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REPORT OF THE MARKET CONDUCT EXAMINATION OF THE RATING AND UNDERWRITING PRACTICES, AS THEY RELATE TO LAWS OTHER THAN CIC § 790.03, OF THE

**SEAVIEW INSURANCE COMPANY
(NAIC GROUP #10004)**

AS OF SEPTEMBER 30, 2016

ADOPTED ON JULY 9, 2018

STATE OF CALIFORNIA



**CALIFORNIA DEPARTMENT OF INSURANCE
MARKET CONDUCT DIVISION
FIELD RATING AND UNDERWRITING BUREAU**

NOTICE REGARDING CONFIDENTIALITY

The provisions of Section 735.5(a), (b), and (c) of the California Insurance Code describe the Commissioner's authority and exercise of discretion in the use and/or publication of any final or preliminary examination report or other associated documents. Section 12938(b)(1) of the California Insurance Code requires the publication of certain legal documents and examination reports.

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FOREWORD

This report is written in a “report by exception” format. This report does not present a comprehensive overview of the subject insurer’s practices. The report contains only a summary of pertinent information about the lines of business examined and of the non-compliant or problematic activities or results that were discovered during the course of the examination, along with the insurers’ proposals for correcting the deficiencies.

This report contains only alleged violations of laws other than CIC § 790.03 that were alleged during the examination. While this report contains alleged violations of law that were cited by the examiner, violations of CIC § 790.03 or other laws not cited in this report may also apply to any or all of the non-compliant or problematic activities that are described herein.

All unacceptable or non-compliant activities may not have been discovered. Failure to identify, comment on, or criticize non-compliant activities in this state or other jurisdictions does not constitute acceptance of such practices.

Alleged violations identified in this report, any criticisms of practices, and the Company’s responses, if any, have not undergone a formal administrative or judicial process.

SCOPE OF THE EXAMINATION

Under the authority granted under the California Insurance Code (CIC) Part 2, Chapter 1, Article 4, Sections 730, 733, and 736 and Article 6.5, Section 790.04; and Chapter 9, Article 6, Sections 1857.2, 1857.3, and 1857.4, an examination was conducted of the rating and underwriting practices and procedures in California of the

SEAVIEW INSURANCE COMPANY (NAIC #10004, CDI #3608-7)

hereinafter, referred to as Seaview or the Company. The California Department of Insurance will be referred to as the Department.

The examination covered the rating and underwriting practices of the aforementioned Company in the surety line of business during the period from July 1, 2016 through September 30, 2016. The examination was made to discover, in general, if these and other operating procedures of the Company conform to provisions of the California Insurance Code (CIC), the California Code of Regulations (CCR), and other applicable insurance law.

To accomplish the foregoing, the examination included:

1. A review of the rates, rating plans, and underwriting rules made or adopted by the Company for use in California, including a review of records of data, statistics, or information maintained by the Company in support of or relating to such rates and rules.
2. A review of the application of such rates and rules by means of an examination of bonds and related records, including forms, to evaluate rating, underwriting, and risk selection practices.
3. A review of the Company's advertising materials, which consisted of ads in the yellow pages, television commercials, signage at Petco Park and the Company's exclusive agent's (Aladdin Bail Bonds) internet site aladdinbailbonds.com.
4. A review of the Department's market analysis results, a review of any consumer complaints and inquiries received by the Department about the Company in the year prior to the start of the examination, a review of prior

market conduct examination reports on the Company, and a review of any prior enforcement actions by the Department regarding the Company.

The examination was conducted principally at Seaview's home office in Carlsbad, California.

EXECUTIVE SUMMARY

This examination included a review of bonds that were issued, renewed, cancelled, non-renewed, or declined during the period of July 1, 2016 through September 30, 2016, referred to as the “review period,” and a review of the Company’s general practices and procedures related to rating, underwriting, advertising and marketing, and risk selection. The examiner reviewed 55 in-force bonds and 25 declined bonds. Within the scope of this report, 2 general practices were alleged as being in violation of California law. No premium has been returned to consumers as a result of this examination.

The main areas of non-compliance identified in this examination included the lack of specific guidelines for collateral requirements and lack of specific guidelines for down payment of bond premium and payment plans. Details regarding the examination results are provided in the final section of this report.

METHOD OF DOING BUSINESS

Seaview has appointed affiliate Two Jinn, Inc. (dba, Aladdin Bail Bonds) as its exclusive general agent in California to issue Court Bail Bonds and Bonds of Bail Agents on its behalf, pursuant to a program manager agreement (“PMA”) between the Company and Two Jinn. At the time of the examination, Two Jinn employed 312 licensed bail agents, each individually appointed by the Company, who undertake bail on the Company’s behalf through 44 retail branch offices located throughout California. Additionally, the Company has appointed an additional 42 licensed bail agents, who are employees of affiliate Triton Management Services, LLC working in a range of claims, recovery, and corporate functions. Seaview does not utilize Managing General Agents.

AUTHORIZED CLASSES OF BUSINESS

The Company is authorized to transact the following classes of business in California:

<u>Class No.</u>	<u>Class Of Insurance</u>
2.	Fire
3.	Marine
5.	Surety
6.	Disability
7.	Plate Glass
8.	Liability
9.	Workers' Compensation
10.	Common Carrier Liability
11.	Boiler and Machinery
12.	Burglary
13.	Credit
14.	Sprinkler
15.	Team and Vehicle
16.	Automobile
18.	Aircraft
20.	Miscellaneous

PREMIUM AND LOSS EXPERIENCE STUDY

The following table shows the California premium and loss experience for Seaview Insurance Company by line of business for calendar year 2015, based on data from the Statutory Page 14 of the Annual Statement filed with the Department. The loss ratio for each line is calculated by dividing Direct Losses Incurred by Direct Premiums Earned.

Seaview Insurance Company **California Premium and Loss Experience by Line for the Year 2015**

Line Of Coverage	Direct Premiums Written (\$)	Direct Premiums Earned (\$)	Direct Losses Incurred (\$)	Loss Ratio (%)
Surety	9,495,252	9,421,620	32,177	3%
TOTALS	\$9,495,252	\$9,421,620	\$32,177	3%

LINES OF BUSINESS REVIEWED

The Seaview Insurance Company examination included a review of the following lines of business.

Surety

Rates Filed: July 29, 2011

Rate Page Edition: August 2011

Seaview writes surety exclusively in the form of bail bonds. Seaview issues two types of bonds:

1) Court Bail Bonds: Insures that a defendant can be released from jail pending trial if the defendant puts up cash or secures a bail bond in the amount of the penal sum liability set by the state court. Bonds up to and including \$499 will be charged \$50 plus a \$15 fee. Bonds over \$499 are charged a premium rate of 10% of the bail amount plus a \$15 fee. Seaview also offers a discounted premium rate for bonds up to and including \$600 of \$50 plus a \$15 fee, or for bonds over \$600 (8% of the bail amount plus a \$15 fee) to defendants who have retained private defense counsel, who are actively enrolled in or are receiving disability or retirement benefits from a labor union, or who are active duty, retired, or are immediate family members of the United States Military Armed Forces.

2) Bond of Bail Agents: Acts as surety for appointment bonds issued to appointed bond agents in the penal sum of \$1,000. This product is an ancillary product required by the Department of Insurance, which is issued to the licensed bail bond agent employees in California of Two Jinn, Inc. Seaview issues these bonds at a cost of \$75 per agent.

DETAILS OF THE CURRENT EXAMINATION

The examination included a review of a sample of in-force bonds and declined risks to evaluate rating, underwriting, and risk selection practices. This section of the report provides summary information regarding the examination, and regarding the statutes and regulations that were cited, or to which reference was made.

SUMMARY OF POLICY SAMPLE REVIEWED

The bonds reviewed were selected at random from the Company listing of bonds issued and declined during the period of July 1, 2016 through September 30, 2016. In addition to those items detailed in the final section of this report the examiner identified a total of 0 in-force bonds which contained an error in rating that impacted premium (rating errors), 2 in-force bonds which contained an error that did not impact premium (non-rating errors), and 0 declined transaction errors. These errors were miscellaneous in nature and were individually corrected at the time of the examination. In general, rating errors identified that result in premium overcharges are corrected by endorsement, and refunds are made to the insured; errors identified that result in undercharges are marked for corrective action at the next policy renewal. The In-Force Bonds Reviewed table shows the number of bonds reviewed by line of business and company, the number of rating errors noted, if any, the dollar amount of overcharges returned to insureds as a result, and the number of non-rating errors, if any.

The Termination Transactions Reviewed table shows the number of termination transactions reviewed per line of business, by company, and by termination transaction type (cancelled, nonrenewed, or declined) and the number of policies with errors noted in the termination transaction, if any.

SEAVIEW INSURANCE COMPANY

In-Force Bonds Reviewed

Program	No. of Policies Reviewed	No. with Rating Errors	Overcharges Returned (\$)	No. with Non-Rating Errors
Surety				
Bail Bonds	65	0	0	2
Total Surety	65	0	0	2

Termination Transactions Reviewed

Program	No. of Policies Reviewed	No. with Errors
Surety		
Declined – Bail Bonds	25	0
TOTAL SURETY	25	0

SUMMARY OF RELEVANT LAWS

The table below identifies the provisions of the California Insurance Code (CIC), the California Code of Regulations (CCR), or other pertinent law for which violations were alleged or to which reference was made during the examination. A total of 3 laws were cited based on the insurer's practices as observed during the examination. Each law listed on the following table may be due to a general practice which affects many policyholders. One practice can also violate multiple laws or occur across multiple companies within an insurer group.

	Code Citation	Description of Law
1.	CIC § 1861.05(a)	Rates shall not be excessive, inadequate, or unfairly discriminatory.
2.	CCR § 2360.0(b)	"Eligibility Guidelines" are specific, objective factors, or categories of specific, objective factors, which are selected and/or defined by an insurer, and which have a substantial relationship to an insured's loss exposure.
3.	CCR § 2360.2	Insurers shall maintain objective, specific eligibility guidelines for every line of insurance offered for sale to the public.

SUMMARY OF EXAMINATION RESULTS

During the Seaview Insurance Company examination, 2 general practices were alleged to be in violation of California law within the scope of this report. In response to each of the Department's allegations of non-compliance, the Company was required to identify remedial or corrective action that was or will be taken to correct the deficiency. Regardless of actions taken or proposed by the insurer in this report, it is the insurer's obligation to ensure that compliance with California law is maintained continuously. Any non-compliant practice identified in this report may extend to other jurisdictions. The Company should address corrective action for other jurisdictions where applicable.

No premium was returned to consumers as a result of this exam. Seaview's implementation of corrective actions based on this examination will continue to be reviewed by the Field Rating and Underwriting Bureau.

Surety

1. Seaview indicated that "Aladdin Bail Bonds (the agent for Seaview) and/or Surety may require Indemnitor(s) to deposit money or other property as collateral in an amount or value which Aladdin and/or Surety determines, in their sole and absolute discretion, sufficient to protect against the risk of Bail Bond forfeiture and/or summary judgment (Collateral)." When asked to identify when collateral is collected, and how much, Seaview Management indicated "collateral is collected on the larger bonds and there is not a specific amount that is collected."

The lack of specific collateral guidelines (sufficiently detailed eligibility guidelines) is in violation of California law and could lead to the dissimilar treatment of similar risks.

CIC § 1861.05(a), CCR § 2360.0(b) and 2360.2

Summary of Insurer Response: The Company states that collateral is unrelated to the rating plan for which a particular arrestee is eligible. The collateral itself, or the decision whether to receive collateral on a particular bond, is not a "rate" or "rating plan" under CIC Section 1861.05(a) or CCR Section 2360, and would therefore not implicate those sections. This is further supported by the fact that the availability or receipt of collateral is highly individualized and rare, and is therefore not conducive to rules of the type intended by CCR Sections 2360.0 and 2360.2. As a result, the Company respectfully suggests that it does maintain appropriate eligibility

guidelines for its filed rating plans, but that the authorities cited are not applicable to the established practice of receiving collateral in some cases for the financial protection of the bail agent.

Seaview further adds that it does not believe there is any legal or public policy reason to apply rules on eligibility guidelines to collateral, which is not part of the rating plan and is not a coverage provided in the bail contract. While Seaview understands the need for customers to be treated without unfair discrimination, by definition, collateral is completely dependent on the individual circumstances of the case (including perceived risk of flight, the penal sum of the bond, and the availability of collateral). Seaview respectfully reminds the Department of the separate rules in place for the collection of collateral under CCR Sections 2087 and 2089, with which Seaview states it is in compliance. Seaview points out that the collection of collateral regulations do not speak to eligibility guidelines.

Moreover, Seaview states that its position on this issue is based on a desire to provide the maximum flexibility to its customers and believes it is to consumers' benefit that rigid guidelines do not require collateral to be taken when the situation may not otherwise call for it.

Summary of Department's Evaluation of Insurer Response: Failure to maintain guidelines related to collateral options or requirements that can be applied consistently results in an inability for similarly situated applicants to receive equal access to a bail bond. Seaview has not yet implemented specific and objective guidelines regarding the collateral requirements associated with obtaining a bail bond so that bail consumers will be evaluated for collateral requirements in a fair and consistent manner. Therefore, this is an unresolved issue that may result in administrative action.

2. Aladdin Bail Bonds provides a "Promissory Note" which allows for the payment of bail bond premium over a period of time as opposed to all at once. A down-payment is made at the time of bond issuance, and the balance is paid over a period of time (Payment Plan). The underwriting guidelines do not indicate how much of an initial down-payment is required and do not specify what the payment schedule is. Company Management indicated "down payments and payment plans are determined on a case by case basis but they try to collect between 40% - 60% upfront and the remaining balance within 12 months."

The lack of specific, sufficiently detailed, eligibility guidelines for down-payment and payment plans violates California law and could lead to the dissimilar treatment of similar risks.

CIC § 1861.05(a), CCR § 2360.0(b) and 2360.2

Summary of Insurer Response: The Company states that regardless of the applicable rating plan, bail bonds may be paid for up front, or in the form of a payment plan by submitting a down payment plus equal monthly installments. The amount of the down payment is entirely dependent on the arrestee's ability and

desire to pay. The Promissory note does not include or add any interest or additional installment fee, and therefore, Aladdin incurs the cost of the time-value of the funds as well as the payment plan's administrative expenses. As such, the payment plan is highly beneficial to customers without any detriment, provides access to bail where it may not otherwise exist, and does not affect the consumer's premium rate in any way. Seaview adds that no interest or fee is charged on any payment plan and states that all bail customers are charged and pay the exact rate applicable to their bail transaction. The Company also states that all customers are given the same option to pay up front or take advantage of a payment plan tailored to their individual ability to pay.

The Company does not agree that the cited sections are applicable to the payment plan or Promissory Note and cites *In Re Insurance Installment Fee Cases*, 211 Cal. App. 4th 1395, stating that the Insurance Code does not regulate how an insurer may collect premium.

Finally, Seaview emphasizes that the payment plan is highly beneficial to customers without any detriment, provides access to bail where it may not otherwise exist, and does not affect the consumer's premium rate in any way.

Summary of Department's Evaluation of Insurer Response: Seaview states that "all customers are given the same option to pay up front or take advantage of a payment plan tailored to their individual ability to pay", however there was no evidence in the files of a presentation of payment plan options for each customer. Absent documentation of all consumers being given the same options, the Department considers this issue unresolved. If customers are presented different options based on certain circumstances, then failure to maintain guidelines related to payment and down payment options that can be applied consistently results in an inability for similarly situated applicants to receive equal access to a bail bond. Therefore, this is an unresolved issue that may result in administrative action.