

REPORT OF EXAMINATION  
OF THE  
PERSONAL EXPRESS INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2014

Filed on April 26, 2016

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San Francisco, California  
February 26, 2016

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

PERSONAL EXPRESS INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 5630 University Parkway, Winston-Salem, North Carolina 27105. The Company's statutory home office is located at 5301 Truxtun Avenue, Suite 100, Bakersfield, California 93309.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2009. This examination covered the period of January 1, 2010 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 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 was a coordinated examination with Delaware as the lead state and North Carolina as the facilitating state of the National General Holdings Corporation subgroup. The following companies and states participated on the examination:

<b>Legal Entity</b>	<b>Abbreviation</b>	<b>State</b>
Integon National Insurance Company	INIC	North Carolina
Integon Preferred Insurance Company	IPIC	North Carolina
Integon Casualty Insurance Company	ICIC	North Carolina
Integon Indemnity Corporation	IIC	North Carolina
Integon General Insurance Corporation	IGIC	North Carolina
New South Insurance Company	NSIC	North Carolina
National General Insurance Online, Inc.	NGIO	Missouri
National General Insurance Company	NGIC	Missouri
National General Assurance Company	NGAC	Missouri
National Automotive Insurance Company	NAIC	Louisiana
Imperial Fire and Casualty Insurance Company	IFCIC	Louisiana
Agent Alliance Insurance Company	AAIC	Alabama
MIC General Insurance Corporation	MICG	Michigan
National Health Insurance Company	NHIC	Texas
New Jersey Skylands Insurance Association	NJSIA	New Jersey
New Jersey Skylands Insurance Company	NJSIC	New Jersey
Personal Express Insurance Company	PEIC	California

## COMPANY HISTORY

The Company was incorporated on April 13, 2005 and received its certificate of authority in late December 2006. The Company began writing personal lines insurance coverage in 2007. Prior to April 19, 2013, the Company was a wholly-owned subsidiary of Sequoia Insurance Company (Sequoia), which was wholly-owned by Strongwood Insurance Holding Corporation (Strongwood), a subsidiary of Strongwood Holding Company, LLC (Strongwood LLC). Strongwood LLC is 88.3% owned by JPMP Strongwood Insurance Holdings Company, LLC, which is ultimately owned by J.P. Morgan Chase & Co., a Delaware Corporation. Pursuant to the Stock Purchase Agreement dated January 28, 2013, Strongwood LLC and Strongwood sold to AmTrust Financial Services, Inc. (AmTrust) all of the issued and outstanding shares of the common stock of Sequoia and all of the limited liability company interests of Strongwood Risk Management Solutions, LLC (SRMS), an affiliate of the Company. The sale included the Company, Sequoia Indemnity Company (SIC) and Personal Express Insurance Services, Inc. (PEIS). This transaction was approved by the California Department of Insurance on April 19, 2013. As a result, Sequoia became a direct subsidiary of AmTrust. The Company, PEIS, SIC and SRMS became indirect subsidiaries of AmTrust, effective April 19, 2013.

Effective April 1, 2014, Integon National Insurance Company (Integon) purchased all of the issued and outstanding shares of the common stock of the Company and its wholly owned subsidiary, PEIS, from AmTrust. Integon's ultimate controlling entity is National General Holdings Corporation (formerly known as American Capital Acquisition Corporation), which is owned 13.2% by AmTrust.

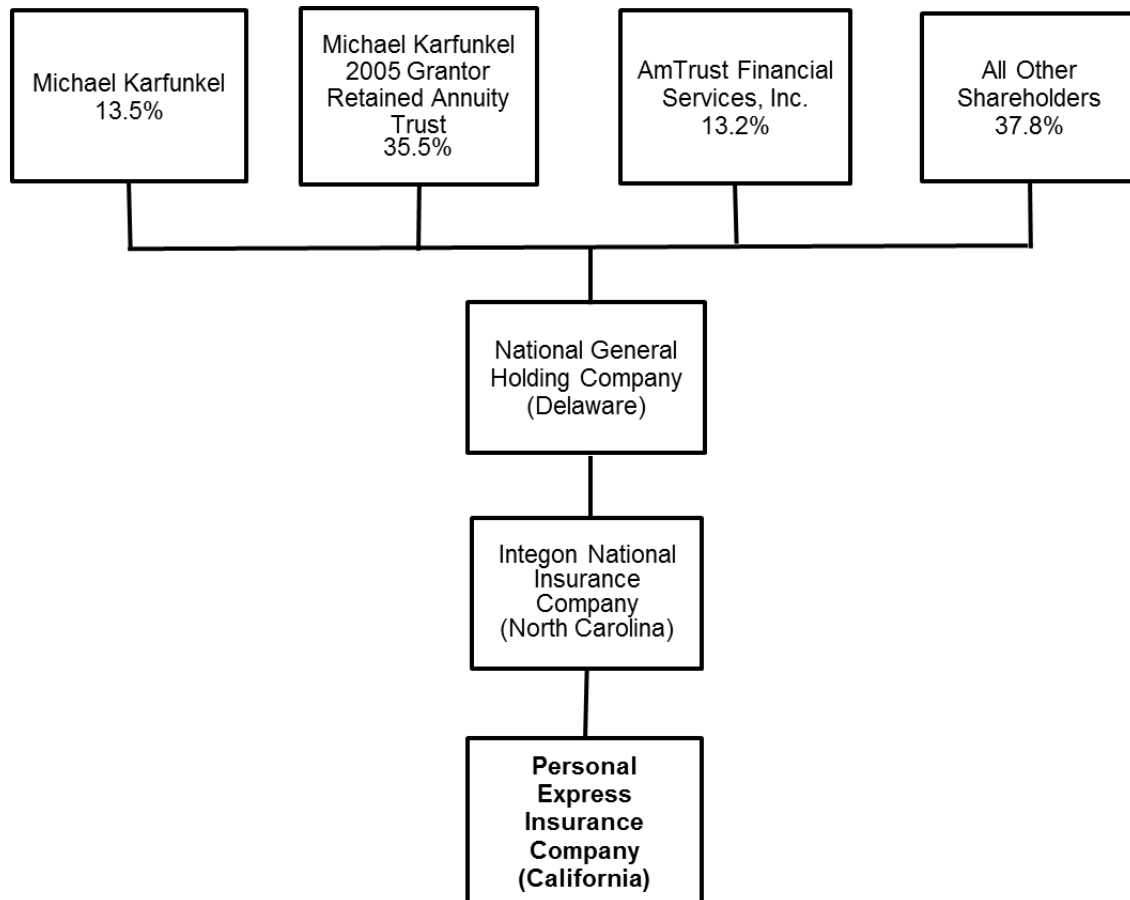
### Capitalization

The Company is authorized to issue 40,000 shares of common stock. The Company issued 20,000 shares of stock at a par value of \$100 per share for a total common

capital stock of \$2,000,000. As of December 31, 2014, there were 20,000 shares outstanding.

### MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which National General Holdings Corporation (NGHC) is the ultimate controlling entity. Formerly known as American Capital Acquisition Corporation (ACAC), NGHC was formed in 2009 to acquire the private passenger automobile insurance business of the US consumer property and casualty insurance segment of General Motors Acceptance Corporation (GMAC), which had been in operation since 1939. Following is an abridged organizational chart. All ownership is 100% unless otherwise specified:



The three members of the board of directors, who are elected annually, oversee 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>
Donald J. Bolar Winston-Salem, North Carolina	Vice President and Chief Accounting Officer National General Holdings Corporation
Robert M. Karfunkel New York, New York	Executive Vice President of Strategy and Development National General Holdings Corporation
Peter A. Rendall New York, New York	Chief Operating Officer National General Holdings Corporation

Principal Officers

<u>Name</u>	<u>Title</u>
Aaron B. Kuluk	President
Jeffrey A. Weissmann	Secretary
Donald J. Bolar	Vice President and Chief Accounting Officer

Management Agreements

Tax Allocation Agreement: Effective April 1, 2014, the Company was added to the Tax Allocation Agreement between American Capital Acquisition Corporation (ACAC), now known as National General Holdings Corporation (NGHC), and certain subsidiaries. Under the terms of this Agreement, each party's liability for all tax payments or entitlements to federal, state or local tax refunds shall be based on the amount of its tax liability or entitlement to a refund calculated on a separate return basis and recorded

accordingly in the corresponding period. The Agreement was approved by the California Department of Insurance (CDI) on March 26, 2010 and the amendment to add the Company was approved on April 29, 2014.

Asset Management Agreement: Effective April 1, 2014, the Company was added to the Asset Management Agreement between All Insurance Management Ltd (AIM) and certain affiliates under NGHC. Under the terms of the Agreement, AIM provides certain services to affiliates, including management services. The Agreement was approved by the CDI on March 26, 2010 and the amendment to add the Company was approved on April 29, 2014. Under this Agreement, the Company paid \$12,429 in 2014.

Master Services Agreement: Effective April 1, 2014, the Company was added to a Master Services Agreement between its ultimate parent, National General Holdings Corporation, GMAC Insurance Management Corporation (Administrator), an affiliate, and several affiliates including American Capital Acquisition Investments, Inc. and National General Insurance Marketing, Inc.. Under the terms of the Agreement, these entities delegate accounting, information technology and certain administrative functions to the Administrator. The amendment to add the Company was approved by the CDI on April 29, 2014. There were no management fees incurred by the Company in 2014.

#### Investment Transaction

On March 25, 2014, the Company entered into an investment transaction wherein the Company purchased bonds from Wesco, an affiliate, without obtaining prior approval from the CDI. The amount was \$3,018,545, which exceeded 3% of net admitted assets as of December 31, 2013. Pursuant to California Insurance Code Section 1215.5(b)(1)(A), any sales, purchases, exchanges, loans, extensions of credit, or investments exceeding the lesser of 3% of the insurer's admitted assets or 25% of the policyholder's surplus as of the preceding December 31st involving an affiliate, may be entered into only if the insurer has notified the Commissioner in writing of its intention to enter into the transaction at least 30 days prior thereto. It is recommended that the



Company implement procedures to ensure compliance with CIC Section 1215.5(b)(1)(A).

## CORPORATE RECORDS

### Board of Directors

In 2012, the board of directors consisted of two (2) members. Pursuant to the Company Bylaws, the authorized number of directors shall be no less than three (3) and no greater than seven (7). As such, the Company was not in compliance with the Bylaws. It is recommended that the Company implement procedures to ensure future compliance with its Bylaws.

### Board Minutes

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Commissioner. The board must also enter that fact in the board minutes. The examiners noted that the board minutes failed to provide any statements pertaining to the receipt of the prior examination report. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 735.

## TERRITORY AND PLAN OF OPERATION

The Company is a California domiciled insurance company which transacts personal property and casualty business only in the state of California, primarily in Kern County. The Company provides homeowners, dwelling fire, and personal automobile insurance coverage. As of December 31, 2014, direct premiums written were \$16.6 million.

## Lines of Business

The Company is currently writing homeowners multiple peril, earthquake and other liability lines of business. However, it does not have the proper classes of insurance in its Certificate of Authority to write those lines of business in California as required by California Insurance Code (CIC) Section 700(a). It is recommended that the Company immediately submit an application to the CDI for an Amended Certificate of Authority to add Miscellaneous and Common Carrier classes of insurance pursuant to CIC Section 700(a).

## REINSURANCE

### Assumed

The Company did not have assumed reinsurance as of December 31, 2014.

### Ceded

Effective April 1, 2014, the Company was added to a 100% Quota Share Reinsurance Agreement with Integon National Insurance Company (INIC). Under the terms of this Agreement, certain insurers within the National General Holdings Corporation subgroup cede and transfer 100% of its net liability to INIC. The amendment to add the Company was approved by the California Department of Insurance on March 28, 2014.

## 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 presented to the Company along with recommendations to strengthen its controls. It is recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls.

### Vehicle Fraud Assessment

California Insurance Code (CIC) Section 1872.8(a) states, in part, that each insurer doing business in California must pay an annual Vehicle Fraud Assessment Fee for each vehicle insured under an insurance policy it insures in California. The fee provides funding for the increased investigation and prosecution of fraudulent automobile insurance claims and automobile theft in California.

Pursuant to California Code of Regulations (CCR) Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62, the assessment shall be due on each vehicle, identified by its vehicle identification number for each quarter that a policy is in force on such vehicle. In order to verify the number of vehicles for which an assessment is due and has been paid, each insurer shall maintain a file known as the Automobile Assessment File for a minimum of five years after each calendar year. The Auto Assessment File shall contain the vehicle identification, policy number and transaction date for every vehicle for which a policy of insurance was in-force for each quarter or any part thereof. The Company failed to maintain a detailed methodology in calculating the number of vehicles it insured. In addition, it did not maintain Automobile Assessment Files containing the vehicle identification numbers. It is recommended that the Company maintain a detailed written methodology in calculating the number of vehicles it insures. It is further recommended that the Company maintain a file known as the Automobile Assessment File which includes the vehicle identification number in accordance with CCR Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62(d).

## Unclaimed Property

The Company has not routinely removed stale dated checks from its cash account and transferred them to an escheat liability account. In addition, the Company has not routinely remitted unclaimed property to the California State Controller's Office (SCO) nor retained filings that were submitted. It is recommended that the Company set up a reserve for escheat liability and remit unclaimed property to the SCO in accordance with California Code of Civil Procedures, Title 10, Chapter 7, Article 3, Sections 1530 and 1532. It is also recommended that the Company retain copies of filings that were submitted to the SCO.

## 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. 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, 2009  
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	\$ 5,734,749	\$	\$ 5,734,749	
Cash and short-term investments	11,099,077		11,099,077	
Other invested assets	493,521	493,521		
Receivable for securities	561,207		561,207	
Investment income due and accrued	58,298		58,298	
Premiums and agents' balances in course of collection	193,687	24,810	168,877	
Premiums, agents' balances and installments booked but deferred and not yet due (including \$11,974,363 earned but unbilled premiums)	3,680,052		3,680,052	
Amount recoverable from reinsurers	296,920		296,920	
Aggregate write-ins for other than invested assets	<u>12,092</u>		<u>12,092</u>	
 Total assets	 <u>\$ 22,129,603</u>	 <u>\$ 518,331</u>	 <u>\$ 21,611,272</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 0	(1)
Current federal and foreign income taxes			47,382	
Net deferred tax liability			56,123	
Ceded reinsurance premiums payable			5,424,688	
Payable to parent, subsidiaries and affiliates			<u>563,423</u>	
 Total liabilities			 6,091,616	
Common capital stock		\$ 2,000,000		
Gross paid-in and contributed surplus		8,052,136		
Unassigned funds (surplus)		<u>5,467,520</u>		
Surplus as regards policyholders			<u>15,519,656</u>	
 Total liabilities, surplus and other funds			 <u>\$ 21,611,272</u>	

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

Statement of Income

Underwriting Income

Premiums earned		\$ 382,775
Deductions:		
Losses and loss expenses incurred	\$ 159,475	
Other underwriting expenses incurred	<u>191,237</u>	
Total underwriting deductions		<u>350,712</u>
Net underwriting gain		32,063

Investment Income

Net investment income earned	\$ 356,439	
Net realized capital gain	<u>264,601</u>	
Net investment gain		621,040

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>62,315</u>	
Total other income		<u>62,315</u>
Net income before federal and foreign income taxes		715,418
Federal and foreign income taxes incurred		<u>(73,826)</u>
Net income		<u>\$ 789,244</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2014		\$ 14,913,441
Net income	\$ 789,244	
Change in net unrealized capital loss	(58,542)	
Change in net deferred income tax	(184,199)	
Change in nonadmitted assets	<u>\$ 59,713</u>	
Change in surplus as regards policyholders for the year		<u>606,215</u>
Surplus as regards policyholders, December 31, 2014		<u>\$ 15,519,656</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2009 through December 31, 2014

Surplus as regards policyholders, December 31, 2009			\$ 11,058,146
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 5,665,668	\$	
Net unrealized capital gains	29,815		
Change in net deferred income tax		755,725	
Change in nonadmitted assets		<u>478,247</u>	
Total gains and losses	<u>\$ 5,695,483</u>	<u>\$ 1,233,972</u>	
Net increase in surplus as regards policyholders			<u>4,461,510</u>
Surplus as regards policyholders, December 31, 2014			<u>\$ 15,519,656</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

An analysis of the intercompany pool loss and loss adjustment expense reserves as of December 31, 2014 was performed by a consulting actuary engaged by North Carolina Department of Insurance. The Casualty Actuary from the California Department of Insurance reviewed the work performed by the consulting actuary. Based on the review, the Company's loss and loss adjustment expense reserves as of December 31, 2014 were found to be reasonably stated and have been accepted for purposes of this examination.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Management and Control – Investment Transaction (Page 6): It is recommended that the Company implement procedures to ensure compliance with California Insurance Code (CIC) Section 1215.5(b)(1)(A).

Corporate Records – Board of Directors (Page 7): It is recommended that the Company implement procedures to ensure future compliance with its Bylaws.

Corporate Records – Board Minutes (Page 7): It is recommended that the Company implement procedures to ensure future compliance with CIC Section 735.

Territory and Plan of Operation – Lines of Business (Page 8): It is recommended that the Company immediately submit an application to the California Department of Insurance for an Amended Certificate of Authority to add Miscellaneous and Common Carrier classes of insurance in accordance with CIC 700(a).



Accounts and Records – Information System Controls (Page 8): It is recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls.

Accounts and Records – Vehicle Fraud Assessment (Page 9): It is recommended that the Company maintain a detailed written methodology in calculating the number of vehicles it insures and maintain an Automobile Assessment File to comply with CCR Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62.

Accounts and Records – Unclaimed Property (Page 10): It is recommended that the Company set up a reserve for escheat liability account and remit unclaimed property to the California State Controller's Office (SCO) in accordance with California Code of Civil Procedures, Title 10, Chapter 7, Article 3, Sections 1530 and 1532. It is also recommended that the Company retain copies of filings that were submitted to the SCO.

#### Previous Report of Examination

Accounts and Records – Conflict of Interest (Page 5): It was recommended that the Company require a written annual conflict of interest reporting for its directors, officers, and key employees. The Company is now in compliance.

Accounts and Records – Information System Controls (Page 10): Some low risk control deficiencies were noted in areas such as business continuity planning. It was recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls. The Company has remediated some of the findings.

Accounts and Records – Claims Practices (Page 10): It was recommended the Company comply with the California Code of Regulations, Title 10, Section 2695.9(f). The Company is adopting the new parent company's Claims Handling guidelines.

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/\_\_\_\_\_

Maria Angeles, CFE  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California

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

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State of California