REPORT OF EXAMINATION
OF THE
LOYA CASUALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2017

Filed on June 14, 2019

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Los Angeles, California
May 22, 2019

Honorable Ricardo Lara
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 its home office located at 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

We have performed our single-state examination of the Company. The previous examination of the Company covered the period January 1, 2010 through December 31, 2012. This examination covers the period from January 1, 2013 through December 31, 2017.

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 included identifying and evaluating significant risks that could cause the 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 Texas as the lead state of the Loya Insurance Group. This examination was conducted concurrently with other Texas domiciled insurance entities in the holding company group, including Loya Insurance Company, Vision Insurance Company, and Young America Insurance Company.

COMPANY HISTORY

The Company was incorporated in California on December 14, 2004. On June 7, 2006, the Company received its Certificate of Authority from the California Department of Insurance to transact property and casualty business.

Capitalization

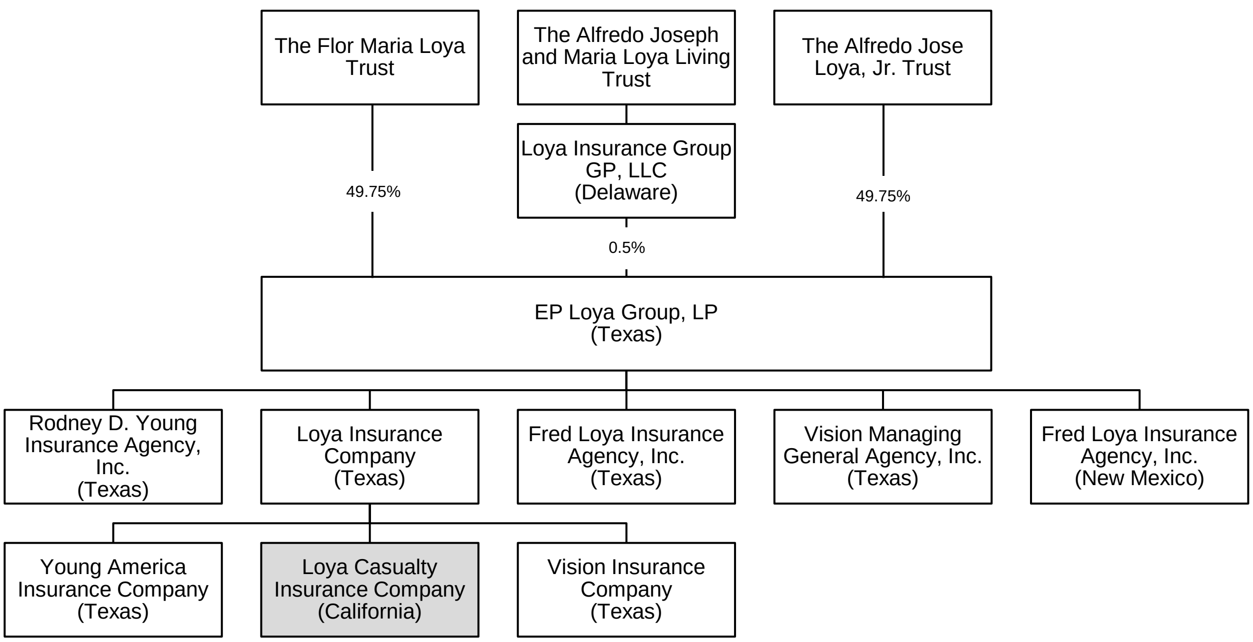
The Company is authorized to issue 100,000 shares of common stock, with a par value of $60 per share. As of December 31, 2017, there were 43,334 shares of common stock issued and outstanding.

On June 10, 2016, the Company received a cash capital contribution of $10,000,000 from its parent, Loya Insurance Company (LIC).

Subsequent to the examination period, on March 27, 2018 and November 15, 2018, the Company's parent, LIC, made cash capital contributions of $5,000,000 each as additional paid in surplus.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. Following is an abridged organizational chart that depicts the interrelationships of the Company with its affiliated entities within the holding company system: (All ownership is 100% unless otherwise noted)



The five members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2017:

Directors

Name and Location	Principal Business Affiliation
Alfredo J. Loya El Paso, Texas	Chairman of the Board Loya Casualty Insurance Company
Alfredo J. Loya, Jr. El Paso, Texas	Secretary and Chief Executive Officer Loya Casualty Insurance Company
Flor M. Loya El Paso, Texas	President Loya Casualty Insurance Company
Maria Loya El Paso, Texas	Director Loya Casualty Insurance Company
Jose A. Ramirez El Paso, Texas	Treasurer and Chief Financial Officer Loya Casualty Insurance Company

Principal Officers

Name	Title
Flor M. Loya	President
Alfredo J. Loya, Jr.	Secretary and Chief Executive Officer
Jose A. Ramirez	Treasurer and Chief Financial Officer
Benjamin Salazar, Jr.	Chief Operating Officer

Management Agreements

Managing General Agency Agreement: The Company entered into a Managing General Agency Agreement with its affiliate, Vision Managing General Agency, Inc. (MGA). Under the terms of the agreement, the MGA provides underwriting, marketing, claims handling, administrative services, and collection of premiums. In return, the MGA receives a commission of 26.65% of net premiums collected plus reimbursement of loss adjustment expenses at 10% of gross premiums earned. In addition, the MGA charges and retains a policy fee and an inspection fee to cover certain agency expenses. This agreement was approved by the California Department of Insurance (CDI) on June 7, 2006. The amounts paid by the Company under this agreement for 2013, 2014, 2015, 2016, and 2017 were $50,650,794, $55,098,268, $62,000,204, $63,988,828, and $59,073,323, respectively.

Agreement to File Consolidated Federal Income Tax Returns: The Company and its affiliates entered into an Agreement to File Consolidated Federal Income Tax Returns with its ultimate parent, EP Loya Group, LP. This agreement took effect for the tax year ended December 31, 2012, and successive tax years thereafter. The allocation of taxes is based upon separate return tax calculation. Intercompany tax allocation is settled within 60 days after the filing of the consolidated income tax return. Taxes paid (recovered) by the Company under this agreement for 2013, 2014, 2015, 2016, and 2017 were $900,000, $0, ($1,400,000), ($9,200,000), and ($2,500,000), respectively.

In accordance with California Insurance Code (CIC) Section 1215.5(b)(4), the Company must file and obtain prior approval for all tax sharing agreements. The Company did not file a Form D filing with the CDI when the previously approved tax sharing agreement was replaced by the Agreement to File Consolidated Federal Income Tax Returns, signed on June 6, 2013. It is recommended that the Company submit the Agreement to File Consolidated Federal Income Tax Returns to the CDI for approval as required by CIC Section 1215.5(b)(4).

TERRITORY AND PLAN OF OPERATION

The Company's operations are conducted jointly with its affiliates at its home office in El Paso, Texas. As of December 31, 2017, the Company was licensed to transact automobile insurance business only in California.

The Company writes six-month policies for low limits of liability automobile insurance and low-value property damage automobile insurance through its affiliates, Vision Managing General Agency, Inc. and Fred Loya Insurance Agency, Inc. (FLI). The Company's products are produced solely by FLI through captive agency offices.

In 2017, the Company wrote $140.9 million of direct premium. Of the direct premium written, 57.2% or $80.6 million was private passenger automobile liability, and 37.4% or $52.7 million was private passenger auto physical damage.

LOSS EXPERIENCE

A review of the Company's loss experience during the examination period discloses a continued trend of net underwriting losses and net losses as follows:

Year	Net Underwriting Income or (Loss)	Net Income or (Loss)
2013	$1,451,350	$3,177,321
2014	($1,859,502)	$1,260,602
2015	($8,173,845)	($2,487,270)
2016	($31,581,872)	($17,431,759)
2017	($12,724,341)	($6,003,209)

The losses sustained by the Company were primarily driven by adverse claims frequency trends, particularly bodily injury, as a result of increased driving trends and plaintiffs' attorneys driven bodily injury claims. To help mitigate its losses, the Company reduced its new business writings in the second half of 2016 and filed for a rate revision in June of 2016, which was approved in May of 2017, effective June 1, 2017. In addition, as noted in the "COMPANY HISTORY" section of this report, on June 10, 2016, the Company received a cash capital contribution of $10,000,000 from its parent, Loya Insurance Company.

REINSURANCE

Assumed

The Company did not assume risks through reinsurance during the examination period.

Ceded

Effective March 13, 2017, the Company, along with Loya Insurance Company, Vision Insurance Company, and Young America Insurance Company (collectively as the Loya Group) entered into a property catastrophe excess of loss reinsurance agreement with various authorized and unauthorized reinsurers. Under the terms of the agreement, the reinsurers were liable for policies in force at inception, and those policies issued or renewed thereafter, with six-month terms that were classified as comprehensive coverage. The Loya Group received coverage under two layers as follows:

- First Layer: coverage up to $5,000,000 in excess of $1,500,000 per any one loss occurrence, with an aggregate limit of $6,500,000
- Second Layer: coverage up to $11,500,000 in excess of $6,500,000 per any one loss occurrence, with an aggregate limit of $18,000,000

The Loya Group paid a flat premium for the first layer and second layer of coverage. The flat premium was allocated based on the annual weighted average of premiums earned by each company within the Loya Group. The Company did not have outstanding amounts recoverable from reinsurers for the period of examination.

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.

Unclaimed Property

In accordance with California Code of Civil Procedure (CCCP) Part 3, Title 10, Chapter 7, Article 3, Sections 1530, an unclaimed property report shall be filed before November 1 of each year as of June 30 or fiscal year-end next preceding. CCCP Part 3, Title 10, Chapter 7, Article 3, Sections 1532 states, no sooner than seven months and no later than seven months and 15 days after the final date for filing the report under Section 1530 mentioned above, pay or deliver to the Controller all escheated property specified in the report.

During the review of the unclaimed property, it was noted that the Company did not submit its 2016 and 2017 Unclaimed Property Notice and Remit Reports on a timely basis to the California State Controller's Office. It is recommended that the Company submit its Unclaimed Property Notice and Remit Reports to the California State Controller's Office in a timely manner, as required by the CCCP Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532.

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, 2017. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no adjustments made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders from December 31, 2012
through December 31, 2017

Statement of Financial Condition
as of December 31, 2017

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 103,164,120	$	$ 103,164,120	
Cash and short-term investments	7,758,591		7,758,591	
Investment income due and accrued	1,169,976		1,169,976	
Premiums and agents' balances in course of collection	3,109,018		3,109,018	
Current federal and foreign income tax recoverable and interest thereon	3,665,038		3,665,038	
Net deferred tax asset	1,100,183	157,281	942,902	
Guaranty funds receivable or on deposit	297,512		297,512	
Total assets	$ 120,264,438	$ 157,281	$ 120,107,157	

Liabilities, Surplus and Other Funds			
Losses		$ 72,463,489	(1)
Loss adjustment expenses		6,235,930	(1)
Other expenses		66,114	
Unearned premiums		17,024,585	
Advance premiums		1,119,024	
Total liabilities		96,909,142	
Common capital stock	$ 2,600,040		
Gross paid-in and contributed surplus	52,400,147		
Unassigned funds (surplus)	(31,802,172)		
Surplus as regards policyholders		23,198,015	
Total liabilities, surplus and other funds		$ 120,107,157	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income		
Premiums earned		$ 139,037,259
Deductions:		
Losses incurred	$ 86,296,188	
Loss adjustment expenses incurred	18,594,101	
Other underwriting expenses incurred	39,315,602	
Aggregate write-ins for underwriting deductions	7,555,709	
Total underwriting deductions		151,761,600
Net underwriting loss		(12,724,341)
Investment Income		
Net investment income earned	$ 2,877,787	
Net realized capital gain	214,273	
Net investment gain		3,092,060
Other Income		
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		(9,632,281)
Federal and foreign income taxes incurred		(3,629,072)
Net loss		$ (6,003,209)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		$ 29,620,333
Net income	$ (6,003,209)	
Change in net unrealized capital gains	52,795	
Change in net deferred income tax	(491,129)	
Change in nonadmitted assets	19,225	
Change in surplus as regards policyholders for the year		(6,422,318)
Surplus as regards policyholders, December 31, 2017		$ 23,198,015

Reconciliation of Surplus as Regards Policyholders
from December 31, 2012 through December 31, 2017

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2012			$ 34,987,406
Net loss	$	$ 21,484,315	
Change in net unrealized capital gains			
Change in net deferred income tax		407,195	
Change in nonadmitted assets	102,119		
Surplus adjustments: Paid-in	10,000,000		
Total gains and losses	$ 10,102,119	$ 21,891,510	
Net decrease in surplus as regards policyholders			(11,789,391)
Surplus as regards policyholders, December 31, 2017			$ 23,198,015

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

As Texas was the lead state, the California Department of Insurance (CDI) relied on the Texas Department of Insurance's (TDI) Actuary to evaluate the loss and loss adjustment expense reserves as of December 31, 2017. In addition, a Senior Casualty Actuary from the CDI reviewed the work of the TDI Actuary and performed additional analysis as deemed appropriate. Based on the evaluation and analysis performed by the Actuaries, the Company's reserves as of December 31, 2017, 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 – Agreement to File Consolidated Federal Income Tax Returns (Page 4): It is recommended that the Company submit the Agreement to File Consolidated Federal Income Tax Returns for California Department of Insurance approval, as required by the California Insurance Code Section 1215.5(b)(4).

Account and Records – Information Systems Controls (Page 7): The Company should evaluate the recommendations and make appropriate changes to strengthen its information systems controls.

Accounts and Records – Unclaimed Property (Page 7): It is recommended that the Company submit its Unclaimed Property Notice and Remit Reports to the California State Controller's Office in a timely manner, as required by the California Code of Civil Procedure Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532.

Previous Report of Examination

None.

<u>ACKNOWLEDGMENT</u>

The courtesy and cooperation extended by the Company's officers during the course of this examination are hereby acknowledged.

Respectfully submitted,

_/S/____________________________

Eric Coria
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

_/S/____________________________

Sayaka Dillon, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California