

REPORT OF EXAMINATION
OF THE
ANCHOR GENERAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2022

Commissioners Signature

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Filed on December 28, 2023

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Los Angeles, California
November 21, 2023

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ANCHOR GENERAL INSURANCE COMPANY

(hereinafter also referred to as the Company). The statutory home office is located at 10256 Manley Drive, San Diego, California 92131.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2018. This examination covered the period from January 1, 2019 through December 31, 2022.

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 of Anchor Insurance Holdings Group, with California serving as the lead state. The examination was conducted concurrently with the Company's subsidiary, Pacific Star Insurance Company. The Wisconsin Office of the Commissioner of Insurance also participated on the examination.

COMPANY HISTORY

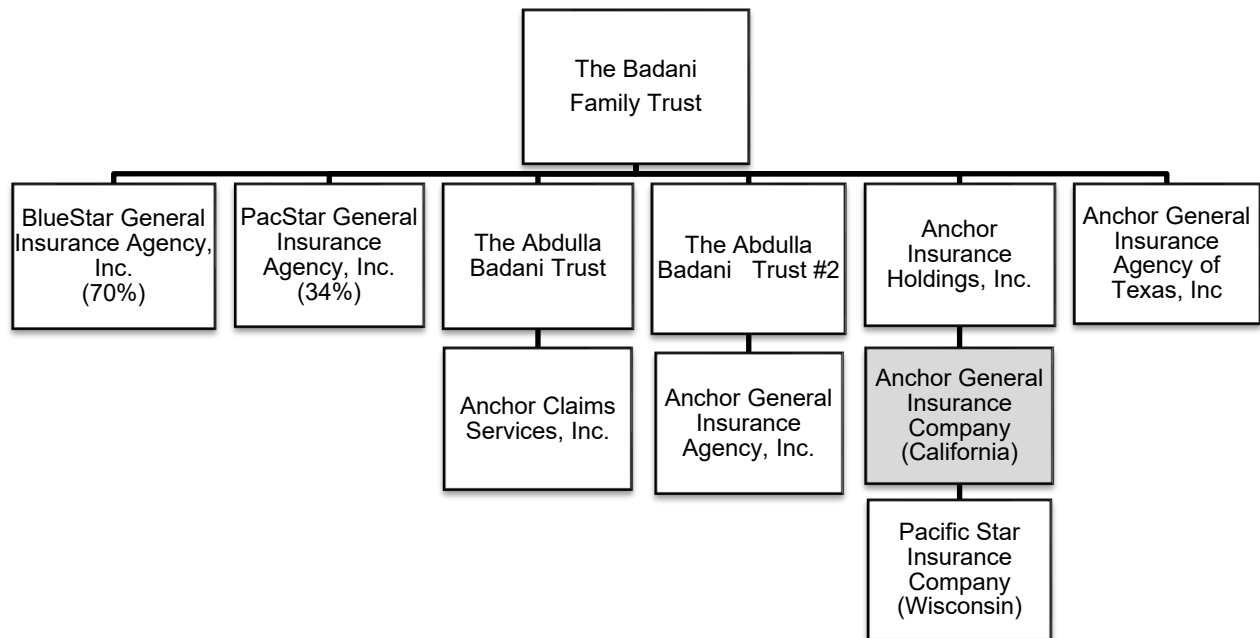
The Company was incorporated in the state of Arizona on April 28, 1981 and commenced business on August 1, 1981. The Company re-domesticated to California on November 5, 2001.

Capitalization

The Company is authorized to issue fifty thousand shares of Class A voting common stock with a par value of \$100 per share. As of December 31, 2022, there were 32,000 shares outstanding.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system and is wholly-owned by Anchor Insurance Holdings, Inc., which is wholly-owned by The Badani Family Trust as the Ultimate Controlling Person. The following organizational chart depicts the Company's relationship within the holding company system. All ownership is 100% unless otherwise noted.



Management and control of the Company is vested in a three-member board of directors, who are elected annually. Following are members of the board and principal officers of the Company serving at December 31, 2022:

Directors

Name and Location

Abdulla Badani
Rancho Santa Fe, California

Susan Stokes-Gibson
Poway, California

Principal Business Affiliation

President and Chief Executive Officer
Anchor General Insurance Company

Vice President, Underwriting
Anchor General Insurance Company

Name and Location

Angie Van Cleaf
Encinitas, California

Principal Business Affiliation

Vice President and Chief Financial Officer
Anchor General Insurance Company

Principal OfficersName

Abdulla Badani
Angie Van Cleaf
Susan Stokes-Gibson
Gretchen Allen

Title

President and Chief Executive Officer
Vice President and Chief Financial Officer
Vice President, Underwriting
Secretary and Controller

Management Agreements

Program Administrator Agreement: Since 1998, the Company and its affiliate, Anchor General Insurance Agency, Inc. (AGIA), have been party to a Program Administrator Agreement (Agreement). Under the terms of this Agreement, AGIA provided the Company with services, such as: solicitation of risks, servicing its business, binding of risks, policy issuance, policy servicing, and premium collection. The terms of this agreement require that it be renegotiated every three years. For this reason, the Agreement was renegotiated, without changes, effective January 1, 2020. Under the terms of the Agreement, AGIA was compensated with a sliding scale commission having a floor of 18% and a cap of 21%. The commission is adjusted by .5% (1/2 point) for every 1% (1 point) decrease in the loss ratio below 66%. During 2019, 2020, 2021, and 2022, the Company paid AGIA \$14,407,716, \$18,544,312, \$15,891,757, and \$17,287,619, respectively.

The first amendment to the Agreement became effective January 1, 2022 with approval by the CDI on December 24, 2021. This amendment increased the sliding scale commission floor to 19% and the cap to 22% utilizing the same adjustment factors and loss ratios as described above. The second amendment to the Agreement became effective January 1, 2022 but was not timely filed with the CDI, which subsequently

approved the amendment on February 21, 2023. This amendment decreased the sliding scale commission floor to 17%, but retained the cap of 22%. The commission is adjusted by .5% (1/2 point) for every 1% (1 point) decrease in the loss ratio below 70%.

Program Administrator Agreement: Since 2010, the Company and its affiliate, Anchor General Insurance Agency of Texas, Inc. (AGIATX), a Texas corporation, have been party to a Program Administrator Agreement (Agreement). All terms conditions of this Agreement are the same as the terms in the above-mentioned Program Administrator Agreement with AGIA, with the exception that this agreement only applies to business written in the state of Texas. This Agreement was renegotiated, without changes, effective January 1, 2020. The first amendment to the Agreement became effective January 1, 2022 with approval by the CDI on December 24, 2021. This amendment and provided for the same changes in terms as those discussed in the first amendment for above-mentioned Program Administrator Agreement with AGIA. The second amendment to the Agreement became effective January 1, 2022 but was not timely filed with the CDI, which subsequently approved the amendment on February 21, 2023. This amendment and provided for the same changes in terms as those discussed in the second amendment for above-mentioned Program Administrator Agreement with AGIA. During 2019, 2020, 2021, and 2022, the Company paid AGIATX \$14,407,716, \$18,544,312, \$15,891,757, and \$17,287,619, respectively.

Cost Allocation Agreement: Since 2003, the Company and AGIA, have been party to a Cost Allocation Agreement (Agreement). Under the terms of this Agreement, AGIA provides certain facilities and administrative services to the Company. The terms of this agreement require that it be renegotiated every three years. For this reason, the Agreement was renegotiated, without changes, effective January 1, 2019. Also per this requirement the first amendment to the Agreement was made, without changes, effective January 1, 2022. During 2019, 2020, 2021, and 2022, the Company paid AGIA \$2,126,593, \$2,345,566, \$2,406,711 and \$2,484,046, respectively.

Cost Allocation Agreement: Since 2010, the Company and Pacific Star Insurance Company (PSIC), have been party to a Cost Allocation Agreement (Agreement). Under

the terms of this Agreement, the Company provides certain management, accounting, and shared administrative services as needed to PSIC. The terms of this agreement require that it be renegotiated every three years. For this reason, the Agreement was renegotiated, without changes, effective January 1, 2019. Also per these requirements, the first amendment to the Agreement was made, without changes, effective January 1, 2022. During 2019, 2020, 2021, and 2022, the Company was compensated \$208,302, \$353,276, \$211,140, and \$291,038, respectively by PSIC.

As noted above, the Company had failed to timely file and obtain approval from the CDI for materially significant agreements and amendments as required by the California Insurance Code (CIC) Section 1215.5(b)(4). CIC Section 1215.5(b)(4) requires, in part, that management agreements, involving a domestic insurer and any person in its holding company system, 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, or a shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4).

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company was licensed to transact multiple lines of property and casualty insurance in the states of Arizona, California, Florida, Nevada, New Mexico, and Texas. Currently, the Company is actively writing in California, Texas, and Arizona.

The Company specializes in non-standard private passenger automobile liability and physical damage insurance. The Company wrote \$111.3 million in direct premiums in 2022, with the majority of its business written in California, as indicated in the table below.

<u>State</u>	<u>Direct Premiums Written</u>	<u>Percentage of Total</u>
California	\$100,412,308	90.24%
Texas	\$10,053,827	9.04%
Arizona	\$806,285	0.72%

REINSURANCE

Assumed

Effective November 1, 2006, the Company entered into a quota share reinsurance agreement to assume 100% of the private passenger automobile business produced by its affiliate, Anchor General Insurance Agency of Texas, Inc. and written by Home State County Mutual Insurance Company (HSCMIC). HSCMIC business has been in run-off since 2010. As of December 31, 2022, the Company's assumed premium from HSCMIC was \$6,000.

Ceded

The Company and its subsidiary, Pacific Star Insurance Company (PSIC) were party to the following ceded reinsurance agreements as of December 31, 2022:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Automobile Liability & Physical Damage Quota Share Reinsurance Agreement	Authorized 15% Munich Reinsurance America Inc 30% Swiss Reinsurance Company	55% for each and every loss	45% for each and every loss

The Company is also party to the following ceded reinsurance agreement as of December 31, 2022 which is limited only to certain business written in California:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Automobile Liability & Physical Damage Quota Share Reinsurance Agreement	Authorized 80% American Family Connect Property and Casualty Insurance Company	20% for each and every loss	80% for each and every loss

ACCOUNTS AND RECORDS

Insurance Holding Company System Annual Registration Statement (Form B) Filing Instructions

California Insurance Code (CIC) Section 1215.4(b) requires, in part, that every insurer file a registration statement with the commissioner on a form and in a format prescribed by the National Association of Insurance Commissioners (NAIC). The NAIC's Form B filing instructions, indicate that any Ultimate Controlling Person (UCP) who is an individual may file personal financial statements that are reviewed rather than audited by an independent public accountant. Personal financial statements need to be accompanied by the independent public accountant's standard review report. During the review of the Company's Form B filings for the period under examination, it was observed that the financial statements filed for The Badani Family Trust, as UCP, were not accompanied by independent public accountant's standard review report.

It is recommended that the Company include the required independent public accountant's Standard Review Report with its Form B Filing to ensure compliance with CIC Section 1215.4(b) and the NAIC's Form B Filing 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, 2022. 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, 2022

Underwriting and Investment Exhibit for the Year Ended December 31, 2022

Reconciliation of Surplus as Regards Policyholders from December 31, 2018 through
December 31, 2022

Statement of Financial Condition
as of December 31, 2022

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 17,017,445	\$	\$ 17,017,445	
Common stocks	12,608,577		12,608,577	
Cash and short-term investments	13,875,623		13,875,623	
Receivable for securities	576		576	
Investment income due and accrued	113,768		113,768	
Uncollected premiums and agents' balances in course of collection	7,892,110		7,892,110	
Premiums, agents' balances and installments booked but deferred and not yet due	38,062,222		38,062,222	
Amount recoverable from reinsurers	8,826,105		8,826,105	
Current federal and foreign income tax recoverable and interest thereon	5,000		5,000	
Net deferred tax asset	987,278		987,278	
Receivables from parent, subsidiaries and affiliates	23,692		23,692	
Total assets	<u>\$ 99,412,396</u>	<u>\$</u>	<u>\$ 99,412,396</u>	
<u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses			\$ 20,197,568	(1)
Loss adjustment expenses			3,088,579	(1)
Reinsurance payable on paid loss and loss adjustment expenses			45	
Other expenses			244,894	
Taxes, licenses and fees			1,452,129	
Unearned premiums			22,176,202	
Ceded reinsurance premiums payable			27,560,245	
Payable to parent, subsidiaries and affiliates			241,906	
Aggregate write-ins for liabilities			<u>17,820</u>	
Total liabilities			74,979,388	
Common capital stock		\$ 3,200,000		
Gross paid in and contributed surplus		15,175,400		
Unassigned funds (surplus)		<u>6,057,608</u>		
Surplus as regards policyholders			<u>24,433,008</u>	
Total liabilities, Surplus, and other funds			<u>\$ 99,412,396</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2022

Statement of Income

<u>Underwriting Income</u>		<u>Notes</u>
Premium earned	\$ 38,926,818	
Deductions:		
Losses incurred	\$ 30,288,897	
Loss adjustment expenses incurred	(208,872)	
Other underwriting expenses incurred	<u>13,824,278</u>	
Total underwriting deductions	<u>43,904,303</u>	
Net underwriting loss	(4,977,485)	
<u>Investment Income</u>		
Net investment income earned	\$ 448,805	
Net realized capital gain	<u>(4,486)</u>	
Net investment gain	444,319	
<u>Other Income</u>		
Finance and service charges not included in premiums	\$ 3,157,616	
Aggregate write-ins for miscellaneous income	<u>(2,698,383)</u>	(2)
Total other income	<u>459,233</u>	
Net loss	<u>\$ (4,073,933)</u>	

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2021	\$ 28,384,681
Net loss	\$ (4,073,933)
Change in net unrealized capital gains	(597,917)
Change in net deferred income tax	<u>720,177</u>
Change in surplus as regards policyholders for the year	<u>(3,951,673)</u>
Surplus as regards policyholders, December 31, 2022	<u>\$ 24,433,008</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2018 through December 31, 2022

Surplus as regards policyholders, December 31, 2018			\$	21,980,747
	Gain in Surplus	Loss in Surplus		
Net income	\$ 420,807	\$		
Change in net unrealized capital gains	1,044,175			
Change in net deferred income tax	<u>987,278</u>			
Total gains and losses	<u>\$ 2,452,261</u>	<u>\$</u>	0	
Net increase in surplus as regards policyholders				<u>2,452,261</u>
Surplus as regards policyholders, December 31, 2022			\$	<u>24,433,008</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2022, were found to be reasonably stated, and have been accepted for purposes of this examination.

(2) Aggregate Write-ins for Miscellaneous Income

The Company reported aggregate write-ins for miscellaneous income in the amount of (\$2.69) million which consisted of other income of \$4,193, service charges not included premium expense of (\$3.2) million, and paycheck protection program (PPP) loan forgiveness of \$455 thousand.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreements (Page 7): It is recommended that the Company implement procedures to ensure future compliance with California Insurance Code (CIC) Section 1215.5(b)(4).

Accounts and Records – Insurance Holding Company System Annual Registration Statement (Form B) Filing Instructions (Page 9): It is recommended that the Company include the required independent public accountant's Standard Review Report with its Form B Filing to ensure compliance with CIC Section 1215.4(b) and the National Association of Insurance Commissioners (NAIC) Form B Filing Instructions.

Previous Report of Examination

Management and Control – It was recommended that the Company implement procedures to ensure future compliance with CIC Section 735. The Company has complied with this recommendation.

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,

A handwritten signature in black ink, appearing to read "Tracy D. Gates", written over a horizontal line.

Tracy D. Gates, CISA, CFE
Examiner-In-Charge
Contract Examiner
Department of Insurance
State of California

Cuauhtemoc Beltrán, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California