

REPORT OF EXAMINATION
OF THE
NATIONAL GENERAL PREMIER
INSURANCE COMPANY
AS OF
DECEMBER 31, 2017

Filed on June 6, 2019

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Los Angeles, California
May 22, 2019

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

NATIONAL GENERAL PREMIER 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, 2014. This examination covered the period from January 1, 2015 through December 31, 2017.

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 states participated on the examination: Arkansas, California, Illinois, Louisiana, Michigan, Missouri, New Jersey, New York, South Carolina, Tennessee, and Texas.

COMPANY HISTORY

The Company, formerly known as Personal Express Insurance Company (PEIC), was incorporated and licensed as a property-casualty insurer in the state of California in 2005. The Company is a wholly-owned subsidiary of Integon National Insurance Company (INIC), which is a wholly-owned subsidiary of National General Management Corporation (NGMC), which in turn is wholly owned by National General Holdings Corporation (NGHC).

In 2015, Mr. Michael Karfunkel and his wife, Mrs. Leah Karfunkel, as sole trustees of the Michael Karfunkel 2005 Grantor Retained Annuity Trust (GRAT), were the ultimate controlling persons, owning 48.8% of the collective stock of NGHC. AmTrust Financial Services, Inc. (AmTrust) owned the remaining 13.2% of NGHC stock. Additionally,

Mr. Karfunkel had an ownership interest in AmTrust, Maiden Holding, Ltd., and ACP Re. Mrs. Karfunkel became the sole trustee of the GRAT upon the passing of Mr. Karfunkel in April 2016.

Effective April 14, 2016, the Company's name was changed to National General Premier Insurance Company.

In June 2017, Amtrust sold nearly all of its shares of NGHC to private investors and owns less than 1.7% of NGHC common stock. Accordingly, AmTrust is no longer a majority shareholder of NGHC.

Pursuant to California Insurance Code Section 940 and 955, the Company held \$2,000,000 in statutory deposits with the state of California for the benefit of its policyholders. On November 20, 2017, the Company submitted a request to withdraw \$600,000 from its statutory deposit. The remaining \$1,400,000 is sufficient to meet the statutory requirements, and appears to be adequate to the exposures it has underwritten. The California Department of Insurance approved the withdrawal on February 13, 2018.

As of December 31, 2017, Mrs. Karfunkel beneficially owned or controlled 41.8% of NGHC outstanding common stock, and has significant influence over the strategic direction of NGHC; and therefore is considered the ultimate controlling person of NGHC.

Capitalization

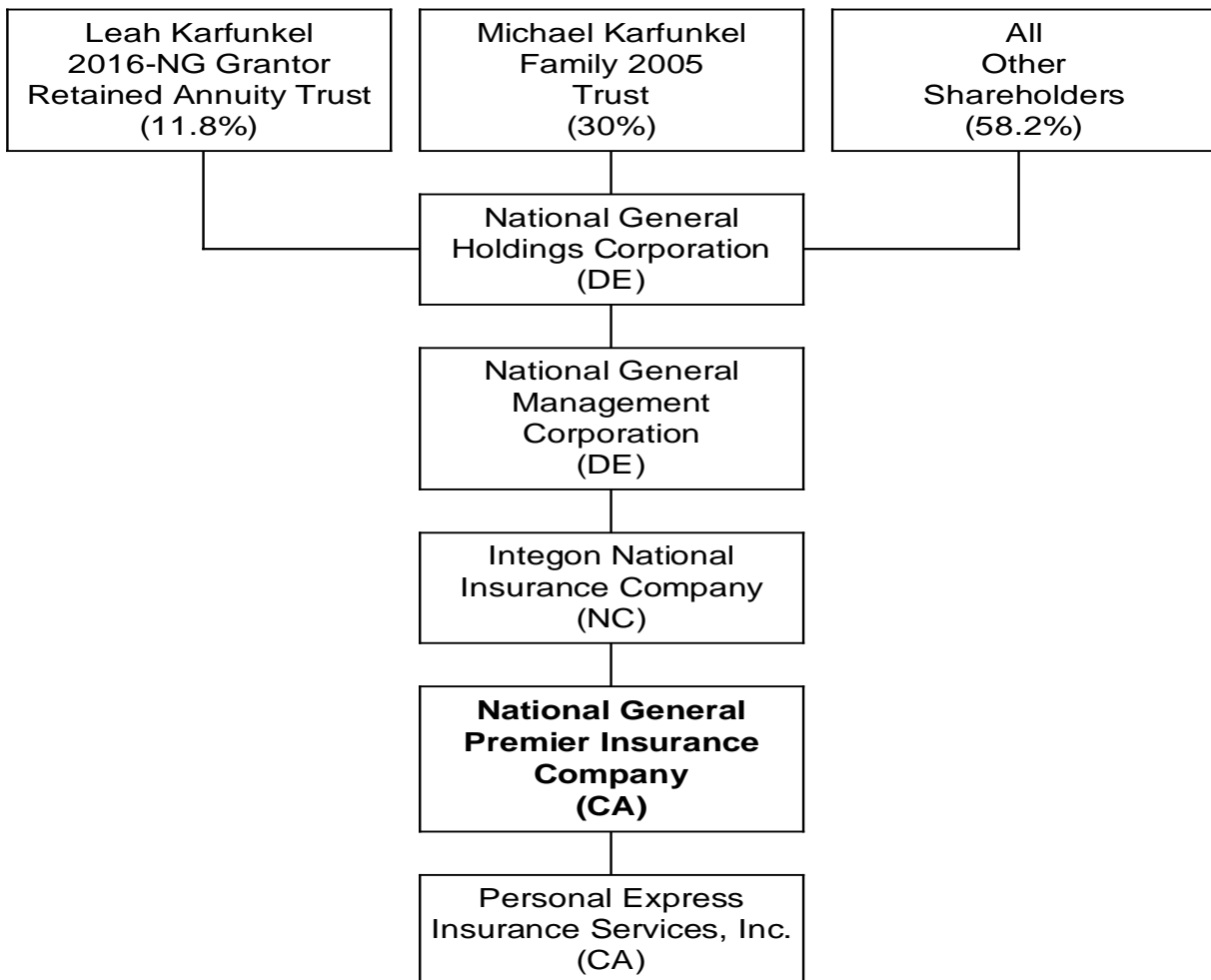
In 2015 the Company received a \$1,500,000 capital contribution from its parent, INIC.

Dividends

On April 1, 2015, the Company paid an ordinary cash dividend of \$1,551,000 to its parent, INIC.

MANAGEMENT AND CONTROL

The Company is a member of the insurance holding company system of National General Holdings Corporation (NGHC), which Mrs. Leah Karfunkel is the ultimate controlling person. 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, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2017:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Robert M. Karfunkel New York, New York	Executive Vice President National General Holdings Corporation
Aaron B. Kuluk Nashville, Tennessee	Executive Vice President of Retail Distribution National General Insurance
Andrew V. McGuire Chicago, Illinois	Executive Vice President of Personal Lines National General Insurance

Principal Officers

<u>Name</u>	<u>Title</u>
Duane C. Peralta	President
Jeffrey A. Weissmann	Secretary
Lawrence J. Moloney	Chief Accounting Officer and Chief Financial Officer
Peter A. Randall	Treasurer
George H. Hall, Jr.	Vice President and Chief Claims Officer
Brad M. Schock	Vice President, Tax
Donald J. Bolar	Vice President
Michael H. Weiner	Vice President

Management Agreements

Tax Allocation Agreement: Effective April 1, 2014, the Company became party to a Tax Allocation Agreement dated March 1, 2010, between National General Holdings Corporation and certain of its subsidiaries. Under the terms of the agreement, NGHC files a consolidated tax return on behalf of the tax filing group. The Agreement provides that

each party's liability for all tax payments or federal, state, or local tax refunds shall be based on the amount of its liability or entitlement to a refund calculated on a separate return basis. 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. For 2015, 2016, and 2017, the Company paid taxes \$355,020, \$147,946, and \$39,407, respectively.

Asset Management Agreement: Effective April 1, 2014, the Company was added to an Asset Management Agreement dated March 1, 2010 by and between All Insurance Management Limited (AIM), and certain affiliates under NGHC. Under the terms of the agreement, AIM performs investment management services on behalf of the insurers. The agreement was approved by the CDI on March 26, 2010, and the amendment to add the Company was approved on April 29, 2014. For 2015, 2016, and 2017, the Company paid AIM \$11,834, \$16,870, and \$19,879, respectively

Management Service Agreement: Effective April 1, 2014, the Company became a party to a Management Services Agreement dated January 12, 2012, between National General Management Corporation (NGMC), and certain participating affiliates. Under the terms of the agreement, NGMC provides actuarial, policyholder services, accounting, IT and certain other administrative functions. An addendum to the agreement, effective July 5, 2017, was filed with the CDI to add underwriting and claims services functions. The Company will reimburse NGMC for direct expenses on an actual cost basis. Common expenses, including salary and employee benefits, will be allocated in accordance to each company's proportionate share based on net written premiums for policy-related expenses, and net paid losses for claims related expenses, based on reasonable allocation methods. The addendum was approved on April 13, 2018. For 2015, 2016, and 2017, Company paid NGMC \$5,447,508, \$6,597,838, and \$17,120,228, respectively.

TERRITORY AND PLAN OF OPERATION

The Company is a California domiciled insurance company, which transacts property and casualty business only in the state of California. The Company primarily writes private passenger automobile liability, private passenger automobile physical damage and commercial multiple peril. In 2016, the Company began writing commercial multiple peril business consisting of Real Estate Owned Hazard coverage, on a surplus lines basis in the states of Alabama and North Carolina.

During the second quarter of 2015, the Company began transferring its homeowners, earthquake, and umbrella business to Integon National Insurance Company, an affiliate. Most of the earthquake business is being placed with an unaffiliated company, Geovera Insurance Company, as management has changed its area of focus.

In 2016, the Company filed a rate filing for a new preferred automobile program which was approved by the California Department of Insurance. Additionally, National General Holdings Corporation, the ultimate controlling entity, acquired Century National Insurance Company (CNIC). As a result of the acquisition, CNIC's preferred automobile program will be transferred to the Company at renewal.

During 2017, the Company wrote \$56.5 million of direct premiums, of which 78.9% pertained to private passenger automobile liability and physical damage. Of the total direct premiums written, \$44.9 million (79.4%) was written in California and \$11.3 million (20.0%) was written in Alabama and North Carolina as surplus lines.

REINSURANCE

Assumed

The Company did not assume reinsurance.

Ceded

Effective April 1, 2014, the Company was added as a party to a 100% Quota Share Reinsurance Agreement, dated January 1, 2012, with Integon National Insurance Company (INIC). Under the terms of the 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

Vehicle Fraud Assessment

California Insurance Code (CIC) Section 1872.8, 1872.81, and 1874.8 require that the Company pay an annual special purpose assessment for each vehicle insured under an insurance policy it issues in the state of California. A review of select 2017 Vehicle Fraud Assessment files indicated that the Company did not produce a unique count of vehicles, which resulted in a reported over-count and payment to the California Department of Insurance (CDI). It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1872.8, 1872.81, and 1874.8, and make appropriate changes to ensure accuracy of quarterly vehicle assessment fees.

Additionally, the Company did not maintain an Automobile Assessment File (AAF), that contains the vehicle identification, policy number, and transaction for every vehicle for which a policy of insurance was in-force for each quarter or any part thereof. The AAF should be maintained for a minimum of five years after each calendar year. This is a repeat finding from the previous report of examination. It is recommended that the Company maintain an AAF, which includes the vehicle identification number, in accordance with California Code of Regulations Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.629(d).

Unclaimed Property

The Company did not retain copies of submitted filings for 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. This is a repeat finding from the previous report of examination. It is 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, 2017. The accompanying comments on the financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2017

Statement of Financial Condition
as of December 31, 2017

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 13,920,482	\$	\$ 13,920,482	
Cash and short-term investments	1,948,587		1,948,587	
Other invested assets	652,969	652,969	0	
Investment income due and accrued	79,368		79,368	
Premiums and agents' balances in course of collection	821,742	90,696	731,046	
Premiums, agents' balances and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums)	15,885,150		15,885,150	
Amount recoverable from reinsurers	2,458,253		2,458,253	
Electronic data processing equipment and software	84,806	84,806	0	
Furniture and equipment	<u>16,770</u>	<u>16,770</u>	<u>0</u>	
Total assets	<u>\$ 35,868,129</u>	<u>\$ 845,241</u>	<u>\$ 35,022,888</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 0	(1)
Current federal and foreign income taxes (including \$78,889 on realized capital gains)			32,735	
Net deferred tax liability			49,583	
Ceded reinsurance premiums payable			17,908,963	
Payable to parent, subsidiaries, and affiliates			<u>235,225</u>	
Total liabilities			18,226,506	
Common capital stock		\$ 2,000,000		
Gross paid-in and contributed surplus		9,552,136		
Unassigned funds (surplus)		<u>5,244,246</u>		
Surplus as regards policyholders			<u>16,796,382</u>	
Total liabilities, surplus and other funds			<u>\$ 35,022,888</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses and loss expenses incurred	\$	0	
Other underwriting expenses incurred		<u>44</u>	
Total underwriting deductions			<u>44</u>
Net underwriting loss			(44)

Investment Income

Net investment income earned	\$	373,156	
Net realized capital gain		<u>146,507</u>	
Net investment gain			519,663
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes			519,619
Federal and foreign income taxes incurred			<u>(39,872)</u>
Net income			<u>\$ 559,491</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016			\$16,427,998
Net income	\$	559,491	
Change in net unrealized capital gains		16,510	
Change in net deferred income tax		(141,287)	
Change in nonadmitted assets		<u>(66,329)</u>	
Change in surplus as regards policyholders for the year			<u>368,385</u>
Surplus as regards policyholders, December 31, 2017			<u>\$ 16,796,382</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2014 through December 31, 2017

Surplus as regards policyholders, December 31, 2014			\$ 15,519,656
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 2,262,490	\$	
Net unrealized capital gains	116,500		
Change in net deferred income tax		177,852	
Change in nonadmitted assets		267,197	
Surplus adjustments: Paid-in Dividends to stockholders	1,500,000		
	<u> </u>	<u>1,551,000</u>	
Total gains and losses	<u>\$ 3,878,990</u>	<u>\$ 1,996,048</u>	
Net decrease in surplus as regards policyholders			<u>1,882,942</u>
Surplus as regards policyholders, December 31, 2017			<u>\$ 16,796,382</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The December 31, 2017 loss and loss adjustment expense reserves were evaluated by an Examining Actuary from the North Carolina Department of Insurance. Based on the analysis performed, the Company's loss and loss adjustment expense reserves were found to be reasonably stated. The assigned California Department of Insurance (CDI) actuary reviewed the work performed by the lead state, and recommended that CDI adopt the review and conclusion of the lead state regarding loss and loss adjustment expense reserves.

SUBSEQUENT EVENTS

On April 15, 2018, the Asset Management Agreement with All Insurance Management Limited was terminated. Effective May 7, 2018, National General Holdings Corporation and certain affiliates entered into an Investment Management Agreement with BlackRock Financial Management, Inc. (BlackRock). Under the agreement, the Company appointed BlackRock as its investment manager to invest and manage a portion or all of the assets of the Company, subject to the written investment guidelines and restrictions provided by the Company.

NGHC filed an application with the National Association of Insurance Commissioners (NAIC) to separate itself and its insurance subsidiaries from the AmTrust Group as they operate as two separate legal entities. Effective August 16, 2018, the NAIC approved the application and assigned the NGHC Group a separate NAIC Group Code No. 4928. The NGHC Group used the new NAIC group code number starting in the third quarter of 2018.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Vehicle Fraud Assessment (Page 8): It is recommended that the Company make the appropriate changes to ensure accuracy of quarterly vehicle assessment fees, to ensure future compliance with California Insurance Code (CIC) Section 1872.8, 1872.81, and 1874.8. Additionally, it is again recommended the Company maintain an Automobile Assessment File, which includes the vehicle identification number, in accordance with California Code of Regulations Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.629(d).

Accounts and Records – Unclaimed Property (Page 9): It is again recommended that the Company retain copies of filings that were submitted to the State Controller's Office in accordance with California Code of Civil Procedures, Title 10, Chapter 7, Article 3, Sections 1530 and 1532. This is a repeat finding.

Previous Report of Examination

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

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

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

Territory and Plan of Operation – Lines of Business (Page 8): It was recommended that the Company immediately submit an application to the California Department of Insurance (CDI) for an Amended Certificate of Authority to add Miscellaneous and Common Carrier classes of insurance in accordance with CIC 700(a). The Company submitted an application for an Amended Certificate of Authority, which was approved by the CDI on January 17, 2017.

Accounts and Records – Information System Controls (Page 8): It was recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls. The Company has established stronger controls that have strengthened its information system controls.

Accounts and Records – Vehicle Fraud Assessment (Page 9): It was 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 California Code of Regulations, Title 10, Chapter 5, Subchapter 9, Article 4, (CCR) Section 2698.62. The Company established a detailed written methodology, but did not maintain an Automobile Assessment File to comply with CCR Section 2698.62

Accounts and Records – Unclaimed Property (Page 10): It was 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. Additionally, it was recommended the Company retain copies of filings that were submitted to the SCO. The Company established a reserve for escheat liability, however did not retain copies of filings that were submitted to the SCO.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and parent's employees during the course of this examination.

Respectfully submitted,

/S/

Anjanette Briggs, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

/S/

Isabel Spiker, CFE
Bureau Chief
Department of Insurance
State of California