

REPORT OF EXAMINATION
OF THE
CENTURY-NATIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2017

Filed on June 06, 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

CENTURY-NATIONAL 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 address is located at 16650 Sherman Way, Van Nuys, CA 91406.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2013. This examination covered the period from January 1, 2014 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 was incorporated in California on June 23, 1955, and is authorized to write property and casualty lines of business. The Company was a wholly-owned subsidiary of Kramer-Wilson Company, Inc., (KWCI), a Delaware holding company, whose ultimate controlling person was Mr. Weldon Wilson, an individual.

On January 22, 2016, a Securities Purchase Agreement (Agreement) was entered into between KWCI, National General Holding Corporation (NGHC), and Integon National Insurance Company (INIC). Pursuant to the Agreement, KWCI sold all of the issued and outstanding capital stock of the Company and its affiliate Western General Agency, Inc., to NGHC for approximately \$322.7 million, which was funded through cash at closing and

a \$178.9 million promissory note issued to KWCI by NGHC. INIC was included as an Assignee through Amendment No. 1 of the Agreement, wherein NGHC assigned 22% of the capital stock of the acquired companies to INIC. As part of the agreement; the Company paid a \$150 million extraordinary dividend to KWCI; fulfilling a condition of the sale of the Company and its affiliate to NGHC. The acquisition was approved by the California Department of Insurance (CDI) on May 26, 2016, and was effective June 1, 2016.

At the beginning of the acquisition process, 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.

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

As of December 31, 2017, Mrs. Leah 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.

Dividends

The Company paid the following dividends during the examination period:

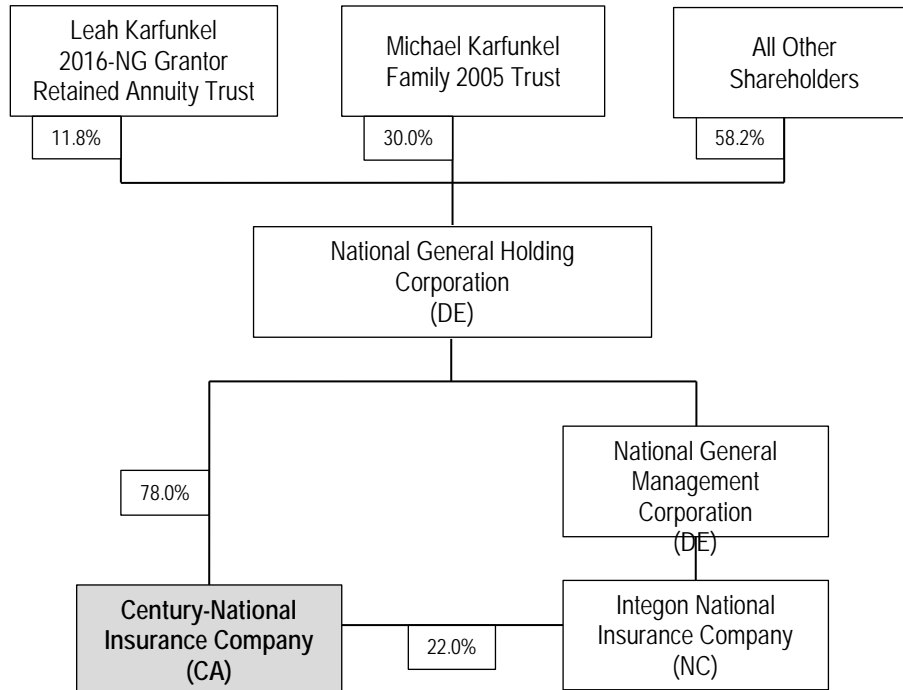
<u>Year</u>	<u>Amount</u>	<u>Type</u>	<u>Type</u>	<u>Paid</u>
2014	\$4,000,000	Ordinary	Cash	KWCI
2015	\$4,000,000	Ordinary	Cash	KWCI
2016	\$150,000,000	Extraordinary	Various ⁽¹⁾	KWCI
2017	\$210,000,000	Extraordinary	Various ⁽²⁾	INIC and NGHC

(1) The Company paid an extraordinary dividend to its former immediate parent, KWCI, totaling \$150,000,000 in cash, bonds, and common stock. The CDI approved the transaction on May 26, 2016.

(2) The Company paid an extraordinary dividend to INIC (22%) and NGHC (78%) totaling \$210,000,000 in cash, bonds, and common stock. The CDI approved the transaction on May 25, 2017.

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 indicated.



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

Name and Location

Principal Business Affiliation

Donald T. DeCarlo
Southold, New York

Attorney
Private Practice

Thomas E. Newgarden
Brooklyn, New York

Executive Vice President of Business
Development
National General Holdings Corporation

Jeffrey A. Weissmann
Clifton, New Jersey

Secretary and General Counsel
National General Holdings Corporation

Principal Officers

<u>Name</u>	<u>Title</u>
Thomas E. Newgarden	President
Jeffrey A. Weissmann	Secretary
Donald J. Bolar	Chief Accounting Officer
Peter A. Rendall ^(a)	Treasurer
Michael H. Weiner	Chief Financial Officer
George H. Hall Jr.	Chief Claims Officer
Brad M. Schock	Vice President, Tax

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

- ^(a) Peter A. Rendall was elected Chief Operating Officer effective November 20, 2018. Peter was replaced as Treasurer by John B. Engeman, effective November 20, 2018.

Management Agreements

Management Agreement: Effective since 1972, the Company was a party to a Management Agreement with Kramer-Wilson Company, Inc. (KWCI), its former parent. Under the terms of the Agreement, KWCI produced business and provided management, labor, facility space, equipment, and other services required to enable the Company to engage in the insurance business. The Company retained responsibility for the payment of premiums taxes, losses, loss adjustment expenses, investment expenses, and income taxes. The Company reimbursed KWCI for all costs incurred in the performance of such services.

In 1992, Western General Agency, Inc. (WGA), a wholly owned subsidiary of KWCI, which produced business exclusively for the Company, was added as a party to the Agreement. WGA was compensated on a cost reimbursement basis for services provided. For 2014, 2015, and 2016, the Company paid KWCI and WGA a total of \$53,005,537, \$52,682,300, and \$44,912,524, respectively. The Agreement was terminated on May 31, 2016, due to the acquisition by National General Holdings Corporation (NGHC).

Tax Allocation Agreement: Effective since 1987, the Company and all of its affiliates filed

a consolidated federal income tax return with KWCI. Under the terms of the Agreement, the Company's tax liability is the same as if it had been filed on a separate stand-alone basis. For 2014 and 2015, the Company paid KWCI \$2,220,439, and \$2,363,063, respectively. The Agreement was terminated on May 31, 2016, due to the acquisition by NGHC.

UCA General Agreement: Effective October 13, 2013, the Company entered into the UCA General Agreement with UCA General Insurance (UCA). Under the terms of the Agreement, the Company appointed UCA to be an exclusive agent for business classified as Commercial Multi-Peril. UCA was granted power and authority to solicit and issue Property/Liability/Terrorism insurance policies on behalf of the Company. UCA is authorized to solicit and issue business in the following states: Arizona, California, Colorado, Idaho, Illinois, New Mexico, Nevada, Oregon, Texas, Utah, Washington, and Wisconsin. The Company paid commissions to UCA of \$6,348,537, \$6,398,944, \$6,898,084, and \$6,886,510 for the years 2014, 2015, 2016, and 2017, respectively.

Claims Administration Agreement: Effective January 1, 2014, the Company entered into a Claims Management Agreement with Pro General Insurance Solutions, Inc. (PGIS). Under the terms of the Agreement, PGIS was authorized to act as the Company's claims administrator for the servicing of claims made under policies produced by PGIS as a general agent for the Company. The Agreement was terminated on May 31, 2016, due to acquisition by NGHC.

Program Management Agreement: Effective January 1, 2014, the Company entered into a Program Management Agreement with PGIS. Under the terms of the Agreement, PGIS was appointed to procure, underwrite, bind and issue the Company's insurance policies in the states of California and Florida. The Agreement was terminated on May 31, 2016 due to the acquisition by NGHC.

Tax Allocation Agreement: Effective June 1, 2016, the Company became a party to a Tax Allocation Agreement dated March 1, 2010, between NGHC and certain affiliates. Under

the terms of the Agreement, NGHC will file 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 August 12, 2016. For 2016 and 2017, the Company paid NGHC \$2,405,999, and \$1,669,488, respectively.

Management Services Agreement: Effective June 1, 2016, the Company became a party to a Management Services Agreement dated January 1, 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 7, 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 Agreement was approved by the CDI on August 24, 2016. For 2016 and 2017, the Company paid NGMC \$48,695,684 and \$41,074,650, respectively.

Asset Management Agreement: Effective June 1, 2016, 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 September 1, 2016. For 2016 and 2017, the Company paid AIM \$1,257,642, and \$367,192, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company was licensed as a multiple peril, fire, earthquake, and casualty insurer. The Company obtained its Certificate of Authority to write business in the states of West Virginia in 2014, and Alabama, Connecticut, Kansas, Michigan, and Vermont in 2015. In 2017, the Company was approved to add Team & Vehicle line of business in California. Following is a listing of the 45 states in which the Company was licensed:

Alabama	Georgia	Maryland	New Mexico	Tennessee
Alaska	Idaho	Michigan	North Carolina	Texas
Arizona	Illinois	Minnesota	North Dakota	Utah
Arkansas	Indiana	Mississippi	Ohio	Vermont
California	Iowa	Missouri	Oklahoma	Virginia
Colorado	Kansas	Montana	Oregon	Washington
Connecticut	Kentucky	Nebraska	Pennsylvania	West Virginia
Delaware	Louisiana	Nevada	South Carolina	Wisconsin
Florida	Maine	New Jersey	South Dakota	Wyoming

During 2017, the Company wrote \$211,541,060 in direct premiums; 75.9% of the writings pertained to the combination of homeowners multiple peril, other private passenger automobile liability, private passenger automobile physical damage, commercial multiple peril, and private passenger automobile no-fault. Of the total direct premiums written, \$123.9 million (58.5%) was written in California, \$33.3 million (15.7%) was written in Florida, \$19.5 million (9.2%) was written in Nevada, \$10.1 million (4.8%) was written in Arizona, and \$6.6 million (3.1%) was written in Illinois.

As a result of the acquisition by National General Holdings Corporation (NGHC), many of the Company's programs and products will be shifted to affiliates. Homeowners, companion earthquake product, and California commercial vehicle book of business will be transferred to Integon National Insurance Company (INIC). The Company will retain

its stand-alone earthquake program. The commercial package program offered by the Company will remain unchanged as a fronting only arrangement. The Company's preferred automobile program will be transferred to National General Premier Insurance Company (NGPIC). The Company will retain the following programs: mobile home, renters, National Flood Insurance Program, and the Road America Motor Club. The Company's Nation Motor Club is currently in runoff.

REINSURANCE

Assumed

The Company only had mandatory participation in the California Commercial Automobile Insurance Procedure Pool.

Ceded

Effective April 1, 2017, the Company was added as a party to the Reinsurance Agreement. Under the Reinsurance Agreement dated January 1, 2012, each affiliated insurer within the National General Holdings Corporation (NGHC) Subgroup, cedes and transfers 100% of its net liability to Integon National Insurance Company (INIC). The Agreement was approved by the California Department of Insurance on April 1, 2017.

ACCOUNTS AND RECORDS

Vehicle Fraud Assessment: California Insurance Code (CIC) Section 1872.8, 1872.81, and 1874.8 requires 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. 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).

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 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, 2013 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	\$ 41,604,373	\$	\$ 41,604,373	
Cash and short-term investments	16,579,911		16,579,911	
Investment income due and accrued	454,214		454,214	
Premiums and agents' balances in course of collection	17,389,237	90,248	17,298,989	
Premiums, agents' balances and installments booked but deferred and not yet due	30,316,284		30,316,284	
Amount recoverable from reinsurers	19,259,890		19,259,890	
Current federal and foreign income tax recoverable and interest thereon	8,984,966		8,984,966	
Electronic data processing equipment and software	15,747	15,747	0	
Receivables from parent, subsidiaries and affiliates	738,807		738,807	
Aggregate write-ins for other than invested assets	<u>514,684</u>		<u>514,684</u>	
Total assets	<u>\$ 135,858,113</u>	<u>\$ 105,995</u>	<u>\$ 135,752,118</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 0	(1)
Other expenses			104,935	
Net deferred tax liability			2,631,205	
Ceded reinsurance premiums payable			89,387,738	
Amounts withheld or retained by company for account of others			58,516	
Aggregate write-ins for liabilities			<u>2,304,135</u>	
Total liabilities			94,486,529	
Common capital stock		\$ 5,000,000		
Gross paid-in and contributed surplus		24,135,420		
Unassigned funds (surplus)		<u>12,130,169</u>		
Surplus as regards policyholders			<u>41,265,589</u>	
Total liabilities, surplus and other funds			<u>\$ 135,752,118</u>	

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

Statement of Income

Underwriting Income

Premiums earned		\$ 51,943,767
Deductions:		
Losses incurred	\$ 14,150,281	
Loss adjustment expenses incurred	16,720,061	
Other underwriting expenses incurred	<u>20,402,005</u>	
Total underwriting deductions		<u>51,272,347</u>
Net underwriting gain		671,420

Investment Income

Net investment income earned	\$ 4,914,251	
Net realized capital gain	<u>858,008</u>	
Net investment gain		5,772,259

Other Income

Net loss from agents' or premium balances charged off (amount recovered \$1,626 amount charged off \$56,441)	\$ (54,815)	
Finance and service charges not included in premiums	1,834,532	
Aggregate write-ins for miscellaneous income	<u>135,840</u>	
Total other income		<u>1,915,557</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		8,359,236
Federal and foreign income taxes incurred		<u>(6,339,673)</u>
Net income		<u>\$ 14,698,909</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		\$ 248,029,371
Net income	\$ 14,698,909	
Change in net unrealized capital gains (losses)	(47,451)	
Change in net deferred income tax	(11,605,675)	
Change in nonadmitted assets	190,435	
Dividends to stockholders	<u>(210,000,000)</u>	
Change in surplus as regards policyholders for the year		<u>(206,763,782)</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 41,265,589</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2013 through December 31, 2017

Surplus as regards policyholders, December 31, 2013				\$ 386,531,886
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 52,059,168	\$		
Net unrealized capital gains		17,241,760		
Change in net deferred income tax		12,153,369		
Change in nonadmitted assets		1,336		
Change in provision for reinsurance	71,000			
Dividends to stockholders	<u> </u>	<u>368,000,000</u>		
Total gains and losses	<u>\$ 52,130,168</u>	<u>\$ 397,396,465</u>		
Net decrease in surplus as regards policyholders				<u>(345,266,297)</u>
Surplus as regards policyholders, December 31, 2017				<u>\$ 41,265,589</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 (AIM) was terminated. Effective May 7, 2018, National General Holdings Corporation (NGHC) and certain affiliates entered into an Investment Management Agreement with Blackrock Financial Management, Inc. (BlackRock). Under the terms of the agreement, NGHC appointed BlackRock as its investment manager to invest and manage a portion or all of the assets of the Company, subject to the written guidelines and restrictions provided by the NGHC.

NGHC filed an application with the National Association of Insurance Commissioners (NAIC) to separate itself and its insurance subsidiaries (NGHC Group) 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 (Page 10) 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 recommended the Company maintain an Automobile Assessment File, which includes the vehicle information number, in accordance with California Code of Regulations Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.629(d).

Previous Report of Examination

None.

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