OF EXAMINATION
OF THE
ANCHOR GENERAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2018

Filed on May 8th, 2020

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Los Angeles, California
April 30, 2020

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ANCHOR GENERAL INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 10256 Meanley Drive, San Diego, California 92131.

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 covered the period from January 1, 2014 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.

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.

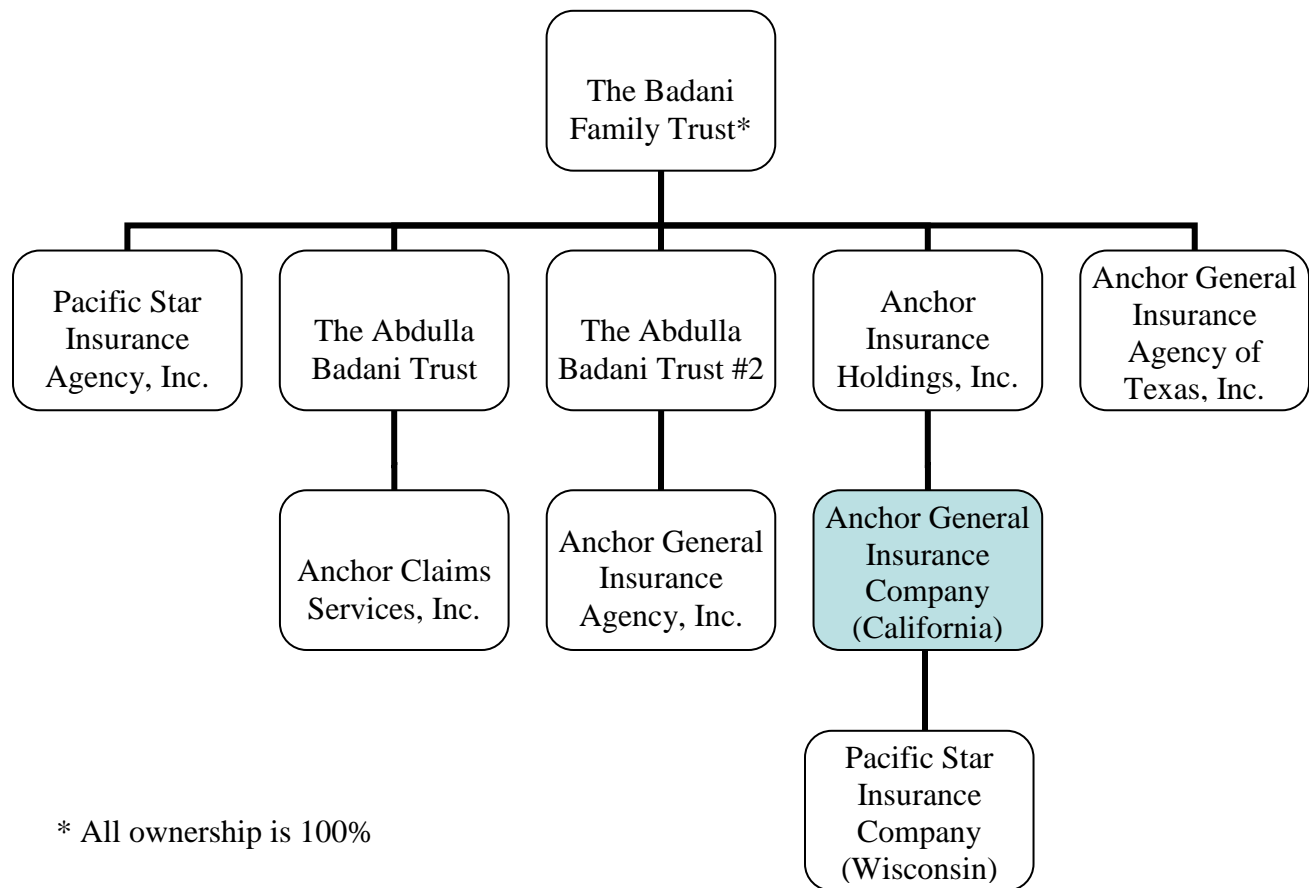
This was a coordinated examination of Anchor Insurance Holding Group with California serving as the lead state. The examination was conducted concurrently with the Company's subsidiary, Pacific Star Insurance Company. The Wisconsin Department of Insurance also participated on the examination.

COMPANY HISTORY

On July 30, 2015, the Company received a \$3.5 million cash contribution from its parent, Anchor Insurance Holdings, Inc. The contribution was recorded as gross paid-in and contributed surplus, and did not affect the Company's common capital stock account. The Company made a capital contribution of \$3.5 million to its subsidiary, Pacific Star Insurance Company on the same day.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system and is wholly-owned by Anchor Insurance Holdings, Inc. The following organizational chart depicts the Company's relationship within the holding company system:



Management and control of the Company is vested in a four-member board of directors, who are elected annually. 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>
Abdulla Badani Rancho Santa Fe, California	President and Chief Executive Officer Anchor General Insurance Company
Joe Kaiser ^(a) San Diego, California	Vice President, Claims Anchor General Insurance Company
Susan Stokes-Gibson Poway, California	Vice President, Underwriting Anchor General Insurance Company

Name and Location

Principal Business Affiliation

Angie Van Cleaf
Encinitas, California

Vice President and Chief Financial Officer
Anchor General Insurance Company

Principal Officers

Name

Title

Abdulla Badani
Angie Van Cleaf

President and Chief Executive Officer
Vice President and Chief Financial
Officer

Susan Stokes-Gibson
Joe Kaiser^(a)
Gretchen Allen

Vice President, Underwriting
Vice President, Claims
Secretary and Controller

^(a) Joe Kaiser retired on January 31, 2020. A replacement has not been named.

Management Agreements

Program Administrator Agreement: Since 1998, the Company and its affiliate, Anchor General Insurance Agency, Inc. (AGIA), have been party to a Program Administrator Agreement (Agreement). Under the terms of this Agreement, AGIA provided the Company with services, such as: solicitation of risks, servicing its business, binding of risks, policy issuance, policy servicing, and premium collection. Over the years, this Agreement has been renegotiated multiple times. This is the sixth renegotiation with a retroactive date of January 1, 2018, which was approved by the California Department of Insurance (CDI) on July 25, 2019. For compensation, the Company paid AGIA a minimum and provisional commission of 18.0%, with a maximum commission of 21.0%, plus policy fees, less premium tax for the applicable state, and all other fees. During 2014, 2015, 2016, 2017, and 2018, the Company paid AGIA \$20,609,934, \$19,808,071, \$23,287,196, \$18,580,297, and \$14,177,667, respectively.

Program Administrator Agreement: Since December 1, 2010, the Company and its affiliate, Anchor General Insurance Agency of Texas, Inc. (AGIAT), a Texas corporation, have been party to a Program Administrator Agreement (Agreement) that was approved

by the CDI on November 23, 2011. Under the terms of this Agreement, AGIAT served as the exclusive Program Administrator for the Company's Texas non-standard automobile business. All the terms and conditions of this Agreement are the same as the terms in the above-mentioned Program Administrator Agreement with AGIA, with the exception that this agreement only applies to business written in the state of Texas. Over the years, this Agreement has been renegotiated multiple times. This amended Agreement has a retroactive date of January 1, 2018, and was approved by the CDI on July 25, 2019. For compensation, the Company paid AGIAT a minimum and provisional commission of 18.0%, with a maximum commission of 21.0%, plus policy fees, less premium tax for the applicable state, and all other fees. During 2014, 2015, 2016, 2017, and 2018, the Company paid AGIAT \$1,153,198, \$1,505,075, \$2,760,456, \$3,211,474, and \$1,471,037, respectively.

Cost Allocation Agreement: A Cost Allocation Agreement between the Company and its affiliate, Anchor General Insurance Agency, Inc., (AGIA) was entered into on December 1, 2003, and approved by the CDI on April 6, 2004. Under the terms of the Agreement, AGIA provides certain facilities and administrative services to the Company, both continuously and on an as-needed basis. Reimbursements for services are based on actual costs. During 2014, 2015, 2016, 2017, and 2018, the Company paid AGIA \$2,608,646, \$2,590,148, \$2,890,269, \$2,809,040, and \$2,338,173, respectively.

Cost Allocation Agreement: Effective January 1, 2010, the Company and Pacific Star Insurance Company (PSIC), a wholly-owned subsidiary, entered into a Cost Allocation Agreement, in which the Company agrees to provide certain management, accounting, and shared administrative services as needed to PSIC. This Agreement was approved by the CDI on November 14, 2007. Compensation and reimbursement for services are based on actual costs. During 2014, 2015, 2016, 2017, and 2018, the Company was compensated \$121,475, \$140,724, \$153,824, \$215,389, and \$209,068, respectively by PSIC.

Corporate Records

California Insurance Code (CIC) Section 735 requires that the Company inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Commissioner. The board must also enter that fact in the board minutes. A review of the board minutes disclosed that, while the previously officially filed report as of December 31, 2013, was presented to the board, the first formally prepared draft by the examiners of that report was not submitted to the board. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 735.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company was licensed to transact multiple lines of property and casualty insurance in the states of Arizona, California, Florida, Nevada, New Mexico, and Texas.

The Company specializes in non-standard private passenger automobile liability and physical damage insurance. The Company wrote \$86.9 million in direct premiums in 2018, with the majority of its business written in California, as indicated in the table below.

<u>State</u>	<u>Direct Premium Written</u>	<u>Percentage of Total</u>
California	\$75,467,625	86.79%
Texas	\$ 8,245,337	9.48%
Arizona	\$ 3,242,535	3.73%

The majority of policies are written at state statutory minimum limits. Business is primarily marketed through affiliates, Anchor General Insurance Agency, Inc. and Anchor General Insurance Agency of Texas, and produced by approximately 500 licensed producers.

REINSURANCE

Assumed

Effective January 1, 2010, the Company entered into a quota share reinsurance agreement to assume 100% of the private passenger automobile business produced by its affiliate, Anchor General Insurance Agency of Texas, Inc. and written by Home State County Mutual Insurance Company (HSCMIC). HSCMIC business has been in run-off since 2010. As of December 31, 2018, the Company's assumed premium from HSCMIC was \$14,000.

Ceded

The Company and its subsidiary, Pacific Star Insurance Company (PSIC), were protected by the following ceded reinsurance agreement as of December 31, 2018:

Type of Contract	Authorized Reinsurer(s) Name	Company's Retention	Reinsurer's Limit
Automobile Liability and Physical Damage Quota Share			
All States (except Texas)	30.0% Swiss Reinsurance Company 25.0% Toa Reinsurance Company 10.0% Maiden Reinsurance Company 10.0% Munich Reinsurance America, Inc.	25.0% for each and every loss	75.0% for each and every loss
Texas only	30.0% Swiss Reinsurance Company 10.0% Maiden Reinsurance Company 10.0% Munich Reinsurance America, Inc.	50.0% of each and every loss	50.0% of each and every loss

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. There were no adjustments 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, 2013
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	\$ 19,709,862	\$	\$ 19,709,862	
Common stocks	11,464,943		11,464,943	
Cash and short-term investments	6,843,941		6,843,941	
Investment income due and accrued	196,169		196,169	
Uncollected premiums and agents' balances in course of collection	5,819,418		5,819,418	
Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums.	26,128,259		26,128,259	
Amount recoverable from reinsurers	10,449,996		10,449,996	
Receivables from parent, subsidiaries and affiliates for other than invested assets	36,744		36,744	
Total assets	<u>\$ 80,649,331</u>	<u>\$</u>	<u>\$ 80,649,331</u>	
 <u>Liabilities, Surplus, and Other Funds</u>			<u>Current Year</u>	<u>Notes</u>
Losses			\$ 16,412,699	(1)
Loss adjustment expenses			3,488,938	(1)
Reinsurance payable on paid losses and loss adjustment expenses			96	
Commission payable, contingent commissions and other similar charges			96,747	
Other expenses			221,919	
Taxes, licenses and fees			110,134	
Unearned premiums			8,651,325	
Ceded reinsurance premiums payable			29,682,347	
Aggregate write-ins for liabilities			4,379	
Total liabilities			<u>58,668,584</u>	
Common capital stock			3,200,000	
Gross paid in and contributed surplus			15,175,400	
Unassigned funds (surplus)			3,605,347	
Surplus as regards policyholders			<u>21,980,747</u>	
Total liabilities, Surplus, and other funds			<u>\$ 80,649,331</u>	

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

Statement of Income

	<u>Underwriting Income</u>	<u>Current Year</u>
Premium earned		\$ 29,313,073
Deduction:		
Losses		\$ 20,676,295
Losses incurred		266,545
Other underwriting expenses incurred		<u>7,847,354</u>
Total underwriting deductions		<u>28,790,194</u>
Net underwriting gain		522,879
	<u>Investment Income</u>	
Net investment income earned		\$ 528,495
Net realized capital loss		<u>(35,530)</u>
Net investment gain		492,965
	<u>Other Income</u>	
Finance and service charges not included in premiums		\$ 2,001,232
Aggregate write-ins for miscellaneous income		<u>(1,997,185)</u>
Total other income		<u>4,047</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		<u>1,019,891</u>
Net income		<u>\$ 1,019,891</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2017		\$ 20,921,701
Net income	\$ 1,019,891	
Change in net unrealized capital gains	<u>39,155</u>	
Change in surplus as regards policyholders for the year		<u>1,059,046</u>
Surplus as regards policyholders, December 31, 2018		<u>\$ 21,980,747</u>

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

Surplus as regards policyholders, December 31, 2013				\$ 20,411,029
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net loss	\$	\$		1,878,747
Change in net unrealized capital gains	8,321			
Change in net deferred income tax			59,856	
Capital Changes: Paid-in	<u>3,500,000</u>			
Total gains and losses	<u>\$ 3,508,321</u>	<u>\$ 1,938,603</u>		
Net increase in surplus as regards policyholders				<u>1,569,718</u>
Surplus as regards policyholders, December 31, 2018				<u>\$ 21,980,747</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2018, were found to be reasonably stated, and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control - Corporate Records (Page 6): It is recommended that the Company implement procedures to ensure future compliance with California Insurance Code (CIC) Section 735.

Previous Report of Examination

None.

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/ _____

Anjanette Briggs, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California