REPORT OF EXAMINATION

OF THE

PACIFIC PIONEER INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

Filed on June 27, 2016

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Los Angeles, California
May 27, 2016

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

PACIFIC PIONEER INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 6363 Katella Avenue, Cypress, California 90630.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2010. This examination covered the period from January 1, 2011 through December 31, 2014.

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. The 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 significant 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.

SUMMARY OF SIGNIFICANT FINDINGS

As a result of this examination, surplus as regards policyholders as of December 31, 2014 has been reduced from $7,194,474 to $6,408,868. Adjustment was made pursuant to California Insurance Code (CIC) Section 1194.82, wherein the Company reported $785,606 as an investment in real estate occupied by the Company which was determined to be a mortgage loan to an affiliated entity secured by a second trust deed. Second mortgages are not admitted pursuant to CIC Section 1194.82.

A review of the Company's related party transaction disclosed reinsurance activities and loan transactions undertaken between the Company and its affiliate, UCA General Insurance Services, Inc., which were not documented in any agreements or approved by the California Department of Insurance (CDI). These transactions are subject to the required filing and prior approvals from the CDI in accordance with CIC Section 1215.5(4). The Company is also in violation of its Reinsurance Intermediary Agreement. (See Holding Company Transaction Section).

As a result of the above violations, the Company will be assessed late filing fees and penalties by the CDI.

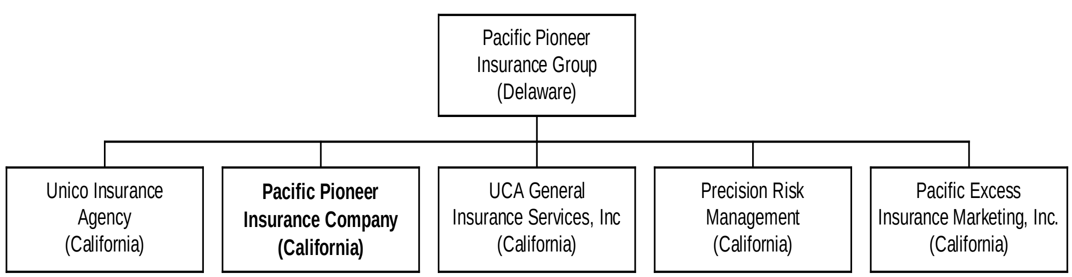
COMPANY HISTORY

Capitalization

The Company is authorized to issue 100,000 shares of common stock at the par value of $60 per share. As of December 31, 2014, there were 58,400 shares issued and outstanding.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Pacific Pioneer Insurance Group, Inc. (PPIG), a Delaware corporation. PPIG is owned by Lin W. Lan, the sole shareholder. The following abridged organizational chart depicts the Company's relationship within the holding company system:



Management of the Company is vested in a two-member board of directors elected annually. Following are members of the board and principal officers of the Company serving on December 31, 2014:

Directors

Name and Location	Principal Business Affiliation
John B. Jakle Santa Monica, California	Attorney Jakle & Alexander, LLP
Lin W. Lan Whittier, California	Chairman of the Board Pacific Pioneer Insurance Company

Principal Officers

Name	Title
Robert C. C. Lan	President
Ping Chen	Treasurer
Lin W. Lan	Secretary

Corporate Records

The Company's bylaws state that the board of directors shall hold meetings on the third Wednesday in May each year at which time election of directors will also take place. The board failed to hold meetings on the scheduled date and in the year 2012 did not hold a meeting. Also, in the meetings held, the Company failed to hold election of directors. The Company is in violation to the Company's bylaws. It is recommended that the Company comply with its bylaws.

The Company's minutes failed to document the authorization and approval of its investment securities which is in violation of California Insurance Code (CIC) Sections 1200 and 1201. It is recommended that the Company comply with CIC Sections 1200 and 1201.

Management Agreements

Administrative Services Agreement: Effective December 31, 1992, the Company entered into an Administrative Services Agreement with its affiliate, UCA General Insurance Services, Inc. (UCA). Under the terms of the Agreement, UCA provides the following services: consultation on rate filing process; reinsurance negotiation; processing of premium and payments to the Company; policy issuance; and investment management. Compensation to UCA is based on actual costs incurred. Payments made to UCA for 2011, 2012, 2013, and 2014 were $200,179, $152,239, $133,775, and $66,433, respectively. The Agreement was approved by the California Department of Insurance (CDI) in conjunction with Pacific Pioneer Insurance Group's (PPIG) acquisition of the Company in 1992.

Claims Management Agreement: Effective December 31, 1992, the Company entered into a Claims Management Agreement with its affiliate, Precision Risk Management, Inc., (PRM). Under the terms of the Agreement, PRM handles the processing and adjusting of all claims for the Company. Compensation for its services is based on an hourly rate of $60 plus reimbursement of allocated expenses paid to third parties. Payments made to PRM for 2011, 2012, 2013, and 2014 were $11,524, $13,647, $3,548, and $3,078, respectively. The Agreement was approved by the CDI in conjunction with PPIG's acquisition of the Company in 1992.

Tax Sharing Agreement: Effective December 31, 1992, the Company and its affiliates entered into a consolidated federal income Tax Sharing Agreement with its parent, PPIG. Allocation of taxes is based upon separate return calculations with inter-company tax balances settled within 60 days of payment or refund of taxes. The Agreement was approved by the CDI in conjunction with PPIG's acquisition of the Company in 1992.

Reimbursement Agreement: Reimbursement Agreements were executed between the Company and UCA, its affiliate, in 2007, 2008 and 2013 without approval of the CDI.

The parties to the Agreements reimbursed each other for the ceding commission paid by the ceding companies. In 2007 and 2008, UCA paid the Company $385,650 and $363,022, respectively. In 2013, the Company paid UCA the amount of $629,671. The Agreements and transactions were undertaken without the filing and prior approvals from the CDI as required by CIC Section 1215.5(b)(4). It is recommended that these agreements be submitted to the CDI for prior approval in accordance with CIC Section 1215.5(b)(4).

Holding Company Transactions

The Company has a reinsurance intermediary agreement with JLT Re (North America) Inc. (JLT Re) for its assumed business. Under the reinsurance intermediary agreement all communications and transactions, including but not limited to notices, statement, premium, commissions, loss settlements and so forth, shall be transferred to the Company or the reinsured through JLT Re. In our review of the Company's related party transactions, it was noted that the reinsurance activities related to the assumed business such as fronting fees, commission expense and premium taxes are regularly and directly settled between the Company and its affiliate, UCA, without going through its reinsurance intermediary, JLT Re, which is in violation of its reinsurance intermediary agreement. The related party transactions were undertaken without any prior approval from the CDI pursuant to CIC Section 1215.5(b)(4) and 1215.5(c).

Also, the review of the Company's related party transaction disclosed reinsurance activities and loan transactions were undertaken between the Company and its affiliate, UCA, without any documented agreements. These transactions were also undertaken without the required filing and prior approval from the CDI as required by CIC Section 1215.5(b)(4).

As a result of the above transactions, late filing fees and penalties will be assessed by the CDI. It is recommended that the Company comply with its Reinsurance Intermediary Agreement. More importantly to file and seek prior approval for any related party transactions as required by CIC Sections 1215.5(b)(4) and 1215.5(c).

TERRITORY AND PLAN OF OPERATION

As of December 31, 2014, the Company was licensed to transact multiple lines of property and casualty insurance in the following 12 states:

California	New Jersey
Colorado	Oklahoma
Idaho	Oregon
Kansas	Texas
Louisiana	Utah
Nevada	Washington

At December 31, 2014, the Company had total premiums written of $6,422,805, the majority of which were private passenger automobile business and only $694 of homeowner's run-off business written in California.

Effective November 1, 2011, the Company initiated a nonstandard private passenger automobile program with $15,000/$30,000/$5,000 liability limits, written by Multi-State Insurance Services, Inc., an unaffiliated agent located in Valencia, California. The Company retained 10% of the business and ceded 90% to Partner Reinsurance Company (Partner Re). The total premium written for this new private passenger automobile program was $6,422,111 in 2014. The Company retained $642,211 and ceded $5,779,900 to Partner Re.

The Company assumes commercial multiple peril (CMP) business, which is produced by its affiliate, UCA General Insurance Services, Inc. (UCA), and is written by third party insurers, Century National Insurance Company, Companion Property and Casualty Insurance Company and XL Reinsurance America Inc. The business is primarily a low limit book of CMP business which includes restaurants, motels, condominiums, apartments, strip malls and other commercial packages, written throughout California with a concentration in the Asian communities. The Company’s assumed premiums written were $6,433,309 for 2014.

REINSURANCE

Reinsurance Intermediary Agreement

The Company utilized JLT Re (North America) Inc. (JLT Re) as the reinsurance intermediary in negotiating for assumed business. Under the agreement, all communications and transactions (including but not limited to notices, statements, premium, return premium, commissions, taxes, losses, loss expense, salvages and loss settlements) relating thereto shall be transmitted to the Company or reinsured through JLT Re. It was noted during the examination that the Company failed to adhere to the intermediary agreement in submitting and receiving payments through JLT Re. See Management and Control Section, Holding Company Transactions subsection for details.

Assumed

As of December 31, 2014, the Company assumed commercial multiple peril (CMP) business from Century National Insurance Company (CNIC) through a net Quota Share reinsurance agreement. CMP business assumed under this contract is produced exclusively through the Company's affiliate, UCA General Insurance Services (UCA).

From April 1, 2011 through March 31, 2012, the Company assumed from a net Quota Share reinsurance agreement 33.3% of the first $3 million of the general liability CMP business and 33.3% of the first $2 million of the property CMP business produced by UCA and written by Companion Property and Casualty Insurance Company.

From April 1, 2012 thru March 31, 2013, the Company assumed from a net Quota Share reinsurance agreement 20% of the first $2 million of the general liability and property CMP business produced by UCA and written by XL Reinsurance America Inc.

From April 1, 2013 thru March 31, 2014, the Company assumed from a net Quota Share reinsurance agreement 35% of the first $2 million of the property CMP business and 5% of the first $1 million of the Umbrella coverage business produced by UCA and written by CNIC.

Effective April 1, 2014 thru March 31, 2015, the Company assumed from a net Quota Share reinsurance agreement 30% of the first $2 million of the property CMP business and 5% of the first $1 million of the Umbrella coverage business produced by UCA and written by CNIC.

The Company has trust agreements in place as part of the Quota Share Reinsurance Agreement with the ceding authorized insurers for its CMP business. Based on the trust agreement, $9.2 million of the Company's securities and $664,599 of the cash and short-term investments are being held as pledged assets on behalf of the ceding authorized insurers. Based on the review of the Company's liabilities associated with the reinsured business, the pledged assets exceeded the liabilities. It was recommended that the Company reduce the pledge assets with the various reinsureds. The Company agreed with the California Department of Insurance (CDI) that they will negotiate with the reinsureds to release some of the pledged assets. The Company also agreed with the CDI that the CDI will be notified prior to any withdrawal on the pledged assets by the reinsured for use of claim payments and as such will be included in the trust agreements.

Ceded

The following is a summary of the of the principal ceded reinsurance treaty in-force as of December 31, 2014:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Private Passenger Automoble:			
Quota Share	Partner Reinsurance Company of U.S. (Authorized)	10% each loss occurrence	90% of each loss occurrence
Property Catastrophe Excess of Loss First layer	2 domestic, foreign and alien companies led by 85%Lloyd's Syndicates and 15%Shelter Mutual Insurance Company (Authorized)	$1.5 million	100% of $1 million excess $1.5 million, net loss, each and every loss occurrence, not to exceed $2 million in the aggregate
Second Layer	2 domestic, foreign and alien companies led by 85%Lloyd's Syndicates and 15%Shelter Mutual Insurance Company (Authorized)	$2.5 million	100% of $1 million excess $2.5 million, net loss, each and every loss occurrence, not to exceed $2 million in the aggregate

ACCOUNTS AND RECORDS

Information Systems Controls

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of this review, some findings were noted and were presented to the Company along with recommendations to strengthen its controls. The Company should evaluate the recommendations and make appropriate changes to strengthen its information systems controls.

Annual Statement Disclosure

The composition of the board of directors in 2011, 2012, 2013, and 2014 as attested in the filed annual statements, listed the following individuals: Lin Lan and John Jakle. During the examination, Lin Lan, the Secretary of the Company, disclosed that the board of directors listed were incorrect and should have been the following: Robert Lan, Ping Chen, and Lin Lan. Furthermore, the board of directors' minutes disclosed a different composition of the board of directors: Robert Lan, Ping Chen, Lin Lan and

John Jakle. It is recommended that the Company identify and provide the correct board of director's information on the filed Annual Statement Jurat page and in its books and records.

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, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2014

Underwriting and Investment Exhibit for the Year Ended December 31, 2014

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2014

Statement of Financial Condition
as of December 31, 2014

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 14,285,339	$	$ 14,285,339	(1)
Common stocks	1,540,950		1,540,950	
Real estate-Properties occupied by the Company	785,606	785,606	0	(2)
Cash and short-term investments	1,621,389		1,621,389	
Investment income due and accrued	189,626		189,626	
Premiums and agents' balances in course of collection	1,764,458		1,764,458	
Premiums, agents' balances and installments booked but deferred and not yet due (including $11,974,363 earned but unbilled premiums)	3,108,570		3,108,570	
Amount recoverable from reinsurers	1,110,100	65,588	1,044,512	
Net deferred tax asset	272,608	272,608	0	
Total assets	$ 24,678,646	$ 1,123,802	$ 23,554,844	

Liabilities, Surplus and Other Funds			Notes
Losses and loss adjustment expenses		$ 8,503,338	(3)
Reinsurance payable on paid loss and loss adjustment expenses		2,074,353	
Other expenses		42,785	
Unearned premiums		3,332,804	
Ceded reinsurance premiums payable		2,816,556	
Amounts withheld or retained by company for account of others		3,620	
Payable to parent, subsidiaries and affiliates		154,566	
Aggregate write-ins for liabilities		217,954	
Total liabilities		17,145,976	
Common capital stock	$ 3,504,000		
Gross paid-in and contributed surplus	4,050,000		
Unassigned funds (surplus)	(1,145,132)		
Surplus as regards policyholders		6,408,868	
Total liabilities, surplus and other funds		$ 23,554,844,	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2014

Statement of Income

Underwriting Income		
Premiums earned		$ 6,925,078
Deductions:		
Losses and loss expenses incurred	$ 9,831,260	
Other underwriting expenses incurred	2,979,208	
Total underwriting deductions		12,810,468
Net underwriting loss		(5,885,390)
Investment Income		
Net investment income earned	$ 684,632	
Net realized capital gain	88,045	
Net investment gain		772,677
Other Income		
Aggregate write-ins for miscellaneous income	$ (693)	
Total other income		(693)
Net loss before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		(5,113,406)
Net loss		$ (5,113,406)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2013		$ 11,559,931
Net loss	$ (5,113,406)	
Change in net unrealized capital losses	209,894	
Change in net deferred income tax	(44,641)	
Change in nonadmitted assets	(738,642)	
Change in provision for reinsurance	535,732	
Change in surplus as regards policyholders for the year		(5,151,063)
Surplus as regards policyholders, December 31, 2014		$ 6,408,868

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2014

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2011			$ 12,835,464
Net loss	$	$ 6,702,858	
Net unrealized capital losses	437,176		
Change in net deferred income tax	63,450		
Change in nonadmitted assets		230,997	
Change in provision for reinsurance	6,633		
Total gains and losses	$ 507,259	$ 6,933,855	
Net decrease in surplus as regards policyholders			(6,426,596)
Surplus as regards policyholders, December 31, 2014			$ 6,408,868

Analysis of Changes to Surplus as of December 31, 2014

As a result of the examination, an adjustment was made to the Company's reported balance sheet items. The Company's reported investment in real estate occupied by the Company in the amount of $785,606 is a mortgage loan to an affiliated entity secured by a second trust deed. Pursuant to California Insurance Code (CIC) Section 1194.82, second mortgages are not admitted unless the insurer is holding the first mortgage lien. Based on CIC Section 1194.82, the amount of $785,606 is being non-admitted. The effect on surplus is shown below:

Surplus as regards policyholders, December 31, 2014, per Annual Statement			$ 7,194,474
	Increase	Decrease	
Real estate; Properties occupied by the Company		$ (785,606)	
Net decrease			(785,606)
Surplus as regards policyholders, December 31, 2014, after adjustment			$ 6,408,868

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds

The Company's bonds are held by Wells Fargo Bank under a custodial agreement that is not approved by the California Department of Insurance (CDI) in accordance with California Insurance Code (CIC) Section 1104.9(c). It is recommended that the Company submit its custodial agreement to the CDI for approval.

The Company does not utilize the Purposes and Procedures (P&P) Manual of the National Association of Insurance Commissioners (NAIC) Investment Analysis (IA) Office to identify the Company's investment designation and valuation per SSAP No. 26 paragraph 7. It is recommended that the Company utilize the P&P Manual of the NAIC IA Office to identify its investment designation and valuation.

(2) Real Estate

The Company reported an investment in real estate occupied by the Company in the amount of $785,606. The reported investment in the real estate is a mortgage loan to an affiliated entity secured by a second trust deed. Based on CIC Section 1194.82, second mortgages are not admitted unless the insurer is holding the first mortgage lien. Therefore, the amount of $785,606 is being non-admitted. The Company intends to sell the investment by the 3rd Quarter of 2016.

(3) Losses and Loss Adjustment Expenses

Based on the analysis by a Casualty Actuary from the CDI, the Company's Losses and Loss Adjustment Expense reserves as of December 31, 2014 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 4): The Company is not adhering to its bylaws. During a review of the board minutes for the years under examination, the board failed to hold meetings on the scheduled date and in the year 2012, and election of new directors as stated in its bylaws. It is recommended that the Company comply with its bylaws.

Management and Control: Corporate Records – (Page 4): It was noted during review of the board of directors minutes that the Company failed to document the authorization and approval of its investment securities which is in violation of California Insurance Code Sections (CIC) 1200 and 1201. It is recommended that the Company comply with CIC Sections 1200 and 1201.

Management and Control: Management Agreements - Reimbursement Agreement (Page 5): Reimbursement Agreements were executed between the Company and UCA General Insurance Services, Inc. (UCA), its affiliate in 2007, 2008 and 2013 without approval of the California Department of Insurance (CDI). It is recommended that these agreements be submitted to the CDI for prior approval in accordance with CIC Section 1215.5(b)(4).

Management and Control: Holding Company Transactions (Page 6): The reinsurance activities related to the assumed business such as fronting fees, commission expense and premium taxes are regularly and directly settled between the Company and its affiliate, UCA, without going through its reinsurance intermediary, JLT Re. It is recommended that the Company comply with its Reinsurance Intermediary Agreement.

Management and Controls: Holding Company Transactions (Page 6): The Company's related party transaction disclosed reinsurance activities and loan transactions were undertaken between the Company and its affiliate, UCA, without any documented agreements. These transactions were also undertaken without the required filing and prior approval from the CDI as required by CIC Section 1215.5(b)(4). It is recommended that the Company file and seek prior approval for any related party transactions as required by CIC Sections 1215.5(b)(4) and 1215.5(c).

Accounts and Records: Information System Controls (Page 10): As a result of a review of the Company's general controls some findings were noted and were presented to the Company along with recommendations to strengthen its controls. The Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems. This is a repeat recommendation.

Accounts and Records: Annual Statement Disclosure (Page 10): The composition of the board of directors in the years of exam as attested in the filed annual statements, the board of directors' minutes and statement from the Lin Lan, the Secretary of the Company disclosed to have all inconsistent list of board of directors. It is recommended that the Company identify and provide the correct board of directors' information on the filed Annual Statement Jurat page and in its books and records.

Comments on Financial Statement Items: Bonds (Page 16): The Company's bonds are held by Wells Fargo Bank under a custodial agreement that is not approved by the CDI in accordance with CIC Section 1104.9(c). It is recommended that the Company submit its custodial agreement to the CDI for approval.

Comments on Financial Statement Items: Bonds (Page 16): The Company does not utilize the Purposes and Procedures (P&P) Manual of the National Association of Insurance Commissioners (NAIC) Investment Analysis (IA) Office to identify the Company's investment designation and valuation per Statement of Statutory Accounting Principles No. 26 paragraph 7. It is recommended that the Company utilize the P&P Manual of the NAIC IA Office to identify its investment designation and valuation.

Previous Report of Examination

Accounts and Records (Page 5): It is recommended that the Company establish and implement appropriate control policies and procedures to strengthen its information system controls. The Company has not complied with the recommendation.

Comments on Financial Statement Items – Real Estate (Page 10): It is recommended that the Company file the affiliated transaction with the California Department of Insurance for approval as required by California Insurance Code (CIC) Section 1215.5(b)(1)(A). The Company complied with the recommendation

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/__________________________

Ralph Oseguera, AFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

__/S/__________________________

Grace F. Asuncion, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California