

REPORT OF EXAMINATION  
OF THE  
DANIELSON NATIONAL  
INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2014

Filed on May 16, 2016

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Los Angeles, California  
March 1, 2016

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

**DANIELSON NATIONAL INSURANCE COMPANY**

(hereinafter also referred to as the Company) at its home office located at 444 West Ocean Boulevard, 10<sup>th</sup> Floor, Long Beach, California 90802.

**SCOPE OF EXAMINATION**

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2011. This examination covered the period from January 1, 2012 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 included 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 includes 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 examination was conducted concurrently with the examination of the Company's immediate parent, National American Insurance Company of California.

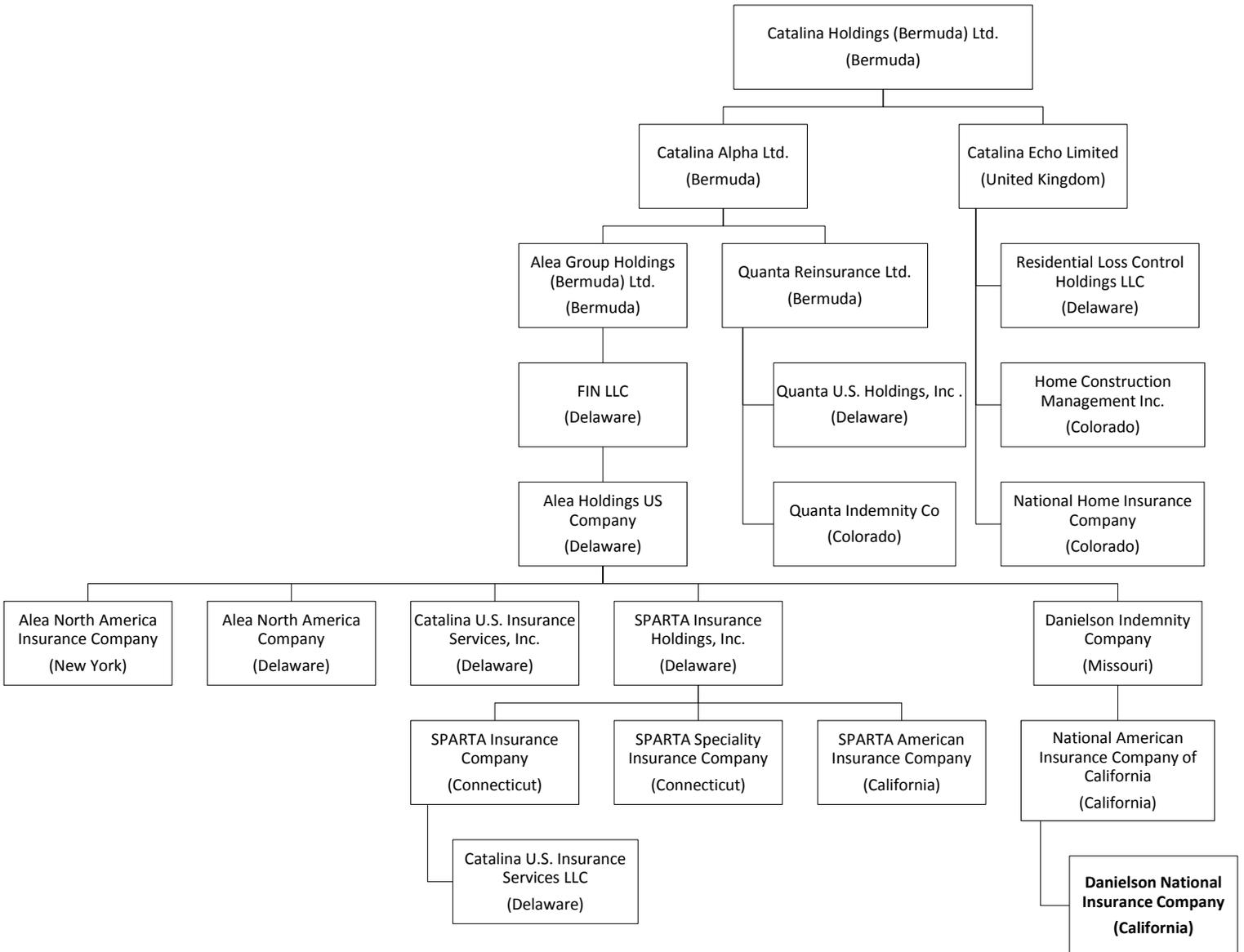
### COMPANY HISTORY

The Company was incorporated in the state of California on October 28, 1974. All outstanding shares of the Company are owned by its immediate parent, National American Insurance Company of California (NAICC), a California insurance company.

On November 15, 2014, Catalina Holdings (Bermuda) Ltd. (CHBL) purchased NAICC's direct parent, Danielson Indemnity Company, from Covanta Holding Corporation. CHBL is a Bermuda registered and domiciled holding company that specializes in acquiring and consolidating property and casualty insurance and reinsurance companies, and portfolios in run-off.

## MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Catalina Holdings (Bermuda) Ltd. is the ultimate controlling entity. Following is an abridged organizational chart as of December 31, 2014. All ownership is 100%.



The four 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, 2014:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Martha G. Bannerman New York, New York	General Counsel Quanta U.S. Holdings, Inc.
Gerald S. Haase New York, New York	President and Chief Executive Officer National American Insurance Company of California Danielson National Insurance Company
Peter D. Johnson New York, New York	Chief Operating Officer Catalina Holdings (Bermuda), Ltd.
Dawne E. Ware Hartford, Connecticut	President Catalina U.S. Insurance Services, LLC

Principal Officers

<u>Name</u>	<u>Title</u>
Gerald S. Haase	President and Chief Executive Officer
Susan S. Clafin	Secretary
Donald G. Hein <sup>(a)</sup>	Chief Financial Officer
D. Campbell McBeath	Treasurer

<sup>(a)</sup> Subsequent to the examination date, Tracey Price was elected Chief Financial Officer and replaced Donald G. Hein, effective October 29, 2015.

Management Agreements

Amended and Restated Executive, Professional, Administrative, and Loss Adjustment Service Agreement: The Company and its parent, National American Insurance Company of California (NAICC) are parties to an Amended and Restated Executive, Professional, Administrative Service, and Loss Adjustment Service Agreement, with an

effective date of January 1, 2014. Under the agreement, NAICC provides the following services to the Company: executive, information system support, financial, accounting, marketing, underwriting, human resources, legal, office, allocated and unallocated loss adjustment expenses, and other administrative services. This agreement was amended to reflect costs to support the run-off of claims and administration, and was approved by the California Department of Insurance (CDI) on December 20, 2013. The amounts paid under the terms of this agreement during the examination period were immaterial.

Administrative Service Agreement: Effective November 14, 2014, the Company entered into an Administrative Service Agreement with its immediate parent, NAICC, and the following U.S. affiliates:

- Alea Holdings US Company (AHUSCO)
- Alea North America Company (ANAC)
- Alea North America Insurance Company (ANAIC)
- Catalina U.S. Insurance Services Inc. (Catalina U.S.)
- Catalina U.S. Insurance Services LLC (CUSIS)
- Danielson Indemnity Company (DIND)
- Home Construction Management Inc.
- National Home Insurance Company
- Residential Loss Control Holdings LLC
- SPARTA America Insurance Company (SAIC)
- SPARTA Insurance Company (SIC)
- SPARTA Insurance Holdings, Inc. (SIH)
- SPARTA Specialty Insurance Company (SSIC)
- Quanta Indemnity Company
- Quanta U.S. Holdings Inc.

The purpose of the agreement is to allow affiliates to provide and receive services from each other in order to coordinate and integrate administrative functions. The agreement was approved by the CDI on December 29, 2014. The amounts paid and received under the terms of this agreement during the examination period were immaterial.

Subsequent to the examination date, and effective March 11, 2015, this agreement was amended and re-named as the First Amended Administrative Service Agreement. The amendment covered minor and non-substantive changes. Subsequent to the examination period, the amended agreement was submitted to the CDI.

Consolidated Tax Allocation Agreement: The Company, its parent, its affiliates, and its former ultimate parent, Covanta Holding Corporation (CHC), were parties to a Consolidated Tax Allocation Agreement that was previously updated on February 22, 2010 after the Company's sister company, Danielson Insurance Company, merged with, and into the parent company, NAICC. On June 18, 2012, the CDI issued its notice of non-disapproval of the agreement. This agreement was terminated in November 2014 upon the acquisition of the Company's parent, NAICC, by Catalina Holdings (Bermuda) Ltd. Prior to the termination of the agreement, the Company paid federal income taxes of \$0, \$1,428, and \$171, for 2012, 2013, and 2014, respectively.

Tax Allocation Agreement: Effective November 14, 2014, the Company entered into a Tax Allocation Agreement with AHUSCO, and AHUSCO's subsidiaries: ANAC, ANAIC, SIC, SIH, SSIC, SAIC, DIND, Catalina US, CUSIS, and NAICC. Under this agreement, AHUSCO acts as an agent for the affiliates with respect to all matters related to consolidated tax returns and refund claims. Allocation of tax liability of each company shall not exceed the amount that it would have incurred as a separate filing corporation. The CDI issued its notice of non-disapproval of the agreement on December 15, 2014.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2014, the Company was licensed to transact multiple lines of property and casualty insurance in California, Idaho, Kansas, and Oregon.

In 2012, the Company's board of directors made the decision to place all of its lines of business into run-off. The Company ceased accepting new policy applications except as required by California law for certain automobile policies.

## 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)	Company Surplus
2012	(\$706,000)	(\$213,000)	\$6,076,000
2013	(\$661,000)	(\$541,000)	\$5,620,000
2014	(\$175,000)	\$103,000	\$5,586,000
2015*	(\$100,000)	(\$ 19,000)	\$5,578,000

\* Through September 30, 2015

Although the underwriting results of the Company during past examination periods were primarily attributable to adverse development in the legacy workers' compensation and other liabilities lines, the current examination period activity is directly related to the Company's decision to run-off all lines of business in 2012, thereby reducing the Company's ability to offset any underwriting losses with premiums earned. As noted in the "COMPANY HISTORY" section of this report, on November 15, 2014, Catalina Holdings (Bermuda) Ltd. (CHBL) purchased Danielson Indemnity Company, National American Insurance Company's direct parent, from Covanta Holding Corporation. CHBL specializes in acquiring and consolidating Property and Casualty insurance and reinsurance companies, and portfolios in run-off.

## REINSURANCE

### Intercompany Pooling Reinsurance Agreement

Since 1993, the Company and its parent, National American Insurance Company of California (NAICC), participate in an Intercompany Pooling and Reinsurance Agreement. Under the terms of the agreement, all business net of non-affiliated reinsurance is combined. The Company has a 50% participation interest in the pool, with NAICC retaining the remaining 50% interest.

### Assumed

The Company did not have any material assumed reinsurance contract in-force during the examination period.

### Ceded

The Company did not have any ceded reinsurance contract in-force during the examination period.

## 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 to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

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, 2011 through December 31, 2014

Statement of Financial Condition  
as of December 31, 2014

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 5,182,681	\$	\$ 5,182,681	
Cash and short-term investments	4,000,390		4,000,390	
Investment income due and accrued	26,388		26,388	
Premiums and agents' balances in course of collection	2,173	673	1,500	
Funds held by or deposited with reinsured companies	305,886		305,886	
Aggregate write-ins for other than invested assets	<u>10,342</u>	<u>10,342</u>		
 Total assets	 <u>\$ 9,527,860</u>	 <u>\$ 11,015</u>	 <u>\$ 9,516,845</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 959,006	(1)
Reinsurance payable on paid loss and loss adjustment expenses			(366)	
Commissions payable, contingent commissions and other similar charges			10,737	
Other expenses			200	
Taxes, licenses and fees			(14,426)	
Current federal and foreign income taxes			13,782	
Unearned premiums			21,633	
Amounts withheld or retained by company for account of others			2,780,112	
Payable to parent, subsidiaries and affiliates			159,636	
Aggregate write-ins for liabilities			<u>66</u>	
 Total liabilities			 3,930,380	
Common capital stock		\$ 2,600,000		
Gross paid-in and contributed surplus		4,520,556		
Unassigned funds (surplus)		<u>(1,534,091)</u>		
Surplus as regards policyholders			<u>5,586,465</u>	
 Total liabilities, surplus and other funds			 <u>\$ 9,516,845</u>	

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

Statement of Income

Underwriting Income

Premiums earned		\$ 543,409
Deductions:		
Losses and loss expenses incurred	\$ 500,873	
Other underwriting expenses incurred	<u>217,697</u>	
Total underwriting deductions		<u>718,570</u>
Net underwriting loss		(175,161)

Investment Income

Net investment income earned	\$ 139,115	
Net realized capital gain	<u>103,579</u>	
Net investment gain		242,694

Other Income

Finance and service charges not included in premiums	\$ 21,502	
Aggregate write-ins for miscellaneous loss	<u>(20,870)</u>	
Total other income		<u>632</u>
Net income after capital gains tax and before federal and foreign income taxes		68,165
Federal and foreign income taxes incurred		<u>(34,789)</u>
Net income		<u>\$ 102,954</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2013		\$ 5,620,270
Net income	\$ 102,954	
Change in net unrealized capital losses	(119,406)	
Change in net deferred income tax	(35,166,641)	
Change in nonadmitted assets	35,128,611	
Change in provision for reinsurance	20,679	
Aggregate write-ins for losses in surplus	<u>(1)</u>	
Change in surplus as regards policyholders for the year		<u>(33,804)</u>
Surplus as regards policyholders, December 31, 2014		<u>\$ 5,586,466</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2011 through December 31, 2014

Surplus as regards policyholders, December 31, 2011				\$ 6,592,963
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net loss	\$	\$ 651,382		
Net unrealized capital gains		315,626		
Change in net deferred income tax		42,989,841		
Change in nonadmitted assets	<u>42,950,352</u>			
Total gains and losses	<u>\$ 42,950,352</u>	<u>\$ 43,956,849</u>		
Net decrease in surplus as regards policyholders				<u>(1,006,497)</u>
Surplus as regards policyholders, December 31, 2014				<u>\$ 5,586,466</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

A Senior Casualty Actuary from the California Department of Insurance reviewed the report of the Company's Appointed Actuary and concurred that carried net loss and loss adjustment expense reserves of the Company were reasonably stated as of December 31, 2014, based upon information available at that time.

## SUBSEQUENT EVENTS

Effective March 1, 2015, Danielson Indemnity Company, the direct parent of National American Insurance Company of California, was merged into Alea Holdings US Company, an intermediate holding company which is ultimately controlled by Catalina Holdings (Bermuda) Ltd.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

None.

### Previous Report of Examination

Corporate Records (Page 6): It was recommended that the Company implement procedures to ensure future compliance with California Insurance Code Section 735. This recommendation applied to a deficiency noted with the Company's former board of directors, under its prior ownership group. Since the Company was acquired by a new ownership group during the current examination period and a new board in in place, this no longer applies.

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/\_\_\_\_\_

Sayaka T. Dillon, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California

\_/S/\_\_\_\_\_

Edward W. Aros, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California