

REPORT OF EXAMINATION  
OF THE  
NATIONAL AMERICAN INSURANCE  
COMPANY OF CALIFORNIA  
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

NATIONAL AMERICAN INSURANCE COMPANY OF CALIFORNIA

(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 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 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 wholly-owned subsidiary, Danielson National Insurance Company.

### COMPANY HISTORY

The Company was incorporated in the state of California on October 10, 1966, and wholly owns its subsidiary, Danielson National Insurance Company (DNIC). All outstanding shares of the Company were owned by its parent, Danielson Indemnity Company (DIND), a Missouri holding company.

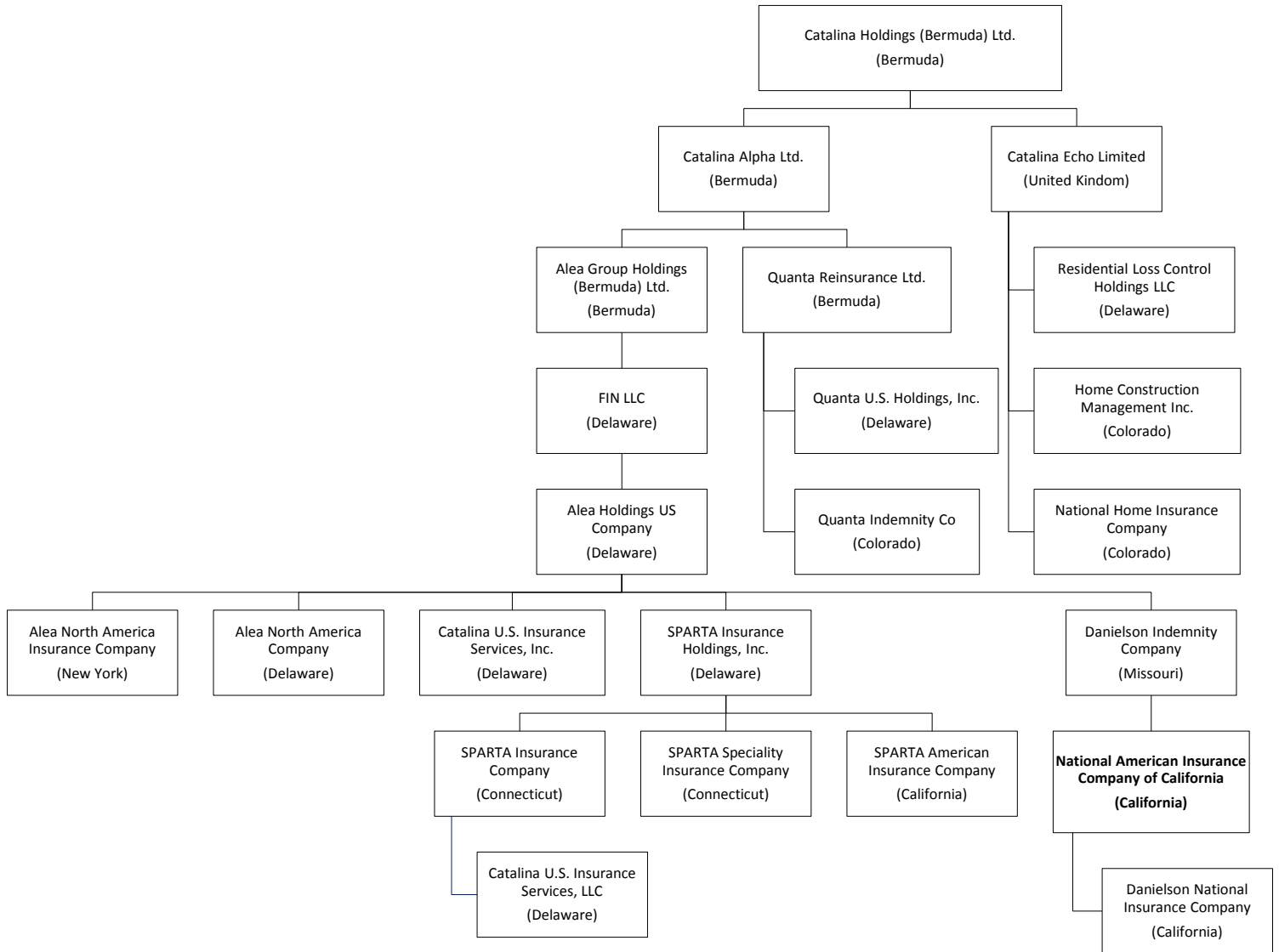
On July 25, 2012, in order to provide long-term financial stability to the Company and DNIC, the former ultimate parent, Covanta Holding Corporation (CHC), made a \$20 million capital contribution to Covanta Insurance Holdings Corporation (CIHC). On the same date, CIHC made a capital contribution of \$9 million to the Company through DIND and entered into a five-year Risk Based Capital (RBC) Support and Capital Contribution Agreement with the Company, DIND, and DNIC. Under the terms of the agreement, the remaining \$11 million would be made available for future capital

contributions in the event the RBC level at the Company and/or DNIC fell below a specified threshold level within the following five years.

On November 15, 2014, Catalina Holdings (Bermuda) Ltd. (CHBL) purchased DIND, the Company's direct parent, 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. The aforementioned five-year RBC Support and Capital Contribution Agreement was terminated upon the acquisition by CHBL.

### 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. Claffin	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 subsidiary, Danielson National Insurance Company (DNIC), are parties to an Amended and Restated Executive, Professional, Administrative, and Loss Adjustment Service Agreement, with an effective date of January 1, 2014. Under the agreement, the Company provides the following services to DNIC: 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 received 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 subsidiary, DNIC, 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 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 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. On June 18, 2012, the CDI issued its notice of non-disapproval of the agreement. This tax agreement was terminated in November 2014 upon the acquisition of the Company by Catalina Holdings (Bermuda) Ltd. Prior to the termination of this agreement, the Company paid federal income taxes of \$0, \$3,345, and \$1,301, 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, DNIC, Catalina US, and CUSIS. Under this Tax Allocation 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 the following states:

Arizona	Kansas	Oregon
California	Missouri	South Dakota
Florida	Montana	Texas
Hawaii	Nebraska	Utah
Idaho	Nevada	Washington

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.

In 2012, the Company voluntarily withdrew licenses from the states of Indiana and Wisconsin.

### 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	(\$8,152,000)	(\$7,098,000)	\$17,326,000
2013	(\$1,399,000)	(\$ 658,000)	\$17,436,000
2014	(\$2,235,000)	(\$ 617,000)	\$15,990,000
2015*	(\$ 667,000)	(\$ 577,000)	\$15,069,000

\* 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, the 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 wholly-owned subsidiary, Danielson National Insurance Company (DNIC), participate in an Intercompany Pooling and Reinsurance Agreement. Under the terms of the agreement, all business net of non-affiliated reinsurance is combined, and DNIC has a 50% participation interest in the pool, with the Company retaining the remaining 50% interest.

### Assumed

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

### Ceded

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

Effective June 10, 1987, the Company entered into an excess of loss reinsurance arrangement with General Reinsurance Corporation (General Re) , an authorized U.S. unaffiliated reinsurer, for casualty and workers' compensation policies. In 2001, the Company ceased writing its workers' compensation line of business. As of the examination date, under this excess of loss arrangement, the Company recorded a total of \$13.1 million in reinsurance recoverable from General Re, representing 82.2% of its policyholders surplus.

## ACCOUNTS AND RECORDS

### Annual Statement Exhibit

A review of the Company's 2014 Annual Statement Exhibit for Underwriting and Investment Exhibit, Part 2A – Unpaid Losses and Loss Adjustment Expenses, noted that the Company improperly reported Incurred But Not Reported (IBNR) balances in direct and assumed columns. It is recommended that the Company properly disclose IBNR balances with the corresponding columns in the Underwriting and Investment Exhibit, Part 2A, in accordance with the Annual Statement Instructions prescribed by the National Association of Insurance Commissioners.

## 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	\$ 25,532,154	\$	\$ 25,532,154	
Common stocks	5,586,466		5,586,466	
Cash and short-term investments	5,913,912		5,913,912	
Other invested assets	709,586		709,586	
Investment income due and accrued	224,465		224,465	
Premiums and agents' balances in course of collection	14,858	6,200	8,658	
Amount recoverable from reinsurers	882,978		882,978	
Funds held by or deposited with reinsured companies	154,329		154,329	
Other amounts receivable under reinsurance contracts	135,004		135,004	
Furniture and equipment	12,515	12,515		
Receivables from parent, subsidiaries and affiliates	16,735		16,735	
Aggregate write-ins for other than invested assets	<u>46,291</u>	<u>46,291</u>	<u></u>	
<b>Total assets</b>	<b><u>\$ 39,229,293</u></b>	<b><u>\$ 65,006</u></b>	<b><u>\$ 39,164,287</u></b>	
 <b>Liabilities, Surplus and Other Funds</b>				
Losses and loss adjustment expenses			\$ 20,478,622	(1)
Reinsurance payable on paid loss and loss adjustment expenses			(49,402)	
Commissions payable, contingent commissions and other similar charges			4,126	
Other expenses			443,485	
Taxes, licenses and fees			(62,727)	
Unearned premiums			21,628	
Funds held by company under reinsurance treaties			880,941	
Amounts withheld or retained by company for account of others			660,768	
Provision for reinsurance			491,857	
Aggregate write-ins for liabilities			<u>305,183</u>	
<b>Total liabilities</b>			<b>23,174,481</b>	
Common capital stock		\$ 2,600,000		
Gross paid-in and contributed surplus		75,149,001		
Unassigned funds (surplus)		<u>(61,759,195)</u>		
Surplus as regards policyholders			<u>15,989,806</u>	
<b>Total liabilities, surplus and other funds</b>			<b><u>\$ 39,164,287</u></b>	

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

Statement of Income

Underwriting Income

Premiums earned		\$ 543,404
Deductions:		
Losses and loss expenses incurred	\$ 1,018,401	
Other underwriting expenses incurred	<u>1,760,147</u>	
Total underwriting deductions		<u>2,778,548</u>
Net underwriting loss		(2,235,144)

Investment Income

Net investment income earned	\$ 807,537	
Net realized capital gain	<u>560,759</u>	
Net investment gain		1,368,296

Other Income

Finance and service charges not included in premiums	\$ 83,621	
Aggregate write-ins for miscellaneous income	<u>(117,029)</u>	
Total other losses		<u>(33,408)</u>
Net loss after capital gains tax and before federal and foreign income taxes		(900,256)
Federal and foreign income taxes incurred		<u>(283,215)</u>
Net loss		<u>\$ (617,041)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2013		\$ 17,436,127
Net loss	\$ (617,041)	
Change in net unrealized capital loss	(854,416)	
Change in net deferred income tax	(57,924,182)	
Change in nonadmitted assets	57,940,966	
Change in provision for reinsurance	<u>8,351</u>	
Change in surplus as regards policyholders for the year		<u>(1,446,322)</u>
Surplus as regards policyholders, December 31, 2014		<u>\$ 15,989,806</u>

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

Surplus as regards policyholders, December 31, 2011			\$ 15,645,749
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net loss	\$	\$ 8,372,661	
Net unrealized capital loss		1,693,920	
Change in net deferred income tax		65,721,644	
Change in nonadmitted assets	66,098,766		
Change in provision for reinsurance	67,027		
Surplus adjustments: Paid-in	9,000,000		
Aggregate write-ins for gains and losses in surplus	<u>966,489</u>		
Total gains and losses	<u>\$ 76,132,282</u>	<u>\$ 75,788,225</u>	
Net increase in surplus as regards policyholders			<u>344,057</u>
Surplus as regards policyholders, December 31, 2014			<u>\$ 15,989,806</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Loss and Loss Adjusted 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 Company's direct parent, 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

Accounts and Records – Annual Statement Exhibit (Page 10): It is recommended that the Company properly disclose Incurred But Not Reported (IBNR) balances with the corresponding columns in the Underwriting and Investment Exhibit, Part 2A – Unpaid Losses and Loss Adjustment Expenses, in accordance with the Annual Statement Instructions prescribed by the National Association of Insurance Commissioners.

### 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, and under its prior ownership group. Since the Company was acquired by a new ownership group during the current examination period and a new board is in place, this recommendation no longer applies.

Comment on Financial Statement Items – Funds Held by or Deposited with Reinsured Companies (Page 14): It was recommended the Company implement procedures to adhere to Statements of Statutory Accounting Principles No. 62R when reporting its asset balances for funds held by or deposited with reinsured companies. The Company is now in compliance.

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  
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