

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

Filed on February 4, 2020

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San Francisco, California
January 14, 2020

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

GEOVERA INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 1455 Oliver Road, Fairfield, California 94534.

SCOPE OF EXAMINATION

We have performed our multi-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.

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 with California as the lead state of the GeoVera Holdings, Inc., Group. It was conducted concurrently with other insurance entities in the holding company group, including Coastal Select Insurance Company (California) and GeoVera Specialty Insurance Company (Delaware). The Delaware Department of Insurance participated on this examination.

COMPANY HISTORY

The Company is authorized to issue 100,000 shares of common stock with a par value of \$100 per share. As of December 31, 2018, there were 50,000 shares issued and outstanding.

During the examination period, the Company paid ordinary cash dividends of \$8.9 million, \$6.8 million, \$0, \$2.4 million, and \$2.1 million to its parent, GeoVera Holdings, Inc. in 2015, 2016, 2017, 2018, and 2019, respectively.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which private equity investor Flexpoint Fund II (Cayman), L.P. is the ultimate controlling entity. The following organizational chart depicts the Company's relationship within the holding company system as of December 31, 2018 (all ownership is 100% unless otherwise noted):

- Flexpoint Fund II, L.P. (Cayman Islands) [78.19%]
- New Capital Partners II – GV, L.P. (Cayman Islands) [9.89%]
- Fundamental Insurance Investments, Ltd. (Bermuda) [9.89%]
- Members of GeoVera Insurance Holdings, Ltd. Senior Management [2.03%]
 - GeoVera Investment Group, Ltd. (Cayman Islands)
 - GeoVera Insurance Holdings, Ltd. (Bermuda)
 - GeoVera UK Holdings, Ltd. (United Kingdom)
 - GeoVera Luxembourg I S.a.r.l (Luxembourg)
 - GeoVera (Bermuda) Holdings, Ltd. (Bermuda)
 - GeoVera Reinsurance, Ltd. (Cayman Islands)
 - GeoVera Luxembourg II S.a.r.l (Luxembourg)
 - GeoVera Holdings, Inc. (Delaware)
 - GeoVera Specialty Insurance Company (Delaware)
 - GeoVera Advantage Insurance Services, Inc. (Delaware)
 - GeoVera Insurance Company (California)**
 - Coastal Select Insurance Company (California)
 - 1455 Oliver Road LLC (California)

A four-member board of directors, elected annually, manages 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>
Nesrin I. Basoz Benicia, California	Chief Underwriting Officer and Chief Risk Management Officer GeoVera Insurance Company, Coastal Select Insurance Company, and GeoVera Specialty Insurance Company
Robert B. Hagedorn Davis, California	Vice President and General Counsel and Assistant Secretary GeoVera Insurance Company, Coastal Select Insurance Company, and GeoVera Specialty Insurance Company
Vida D. Loya Fairfield, California	Accounting Director GeoVera Insurance Company, Coastal Select Insurance Company, and GeoVera Specialty Insurance Company
Thomas E. Hanzel Walnut Creek, California	Chief Administrative Officer and Treasurer GeoVera Insurance Company, Coastal Select Insurance Company, and GeoVera Specialty Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Kevin M. Nish	President and Chief Executive Officer
Karen M. Padovese	Executive Vice President, Chief Operations Officer, and Secretary
Brian T. Sheekey	Senior Vice President and Chief Financial Officer
Nesrin I. Basoz	Chief Underwriting Officer and Chief Risk Management Officer
Thomas E. Hanzel ^(a)	Chief Administrative Officer and Treasurer
Robert B. Hagedorn	Vice President and General Counsel

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

- (a) Thomas E. Hanzel left the Company on February 22, 2019. Brian Conner was elected Treasurer effective October 21, 2019.

Management Agreements

Services Agreement: Effective November 1, 2005, the Company entered into a Services Agreement with its parent, GeoVera Holdings, Inc. (GVH), which was approved by the California Department of Insurance (CDI) on October 31, 2005 pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). Under the terms of this agreement, GVH provides financial reporting, tax compliance, treasury services, budget and cost accounting, human resources, payroll, electronic fund transfer, investments, legal, office services, actuarial services, computer services, policy administration including claims administration, marketing and corporate affairs services, graphic arts, and other additional services to the Company as needed. As compensation for these services, the Company reimburses GVH at cost for all direct and allocable expenses and overhead expenses paid by GVH on behalf of the Company.

Tax Sharing Agreement: The Company's federal income tax return is filed on a consolidated basis with its parent company, GVH, and its affiliates, Coastal Select Insurance Company (CSIC), GeoVera Speciality Insurance Company (GVSIC), and GeoVera Advantage Insurance Services, Inc. pursuant to a Tax Sharing Agreement effective November 1, 2005 and was approved by the CDI on October 28, 2005 pursuant to CIC Section 1215.5(b)(4). Under this agreement, GVH will prepare and file a consolidated federal income tax return on behalf of the participants. The annual tax liability of the participants to the agreement is based on the participants' separate taxable income with credits for operating losses or other items used in the consolidated return. Each participant is required to pay its share of the consolidated tax liability to GVH no later than 40 days after the filing date of the consolidated federal income tax return.

Operating Agreement: On January 31, 2014, 1455 Oliver Road LLC (a California limited liability company) was formed as a joint venture between the Company, CSIC, and GVSIC for the purpose of purchasing the office building located at 1455 Oliver Road, Fairfield, California as the companies' new corporate headquarters. In conjunction with this transaction, the Company, CSIC, and GVSIC also entered into an Operating Agreement on February 28, 2014, whereby CSIC is the manager of 1455 Oliver Road LLC. Effective March 21, 2014, the parties entered into a Second Amended Operating Agreement (Second Agreement) to reflect a revision to the ultimate purchase price of the property. This Second Agreement was approved by the CDI on May 6, 2015 pursuant to CIC Section 1215.5(b)(4). On August 5, 2015, an Addendum No. 1 was added to update the total capital contribution for the purchase and remodel of 1499 Oliver Road, Fairfield, California. On July 1, 2016, an Addendum No. 2 was added to reflect the transfer of the Company's and GVSIC's membership interests in 1455 Oliver Road LLC to CSIC, thereby making CSIC the sole owner of the 1455 Oliver Road LLC. Addendum 1 and Addendum 2 was approved by the CDI on February 3, 2016 and September 22, 2016, respectively, pursuant to CIC Section 1215.5(b)(4).

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company was licensed to transact property and casualty insurance business in the District of Columbia and the following states:

Alabama	Iowa	Montana	Texas
Alaska	Kansas	Nebraska	Utah
Arizona	Kentucky	Nevada	Vermont
Arkansas	Louisiana	New Jersey	Virginia
California	Maine	North Dakota	Washington
Colorado	Maryland	Oklahoma	West Virginia
Delaware	Massachusetts	Oregon	Wisconsin
Hawaii	Michigan	Pennsylvania	Wyoming
Idaho	Minnesota	Rhode Island	
Illinois	Mississippi	South Carolina	
Indiana	Missouri	South Dakota	

Direct premiums written during 2018 totaled \$103.3 million. The majority of the business was written in California (68.2%), Washington (20.3%), Hawaii (6.5%), and Oregon (5.0%). The Company's principal lines of business during 2018 were earthquake (92.9%), allied lines (6.6%), and fire (0.5%).

The Company offers residential earthquake insurance products on an admitted basis in California, Washington, and Oregon; and named hurricane coverage in Hawaii. The Company's business is produced through a network of independent brokers and agents plus direct channels.

The Company has no employees. The day-to-day operation of the Company is managed by GeoVera Holdings, Inc., and its employees in accordance with a services agreement. The Company's home office is located in Fairfield, California. The Company also has a branch office in Sheboygan, Wisconsin, where certain information technology personnel are based, and a claims office in Tallahassee, Florida.

REINSURANCE

Intercompany Reinsurance Agreement

Effective December 31, 2017, the Company, Coastal Select Insurance Company (CSIC), and GeoVera Specialty Insurance Company (GVSIC) entered into a Third Amended and Restated Intercompany Reinsurance Pooling Agreement. This agreement was approved by the California Department of Insurance (CDI) on December 27, 2017 pursuant to California Insurance Code (CIC) Section 1215.5(b)(3).

Under the terms of this Agreement, the Company replaced CSIC as the pool leader. CSIC and GVSIC cede 100% of their net retained liabilities to the Company after giving effect to the external reinsurance agreements and the quota share agreement with an affiliate, GeoVera Reinsurance Ltd. (GeoVera Cayman). The Company then cedes back to the participants a quota share of the adjusted net combined liability equal to their respective pool participation percentages as follows:

Pool Member	State of Domicile	Pooling Percentage
GeoVera Insurance Company (Pool Leader)	CA	36.5%
Coastal Select Insurance Company	CA	46.5%
GeoVera Specialty Insurance Company	DE	17.0%
		100.0%

Quota Share Reinsurance Agreement

The Company has a Quota Share Reinsurance Agreement (Agreement) with GeoVera Re Ltd. (GeoVera Bermuda) dated November 1, 2005. On March 1, 2014, the Agreement with GeoVera Bermuda was novated to an affiliate, GeoVera Reinsurance Ltd. (GeoVera Cayman). In conjunction with the novation, the Company also entered into a Trust Agreement with Brown Brothers Harriman Trust Company, LLC (BBH Trust Company) as Trustees to secure the obligations of GeoVera Cayman with respect to the Agreement. Under the terms of the Agreement, the Company cedes a 60% quota share of its pre-pool business (net of external reinsurance) to GeoVera Cayman. The Company receives a 32.75% ceding commission on the business ceded under this agreement. The Agreement and Trust Agreement were approved by the CDI on February 28, 2014 pursuant to CIC Section 1215.5(b)(3).

Effective January 23, 2019, GeoVera Cayman changed the method for securing GeoVera Cayman's obligations under the Agreement from the trust account to funds held. The fair value of assets equal to the GeoVera Cayman's obligations as of December 31, 2018 was transferred to the funds held account of the Company. On May 14, 2019, the Trust Agreement between the Company, GeoVera Cayman and BBH Trust Company was terminated.

Effective March 1, 2019, the Company amended the Agreement to increase the ceding commission from 32.75% to 34.0%. The Agreement was approved by the CDI on September 3, 2019 pursuant to CIC Section 1215.5(b)(3).

Assumed

The Company has no assumed reinsurance during the examination period other than the business assumed under the Intercompany Reinsurance Pooling Agreement described above.

Ceded

The following is a summary of principal reinsurance agreements in-force as of December 31, 2018:

<u>Type of Contract</u>	<u>Line(s) of Business</u>	<u>Reinsurer(s) and Participation</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Catastrophe Excess of Loss Underlying 1 Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	<u>Certified:</u> Lloyd's of London – Various (35%) <u>Unauthorized:</u> Aeolus Re Ltd. (25%)	\$15 million each loss occurrence	\$10 million excess of \$15 million each loss occurrence, \$10 million in aggregate
Catastrophe Excess of Loss Underlying 2 Layer – First Event	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	<u>Unauthorized:</u> Aeolus Re Ltd. (100%)	\$25 million each loss occurrence	\$25 million excess of \$25 million each loss occurrence, \$25 million in aggregate
Catastrophe Excess of Loss Underlying 2 Layer – Second Event	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	<u>Unauthorized:</u> Aeolus Re Ltd. (100%)	\$25 million each loss occurrence	\$25 million excess of \$25 million each loss occurrence, \$25 million in aggregate

<u>Type of Contract</u>	<u>Line(s) of Business</u>	<u>Reinsurer(s) and Participation</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Catastrophe Excess of Loss First Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	<u>Certified:</u> Lloyd's of London – Various (19.75%) Other reinsurers (38.15%) <u>Authorized:</u> Various reinsurers (10%) <u>Unauthorized:</u> Various reinsurers (32.1%)	\$50 million each loss occurrence	\$25 million excess of \$50 million each loss occurrence, \$25 million in aggregate
Catastrophe Excess of Loss Second Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	<u>Certified:</u> Lloyd's of London – Various (25.25%) Other reinsurers (28%) <u>Authorized:</u> Various reinsurers (34.25%) <u>Unauthorized:</u> Various reinsurers (12.5%)	\$75 million each loss occurrence	\$175 million excess of \$75 million each loss occurrence, \$175 million in aggregate
Catastrophe Excess of Loss Third Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	<u>Certified:</u> Lloyd's of London – Various (25%) Other reinsurers (33.35%) <u>Authorized:</u> Various reinsurers (26.55%) <u>Unauthorized:</u> Various reinsurers (15.1%)	\$250 million each loss occurrence	\$250 million excess of \$250 million each loss occurrence, \$250 million in aggregate
Catastrophe Excess of Loss Fourth Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	<u>Certified:</u> Lloyd's of London – Various (18.5%) Other reinsurers (48%) <u>Authorized:</u> Various reinsurers (15%) <u>Unauthorized:</u> Various reinsurers (18.5%)	\$500 million each loss occurrence	\$250 million excess of \$500 million each loss occurrence, \$250 million in aggregate

<u>Type of Contract</u>	<u>Line(s) of Business</u>	<u>Reinsurer(s) and Participation</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Catastrophe Excess of Loss Fifth Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	<u>Certified:</u> Lloyd's of London – Various (12.15%) Other reinsurers (18%) <u>Authorized:</u> Various reinsurers (10.8%) <u>Unauthorized:</u> Various reinsurers (59.05%)	\$750 million each loss occurrence	\$300 million excess of \$750 million each loss occurrence, \$300 million in aggregate
Catastrophe Excess of Loss Sixth Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	<u>Certified:</u> Renaissance Reinsurance Ltd. (37.5%) DaVinci Reinsurance Ltd. (12.5%) <u>Authorized:</u> Lancashire Insurance Company Limited (50%)	\$1.05 billion each loss occurrence	\$75 million excess of \$1.05 billion each loss occurrence, \$75 million in aggregate
Catastrophe Excess of Loss Seventh Layer	Personal Lines (including risks modeled as residential property), and Monoline Residential Earthquake coverage	<u>Unauthorized:</u> Aeolus Re Ltd. (100%)	\$1.125 billion each loss occurrence	\$75 million excess of \$1.125 billion each loss occurrence, \$75 million in aggregate

**Reinsurers will indemnify the Company for 100% of the loss arising from the Company's reinstatement premium calculation attributed to the First Layer, Second Layer, Third Layer, and Fourth Layer Catastrophe Excess of Loss Contracts, ad Earthquake and Personal Lines Property Catastrophe Excess of Loss Reinsurance Contract.*

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. The accompanying comments to the amounts 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, 2014
through December 31, 2018

Statement of Financial Condition
as of December 31, 2018

<u>Assets</u>	<u>Ledger and</u> <u>Nonledger</u>	<u>Assets Not</u> <u>Admitted</u>	<u>Net Admitted</u> <u>Assets</u>	<u>Notes</u>
Bonds	\$ 49,136,718	\$	\$ 49,136,718	
Cash, cash equivalents and short-term investments	30,097,848		30,097,848	
Receivable for securities	1,711		1,711	
Investment income due and accrued	248,794		248,794	
Uncollected premiums and agents' balances in the course of collection	4,638,330		4,638,330	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	15,438,935		15,438,935	
Amounts recoverable from reinsurers	2,840,336		2,840,336	
Other amounts receivable under reinsurance contracts	1,955,532		1,955,532	
Current federal and foreign income tax recoverable and interest thereon	601,851		601,851	
Net deferred tax asset	3,024,198		3,024,198	
Electronic data processing equipment and software	263,449		263,449	
Receivables from parent, subsidiaries and affiliates	972,055		972,055	
Aggregate write-ins for other than invested assets	1,025,150	43,027	982,123	
Total assets	\$ 110,244,907	\$ 43,027	\$ 110,201,880	

Liabilities, Surplus and Other Funds

			<u>Notes</u>
Losses		\$ 6,078,797	(1)
Reinsurance payable on paid loss and loss adjustment expenses		4,335,519	
Loss adjustment expenses		4,400,936	(1)
Commissions payable, contingent commissions and other similar charges		1,822,262	
Other expenses		108,546	
Taxes, licenses and fees		108,239	
Unearned premiums		27,418,421	
Advance premiums		2,428,032	
Ceded reinsurance premiums payable		27,307,809	
Remittances and items not allocated		2,096	
Payable to parent, subsidiaries and affiliates		2,287,994	
Payable for securities		621,758	
Aggregate write-ins for liabilities		6,964,907	
Total liabilities		83,913,316	
Common capital stock	\$ 5,000,000		
Gross paid-in and contributed surplus	10,000,000		
Unassigned funds (surplus)	11,288,564		
Surplus as regards policyholders		\$ 26,288,564	
Total liabilities, surplus and other funds		\$ 110,201,880	

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

Statement of Income

Underwriting Income

Premiums earned	\$	37,110,982
Deductions:		
Losses incurred	\$	14,552,004
Loss adjustment expenses incurred		5,588,932
Other underwriting expenses incurred		12,149,749
		<u>32,290,685</u>
Total underwriting deductions		<u>32,290,685</u>
Net underwriting gain		4,820,297

Investment Income

Net investment income earned	\$	936,344
Net realized capital losses		<u>(32,183)</u>
Net investment gain		904,161

Other income

Net loss from agent's or premium balances charged off	\$	(62,768)
Finance and service charges not included in premiums		198,928
Aggregate write-ins for miscellaneous income		<u>(5,506)</u>
Total other income		<u>130,654</u>
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		<u>5,855,112</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		5,855,112
Federal and foreign income taxes incurred		<u>1,334,312</u>
Net income	\$	<u>4,520,800</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2017	\$	24,054,401
Net income	\$	4,520,800
Change in net unrealized capital losses		(1,183)
Change in net deferred income tax		117,691
Change in nonadmitted assets		2,295
Dividends to stockholders		<u>(2,405,440)</u>
Change in surplus as regards policyholders for the year		<u>2,234,163</u>
Surplus as regards policyholders, December 31, 2018	\$	<u>26,288,564</u>

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

Surplus as regards policyholders, December 31, 2014			\$ 29,283,071
	Gain in Surplus	Loss in Surplus	
Net income	\$ 16,117,032	\$	
Change in unrealized capital gains	50,735		
Change in net deferred income tax		1,072,402	
Change in nonadmitted assets		5,237	
Dividends to stockholders		18,084,635	
Total gains and losses	<u>\$ 16,167,767</u>	<u>\$ 19,162,274</u>	
Net decrease in surplus as regards policyholders			<u>(2,994,507)</u>
Surplus as regards policyholders, December 31, 2018			<u>\$ 26,288,564</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2018 prepared by the Company's independent actuary and concurred with the actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2018 were reasonable and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

Effective December 1, 2019, the Company entered into a Services Agreement with its affiliate, GeoVera Advantage Insurance Services, Inc. (GVA). Under the terms of this agreement, GVA provides financial reporting, tax compliance, treasury services, budget and cost accounting, human resources, payroll, electronic fund transfer, legal, office services, actuarial services, computer services, policy administration including claims administration, marketing and corporate affairs services, graphic arts, and other additional services to the Company as needed. As consideration for the services, the Company reimburses GVA the amount determined in accordance with appropriate time studies, activity counts, expense sharing, or other appropriate methods of allocation. The agreement is pending approval by the CDI.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

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/_____

Allen Lau, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

_____/S/_____

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