

REPORT OF EXAMINATION
OF THE
RESPONSE INDEMNITY COMPANY
OF CALIFORNIA
AS OF
DECEMBER 31, 2017

Filed on June 20, 2019

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION	1
COMPANY HISTORY:	3
Capitalization	3
Dividends	4
CORPORATE RECORDS:.....	4
Form B and C Filings	4
Form D Filings.....	4
Custodial Agreement	5
Presentation of Examination Report to the Board	5
MANAGEMENT AND CONTROL:.....	6
Management Agreements.....	7
TERRITORY AND PLAN OF OPERATION.....	8
REINSURANCE:	9
Assumed.....	9
Pooling Agreement	9
Ceded	9
ACCOUNTS AND RECORDS:.....	11
LOTS Re Collateral.....	11
Investment Interrogatory	12
FINANCIAL STATEMENTS:	12
Statement of Financial Condition as of December 31, 2017	13
Underwriting and Investment Exhibit for the Year Ended December 31, 2017	14
Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2017	15
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	16
Losses and Loss Adjustment Expenses	16
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	16
Current Report of Examination	16
Previous Report of Examination	18
ACKNOWLEDGMENT	19

Los Angeles, California
May 10, 2019

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

RESPONSE INDEMNITY COMPANY OF CALIFORNIA

(hereinafter also referred to as the Company) at its main administrative office located at 10151 Deerwood Park Boulevard, Building 100, Suite 500, Jacksonville, Florida 32256. The Company's statutory home office is located at 435 North Pacific Coast Highway, Suite 200, Redondo Beach, California 90277.

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. The examination also included identifying and evaluating significant risks that could cause the 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 was identified, the impact of such adjustment would 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 serving as the lead state. It was conducted concurrently with other insurance entities in the holding company group, including the following:

Company	NAIC #	State of Domicile	Company Type	Previous Examination
Lyndon Southern Insurance Company	10051	DE	P&C	12/31/2012
Insurance Company of the South	11162	GA	P&C	12/31/2012
Response Indemnity Company of California	10970	CA	P&C	12/31/2014
Blue Ridge Indemnity Company	40754	WI (2017) DE (2018)	P&C	12/31/2012
Life of the South Insurance Company	97691	GA	Life	12/31/2012
Bankers Life of Louisiana	61298	LA	Life	12/31/2012
Southern Financial Life Insurance Company *	60242	KY	Life	12/31/2017
* Conducted on a stand-alone basis by the Kentucky Insurance Department				

COMPANY HISTORY

The Company was incorporated on August 28, 1997 under the laws of the state of California, and commenced private passenger automobile insurance business on May 7, 1999. At that time, the Company was a wholly-owned subsidiary of Direct Response Corporation (DRC), a Delaware incorporated insurance holding company.

On February 13, 2009, Trinity Universal Insurance Company (Trinity), a Texas insurance company acquired DRC, and its subsidiaries in a cash transaction. Trinity is a wholly-owned subsidiary of Unitrin, Inc., a Delaware company.

On February 1, 2013, the Company was acquired by a Delaware corporation, LOTS Intermediate Company (LOTS Intermediate), which is a wholly-owned subsidiary of Fortegra Financial Corporation (Fortegra), a Delaware corporation publicly traded on the New York Stock Exchange. At the time of the acquisition by Fortegra, the Company had no policies in-force, and all remaining claim liabilities for previously issued policies were fully reinsured, as the Company had been in run-off since 2011.

On December 4, 2014, Fortegra and its subsidiaries, including the Company, were acquired by Tiptree Financial, Inc., (Tiptree), a Maryland domiciled diversified public holding company, which is traded on the NASDAQ. After the acquisition, Fortegra was no longer publicly traded on the New York Stock Exchange. At the examination date, the Company was wholly-owned by LOTS Intermediate Company, a Delaware corporation, which is ultimately owned by Tiptree Inc., the ultimate controlling entity.

Capitalization

The Company is authorized to issue 500,000 shares of its common stock, with a par value of \$50 per share. As of December 31, 2017, there were 52,000 shares outstanding and issued to its parent, LOTS Intermediate Company.

Dividends

No dividends were issued to the shareholder in the period of this examination.

CORPORATE RECORDS

Form B and C Filings

A review of the Company's Insurance Holding Company System Annual Registration Statements, Form B and C filings, disclosed the following errors related to completeness and accuracy:

- The Company failed to report the Novation Agreement between the Company, London Life International Reinsurance Corporation, and LOTS Reassurance Company, effective October 1, 2016.
- In its 2017 filing, the Company incorrectly reported the affiliated Tax Sharing Agreement dated April 25, 2014, which had been superseded by a new Tax Sharing Agreement dated January 1, 2016.
- The Company incorrectly reported non-affiliated agreements in its Form B, namely an Investment Advisory Agreement with Sterling Capital Management, and a Custody Agreement with U.S. Bank, N.A.
- During the examination period, the Company did not follow the prescribed format for Forms B and C, namely not accurately completing Form B, Item 5, subparts (a) through (i), and reporting changes in the current year on Form C.

It is recommended the Company implement procedures to ensure the completeness and accuracy of its Insurance Holding Company System Annual Registration Statements in accordance with California Insurance Code (CIC) Sections 1215.4(b) and (c).

Form D Filings

The Company failed to file a Form D, Prior Notice of a Transaction, with the California Department of Insurance (CDI) for the following transactions:

- The Tax Sharing Agreement with affiliates, effective January 1, 2016, was amended April 1, 2017, to add Blue Ridge Indemnity Company. The Company should consider amending and filing a Form D for this agreement, and to add any other affiliates that may have been included in the consolidated tax return.
- The Reinsurance Agreement and related Trust Agreement between LOTS Reassurance Company, the Company, Insurance Company of the South, and Lyndon Southern Insurance Company dated October 1, 2016 were not filed in a timely manner with the CDI, but were subsequently filed August 11, 2017, in conjunction with filed amendments to these agreements. The agreements were approved by the CDI on March 15, 2018.

It is recommended the Company implement procedures to ensure it files its affiliated agreements, and changes thereto, in a timely manner with the CDI in accordance with CIC Section 1215.5(b).

Custodial Agreement

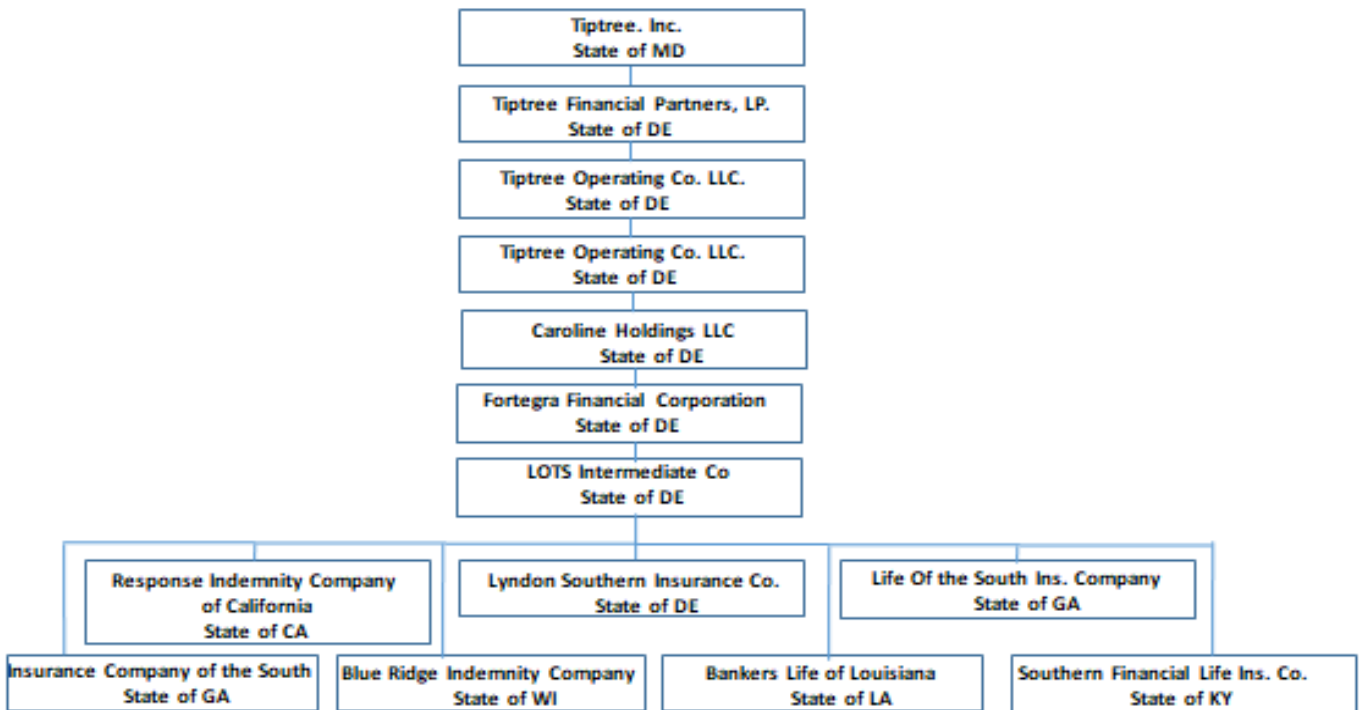
The Company changed its Custodian for investments from U.S. Bank, N.A., to Fifth Third Bank on June 18, 2018. It is recommended the Company file this custodial agreement with the CDI in accordance with CIC Section 1104.9(c).

Presentation of Examination Report to the Board

It was noted during review of the Board of Director minutes, that the 2014 examination report was not presented to the Board, which was not in compliance with CIC Section 735. It is recommended the Company implement procedures to ensure compliance with CIC Section 735.

MANAGEMENT AND CONTROL

The Company is a member of a diversified holding company system, of which Tiptree Financial, Inc. (Tiptree) is the ultimate controlling entity. Following is an abridged organizational chart that depicts the interrelationship of the companies as of December 31, 2017. 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, 2017:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Michael F. Grasher Jacksonville, Florida	Executive Vice President, Chief Financial Officer Fortegra Financial Corporation
Richard S. Kahlbaugh Ponte Vedra Beach, Florida	Chairman President and Chief Executive Officer Fortegra Financial Corporation
Joseph R. McCaw II Ponte Vedra Beach, Florida	Executive Vice President, Credit and Warranty Fortegra Financial Corporation
Michael Vrban Ponte Vedra Beach, Florida	Senior Vice President, Financial Operations Fortegra Financial Corporation

Principal Officers

<u>Name</u>	<u>Title</u>
Richard S. Kahlbaugh	President
Christopher D. Romaine	Secretary
Michael Vrban	Senior Vice President and Treasurer

Management Agreements

Administrative Service Agreement: Effective February 1, 2013, an Administrative Service Agreement was executed between the Company and LOTSolutions Inc. (Solutions), an affiliate. Under the terms of the agreement, Solutions provides administrative services relating to the production and distribution of policies, including but not limited to, marketing, underwriting, policyholder services, premium collection, reinsurance, and claims handling for the Company. Reimbursements for services provided are to occur within fifteen days of quarter end, and are based on actual costs and expenses incurred. Any indirect or shared expenses are allocated in accordance with the Statements of Statutory Accounting Principles No. 70. The agreement was approved by the California

Department of Insurance (CDI) on July 8, 2013. No expenses were charged to the Company for 2016 and 2017.

Tax Sharing Agreement: Effective July 1, 2013, the Company was party to a Tax Sharing Agreement with Fortegra Financial Corporation, and other affiliates. It was approved by the CDI on May 29, 2013. This agreement was replaced by a Tax Sharing Agreement, effective January 1, 2016, with Tiptree Financial Inc., the Company and its subsidiaries, but excluded Bankers Life of Louisiana. Under the agreement, the Company's tax liability or receivable is calculated as if it had filed on a separate return basis. The agreement was approved by the CDI on July 18, 2016.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company was licensed to transact fire, marine, disability, liability, and automobile lines of business in California only. The majority of business written was non-standard automobile, credit insurance, and warranty policies. The Company wrote direct premiums of \$28.5 million in 2015, \$13.4 million in 2016, and \$7.9 million in 2017.

Prior to the acquisition by LOTS Intermediate Company (LOTS), the Company was in run-off since 2011. Upon acquisition by LOTS, the Company resumed writing private passenger non-standard automobile liability, and began writing credit property insurance in April 2014, and warranty products in 2015. The Company uses third party administrators to solicit, underwrite, and handle claims for its automobile line of business.

REINSURANCE

Assumed

The Company assumed \$3.37 million of reinsurance under its pooling agreement with affiliates, described below.

Pooling Agreement

Effective January 1, 2015, the Company entered into an Intercompany Pooling Agreement with its affiliates, Lyndon Southern Insurance Company (LSIC), domiciled in Delaware, and Insurance Company of the South (ICOTS), domiciled in Georgia. Under the terms of the agreement, the Company and ICOTS cede 100% of direct and assumed business net of other reinsurance to LSIC. The cessions from the Company and ICOTS are combined with LSIC's business, resulting in the pooled balance to be allocated to each company in the pool. The pooling agreement was approved by the California Department of Insurance (CDI) on May 1, 2015. The following table provides each participant's pooling share:

<u>Company</u>	<u>State of Domicile</u>	<u>Pooling Share</u>
Lyndon Southern Insurance Company	DE	72.84%
Insurance Company of the South	GA	24.82%
Response Indemnity Company of California	CA	2.34%
Pool Total		<u>100.00%</u>

Ceded

Effective April 1, 2014, the Company entered into a Non-Standard Automobile Quota Share Reinsurance Agreement with Church Mutual Insurance Company (CMIC), domiciled in Wisconsin, and Employers Mutual Casualty Company (EMCC), domiciled in Iowa. Under the terms of the agreement, the Company cedes 80% of its non-standard

automobile business to CMIC and EMCC equally. Liabilities reinsured are not to exceed \$1.0 million each occurrence, or \$1.5 million for all occurrences.

Effective December 1, 2014, the Company entered into a Credit Property Quota Share Reinsurance Agreement with London Life International Reinsurance Corporation (LLIRC), an unaffiliated reinsurer domiciled in Barbados. Under the terms of the agreement, the Company ceded 90% of its credit property business to LLIRC. Effective October 1, 2016, this agreement was subsequently novated to LOTS Reassurance Company, Ltd. (LOTS RE), an affiliate organized under the laws of the Turks and Caicos Islands, whereby LOTS RE would assume the reinsurance obligations from LLIRC. As noted in the "CORPORATE RECORDS" section, the novation agreement was not filed in a timely manner with the CDI, but was filed August 31, 2017, after which it was approved by the CDI on March 15, 2018.

Effective October 1, 2016, the Company, ICOTS, and LSIC (cedants) entered into a multi-year, quota share Reinsurance Agreement with LOTS RE (reinsurer), to cede all inforce and new credit property policies issued by the cedants, including but not limited to the following: Blanket Protection, Collateral Protection, Household Goods, Involuntary Unemployment Insurance, Mortgage, Non File, and Vendor Single Interest. The agreement included a Trust Agreement for the benefit of the cedants, by and among LOTS RE, the Company, ICOTS, LSIC, and Synovus Trust Company, N.A., as Trustee. The Company ceded 90% of its business under these policies to LOTS RE under this agreement. As noted in the "CORPORATE RECORDS" section of this report, this agreement was not filed in a timely manner with the CDI, but was filed August 11, 2017, after which it was approved by the CDI on March 15, 2018.

This agreement contained loss carry-forward and experience refund provisions that raised risk transfer concerns during the examination. Delaware's consulting property and casualty actuary for the examination performed a risk transfer analysis of the contract. After the review, it was determined that the down side risk of the ceding companies is not transferred to the reinsurer. The ceding companies perform worse than the reinsurer

when the direct loss ratio exceeds 82.8% of premium. This does not meet the threshold generally considered necessary for evidence of risk transfer, as required by the National Association of Insurance Commissioners Statement of Statutory Accounting Principles (SSAP) No. 62R, paragraphs 10 – 21, Reinsurance Contracts Must Include Transfer of Risk. It is recommended the Company amend this agreement in accordance with the requirements in SSAP No. 62R, paragraphs 10 – 21. As of December 31, 2017, the experience under the contract did not trigger a loss carry-forward, so had not reached the level that would have impacted transfer of risk.

In 2017, the Company filed with the CDI (1) First Amendments to both the Reinsurance and Trust Agreements described above, to be removed from these agreements effective December 31, 2017, and (2) new Reinsurance and Trust Agreements solely between the Company and LOTS RE, effective January 1, 2018. The Amendments and new Agreements were approved by the CDI on March 15, 2018. These agreements appear to have the same transfer of risk issues as the previous agreements noted above. It is recommended the Company amend the agreement effective January 1, 2018 with LOTS RE to include transfer of risk.

ACCOUNTS AND RECORDS

LOTS Re Collateral

LOTS Reassurance Company, LTD (LOTS Re) was incorrectly classified as an Authorized Affiliated Reinsurer on the Company's 2017 Annual Statement, Schedule F, Part 3, which is in violation of California Insurance Code Section (CICS) 923, which requires insurers to file annual or quarterly statements to use the statement blanks and instructions thereto for the appropriate year as adopted by the National Association of Insurance Commissioners (NAIC). In addition, the Company incorrectly took reinsurance credit of \$338,000, without having the required collateral for reinsurance, in accordance with CICS 922.5. No examination adjustment was made for this reporting error due to materiality. It is recommended the Company implement procedures to ensure that they

properly report reinsurance in its Annual Statements, in accordance with the NAIC Annual Statement Instructions.

Investment Interrogatory

In its 2017 Annual Statement, General Interrogatories, Part 1, Item 28.05, the Company did not list all investment advisors. In addition to Sterling Capital Management, it also uses Clearwater and Blackrock. It is recommended the Company provide complete information in its Annual Statement reporting, in accordance with the NAIC Annual Statement Instructions.

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 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, 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	\$ 3,867,130	\$	\$ 3,867,130	
Cash and cash equivalent	1,651,732		1,651,732	
Investment income due and accrued	42,926		42,926	
Premiums and agents' balances in course of collection	252,208		252,208	
Premiums, agents' balances and installments booked but deferred and not yet due	708,089		708,089	
Other amounts receivable under reinsurance contracts	1,223,154		1,223,154	
Federal and foreign income tax recoverable	47,419		47,419	
Net deferred tax asset	167,911	52,967	114,944	
Receivable from parent, subsidiary and affiliates	262,786		262,786	
Aggregate write-ins for other than invested assets	<u>147,840</u>	<u>3,631</u>	<u>144,210</u>	
 Total assets	 <u>\$ 8,371,195</u>	 <u>\$ 56,598</u>	 <u>\$ 8,314,597</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 438,764	(1)
Loss adjustment expenses			8,581	(1)
Commissions payable, contingent commissions and other similar charges			17,384	
Other expenses			16,180	
Taxes, licenses and fees			537	
Unearned premiums			1,921,743	
Ceded reinsurance premiums payable			269,393	
Funds held by company under reinsurance treaties			89,863	
Provision for reinsurance			194,362	
Payable to parent, subsidiaries and affiliates			302,207	
Aggregate write-ins for liabilities			<u>43,691</u>	
 Total liabilities			 3,302,704	
Common capital stock		\$ 2,600,000		
Gross paid-in and contributed surplus		3,500,200		
Unassigned funds (surplus)		<u>(1,088,307)</u>		
Surplus as regards policyholders			<u>5,011,893</u>	
 Total liabilities, surplus and other funds			 <u>\$ 8,314,597</u>	

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

Statement of Income

Underwriting Income

Premiums earned		\$ 2,776,598
Deductions:		
Losses incurred	\$ 1,246,220	
Loss expenses incurred	96,232	
Other underwriting expenses incurred	<u>1,356,152</u>	
Total underwriting deductions		<u>2,698,604</u>
Net underwriting gain		77,994

Investment Income

Net investment income earned	109,347	
Net realized capital gain	<u>30,993</u>	
Net investment gain		140,340

Other Income

Aggregate write-ins for miscellaneous income	<u>946</u>	
Total other income		<u>946</u>
Net income, after capital gains tax and before federal income taxes		219,280
Federal income taxes incurred		<u>44,846</u>
Net income		<u>\$ 174,433</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		\$ 5,108,706
Net income	\$ 174,433	
Change in net deferred income tax	(122,329)	
Change in non-admitted assets	45,445	
Change in provision for reinsurance	<u>(194,362)</u>	
Change in surplus as regards policyholders for the year		<u>(96,812)</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 5,011,893</u>

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

Surplus as regards policyholders, December 31, 2014			\$ 4,491,702
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 753,826	\$	
Change in net unrealized gains	242		
Change in net deferred income tax		59,508	
Change in nonadmitted assets	36,276		
Change for provision for reinsurance		194,362	
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>16,283</u>	
Total gains and losses	<u>\$ 790,344</u>	<u>\$ 270,153</u>	
Net increase in surplus as regards policyholders			<u>520,191</u>
Surplus as regards policyholders, December 31, 2017			<u>\$ 5,011,893</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The December 31, 2017 losses and loss adjustment expense reserves were evaluated by a consulting actuary from the Delaware Department of Insurance. Based on the analysis performed, the Company's losses and loss adjustment expense reserves were found to be reasonably stated. An actuary from the California Department of Insurance (CDI) reviewed the work performed by the lead state, and concurred with their conclusion that losses and loss adjustment expense reserves were reasonably stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records - Form B and C Filings (Page 4): A number of issues were noted in regards to the completeness and accuracy of the Company's Holding Company System Annual Registration Statements, Form B and C filings. It is recommended the Company implement procedures to ensure the completeness and accuracy of its Insurance Holding Company System Annual Registration Statements, in accordance with California Insurance Code (CIC) Sections 1215.4(b) and (c).

Corporate Records – Form D Filings (Page 4): The Company failed to file a Form D, Prior Notice of a Transaction, with the California Department of Insurance (CDI) for certain of its affiliated agreements. It is recommended the Company implement procedures to ensure it files its affiliated agreements, and changes thereto, in a timely manner with the CDI, in accordance with CIC 1215.5(b).

Corporate Records – Custodial agreement (Page 5): The Company changed its Custodian for investments from U.S. Bank, N.A., to Fifth Third Bank on June 18, 2018. It

is recommended the Company file this custodial agreement with the CDI in accordance with CIC Section 1104.9(c).

Corporate Records – Presentation of Examination Report to the Board (Page 5): It was noted during review of the Board of Director minutes, that the 2014 examination report was not presented to the Board, which was not in compliance with CIC Section 735. It is recommended the Company implement procedures to ensure compliance with CIC 735.

Reinsurance – Ceded (Page 9): The company was party to two multi-year, quota share reinsurance agreements with LOTS Reassurance Company (LOTS RE), an affiliate. The agreements contained loss carry-forward and experience refund provisions that did not meet the transfer of risk requirement in Statement of Statutory Accounting Practices (SSAP) No. 62R. It is recommended the Company amend this agreement in accordance with the requirements in SSAP No. 62R, paragraphs 10 – 21.

Accounts and Records – LOTS Re Collateral (Page 11): LOTS Re was incorrectly classified as an Authorized Affiliated Reinsurer on the Company's 2017 Annual Statement, Schedule F, Part 3, in violation of California Insurance Code Section (CICS) 923, Annual and Quarterly Statement Filing. In addition, the Company incorrectly took reinsurance credit of \$338,000, without having the required collateral for reinsurance, in accordance with CICS 922.5. No examination adjustment was made for this reporting error due to materiality. It is recommended the Company implement procedures to ensure that they properly report reinsurance in its Annual Statements, in accordance with the NAIC Annual Statement Instructions.

Accounts and Records – Investment Interrogatory (Page 12): In its 2017 Annual Statement, General Interrogatories, Part 1, Item 28.05, the Company did not list all investment advisors. In addition to Sterling Capital Management, it also uses Clearwater and Blackrock. It is recommended the Company provide complete information in its Annual Statement reporting, in accordance with the NAIC Annual Statement Instructions.

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/ _____

George Xue, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

/S/ _____

Isabel Spiker, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California