

REPORT OF EXAMINATION  
OF THE  
NATIONS INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2008

Filed September 18, 2009

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Los Angeles, California  
July 3, 2009

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

#### NATIONS INSURANCE COMPANY

(hereinafter also referred to as the Company) at the Company's statutory home office and main administrative office located at 17777 Center Court Drive, Suite 325, Cerritos, California 90703. The Company's primary location of its books and records is located at 27451 Tourney Road, Suite 200, Valencia, California 91355.

#### SCOPE OF EXAMINATION

The previous qualifying examination of the Company was made as of November 21, 2007. This examination covers the period from November 22, 2007 through December 31, 2008. 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, 2008, as deemed necessary under the circumstances.

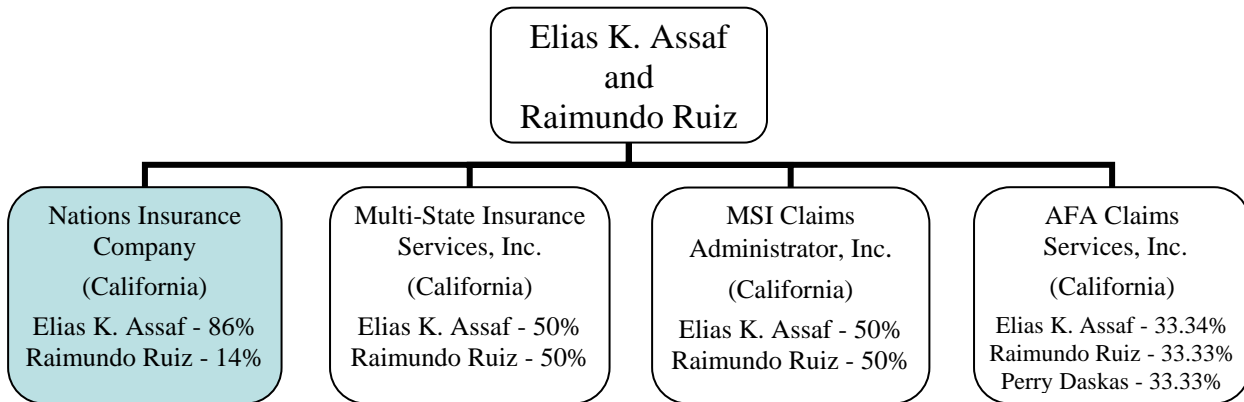
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss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

## COMPANY HISTORY

The Company was incorporated on November 28, 2006, and received its Certificate of Authority from the California Department of Insurance on March 6, 2008. It commenced business on March 6, 2008. The Company is authorized to issue 100,000 shares of common stock, and the par value of each share is \$60. The Company has issued 37,267 shares to Elias K. Assaf and 6,066 shares to Raimundo Ruiz. The original capital contribution was \$10,000,187 (\$2,600,040 of common stock and \$7,400,147 in additional paid-in capital). There were no capital contributions during the examination period.

## MANAGEMENT AND CONTROL

The controlling stockholders, Elias K. Assaf and Raimundo Ruiz, own 86% and 14%, respectively, of the Company's stock. The following organizational chart depicts the Company's relationship with affiliated companies at December 31, 2008:



Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2008 follows:

## Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Elias K. Assaf Huntington Beach, California	Chairman of the Board and President Nations Insurance Company
Zeina K. Assaf Huntington Beach, California	Director Nations Insurance Company
Raimundo Ruiz Valencia, California	President Multi-State Insurance Services, Inc.

## Principal Officers

<u>Name</u>	<u>Title</u>
Elias K. Assaf Patsy Wemesfelder	President and Chief Executive Officer Chief Financial Officer and Treasurer

\*Zeina Assaf was elected as Secretary, effective February 25, 2009.

## Management Agreements

Program Management Agreement: On March 8, 2008, the Company entered into a program management agreement with its affiliate, Multi-State Insurance Services, Inc. (MSIS). MSIS provides the Company with accounting, marketing, administrative, underwriting, computer programming, personnel and other management services. MSIS performs similar services on behalf of other non-affiliated insurers (Insurers). As compensation, for the services provided, MSIS is reimbursed based on the total cost expended on behalf of all Insurers divided by the percentage of net written premium written through the Company as compared to net written premium written through the Insurers. This agreement was approved by the California Department of Insurance (CDI) on March 8, 2008. During 2008, the Company paid MSIS \$598,457.

Claims Management Agreement: On May 28, 2008, the Company entered into a claims management agreement with its affiliate, MSI Claims Administrator, Inc. (MSI). MSI services include

processing, investigating, adjusting, compromising, defending, litigating, supervising and payment of claims. MSI performs similar claims services on behalf of the Insurers. MSI is reimbursed for these services based on the total cost expended on behalf of all Insurers divided by the percentage of claims adjusted on behalf of the Company as compared to total claims adjusted on behalf of the Insurers. This agreement was approved by the CDI on May 28, 2008. During 2008, the Company paid MSI \$246,444.

Claims Management Agreement: On April 1, 2009, the Company entered into a new claims management agreement with its affiliate, AFA Claim Services, Inc. (AFA), to replace the previous claims management agreement with MSI. AFA provides the Company with processing, investigating, adjusting, compromising, defending, litigating, supervising and payment of claims. AFA receives 5.5% of the Company's gross earned premiums as compensation for these services. This agreement was approved by the CDI on June 9, 2009.

#### CORPORATE RECORDS

The Company's board actions regarding the authorization and approval of investments did not satisfy the requirements of California Insurance Code (CIC) Sections 1200 and 1201. The board minutes failed to document the authorization and approval of its investments, which is in violation of CIC Section 1200. In addition, specific references to amounts, facts and the values of the securities were not included as required under CIC Section 1201. It is recommended that the Company comply with CIC Sections 1200 and 1201.

#### FIDELITY BONDS AND OTHER INSURANCE

The Company has no fidelity bond coverage. The National Association of Insurance Commissioners' (NAIC) suggested minimum coverage for the Company is \$150,000. It is recommended that the Company obtain adequate fidelity bond and additional insurance coverage in accordance with the NAIC recommendations.

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2008, the Company is authorized to write personal auto liability and physical damage coverage solely in the State of California. The Company is a new carrier underwriting private passenger auto coverage through an affiliated general agency, Multi-State Insurance Services, Inc., whose sales are generated through independent insurance brokers across the State of California. In 2008, the Company wrote \$5.2 million of direct premiums.

## REINSURANCE

The Company does not have reinsurance coverage as it issues only minimum limit automobile insurance policies.

## ACCOUNTS AND RECORDS

During the course of this examination, the following deficiencies were noted in the Company's accounts and records and its information systems:

1. A review of the Annual Statement, Jurat Page indicated that the Company failed to disclose Elias K. Assaf as a member of the board. In addition, a review of the Annual Statement, Notes to Financial Statement, Note 19 indicated that the Company maintains a Managing General Agency (MGA) relationship with its affiliates, Multi-State Insurance Service, Inc. and MSI Claims Administrator, Inc. However, the Company does not have a MGA relationship with its affiliates as defined by the MGA Act under California Insurance Code Section 796.81. It is recommended that the Company correct these disclosures in the Annual Statement, Jurat Page and Notes to Financial Statement, Note 19.
2. During the examination of the agents' balances in the course of collection, it was noted that the Company's policy maintenance system did not age receivables throughout 2008. However, as of December 31, 2008, the Company created a report of all premiums billed that were 90 days over due, and the Company wrote those receivables off as bad debts. It is

recommended that the Company prepare an aging report for agents' balances on at least a quarterly basis to comply with the nonadmitted calculation requirements found in the National Association of Insurance Commissioners Statement of Statutory Accounting Principles No. 6.

3. A review was made of the Company's general controls over its information systems. As a result of the review, weaknesses were noted in areas such as information security, operational controls, disaster recovery and business continuity planning. It is recommended that the Company review its information systems and make appropriate changes to strengthen internal controls.

### FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Underwriting and Investment Exhibit for the Year Ended December 31, 2008

Reconciliation of Surplus as Regards Policyholders  
from November 21, 2007 through December 31, 2008

Statement of Financial Condition  
as of December 31, 2008

<u>Assets</u>	<u>Ledger and Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 2,987,968		\$ 2,987,968	
Cash and short-term investments	7,121,039		7,121,039	
Investment income due and accrued	41,699		41,699	
Uncollected premiums and agents' balances in course of collection	799,314		799,314	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,406,576		2,406,576	
Net deferred tax asset	363,037	153,471	209,566	
Furniture and equipment	<u>11,063</u>	<u>11,063</u>	<u>          </u>	
Total assets	<u>\$ 13,730,696</u>	<u>\$ 164,534</u>	<u>\$ 13,566,162</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 795,069	(1)
Loss adjustment expenses			120,000	
Commissions payable, contingent commissions and other similar charges			144,289	
Other expenses			81	
Taxes, licenses and fees			124,886	
Unearned premiums			2,979,123	
Payable to parent, subsidiaries and affiliates			83,319	
Payable for securities			<u>147,137</u>	
Total liabilities			4,393,904	
Common capital stock		\$ 2,600,040		
Gross paid-in and contributed surplus		7,400,147		
Unassigned funds (surplus)		<u>(827,929)</u>		
Surplus as regards policyholders			<u>9,172,258</u>	
Total liabilities, surplus and other funds			<u>\$ 13,566,162</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2008

Statement of Income

Underwriting Income

Premiums earned		\$ 2,179,628
Deductions:		
Losses incurred	\$ 1,352,300	
Loss expenses incurred	503,999	
Other underwriting expenses incurred	<u>1,833,400</u>	
Total underwriting deductions		<u>3,689,699</u>
Net underwriting loss		(1,510,071)

Investment Income

Net investment income earned	<u>\$ 249,929</u>	
Net investment gain		249,929

Other Income

Net loss from agents' balances charged off	\$ (15,392)	
Finance and service charges not included in premiums	<u>241,005</u>	
Total other income		<u>225,613</u>
Net loss before federal income taxes		(1,034,529)
Federal income taxes incurred		<u>1,374</u>
Net loss		<u>\$ (1,035,903)</u>

Capital and Surplus Account

Surplus as regards policyholders, November 21, 2007		\$ 10,000,187
Net loss	\$ (1,035,903)	
Change in net deferred income tax	363,037	
Change in non-admitted assets	(164,534)	
Aggregate write-ins for gains in surplus	<u>9,471</u>	
Change in surplus as regards policyholders for the year		<u>(827,929)</u>
Surplus as regards policyholders, December 31, 2008		<u>\$ 9,172,258</u>

Reconciliation of Surplus as Regards Policyholders  
from November 21, 2007 through December 31, 2008

Surplus as regards policyholders, November 21, 2007, per Examination			\$ 10,000,187
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net loss	\$	\$ (1,035,903)	
Change in net deferred income tax	363,037		
Change in nonadmitted assets		(164,534)	
Aggregate write-ins for gain in surplus	<u>9,471</u>	<u></u>	
Totals	<u>\$ 372,508</u>	<u>\$ (1,200,437)</u>	
Net decrease in surplus as regards policyholders			<u>(827,929)</u>
Surplus as regards policyholders, December 31, 2008, per Examination			<u>\$ 9,172,258</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance analyzed the Company's loss and loss adjustment expense reserves. Based on the analysis, the Company's loss and loss adjustment expense reserves as of December 31, 2008 were determined to be reasonably stated and have been accepted for purposes of this examination.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Corporate Records (Page 4): It is recommended that the Company implement procedures in its board minutes to comply with California Insurance Code Sections 1200 and 1201.

Fidelity Bonds and Other Insurance (Page 4): It is recommended that the Company obtain adequate fidelity bond and additional insurance coverage in accordance with the National Association of Insurance Commissioners' recommendations.

Accounts and Records (Page 5): It is recommended that the Company correct the disclosures in the Annual Statement, Jurat Page and Notes to Financial Statement, Note 19.

Accounts and Records (Page 5): It is recommended that the Company prepare an aging report for agents' balances on at least a quarterly basis to comply with the nonadmitted calculation requirements found in the National Association of Insurance Commissioners Statements of Statutory Accounting Principles No. 6.

Accounts and Records (Page 6): It is recommended that the Company review its information systems and make appropriate changes to strengthen internal controls.

Previous Report of Examination

None.

