

REPORT OF EXAMINATION
OF THE
SUTTER INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

Filed on May 12, 2021

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Oakland, California
May 7, 2021

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

SUTTER INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 1301 Redwood Way, Petaluma, California 94594.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2015. This examination covered the period from January 1, 2016 through December 31, 2019.

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 finding 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 a par value of \$50 per share. As of December 31, 2019, there were 65,000 shares issued and outstanding.

Dividends

The Company is authorized to issue 1,000,000 shares of a single class of common stock with a par value of \$50 per share. As of December 31, 2019, there were 60,000 shares issued and outstanding.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Dibill, Inc., which is owned and controlled by members of the Kleinecke family. Effective 2017, William B. Kleinecke and Diane Kleinecke became co-trustees of the Kleinecke Marital Trust (44.824%) replacing Roger N. Kleinecke, who was the ultimate controlling person.

The following chart depicts the Company's relationship within the holding company system at December 31, 2019 (all ownership is 100% unless otherwise indicated).

Kleinecke Marital Trust (44.824%)

William B. Kleinecke (25.043%)

Diane E. Kleinecke (25.043%

Roger N. Kleinecke* (5.090%)

Dibill, Inc. (California)

Sutter Insurance Company (California)

*On January 23, 2021, Roger N. Kleinecke passed away and shares of the Company's parent, Dibill, Inc. are included in his Estate. Under the terms of Roger N. Kleinecke's Will, shares of Dibill, Inc. will be distributed 50% each to William B. Kleinecke and Diane E. Kleinecke. The ownership and control of Dibill, Inc. remain with the Kleinecke Family.

The Company is managed by a three-member board of directors, who are elected annually. Following are members of the board and principal officers of the Company serving at December 31, 2019.

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
William B. Kleinecke Novato, California	President Sutter Insurance Company
Diane E. Kleinecke Santa Rose, California	Secretary and Treasurer Sutter Insurance Company
William A. Kleinecke Rohnert Park, California	Retired

Principal Officers

<u>Name</u>	<u>Title</u>
William B. Kleinecke	President
Diane E. Kleinecke	Secretary and Treasurer
George W. Lindh	Vice President

Management Agreements

Amended Tax Sharing Agreement: The Company and its parent, Dibill, Inc. entered into an Amended Tax Sharing Agreement dated August 26, 2013. This agreement provides

for allocation of year-end consolidated tax liability between the participants to the agreement. The year-end tax liability is computed on a consolidated basis, however, each participant's tax provision is calculated individually. The amendment was submitted to and approved by the California Department of Insurance on October 22, 2013 pursuant to California Insurance Code Section 1215.5(b)(4).

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact property and casualty insurance in the states of California, Nevada, Oregon, and Washington. All operations are conducted out of its home office in Petaluma, California.

As of December 31, 2019, the Company's California business represented 97.2% of the \$25.8 million in direct written premium. The Company primarily writes commercial auto liability and auto physical damage lines of business. Business is written through general agents.

REINSURANCE

Assumed

The Company assumes insignificant amount of reinsurance through mandatory pools in California. As of December 31, 2019, the reinsurance assumed premium was \$120,279.

Ceded

The following is a summary of principal reinsurance agreements in-force as of December 31, 2019.

Type of Contract	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Property Excess of Loss	<u>Authorized</u> General Reinsurance Corporation (100%)	\$300,000	\$800,000 excess of \$300,000 per risk, \$1.6 million all net loss

Type of Contract	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Casualty Excess of Loss	<u>Authorized</u> General Reinsurance Corporation (100%)	\$300,000	\$800,000 excess of \$300,000 per occurrence
Catastrophe – First Layer	<u>Authorized</u> General Reinsurance Corporation (100%)	\$500,000	\$1 million excess of \$500,000 per occurrence, \$2 million all loss events
Catastrophe – Second Layer	<u>Authorized</u> General Reinsurance Corporation (100%)	\$1.5 million	\$8.5 million excess of \$1.5 million per occurrence, \$17 million all loss events

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2019. The accompanying comments to the amounts in the 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, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2015
through December 31, 2019

Statement of Financial Condition
as of December 31, 2019

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 38,629,336	\$	\$ 38,629,336	
Cash, cash equivalents and short-term investments	1,342,119		1,342,119	
Investment income due and accrued	275,515		275,515	
Uncollected premiums and agents' balances in the course of collection	1,286,011	12,014	1,273,997	
Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums)	864,084		864,084	
Amount recoverable from reinsurers	1,732,308		1,732,308	
Current federal and foreign income tax recoverable and interest thereon	361,351		361,351	
Net deferred tax asset	550,777	36,822	513,955	
Aggregate write-ins for other than invested assets	74,699		74,699	
Total assets	<u>\$ 45,116,200</u>	<u>\$ 48,836</u>	<u>\$ 45,067,364</u>	
<u>Liabilities, Surplus, and Other Funds</u>				<u>Notes</u>
Losses			\$ 8,336,319	(1)
Loss adjustment expenses			1,591,288	(1)
Other expenses			168,106	
Unearned premiums			11,051,840	
Ceded reinsurance premiums payable			870,614	
Drafts outstanding			<u>64,892</u>	
Total liabilities			22,083,059	
Common capital stock		\$ 3,000,000		
Gross paid in and contributed surplus		2,800,000		
Unassigned funds (surplus)		<u>17,184,305</u>		
Surplus as regards policyholders			<u>22,984,305</u>	
Total liabilities, surplus, and other funds			<u>\$ 45,067,364</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2019

State of Income

Underwriting Income

Premium earned	\$	22,599,840
Deductions:		
Losses incurred	\$	11,300,429
Loss adjustment expenses incurred		2,078,881
Other underwriting expenses incurred		<u>8,181,782</u>
Total underwriting deductions		<u>21,561,092</u>
Net underwriting gain		1,038,748

Investment Income

Net investment income earned	\$	1,082,931
Net realized capital gains		<u>(9,130)</u>
Net investment gain		1,073,801

Other income

Finance and service charges not included in premiums	\$	<u>158,468</u>
Total other income		<u>158,468</u>
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		2,271,017
Federal and foreign income taxes incurred		<u>382,803</u>
Net income	\$	<u>1,888,214</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018	\$	21,154,682
Net income	\$	1,888,214
Change in net deferred income tax		(91,287)
Change in nonadmitted assets		<u>32,696</u>
Change in surplus as regards policyholders for the year		<u>1,829,623</u>
Surplus as regards policyholders, December 31, 2019	\$	<u>22,984,305</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2015 through December 31, 2019

Surplus as regards policyholders, December 31, 2015				\$ 20,429,995
	Gain in Surplus	Loss in Surplus		
Net income	\$ 4,945,048	\$		
Change in net deferred income tax			1,369,974	
Change in nonadmitted assets	329,236			
Dividends to stockholders			1,350,000	
Total gains and losses	\$ 5,274,284	\$ 2,719,974		
Net increase in surplus as regards policyholders				<u>2,554,310</u>
Surplus as regards policyholders, December 31, 2019				<u>\$ 22,984,305</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2019 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, 2019 were reasonable and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

Impact of Coronavirus Disease 2019 (COVID-19)

The Company has transitioned to remote working with a handful of employees continued to report to the office on staggered days and times to maintain business operations. Claim settlements has decreased in conjunction with the decrease in economic activity with gross losses paid of \$8.7 million during 2020, a decrease from the \$11.3 million average for the preceding four years. The Company has also issued rebates or credits in connection with its Artisan Contractor/Lite Truck Program under California Insurance Commissioner Lara's COVID-19 Emergency Order for insurers to refund premiums to consumers and businesses to provide financial relief.

2020 Wildfires

In 2020, the Company incurred two large losses from the Beachie Creek Fire in Oregon which impacted 2020 earnings with direct and net losses of \$1,040,000 and \$743,000, respectively. The losses did not exceed the Company's retention for catastrophe coverage.

Run-off Plan

In the latter part of summer 2020, the Company began implementing a plan to wind down its operations. All producers were notified to cease writing new and renewal business,

with the exception of one producer who is expected to write approximately \$300,000 in monthly premiums until June 2021. The Company's reinsurance coverage terms remains unchanged in 2020 to cover in-force business through expiration. Management expects claims adjustment through 2022 and is appropriately staffed to meet this objective.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Accounts and Records – Vehicle Fraud Assessment (Page 6): It was recommended that the Company develop a methodology to ensure accurate counting of vehicles subject to the California Vehicle Fraud Assessment in accordance with California Insurance Code (CIC) Section 1872.8(a) and California Code of Regulations (CCR), Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62(b). The Company has complied with this 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,

Allen Lau, CFE
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Department of Insurance
State of California

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