REPORT OF EXAMINATION

OF THE

KAISER PERMANENTE INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

Filed on March 17, 2016

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San Francisco, California
December 8, 2015

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

KAISER PERMANENTE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 300 Lakeside Drive, 13th Floor, Oakland, California 94612.

SCOPE OF EXAMINATION

We have performed our multi-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. 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 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.

COMPANY HISTORY

The Company was incorporated and became part of the Kaiser Foundation Health Plan, Inc. (KFHP) insurance holding company system on March 22, 1994. The Company is a California insurance company whose voting stock is owned 50% by KFHP, a California non-profit public benefit corporation, and 50% in the aggregate by the following Permanente Medical Groups: The Permanente Medical Group, Inc.; Southern California Permanente Medical Group; Hawaii Permanente Medical Group, Inc.; Colorado Permanente Medical Group, P.C.; The Southeast Permanente Medical Group, Inc.; Northwest Permanente, P.C.; Ohio Permanente Medical Group Inc.; and Mid-Atlantic States Permanente Medical Group, P.C. The Company has no subsidiaries. KFHP also owns 100% of the issued and outstanding preferred stock of the Company. The Company's shares are not publicly traded and there are no outside stockholders.

On October 1, 2013, the Ohio Permanente Medical Group, Inc. and its related health clinics were sold to Catholic Health Partners, a Company based in Cincinnati, Ohio. As a result of the sale, 33.33 shares of the Company's common stock owned by the Ohio Permanente Medical Group, Inc. were sold to the following affiliated medical groups:

- 6.66 shares were sold to Mid-Atlantic States Permanente Medical Group, P.C.
- 6.66 shares were sold to Northwest Permanente, P.C.
- 6.66 shares were sold to The Southeast Permanente Medical Group, Inc.,
- 6.66 shares were sold to Hawaii Permanente Medical Group, Inc.
- 6.66 shares were sold to Colorado Permanente Medical Group, P.C.

After these stock sales, the affiliated medical groups listed above each own roughly 40 shares of the Company's common stock, representing 4% of the Company's issued and outstanding shares.

Effective July 1, 2012, the Company ceased marketing and selling its Exclusive Provider Option California Select for Individual (CSI) Plan. The CSI plan was approved by the California Department of Insurance on September 15, 2008. The Patient Protection and Affordable Care Act (ACA) mandated that maternity coverage be included in all health insurance policies. The CSI product was intended as a lower cost plan for individuals who are interested in obtaining affordable health insurance coverage and do not want maternity coverage. The Company made the decision to cease marketing and selling new CSI contracts as of July 1, 2012 to comply with ACA. The discontinuation of the CSI plan was completed on December 31, 2013.

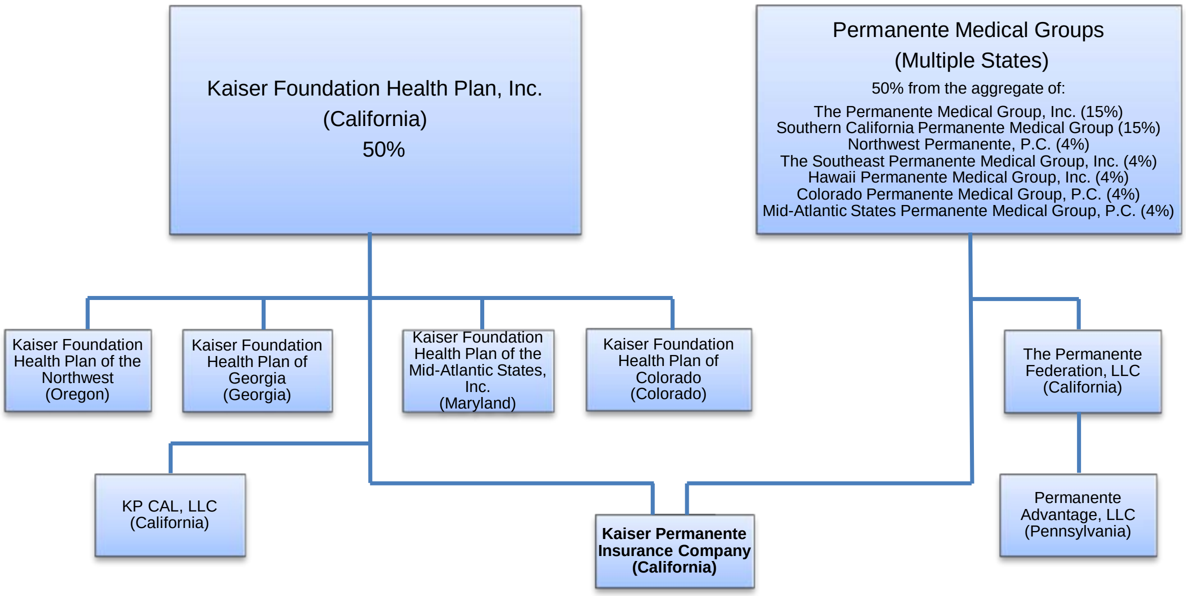
<u>Capitalization</u>

The Company is authorized to issue 1,200 shares of common stock with a par value of $50 per share and 100,000 shares of preferred stock with a par value of $80 per share. As of December 31, 2014, there were 960 shares of common stock and 50,000 shares of preferred stock issued and outstanding totaling $48,000 in common capital stock and $4,000,000 in preferred capital stock. The Company reported $16,000,000 in gross paid and contributed surplus.

The Company's common stock has voting rights but is not eligible to receive dividends. The Company's preferred stock has no voting rights and is entitled to cumulative dividends at annual rates to be determined by the Board of Directors, not to exceed 5% annually. There were no dividends declared, approved or distributed to shareholders during the examination period.

MANAGEMENT AND CONTROL

The Company is a member of an insurance company holding company system. Kaiser Foundation Health Plan, Inc. owns 50% of the Company and the remaining 50% of the Company is owned in the aggregate by the following Permanente Medical Groups: The Permanente Medical Group, Inc. (15%), Southern California Permanente Medical Group (15%), Northwest Permanente, P.C. (4%), The Southeast Permanente Medical Group, Inc. (4%), Hawaii Permanente Medical Group, Inc. (4%), Colorado Permanente Medical Group, P.C. (4%) and Mid-Atlantic States Permanente Medical Group, P.C. (4%). The following organizational chart depicts the interrelationship of the Company within the holding company system as of December 31, 2014:



The six members of the Board of Directors, who are elected annually, oversee the business and affairs of the Company. The following are members of the Board and Principal Officers of the Company serving at December 31, 2014:

Directors

Name and Location	Principal Business Affiliation
Charles P. Bevilacqua Poway, California	Senior Vice President Kaiser Foundation Health Plan, Inc.
Gerald C. Bajada Oakland, California	Vice President of Financial Services The Permanente Medical Group, Inc.
Jo Carol Hiatt, MD Los Angeles, California	Assistant Medical Director for Business Management and Chair of the National Product Counsel Southern California Permanente Medical Group
Janet A. Liang[a] Piedmont, California	President of the Hawaii Region, Kailua, Hawaii Kaiser Foundation Health Plan, Inc. and Chief Operating Officer of Northern California Region Kaiser Foundation Health Plan, Inc.
DeAnne G. Petersen[a] Gaithersburg, Maryland	Vice President of Financial Services Kaiser Foundation Health Plan of Mid-Atlantic States, Inc.
William G. Wright, M.D. Centennial, Colorado	Executive Director Colorado Permanent Medical Group

Principal Officers

Name	Title
Charles P. Bevilacqua	President and Chief Operating Officer
Thomas R. Meier	Senior Vice President and Treasurer
Mark S. Zemelman	Senior Vice President and Secretary
Arthur M. Southam, MD.	Senior Vice President
William E. Juram	Chief Financial Officer
Daniel E. McDermott	Controller
John E. Hrebec	Assistant Secretary

Name	Title
Victoria B. Zatkin	Assistant Secretary

The following changes in management occurred subsequent to the examination date:

[(a)] Effective April 24, 2015, DeAnne G. Petersen and Janet A. Liang no longer serve on the Board. Kimberly Horn and Peter S. Adrade were elected to the Board of Directors on April 24, 2015 and August 28, 2015, respectively.

Management Agreements

Administrative and Management Services Agreement: The Company and its parent, Kaiser Foundation Health Plan, Inc. (KFHP), entered into an Administrative and Management Services Agreement on November 30, 1994. Pursuant to the Agreement, KFHP provides various services to the Company including actuarial, accounting, marketing, investment, administrative, financial, legal, data processing, computer programming, human resources, and other management services. The Company agrees to pay KFHP for the actual cost of these services. The total fees incurred by the Company for services under this Agreement in 2014 were $4,525,665.

Amended and Restated Joint Marketing and Administration Agreement: The Company and its parent, KFHP, entered into an Amended and Restated Joint Marketing and Administration Agreement, effective January 1, 2009. Pursuant to the Agreement, the Company and KFHP jointly offer the Company’s California Select for Individual (CSI) indemnity product in conjunction with KFHP's health maintenance organization products. The Company’s CSI product is an individually underwritten group plan providing exclusive provider benefits and services that will utilize KFHP's provider network. In addition to the joint marketing, KFHP will provide administrative services, provider network services and integrated care management services to the Company in connection with the product. The administrative services include: underwriting and pricing, producer's commissions computation and payment, appointment and cancellation of agents or brokers, issuance and cancellation of policies and endorsements, collection and handling of premiums, advertising, utilization management, insured appeals and grievances, customer service, and other services, such as joint marketing, network management, and integrated care management. This Agreement was approved by the California Department of Insurance (CDI) on August 23, 2010. When the CSI product was discontinued on December 31, 2013, KFHP paid the Company to settle all liabilities as a result of running off the product. The total fees received by the Company in 2014 for services rendered under this Agreement were $1,660,166.

Amended and Restated Administrative Services Only (ASO) Services Agreement: The Company and its parent, KFHP, entered into an Amended and Restated Administrative Services Only (ASO) Services Agreement, effective July 1, 2009. Pursuant to the Agreement, the Company provides services related to self-funded health benefit plans covering certain employees of KFHP and its affiliates, Kaiser Foundation Health Plan of Georgia, Inc., Kaiser Foundation Hospitals, and KP OnCall, LLC. This Agreement superseded the 2008 ASO Services Agreement filed by the Company which covered only services provided to employees of Kaiser Foundation Health Plan of Georgia, Inc. The 2009 ASO Services Agreement was approved by the CDI on June 29, 2009. The total fees received by the Company for services under this Agreement in 2014 were $78,349,148.

Joint Administration Agreements: The Company and its parent, KFHP, entered into a Joint Administration Agreement effective February 3, 1995. The Agreement, which includes the Northern California region, pairs KFHP’s prepaid health care programs with the Company's indemnity products for the purposes of joint marketing and administration. Pursuant to the Agreement, both entities’ health benefit programs are combined to create various health care products. Similar agreements are in place between the Company and KFHP's regions in Southern California, effective August 1,1996; and Hawaii, effective January 1, 1996; and its affiliated health plans in Colorado, effective October 4, 1996; Georgia, effective November 1, 1996; Mid-Atlantic States (Maryland, Virginia, and District of Columbia), effective June 1, 1996; and Ohio, effective May 6, 2002. An agreement between the Company and the affiliated health plan of Oregon was not required because Oregon allows health plans to issue indemnity products. In these Agreements, the regions and affiliated health plans agree to provide the following services to the Company: marketing, advertising, enrollment, underwriting, pricing, billing, utilization management, collections, and claims adjudication in some circumstances.

The Company began phasing out some of these agreements by entering into Joint Marketing and Administrative Services Agreements with the following affiliated health plans: Kaiser Foundation Health Plan, Inc.; Kaiser Foundation Health Plan of Colorado; Kaiser Foundation Health Plan of Georgia, Inc., Kaiser Foundation Health Plan of Ohio; and Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc.

Joint Marketing and Administrative Services Agreements: The Company and its affiliate, Kaiser Foundation Health Plan of Colorado (KFHP-CO), entered into a Joint Marketing and Administrative Services Agreement, effective October 31, 2010. The Agreement pairs KFHP-CO's prepaid health care programs with the Company's indemnity products for purposes of joint marketing and administration. Pursuant to the Agreement, KFHP-CO will provide certain administrative services related to the indemnity products of the Company that are offered in Colorado. These administrative services include, but are not limited to: product development, rating and underwriting, sales and marketing, claims adjudication, member services, utilization management, and premium billing and collection. This Agreement was approved by the CDI on October 27, 2010.

After the Agreement was approved, the Company submitted and the CDI approved four additional Joint Marketing and Administrative Services Agreements. The approved Agreements were with the following affiliated health plans: Kaiser Foundation Health Plan of Georgia, Inc., effective February 1, 2011; Kaiser Foundation Health Plan of Ohio, effective June 1, 2011; Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc., effective March 14, 2012; and Kaiser Foundation Health Plan, Inc., covering its Northern California, Southern California and Hawaii regions, effective April 1, 2012. The CDI approved the Agreements on January 7, 2011, May 18, 2011, June 13, 2011 and April 11, 2012, respectively. The total fees incurred by the Company for services rendered under these Agreements in 2014 were $2,786,605.

It was noted that the Agreement approved by the CDI on April 11, 2012 between the Company and Kaiser Foundation Health Plan, Inc. was not executed and therefore deemed expired. As a condition to the Agreement's approval, the Company was required to submit an executed copy to the CDI by May 11, 2012. However, the Company failed to submit an executed copy by the deadline rendering the Agreement invalid. It is recommended that the Company refile the Agreement with the CDI in accordance with California Insurance Code (CIC) Section 1215.5(b)(4).

Medical Director Agreement: The Company and its affiliate, The Permanente Federation, LLC (TPF), entered into a Medical Director Agreement, effective July 1, 2008. Under the terms of the Agreement, TPF will provide the Company with physician medical director services. The medical director will direct, oversee, and coordinate medical quality; appeals and grievances; and utilization management related strategies, goals and key activities for the Company. The Agreement was approved by the CDI on December 26, 2008. The total fees incurred by the Company in 2014 for services under this Agreement were $111,541.

Self-Funded Administrative Services Agreements: The Company and its parent, KFHP, entered into Self-Funded Administrative Services Agreements with KFHP and the following affiliated health plans: Kaiser Foundation Health Plan of Georgia, Inc., Kaiser Foundation Health Plan of Colorado, Kaiser Foundation Health Plan of the Northwest, and Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc. Under the terms of the Agreements, the Company is to administer the self-funded plans using the respective health plan's administrative services. These administrative services include marketing, provider network administration, integrated medical management and other services in support of the Company's administration of self-funded health benefit plans.

The Company entered into this Agreement with KFHP on February 19, 2008 followed by Kaiser Foundation Health Plan of Georgia, Inc. on July 30, 2008; Kaiser Foundation Health Plan of Colorado on July 1, 2008; Kaiser Foundation Health Plan of the Northwest on February 19, 2008; and Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc. on August 21, 2012. The Company was granted exemption from filing these Agreements pursuant to CIC Section 1215.5(i). The total fees incurred by the Company in 2014 for services rendered under these Agreements were $149,742,438.

Service Agreement, Permanente Advantage LLC: The Company and its affiliate, Permanente Advantage, LLC (PA), entered into a Service Agreement, effective January 1, 2010. Pursuant to the Service Agreement, PA provides services to the Company relating to healthcare utilization management, case management, revision of pre-certification requirements and related activities of the health insurance coverage and self-funded plans offered by the Company in the following three regions: Northern California, Southern California, and Hawaii; and to the affiliated health plans in Colorado, Georgia, Ohio, and Mid-Atlantic States (Virginia, Maryland and Washington, D.C.). The Agreement was approved by the CDI on December 2, 2009. The total fees incurred by the Company in 2014 for services under this Agreement were $2,876,137.

Subsequently, on August 28, 2015, the Company made two filings with the CDI to amend its Administrative and Management Services Agreement, and Joint Marketing and Administrative Services Agreements with its various affiliates to include a clause that requires all intercompany transactions settle within thirty days, but no later than ninety days. Balances not settled within ninety days will incur interest. The two amended Agreements were approved by the CDI on September 28, 2015.

TERRITORY AND PLAN OF OPERATION

The Company jointly markets its indemnity health and dental products alongside the prepaid health care plans of Kaiser Foundation Health Plan, Inc. (KFHP). The Company uses the same sales force employed by KFHP. The Company offers point-of-service (POS); preferred provider organization option (PPO); out-of-area health (OOA); exclusive provider organization product (EPO); and dental coverage. The POS product is a single benefit product with three tiers: medical services through prepaid group coverage to be provided by KFHP, medical services through a national contracted provider network or medical services through any licensed non-participating provider. The PPO option offers the members within an employer group referral-free access to a private healthcare system network of participating providers or any other licensed provider nationwide. The Company's OOA product consists of indemnity health care coverage to subscribers who do not live in KFHP's service area, but live in the United States. The Company's EPO product is an individually underwritten group plan providing exclusive benefits and services that utilizes KFHP's provider network. KFHP providers bill the Company on a fee-for-service basis for medical and surgical services provided.

The Company is also an administrator for Kaiser Permanente's Self-Funded Program. Each self-funded plan, through its plan sponsor, will contract with the Company to provide administrative services only for the self-funded plan. The Company contracts with Harrington Health, a Third Party Administrator, to provide certain administrative services for Kaiser Permanente's Self-Funded Program such as claims processing, eligibility information and benefits.

The Company also offers specific excess of loss and aggregate excess of loss insurance for employers with self-funded employee health benefit plans. Under specific excess of loss insurance, the employer is insured against large individual claims in excess of the specified deductible. Under aggregate excess of loss insurance, the employer is insured against excessive health care costs for its entire covered employee pool. The excess of loss insurance is only offered to plan sponsors who are a part of Kaiser Permanente's Self-Funded Program and not available to outside self-funded plan sponsors.

The Company is licensed to write business in the following 12 states and the District of Columbia:

California	Kansas	Oregon
Colorado	Maryland	South Carolina
Georgia	Missouri	Virginia
Hawaii	Ohio	Washington

For the year ending December 31, 2014, the Company wrote in California, Colorado, Georgia, Hawaii, Maryland, Ohio, Virginia and District of Columbia with the majority of direct premium (53.3%) written in California.

The Company's largest lines of business are group indemnity health insurance and dental (group and individual) with direct premiums written of $100.1 million and $38.7 million respectively, at December 31, 2014.

REINSURANCE

Assumed

The Company did not assume any reinsurance during the examination period.

Ceded

The Company did not cede any reinsurance during the examination period.

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 evaluated the recommendations and agreed to make all the appropriate changes to strengthen its information system controls.

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. No adjustments were made to the statutory financial statements filed by the Company.

Statement of Financial Condition as of December 31, 2014

Statement of Revenue and Expenses for the Year Ended December 31, 2014

Reconciliation of Capital and Surplus 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	$ 103,779,246	$	$ 103,779,246	
Cash and short-term investments	42,170,564		42,170,564	
Receivable for securities	21,989	645	21,344	
Investment income due and accrued	421,061		421,061	
Uncollected premium and agents' balances in course of collection	10,562,261		10,562,261	
Amounts receivable relating to uninsured plans	11,134,044	74,530	11,059,514	
Net deferred tax asset	1,598,999		1,598,999	
Aggregate write-ins for other than invested assets	2,748,610	2,748,588	22	
Total assets	$ 172,436,774	$ 2,823,763	$ 169,613,011	

Liabilities, Surplus and Other Funds

Claims unpaid		$ 20,121,087	(1)
Accrued medical incentive pool and bonus amounts		1,473,876	
Unpaid claims adjustment expenses		2,459,638	(1)
Premiums received in advance		1,257	
General expenses due and accrued		8,511,861	
Current federal and foreign income tax payable And interest thereon		1,586,264	
Amounts due to parent, subsidiaries and affiliates		20,952,344	
Payable for securities		6,785	
Liability for amounts held under uninsured plans		19,401,116	
Aggregate write-ins for other liabilities		276,381	
Total liabilities		74,790,609	
Aggregate write-in for other-than-special surplus funds		$ 3,000,000	(2)
Common capital stock	$ 48,000		
Preferred capital stock	4,000,000		
Gross paid-in and contributed surplus	16,000,000		
Unassigned funds (surplus)	71,774,402		
Surplus as regards policyholders		94,822,402	
Total liabilities, surplus and other funds		$ 169,613,011	

Statement of Revenue and Expenses
for the Year Ended December 31, 2014

Underwriting Income		
Net premium income		$ 141,233,371
Deductions:		
Hospital/medical benefits	$ 61,032,150	
Other professional services	21,103,049	
Emergency room and out-of-area	2,767,288	
Prescription drugs	18,476,385	
Incentive pool, withhold adjustments and bonus amounts	1,067,352	
Claims adjustment expenses	11,715,924	
General administrative expenses	9,869,995	
Total underwriting deductions		126,032,143
Net underwriting gain		$ 15,201,228
Investment Income		
Net investment income earned	$ 1,218,244	
Net realized capital gains/(loss)	(58,076)	
Net investment gain		1,160,168
Other Income		
Net (loss) from agents' or premium balances charged off	(2,560,495)	
Aggregate write-ins for other income and expenses	$ 9,065	
Total other income		(2,551,430)
Net income after capital gains tax and before all other federal and foreign income taxes		13,809,966
Federal and foreign income taxes incurred		5,654,695
Net income		$ 8,155,271

Capital and Surplus Account

Capital and Surplus, December 31, 2013		$ 88,540,516
Net income	$ 8,155,271	
Change in net deferred income tax	460,062	
Change in nonadmitted assets	(2,333,447)	
Net change in capital and surplus		6,281,886
Capital and Surplus, December 31, 2014		$ 94,822,402

Reconciliation of Capital and Surplus
from December 31, 2010 through December 31, 2014

	Gain in Surplus	Loss in Surplus	
Capital and surplus, December 31, 2010			$ 65,892,375
Net income	$ 26,757,313	$	
Change in net deferred income tax	1,912,427		
Change in nonadmitted assets	260,287		
Total gains and losses	$ 28,930,027	$	
Net increase in surplus			28,930,027
Capital and surplus, December 31, 2014			$ 94,822,402

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Claims Unpaid and Unpaid Claims Adjustment Expenses

Based on an analysis by a Health Actuary from the California Department of Insurance, the Company's claims unpaid and unpaid claims adjustment expense reserves as of December 31, 2014 were found to be reasonably stated and have been accepted for purposes of this examination.

(2) Health Insurance Providers Fee

Effective January 1, 2014, Section 9010 of the Patient Protection and Affordable Care Act imposes an annual fee on each covered entity engaged in the business of providing health insurance for United States health risks. The annual fee for each covered entity is based on the ratio of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any United States health risk that is written during the preceding calendar year. The Company's estimated portion of the Annual Health Insurance Providers Fee to be payable on September 30, 2015 is $3,000,000. This amount is reflected as an aggregate write-in for other-than-special surplus funds.

SUBSEQUENT EVENTS

On June 1, 2015, the Company indicated that it would not file its Settlement of Intercompany Transactions Agreement as recommended in the 2010 Report of Examination. The Company would instead amend its Administrative and Management Services Agreement, and Joint Marketing and Administrative Services Agreements with various affiliates to include a clause that requires all intercompany transactions settle within thirty days, but no later than ninety days. Balances not settled within ninety days will incur interest. The two amended agreements were approved by the California Department of Insurance (CDI) on September 28, 2015.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control - Management Agreements (Page 9): It was noted that the Joint Marketing and Administrative Services Agreement (Agreement) between the Company and Kaiser Foundation Health Plan, Inc. was not executed and therefore deemed expired. As a result, the Company is required to refile the Agreement with the California Department of Insurance in accordance with California Insurance Code (CIC) Section 1215.5(b)(4).

Accounts and Records – Information Systems Controls (Page 13): As a result of the current review of the Company's information systems controls, additional recommendations for improving these controls were presented to the Company. The Company evaluated the recommendations and agreed to make all the appropriate changes to strengthen its information system controls.

Previous Report of Examination

Management and Control - Settlement of Intercompany Transactions Agreement (Page 8): The Company had entered into a Settlement of Intercompany Transactions Agreement with various affiliates, effective December 31, 2007. Under the terms of the Agreement, each party is required to use its best efforts to settle all of its receivables within thirty days, but no later than ninety days. As noted in the previous examination, it is again recommended that the Company file this Agreement with the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5.

On June 1, 2015, the Company indicated that it would not file its Settlement of Intercompany Transactions (SITA) Agreement with its various affiliates as recommended in the 2010 Report of Examination. The Company would instead make two filings with the CDI to amend its Administrative and Management Services Agreement, and Joint Marketing and Administrative Services Agreements with its various affiliates to include a clause that requires all intercompany transactions settle within thirty days, but no later than ninety days. Balances not settled within ninety days will incur interest. The two amended Agreements were approved by the CDI on September 28, 2015 and the Company is no longer required to file the SITA Agreement as recommended within the 2010 Report of Examination.

Accounts and Records - Information System Controls (Page 11): A review was made of the Company's general controls over its information systems. As a result of this review, significant risk findings were noted in logical access security and program changes. These findings were presented to the Company along with recommendations to strengthen its controls. The Company has made all the recommended changes to strengthen its information systems controls as a result of the findings presented during the last examination.

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/________________________

Donavan Han, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

__/S/________________________

Kyo Chu, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California