

REPORT OF EXAMINATION  
OF THE  
LOYA CASUALTY INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2009

Filed August 9, 2010

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION .....	1
SUBSEQUENT EVENTS .....	2
COMPANY HISTORY .....	2
MANAGEMENT AND CONTROL:.....	2
Management Agreements .....	4
TERRITORY AND PLAN OF OPERATION .....	5
REINSURANCE: .....	5
Assumed .....	5
Ceded .....	5
FINANCIAL STATEMENTS:.....	6
Statement of Financial Condition as of December 31, 2009 .....	7
Underwriting and Investment Exhibit for the Year Ended December 31, 2009.....	8
Reconciliation of Surplus as Regards Policyholders from December 31, 2006 through December 31, 2009.....	9
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	10
Losses and Loss Adjustment Expenses .....	10
SUMMARY OF COMMENTS AND RECOMMENDATIONS: .....	10
Current Report of Examination .....	10
Previous Report of Examination.....	10
ACKNOWLEDGEMENT .....	11

Los Angeles, California  
June 30, 2010

Honorable Steve Poizner  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

LOYA CASUALTY INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 1800 Lee Trevino, Suite 201, El Paso, Texas 79936. The Company's statutory home office is located at 777 East Vista Way, Suite 205, Vista, California 92084.

SCOPE OF EXAMINATION

The qualifying examination of the Company was made as of April 6, 2006. This examination covers the period from April 7, 2006 through December 31, 2009. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

## SUBSEQUENT EVENTS

During the first quarter of 2010, the Company received \$10 million in cash as a surplus contribution from its parent, Loya Insurance Company.

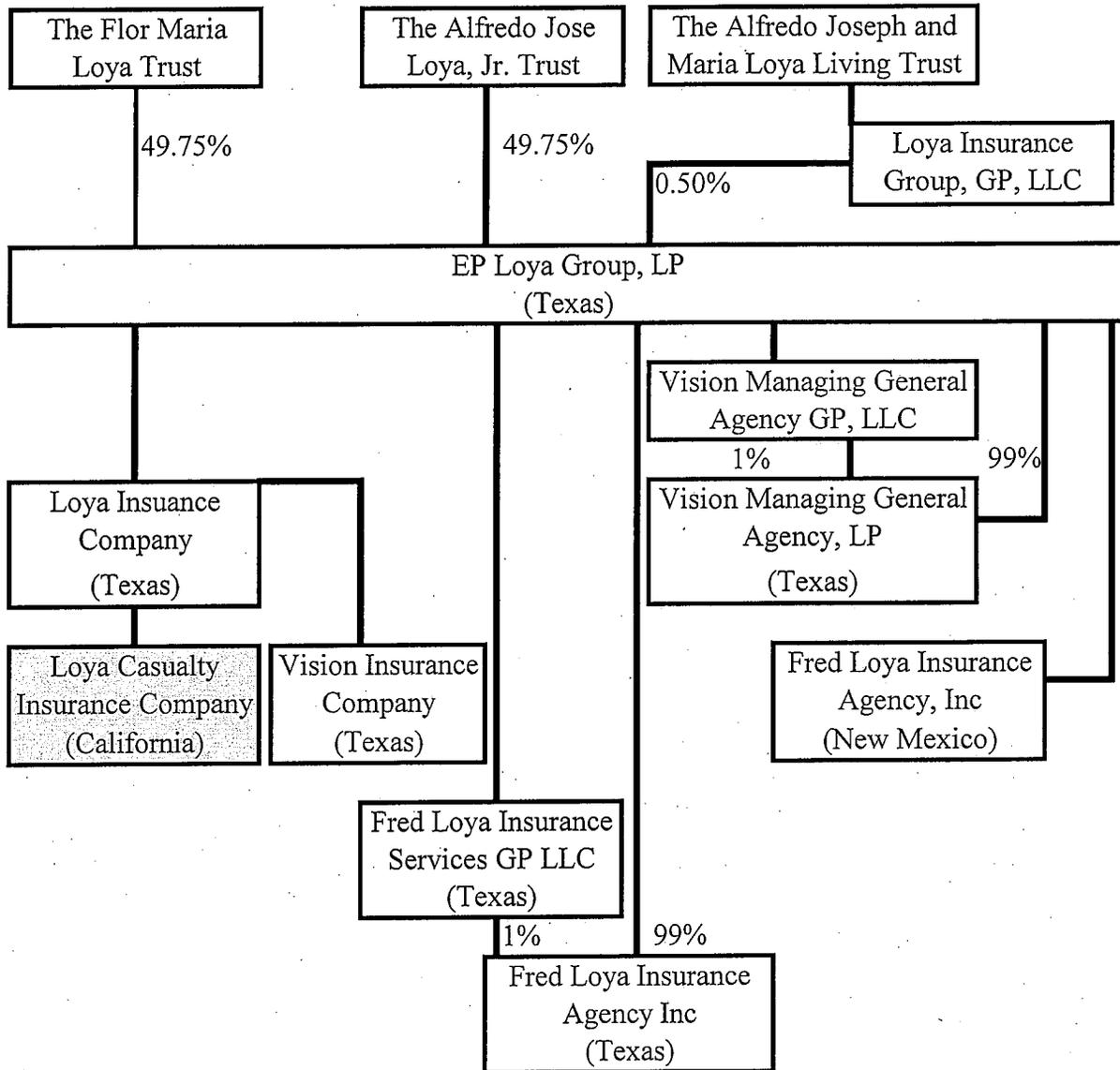
## COMPANY HISTORY

The Company was incorporated in California on December 14, 2004, for the purpose of conducting property and casualty business, and is a wholly-owned subsidiary of Loya Insurance Company, a Texas domiciled property and casualty insurer.

The Company received cash surplus contributions of \$5 million in 2008 and \$15 million in 2009 from its parent, Loya Insurance Company.

## MANAGEMENT AND CONTROL

The following organizational chart depicts the Company's relationship within the holding company system:



(\*) all ownership is 100% unless otherwise noted

Management of the Company is vested in a five-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

### Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Alfredo Joseph Loya El Paso, Texas	Chairman of the Board Loya Casualty Insurance Company
Alfredo Jose Loya, Jr. El Paso, Texas	Secretary Loya Casualty Insurance Company
Flor Maria Loya El Paso, Texas	President Loya Casualty Insurance Company
Maria Loya El Paso, Texas	Director Loya Casualty Insurance Company
Jose Arturo Ramirez El Paso, Texas	Treasurer Loya Casualty Insurance Company

### Principal Officers

<u>Name</u>	<u>Title</u>
Flor Maria Loya	President
Jose Arturo Ramirez	Treasurer
Alfredo Jose Loya, Jr.	Secretary

### Management Agreements

Managing General Agency Agreement: The Company is a party to a Managing General Agency Agreement with an affiliate, Vision Managing General Agency, LP. (VMGA). Under the terms of this agreement, VMGA provides underwriting, marketing, claims handling up to \$30,000 per claim, administrative services, and collections of premiums. In return VMGA receives a commission of 26.65% of net premiums collected plus reimbursement of loss adjustment expenses at 10% of gross premiums earned. Fees paid by the Company for 2007, 2008, and 2009, were \$5,882,443, \$11,999,239, and \$23,547,426 respectively. The agreement was approved by the California Department of Insurance (CDI) on June 7, 2006.

Tax Sharing Agreement: The Company and its affiliates are parties to a tax sharing agreement with its ultimate parent, EP Loya Group, LP, a Texas limited partnership. The allocation of taxes is based upon separate return calculations. Intercompany tax allocations are settled within 60 days after the filing of the consolidated income tax return. The agreement was approved by the CDI on June 6, 2006.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed to transact auto insurance business only in California.

In 2009, the Company wrote \$66.1 million of direct premiums. Of the direct premiums written, 70.3% or \$46.4 million was private passenger auto liability and 29.7% or \$19.7 million was private passenger auto physical damage.

The Company writes six-month policies for minimum liability and low value auto insurance coverages. The business is produced solely by an affiliate, Fred Loya Insurance Agency, which has approximately 146 offices throughout California.

### REINSURANCE

#### Assumed

The Company has no reinsurance assumed.

#### Ceded

The Company has no reinsurance ceded.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2006 through December 31, 2009

Statement of Financial Condition  
as of December 31, 2009

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 50,881,536	\$	\$ 50,881,536	
Cash and short-term investments	5,158,275		5,158,275	
Investment income due and accrued	701,586		701,586	
Premiums and considerations:				
Uncollected premiums and agents balances in course of collection	1,186,654		1,186,654	
Current federal income tax recoverable	520,232		520,232	
Net deferred tax asset	<u>1,056,473</u>	<u>196,044</u>	<u>860,429</u>	
 Total assets	 <u>\$ 59,504,756</u>	 <u>\$ 196,044</u>	 <u>\$ 59,308,712</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 22,150,305	(1)
Loss adjustment expenses			1,480,800	(1)
Taxes licenses and fees			862,758	
Unearned premiums			8,565,522	
Advance premium			<u>504,497</u>	
 Total liabilities			 33,563,882	
Common capital stock		\$ 2,600,040		
Gross paid-in and contributed surplus		27,400,147		
Unassigned funds (surplus)		<u>(4,255,357)</u>		
 Surplus as regards policyholders			 <u>25,744,830</u>	
 Total liabilities, surplus and other funds			 <u>\$ 59,308,712</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income

Premiums earned		\$ 70,515,696
Deductions:		
Losses incurred	\$ 44,907,230	
Loss adjustment expense incurred	6,929,042	
Other underwriting expenses incurred	19,098,401	
Other underwriting deductions	<u>8,060,792</u>	
Total underwriting deductions		<u>78,995,465</u>
Net underwriting loss		(8,479,769)

Investment Income

Net investment income earned	\$ <u>983,509</u>	
Net investment gain		<u>983,509</u>
Net loss before federal income taxes		(7,496,260)
Federal income taxes incurred		<u>(2,345,912)</u>
Net loss		\$ <u>(5,150,348)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		\$ 15,475,354
Net loss	\$ (5,150,348)	
Change in net deferred income tax	539,760	
Change in non-admitted assets	(119,936)	
Surplus Adjustments: Paid in	<u>15,000,000</u>	
Change in surplus as regards policyholders		<u>10,269,476</u>
Surplus as regards policyholders, December 31, 2009		\$ <u>25,744,830</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2006 through December 31, 2009

Surplus as regards policyholders, December 31, 2006, per Examination \$ 10,142,960

	Gain in Surplus	Loss in Surplus	
Net loss	\$	\$ 5,196,072	
Change in deferred income tax	991,912		
Change in nonadmitted assets		193,970	
Surplus adjustments: Paid-in	20,000,000		
Totals	\$ 20,991,912	\$ 5,390,042	
Net increase in surplus as regards policyholders for the examination			15,601,870
Surplus as regards policyholders, December 31, 2009, per Examination			\$ 25,744,830

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the loss and loss adjustment expense reserves as of December 31, 2009 and concluded that the reserves were reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None

Previous Report of Examination

None

