

REPORT OF EXAMINATION
OF THE
GOLDEN BEAR INSURANCE COMPANY
AS OF
DECEMBER 31, 2018

Filed on May 12, 2020

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San Francisco, California
May 8, 2020

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

GOLDEN BEAR INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 1550 West Fremont Street, Suite 200, Stockton, California 95203.

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.

COMPANY HISTORY

Capitalization

The Company is authorized to issue 1,000,000 shares of common stock with par value of \$50 per share. As of December 31, 2018, there were 36,000 shares issued and outstanding.

Dividends

During and subsequent to the examination period, the Company paid ordinary cash dividends to its parent, M.J. Hall and Company, Inc. in the amount of \$1 million in 2015, \$2 million in 2017, and \$2 million in 2019, respectively.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Rupert C. Hall is the ultimate controlling person. 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 indicated).

Golden Bear Management Corporation (California) [Michael J. Hall – 51%; Rupert C. Hall – 49%]

M.J. Hall and Company of Alaska, Inc. (Alaska) [Michael J. Hall – 100%]

M.J. Hall and Company, Inc. (California) [Rupert C. Hall – 40.882%; Suzanne Reynolds – 12.272%; Michael J. Hall – 5.838%; Other Hall Family Members – 41.008%]

Delta Adjusting Company (California)

Golden Bear Insurance Company (California)

Management and control of the Company is vested in a seven-member board of directors elected annually. As of December 31, 2018, the directors and principal officers were as follows:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Peter G. Bernadicou Stockton, California	Businessman
Ashok V. Daftary Stockton, California	Physician Sutter Gould Medical Foundation
Ronald M. Guntert, Jr. Stockton, California	President Guntert Steel
Michael J. Hall ^(a) Stockton, California	Director Golden Bear Insurance Company
Rupert C. Hall Stockton, California	President and Chief Executive Officer Golden Bear Insurance Company
Michael W. Haley Stockton, California	Vice President Bank of Stockton
Edward I. Leland Stockton, California	Director of Athletes (Retired)

Principal Officers

<u>Name</u>	<u>Title</u>
Rupert C. Hall	President
Stacey A. Jackson	Secretary
Patrick T. Lo ^(b)	Treasurer

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

- (a) Michael J. Hall retired from the Board on September 26, 2019. A new Board member has not been elected to fill the vacancy.
- (b) Patrick T. Lo, Treasurer, retired on March 1, 2019, and Artur A. Terner took over the position on the same date.

Intercompany Agreements

Inter-Company Operating Expense Allocation Agreement: On October 1, 2010, the Company, M.J. Hall and Company, Inc. (MJH), and Delta Adjusting Company (Delta) entered into the Inter-Company Operating Expense Agreement (Agreement). Under the terms of the Agreement, MJH agrees to make available its resources to Delta and the Company in conducting its operations, including but not limited to: personnel, data processing, and communication equipment. Performance of services and use of facilities may include accounting, tax and auditing, investments, and functional support services, such as actuarial, telecommunication and electronic data processing, legal, purchasing, payroll, and employee relations. Compensation for the services is based on actual cost without a profit margin. The Agreement was approved by the California Department of Insurance (CDI) on June 2, 2012, pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). The amounts paid by the Company were \$7,982,056, \$9,672,224, \$9,980,972, and \$11,248,089 for these services in 2015, 2016, 2017, and 2018, respectively.

Inter-Company Claim Service Agreement: On October 1, 2010, the Company and Delta entered into the Inter-Company Claim Service Agreement (Agreement). Under the terms of the Agreement, Delta provides the Company with claim adjustment services, including reviewing claim or loss reports made by insureds; conducting investigations on each reported claim or loss; arranging independent investigations or legal services; notifying all reinsurers of potential claims or losses; participating in negotiation and settlement of all claims subject to approval by the Company; performing administrative and clerical work in connection with claims or losses; and preparing administrative reports for management. Delta agrees to provide all services at cost without a profit markup. The

CDI approved the Agreement on February 14, 2012, pursuant to CIC Section 1215.5(b)(4). The Amendment No. 1 was entered on July 7, 2017 to amend the address of Delta. All other terms and conditions remain the same. The amounts paid by the Company were \$711,373, \$397,748, \$383,212, and \$712,268 for these services in 2015, 2016, 2017, and 2018, respectively.

Tax Sharing Agreement: On May 1, 2010, the Company, MJH, and Delta entered into the Tax Sharing Agreement (Agreement). Under the terms of the Agreement, MJH agrees to file a consolidated federal income tax return on behalf of the companies. Federal income taxes are paid or recovered on the basis of each company's federal taxable income or loss. The CDI approved the Agreement on April 12, 2011, pursuant to CIC Section 1215.5(b)(4). Taxes paid under this agreement for 2015, 2016, 2017, and 2018 were \$2,081,567, \$1,976,279, \$796,703 and \$1,086,794, respectively.

Broker Agreement: On October 28, 2010, the Company and MJH entered into the Broker Agreement (Agreement). Under the terms of the Agreement, the Company appoints MJH to transmit to the Company applications for insurance coverage. MJH does not have the authority to issue binders, policies, endorsements, or insurance certificates, or to otherwise bind coverage on behalf of the Company. The CDI approved the Agreement on December 12, 2012, pursuant to CIC Section 1215.5(b)(4). The amounts paid by the Company were \$604,621, \$581,868, \$561,733, and \$855,301 for these services in 2015, 2016, 2017, and 2018, respectively.

Reinsurance Intermediary Agreement: On April 1, 2015, the Company and MJH entered into the Reinsurance Intermediary Agreement appointing MJH as a reinsurance intermediary. Under the terms of the Agreement, MJH solicits, negotiates, and procures reinsurance on behalf of the Company. In addition, MJH provides reinsurance invoicing and account rendering services to the Company. MJH's compensation is based upon commission it individually negotiates with and obtains from reinsurers on premiums paid by the Company. The CDI approved the Agreement on July 7, 2016, pursuant to CIC

Section 1215(b)(4). There was no commission or related charge assessed to the Company during the examination period.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company is licensed to transact property and casualty insurance business in California and Arizona, and operates as a surplus lines insurer in the District of Columbia and forty-six (46) states as follows:

Alabama	Kansas	New Hampshire	Tennessee
Alaska	Kentucky	New Jersey	Texas
Arkansas	Louisiana	New Mexico	Utah
Colorado	Maine	New York	Vermont
Connecticut	Maryland	North Carolina	Virginia
Delaware	Massachusetts	North Dakota	Washington
Florida	Michigan	Oklahoma	West Virginia
Georgia	Mississippi	Oregon	Wisconsin
Hawaii	Missouri	Pennsylvania	Wyoming
Idaho	Montana	Rhode Island	
Illinois	Nebraska	South Carolina	
Indiana	Nevada	South Dakota	

At December 31, 2018, the Company reported total direct premiums written of \$86.6 million, which consisted of \$43.0 million in other liability – occurrence (49.6%), \$35.7 million in earthquake (41.2%), \$3.0 million in homeowners (3.5%), \$2.5 million in Fire (2.8%), \$1.7 million in commercial multiple peril (1.9%), and \$0.7 million in products liability – claims-made (0.8%). The majority of the Company’s business was written on an admitted basis in California - \$48.4 million (55.8%); and on a non-admitted basis in following states: Texas - \$5.7 million (6.6%); Washington - \$4.4 million (5.1%); New Jersey - \$3.1 million (3.6%); Nevada - \$2.4 million (2.8%); and \$22.6 million (26.1%) in all other states.

The Company distributes its products through a diverse network of agents and brokers, including large nationwide wholesalers as well as smaller retail producers. It has two managing general agents including 1) M.J. Hall and Company, which writes business in

all states that the Company is authorized, and 2) Abacus Insurance, an independent agency, which writes business in California and specializes in residential earthquake insurance. The Company has 208 producers as of December 31, 2018.

REINSURANCE

Assumed

The Company assumes a book under a fronting arrangement that is produced by its affiliate, Golden Bear Management Corporation (GBMC), using the Company's underwriting guidelines. Policies on the assumed business are issued using North American Capacity Insurance Company's (NAC) paper that are reinsured by Swiss Reinsurance America Corporation (Swiss Re), and the net retained limits are retro-ceded to the Company. The assumed book includes both casualty and property lines of business, but the majority of it is in the hospitality and related categories. The assumed written premiums has increased significantly during the examination period from \$17.4 million in 2015 to \$25.3 million in 2018 mainly due to the growth of the business from Swiss Re in states outside of California.

<u>Line of Business and Type of Contract</u>	<u>Ceding Company's Name</u>	<u>Ceding Company's Retention</u>	<u>Company's Limit</u>
<u>Casualty:</u>			
Casualty Excess of Loss	Swiss Reinsurance America Corporation	First Excess of Loss: \$700,000 excess of \$300,000 each occurrence Second Excess of Loss: \$2 million excess of \$1 million each occurrence	First Excess of Loss: \$300,000 each occurrence Second Excess of Loss: \$1 million each occurrence
Umbrella Liability Quota Share	Swiss Reinsurance America Corporation	Part 1: North American Specialty & North American Capacity Insurance Company do not write the underlying policies: \$1 million Layer: 85% of each occurrence	Part 1: North American Specialty & North American Capacity Insurance Company do not write the underlying policies: \$1 million Layer: 15% each occurrence \$2 million to \$5 million Layers: 2.5% each occurrence

<u>Line of Business and Type of Contract</u>	<u>Ceding Company's Name</u>	<u>Ceding Company's Retention</u>	<u>Company's Limit</u>
		\$2 million to \$5 million Layers: 97.5% each occurrence Part 2: North American Specialty & North American Capacity Insurance Company writes the underlying policies: \$1 million Layer: 95% each loss occurrence \$2 million to \$5 million Layers: 100% each occurrence	Part 2: North American Specialty & North American Capacity Insurance Company writes the underlying policies: \$1 million Layer: 5% each loss occurrence \$2 million to \$5 million Layers: 0% each occurrence
Umbrella Liability Quota Share (Pass through Facultative)	Swiss Reinsurance America Corporation	None	100% of the retrocedent's gross assumed liability with a limit of \$5 million
Professional Liability	Swiss Reinsurance America Corporation	90% of the first \$5 million excess of \$250,000 each risk and \$15 million in aggregate	\$250,000 each risk and \$5 million in aggregate
<u>Property</u>			
Property First Surplus	Swiss Reinsurance America Corporation	\$5 million excess of \$250,000 each risk and \$15 million in aggregate	\$250,000 each risk and \$5 million in aggregate
Residential Buyback	Swiss Reinsurance America Corporation	80% of the first \$1.25 million each risk	20% of the first \$1.25 million each risk, and 100% of policy limits in excess of \$1.25 million each risk

Ceded

The following table is a summary of the ceded reinsurance agreements as of December 31, 2018:

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
<u>Casualty:</u>			
Umbrella Liability Quota Share	<u>Authorized:</u> Swiss Reinsurance America Corporation	Part 1: – For underlying not underwritten by the	Part 1 – For underlying policies not underwritten by the Company:

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
		<p>Company: 15% of the first \$1 million and 2.5% of the \$4 million in excess of \$1 million each risk from each loss occurrence</p> <p>Part 2: - For underlying policies underwritten by the Company: 5% of the first \$1 million and 0% of the \$4 million excess of \$1 million each risk from each loss occurrence</p>	<p>85% of the first \$1 million and 97.5% of the \$4 million in excess of \$1 million each risk from each loss occurrence</p> <p>Part 2 – For underlying policies underwritten by the Company: 95% of the first \$1 million and 100% of the \$4 million excess of \$1 million each risk from each loss occurrence</p>
Casualty Excess of Loss	<u>Authorized:</u> Swiss Reinsurance America Corporation	<p>\$300,000 any one loss occurrence for the first excess of loss</p> <p>\$1 million any one loss occurrence for the second excess of loss</p>	<p>First Excess of Loss: \$700,000 excess of \$300,000 any one loss occurrence</p> <p>Second Excess of Loss: \$2 million excess of \$1 million any one loss occurrence; and not to exceed \$6 million in aggregate</p>
Casualty Quota Share – Professional Liability	<u>Authorized:</u> Swiss Reinsurance America Corporation	10% of \$5 million per risk	90% of \$5 million per risk
<u>Property</u>			
Flood Quota Share	<u>Certified:</u> Various Lloyd's Underwriters	<p>Coverage A – Building Property: 10% each risk</p> <p>Personal Property: 10% each risk</p>	<p>Coverage A – Building Property: \$1.8 million each risk (being 90% of \$2 million)</p> <p>Personal Property: \$450,000 each risk (being 90% of \$500,000)</p>
Personal Property and Personal Liability – Excess of Loss	<u>Authorized:</u> General Reinsurance Corporation	<p>Personal Property: First Excess Cover \$100,000 each risk</p> <p>Second Excess Cover \$1 million each risk</p> <p>Personal Liability: First Excess Cover \$100,000 each occurrence</p>	<p>Personal Property: First Excess Cover \$900,000 excess of \$100,000 each risk; and not to exceed \$3.6 million in aggregate</p> <p>Second Excess Cover \$750,000 excess of \$1 million each risk; and not to exceed \$1.5 million in aggregate</p> <p>Personal Liability: First Excess Cover \$900,000 excess of \$100,000</p>

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
		Second Excess Cover \$1 million each occurrence	each occurrence Second Excess Cover \$750,000 excess of \$1 million each occurrence Personal Property and Liability: Not to exceed \$2.25 million under Second Excess Cover in aggregate
Property Catastrophe	<u>Authorized:</u> General Reinsurance Corporation (90%) Everest Reinsurance Company (10%)	Layer 1: \$7.5 million each loss occurrence Layer 2: \$10 million each loss occurrence Layer 3: \$15 million each loss occurrence Layer 4: \$20 million each loss occurrence Layer 5: \$25 million each loss occurrence	Layer 1: \$2.5 million excess \$7.5 million each loss occurrence; and \$5 million in aggregate Layer 2: \$5 million excess \$10 million each loss occurrence Layer 3: \$5 million excess \$15 million each loss occurrence; and \$10 million in aggregate Layer 4: \$5 million excess \$20 million each loss occurrence; and \$10 million in aggregate Layer 5: \$10 million excess \$25 million each loss occurrence; and \$20 million in aggregate
Property Catastrophe	<u>Certified:</u> Various Lloyd's Underwriters (36%) <u>Authorized:</u> General Reinsurance Corporation (25%) Everest Reinsurance Company (23%) <u>Unauthorized:</u> R + V Versicherung AG (10%) American Agricultural Insurance Company (4%) Tokio Millennium AG, Bermuda Branch (2%)	Layer A: \$35 million each loss occurrence Layer B: \$45 million each loss occurrence	Layer A: \$10 million excess \$35 million each loss occurrence; and \$20 million in aggregate Layer B: \$20 million excess \$45 million each loss occurrence; and \$40 million in aggregate
Property Catastrophe	<u>Certified:</u> Various Lloyd's Underwriters (31.5%) <u>Authorized:</u> General Reinsurance Corporation (25%)	Layer C (California Only): \$65 million each loss occurrence	Layer C (California Only): \$35 million excess \$65 million each loss occurrence; and \$70 million in aggregate

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
	Everest Reinsurance Company (23%) <u>Unauthorized:</u> R + V Versicherung AG (10%) Ascot Underwriting Limited on behalf of American International Reinsurance Co. Ltd. (5%) American Agricultural Insurance Company (4%) Tokio Millennium AG Bermuda Branch (1.5%)		
Property Catastrophe	<u>Certified:</u> Various Lloyd's Underwriters (46.35%) <u>Authorized:</u> Everest Reinsurance Company (23%) <u>Unauthorized:</u> Ascot Underwriting Limited on behalf of American International Reinsurance Co. Ltd. (11%) Pioneer Underwriters on behalf of Peak Re (7.5%) Pioneer Underwriters on behalf of Taiping Re. (4%) Pioneer Underwriters on behalf of Cathay Century Insurance Company Ltd. (2.15%) R + V Versicherung AG (5%) American Agricultural Insurance Company (1%)	Layer D (California Only): \$100 million each loss occurrence	Layer D (California Only): \$40 million excess \$100 million each loss occurrence; and \$80 million in aggregate
Property Catastrophe	<u>Certified:</u> Various Lloyd's Underwriters (31.25%) <u>Authorized:</u> Everest Reinsurance Company (23%) Houston Casualty Co. (9.5%) <u>Unauthorized:</u> Ascot Underwriting Limited on behalf of American International Reinsurance Co. Ltd. (12%) Pioneer Underwriters on behalf of Peak Re (10%) Pioneer Underwriters on	Layer E (California Only): \$140 million each loss occurrence	Layer E (California Only): \$45 million excess \$140 million each loss occurrence; and \$90 million in aggregate

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
	behalf of Taiping Re (4%) Pioneer Underwriters on behalf of Cathay Century Insurance Company Ltd. (2%) R + V Versicherung AG (5%) American Agricultural Insurance Company (1%) Tokio Millennium AG, Bermuda Branch (2.25%)		
Property Quota Share	<u>Certified:</u> Lloyd's – Pioneer Preferred Partners (2%) <u>Authorized:</u> Swiss Reinsurance America Corporation (46.5%) General Reinsurance Corporation (20.62%) Munich Reinsurance America, Inc. (17.50%) Berkley insurance Company (6.38%)	7% each risk	\$9.3 million each risk (being 93% of \$10 million); and \$235 million in aggregate
Equipment Breakdown and Service Line Quota Share	<u>Authorized:</u> Liberty Mutual Insurance Company	\$0	Commercial Property Policies – Equipment Breakdown: \$50 million any one loss, any one accident, or any one policy Homeowners Policies – Equipment Breakdown: \$100,000 any one loss, any one accident, or any one policy Homeowners Policies – Service Line: \$10,000 any one loss, any one accident, or any one policy

ACCOUNTS AND RECORDS

Unclaimed Property

California Code of Civil Procedure (CCP) Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532 – Unclaimed Property Law requires that all tangible personal property located in the state of California that is held or owing in the ordinary course of business

and has remained unclaimed by the owner for more than three years after it became payable or distributable, is escheated to the California State Controller's Office (SCO).

During the examination period, the Company failed to file unclaimed property notices and remittance reports with payments to the SCO. However, the Company did submit a correcting filing to the SCO subsequent to the examination period. It is recommended that the Company escheat unclaimed property to the SCO and implement procedures to ensure future compliance with CCP Sections 1530 and 1532.

FINANCIAL STATEMENTS

The following 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 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 Assets</u>	<u>Assets Not</u> <u>Admitted</u>	<u>Net Admitted</u> <u>Assets</u>	<u>Notes</u>
Bonds	\$ 127,061,084	\$	\$ 127,061,084	
Common stocks	9,311,858		9,311,858	
Real Estate: Property occupied by the company	13,338,351		13,338,351	
Cash, cash equivalents, and short-term investments	19,463,011		19,463,011	
Other invested assets	1,559,869	10,909	1,548,960	
Investment income due and accrued	1,204,073		1,204,073	
Uncollected premiums and agents' balances in the course of collection	10,025,342	54,142	9,971,200	
Amount recoverable from reinsurers	1,250,290		1,250,290	
Current federal and foreign income tax recoverable and interest thereon	515,631		515,631	
Net deferred tax asset	2,046,646		2,046,646	
Electronic data processing equipment and software	788,556	459,533	329,023	
Furniture and equipment	772,377	772,377	0	
Receivables from parent, subsidiaries and affiliates	33,545		33,545	
Aggregate write-ins for other than invested assets	318,256		318,256	
	<hr/>		<hr/>	
Total assets	\$ 187,688,888	\$ 1,296,962	\$ 186,391,927	

Liabilities, Surplus and Other Funds

				<u>Notes</u>
Losses			\$ 60,622,151	(1)
Reinsurance payable on paid loss and loss adjustment expenses			5,634,395	
Loss adjustment expenses			20,257,853	(1)
Other expenses			2,088,279	
Taxes, licenses and fees			200,141	
Unearned premiums			23,325,373	
Advance premiums			223,686	
Ceded reinsurance premiums payable			17,393,535	
Payable to parent, subsidiaries and affiliates			267,654	
Payable for securities			18,250	
			<hr/>	
Total liabilities			130,031,317	
Common capital stock	\$	1,800,000		
Gross paid-in and contributed surplus		3,773,978		
Unassigned funds (surplus)		50,786,632		
		<hr/>		
Surplus as regards policyholders			\$ 56,360,610	
Total liabilities, surplus and other funds			<hr/>	
			\$ 186,391,927	

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

Statement of Income

Underwriting Income

Premiums earned		\$ 35,418,495
Deductions:		
Losses incurred	\$ 22,695,931	
Loss adjustment expenses incurred	3,566,142	
Other underwriting expenses incurred	<u>8,671,179</u>	
Total underwriting deductions		<u>34,933,252</u>
Net underwriting gain		485,243

Investment Income

Net investment income earned	\$ 4,029,635	
Net realized capital gains	<u>584,093</u>	
Net investment gain		4,613,727

Other income

Net loss from agent's or premium balances charged off	<u>\$ (9,365)</u>	
Total other income		<u>(9,365)</u>
Aggregate write-ins for miscellaneous income	<u>1,392,546</u>	
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		5,089,605
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		5,089,605
Federal and foreign income taxes incurred		<u>993,312</u>
Net income		<u>\$ 4,096,293</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2017		\$ 53,798,849
Net income	\$ 4,029,635	
Change in net unrealized capital losses	(1,826,427)	
Change in net deferred income tax	81,394	
Change in nonadmitted assets	<u>210,501</u>	
Change in surplus as regards policyholders for the year		<u>2,561,761</u>
Surplus as regards policyholders, December 31, 2018		<u>\$ 56,360,610</u>

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

Surplus as regards policyholders, December 31, 2014			\$ 46,305,684
	Gain in Surplus	Loss in Surplus	
Net income	\$ 14,252,327	\$	
Change in unrealized capital losses		(392,188)	
Change in net deferred income tax	245,961		
Change in nonadmitted assets		(1,051,174)	
Dividend to stockholders		(3,000,000)	
Total gains and losses	<u>\$ 14,498,288</u>	<u>\$ (4,443,362)</u>	
Net increase in surplus as regards policyholders			<u>10,054,926</u>
Surplus as regards policyholders, December 31, 2018			<u>\$ 56,360,610</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

Business Loan Agreement: Effective December 18, 2019, M.J. Hall and Company, Inc. (MJH) and Bank of Stockton entered into the Business Loan Agreement (the Agreement), whereby the Company is a Guarantor on a line of credit issued by the Bank of Stockton to MJH. The CDI approved the Agreement on December 18, 2019, pursuant to California Insurance Code Section 1215.5(b)(5).

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A novel strain of coronavirus (COVID-19) was detected and reported to World Health Organization (WHO) in December 2019. Since then, it has spread around the world, resulting in business and social disruption. The outbreak was declared a Public Health Emergency of International Concern by the WHO on January 30, 2020. 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.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Unclaimed Property (Page 13): It is recommended that the Company escheat unclaimed property to the California State Controller's Office and implement procedures to ensure future compliance with California Code of Civil Procedure Sections 1530 and 1532.

Previous Report of Examination

Management and Control – Management Agreement (Page 6): It was recommended that the Company file the Reinsurance Intermediary Agreement between the Company and M.J. Hall and Company, Inc. with the California Department of Insurance (CDI) pursuant to California Insurance Code Section 1215.5(b)(4). Per the recommendation, the Company filed the Agreement with the CDI on April 14, 2016 and the Agreement was approved by the CDI on July 7, 2016.

Accounts and Records – Information Systems Controls (Page 11): It was recommended that the Company evaluate recommendations from the general information system controls review and make appropriate changes to strengthen its information systems. The company has complied with the recommendations.

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/_____

Sam Chiu, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

_____/S/_____

Kyo Chu, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California