

REPORT OF EXAMINATION
OF THE
CSAA INSURANCE EXCHANGE
AS OF
DECEMBER 31, 2023

A handwritten signature in blue ink, appearing to read "Debra", is positioned above the filing date.

Filed on February 12, 2025

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Sacramento, California
January 16, 2025

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CSAA INSURANCE EXCHANGE

(hereinafter also referred to as the Exchange) with its home office located at 3055 Oak Road, Walnut Creek, California 94597.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Exchange. The previous examination of the Exchange was as of December 31, 2019. This examination covered the period from January 1, 2020 through December 31, 2023.

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 Exchange'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 includes identifying and evaluating significant risks that could cause the Exchange's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Exchange 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 Exchange's financial statements.

This examination report includes findings of fact and general information about the Exchange and its financial condition. There may 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 Exchange.

This was a coordinated examination with California as the lead state of the CSAA Insurance Group. It was conducted concurrently with other insurance entities in the holding company group, including CSAA Affinity Insurance Company, CSAA Fire & Casualty Insurance Company, CSAA General Insurance Company, Fortential Insurance Company, Mobilitas General Insurance Company, Mobilitas Insurance Company, and Mobilitas Insurance Company of Arizona. The Arizona Department of Insurance and Financial Institutions, Indiana Department of Insurance, and New Jersey Department of Banking and Insurance participated in the examination.

COMPANY HISTORY

The Exchange is a reciprocal insurer that was organized on June 20, 1914 and commenced business on August 14, 1914. The Exchange was sponsored by interests allied with the California State Automobile Association, now called AAA Mountain West Group, an automobile club (Club) incorporated in 1907. The Club is a member of the American Automobile Association, Inc. (AAA), which serves territories of Northern California, Arizona, Nevada, and Utah. The Exchange primarily writes private passenger automobile and homeowners coverage in Northern California and markets to AAA members.

MANAGEMENT AND CONTROL

As a reciprocal insurer, the Exchange has no shareholders and is not directly owned by any party. As of December 31, 2023, the Exchange is the ultimate parent of a holding company system with fourteen directly owned and eight indirectly owned subsidiaries.

The following organizational chart depicts the entities the Exchange had interrelationships with as of December 31, 2023:

CSAA Insurance Exchange (California)

- CSAA Affinity Insurance Company (Arizona)
- Fortential Insurance Company (New Jersey)
- Mobilitas General Insurance Company (Arizona)
- CSAA Fire & Casualty Insurance Company (Indiana)
- CSAA General Insurance Company (Indiana)
- Mobilitas Insurance Company (Arizona)
- Mobilitas Insurance Company of Arizona (Arizona)
- CSAA Insurance Services, Inc. (California)
 - CSAA Specialized Services, LLC (California)
- CSAA Investment Fund, LLC (California)
- CSAA Life and Financial Services, Inc. (California)
 - Pacific Beacon Life Reassurance, Inc. (Hawaii)
- ACLI Acquisition Company (Delaware)
 - AAA Life Insurance Company (Michigan)
 - AAA Life Insurance Company of New York (New York)
 - AAA Life Agency, LLC (Michigan)
- Club Marketing Services, LLC (California)
- 2445 St. Rose Parkway LLC (Delaware)
- Avanta Studios LLC (California)
- Avanta Ventures LLC (California)
- Pathway Private Equity Fund/CSAA Venture Capital Fund, LLC (Delaware)
- Pathway Private Equity Fund/CSAA Special Equity Fund, LLC (Delaware)

As of December 31, 2023, the business and affairs of the Exchange is overseen by an eleven-member board of directors, who are elected annually, and three ex-officio voting members, consisting of the Chief Executive Officer of the Exchange, the Chair of the board of directors for AAA Club Alliance (ACA), and the Chair of the board of directors for Mountain West Group (MWG). A fourth ex-officio seat for the Chief Executive Officer of AAA Club Partners, Inc. (ACP) has been vacant since the ACP CEO retired in mid-2020. The directors and principal officers serving at December 31, 2023 were as follows:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Spencer S. Angerbauer Heber City, Utah	Chief Executive Officer Venture Slopes, LLC
Earle L. Bradford, Jr. Villanova, Pennsylvania	Retired
Yvette D. Bright Philadelphia, Pennsylvania	Retired
Peter E. Calihan Phoenix, Arizona	Retired
Paula R. Collins San Francisco, California	Retired
Richard D. Daniels Alamo, California	Retired
Peter H. Havens Villanova, Pennsylvania	Investment Advisor Baldwin Management, LLC
Mary R. Hennessy Moorestown, New Jersey	Independent Consultant (Self-employed)
Ralph S. Michael, III Cincinnati, Ohio	Banking Executive Fifth Third Bank
Wendy E. Paskin-Jordan San Francisco, California	Investment Advisor Paskin & Berler Capital Advisors, LLC
James L. Pease, III Cincinnati, Ohio	Retired
Donald A. Smith, Jr. Carefree, Arizona	Retired
Vanessa L. Washington Piedmont, California	Independent Director
Michael J. Zukerman Walnut Creek, California	Interim President and Chief Executive Officer ⁽¹⁾ CSAA Insurance Exchange

Principal Officers

<u>Name</u>	<u>Title</u>
Michael J. Zukerman	Interim President and Chief Executive Officer ⁽¹⁾
Andrea K. Hecht	Executive Vice President, Chief Financial Officer, and Treasurer
Katherine J. Evans ⁽²⁾	Interim Executive Vice President, Chief Legal Officer, and Secretary
Jeffrey W. Huebner ⁽³⁾	Executive Vice President and Chief Risk Officer
Todd Pugh	Executive Vice President and Chief Information Officer
Robert E. Valliere	Executive Vice President and Chief Operations Officer
Debbie Brackeen	Executive Vice President and Chief Strategy and Innovation Officer
Melissa Jones	Executive Vice President and Chief Human Resources Officer
Julie Brown ⁽³⁾	Executive Vice President, Commercial Insurance
Linda Goldstein ⁽⁴⁾	Executive Vice President, Customer Experience and Marketing
Ryan D. Vigus	Executive Vice President, Personal Lines Product

The following changes occurred subsequent to the examination date:

- (1) Effective May 10, 2024, Michael Zukerman was appointed as the President and Chief Executive Officer.*
- (2) Effective May 10, 2024, Katherine Evans was appointed as the Chief Legal Officer and Secretary.*
- (3) Effective June 4, 2024, Jeff Huebner replaced Julie Brown as the Executive Vice President of Commercial Insurance.*
- (4) Effective January 3, 2025, the position of EVP, Customer Experience and Marketing was eliminated.*

Management Agreements

Amended and Restated Consolidated Intercompany Services Agreement: Effective October 1, 2021, CSAA Insurance Services, Inc. (CSAA IS) entered into an Amended and Restated Consolidated Intercompany Services Agreement (Agreement) with the Exchange and the following affiliates: CSAA Fire & Casualty Insurance Company, CSAA

General Insurance Company, CSAA Affinity Insurance Company, Fortential Insurance Company, Mobilitas General Insurance Company, Mobilitas Insurance Company, Mobilitas Insurance Company of Arizona, 2445 St. Rose Parkway LLC, Club Marketing Services, LLC, CSAA Investment Fund, LLC, CSAA Life and Financial Services, Inc., CSAA Specialized Services LLC, Avanta Studios LLC, Avanta Ventures LLC, and Pacific Beacon Life Reassurance, Inc. This Agreement replaces the previous Consolidated Intercompany Services Agreement dated October 1, 2017, and its three subsequent addendums. Pursuant to the Agreement, CSAA IS will provide the following services to the Exchange and its affiliates: facilities, accounting, tax, auditing, information technology, advertising and marketing, insurance production and servicing, policy administration, claims administration, investments, attorney-in-fact for the Exchange, and other functional support services. Each affiliate agrees to compensate CSAA IS for services and facilities provided pursuant to this Agreement. The basis of the service fees is based on direct and allocable expenses plus a reasonable direct charge for direct overhead. All indirect and shared expenses are allocated in accordance with a method of cost allocation in conformity with Statements of Statutory Accounting Principles No. 70. The Agreement was approved by the California Department of Insurance (CDI) on February 7, 2022. Total fees incurred by the Exchange for services rendered under the service agreements in 2020, 2021, 2022, and 2023 were \$435,087,004, \$422,502,176, \$482,830,926, and \$549,438,956, respectively.

Intercompany Managed Investment Fund Agreement: Effective January 1, 2018, the Exchange entered into an Intercompany Managed Investment Fund Agreement (Agreement) with CSAA Investment Fund, LLC (CSAA Investment Fund). Pursuant to the Agreement, the Exchange appoints CSAA Investment Fund to provide investment services related to capital contributions placed by the Exchange with CSAA Investment Fund and CSAA Investment Fund may charge the Exchange for investment services provided pursuant to this Agreement. The basis of the charges is based on reasonable and equitable direct and allocable expenses. All indirect and shared expenses are allocated in accordance with a method of cost allocation in conformity with Statements of Statutory Accounting Principles No. 25 and No. 70. The Agreement was approved by the CDI on January 15, 2020. The Exchange did not incur any fees for services rendered

under this Agreement in 2020 and 2021. Fees incurred in 2022 and 2023 were \$5,411,760 and \$5,525,000, respectively.

Second Amended Restated Tax Allocation Agreement: Effective January 1, 2011, the Exchange entered into a Second Amended Restated Tax Allocation Agreement (Agreement) with the following subsidiaries and affiliates: CSAA Affinity Insurance Company, CSAA Fire & Casualty Insurance Company, CSAA General Insurance Company, Fortential Insurance Company, Mobilitas General Insurance Company, CSAA Life and Financial Services, Inc., and Pacific Beacon Life Reassurance, Inc. The Agreement allocates federal income taxes among the companies on a separate company basis. This Agreement supersedes the Restated Intercompany Tax Allocation Agreement that was approved by the CDI on August 1, 2005. The purpose of the 2011 amendment was to add CSAA Affinity Insurance Company, Fortential Insurance Company, and Mobilitas General Insurance Company as participants to the Agreement. The subsequent addenda to the Agreement to add or remove companies did not require filing with the CDI pursuant to CIC Section 1215.5(b). Mobilitas Insurance Company and Mobilitas Insurance Company of Arizona became party to the Agreement effective June 21, 2018 and January 30, 2019, respectively. The Exchange recovered federal and foreign income taxes of \$94,863,536 in 2023 and incurred \$25,869,880, \$27,634,976, and \$45,825,377 of taxes in 2022, 2021, and 2020, respectively.

\$50,000,000 Revolving Line of Credit Agreement: Effective January 1, 2019, the Exchange entered into a Revolving Line of Credit Agreement (Agreement) with Pacific Beacon Life Reassurance, Inc. (Pacific Beacon). Pursuant to the Agreement, the Exchange provides a revolving line of credit of \$50 million for loans, advances, and extensions of credit to or for the benefit of Pacific Beacon for the purpose of funding annuity surrenders. As of December 31, 2023, there were no outstanding balances on the line of credit.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2023, the Exchange was licensed in California and Nevada. In 2023, \$3.77 billion (100%) of the Exchange's direct premium was written in Northern California.

For private passenger automobile and homeowners coverages, only members in good standing of the not-for-profit automobile club organized under the American Automobile Association (AAA) in select service areas are eligible to apply for insurance. The Exchange's primary lines of business written include private passenger auto physical damage with \$1.55 billion (41.1%), other private passenger auto liability with \$1.27 billion (33.7%), and homeowners multiple peril with \$895.05 million (23.7%).

The Exchange's and its seven insurance subsidiaries' (the Group) private automobile and homeowners business are produced primarily through AAA clubs in select service areas encompassing 26 states and the District of Columbia (DC). Additionally, the Group also provides direct sales support in select territories as agreed upon with the local AAA club. For commercial lines of business, Mobilitas Insurance Company, Mobilitas Insurance Company of Arizona, and Mobilitas General Insurance Company are collectively eligible and licensed to write commercial automobile insurance for ride-share drivers and fleet owners in 50 states and the DC.

REINSURANCE

Intercompany Reinsurance

Restated Pooling Agreement: Effective January 1, 2019, the Exchange (lead insurer) entered into a Restated Pooling Agreement (Agreement) with six of its insurance subsidiaries (participating insurers): CSAA Affinity Insurance Company, CSAA Fire and Casualty Insurance Company (FCIC), CSAA General Insurance Company, Fortential Insurance Company, Mobilitas General Insurance Company (MGIC), and Mobilitas Insurance Company. Pursuant to the Agreement, the participating insurers cede 100% of their covered risks and the lead insurer accepts and assumes the covered risks of the participating insurers. There is no retrocession from the lead insurer to any participating insurers. Effective September 1, 2019, Mobilitas Insurance Company of Arizona (MICA) became a participating insurer through the First Amendment to the Agreement. The amendment to add MICA to the Agreement was approved by the CDI on December 16, 2019. Effective October 1, 2020, MGIC was removed as a party to the Agreement per the Second Amendment to the Agreement. The remaining pool

participants continue to cede 100% of their insurance business to the Exchange. The CDI issued a non-disapproval letter for the Second Amendment to the Agreement on September 10, 2020.

Assumed

The Exchange earns premiums by participating in the following reinsurance agreements with Renaissance Reinsurance (RenRe), Lloyd's Syndicate 33 (as managed and underwritten) for Hiscox Syndicates Limited and Hiscox Insurance Company (Bermuda) Limited, and Arch Reinsurance. The risks assumed from these companies are primarily composed of wildfire, hurricane, and earthquakes risks in North America, windstorm risks in Europe, and earthquake and typhoon risks in Japan. In 2023, the Exchange assumed \$99.09 million of premiums under the three reinsurance agreements.

Cat Portfolio Participation Reinsurance Contract: Effective January 1, 2023, the Exchange agreed to assume risks from RenRe's catastrophe portfolio with a loss capping provision for each underwriting year. Profits and losses are calculated for each underwriting year, based on the considerations of assumed premium, actual loss ratio, adjusted loss ratio, threshold loss ratio, and profit-sharing percentage.

Property Quota Share Retrocessional Agreement: Effective January 1, 2023, the Exchange entered into a Property Quota Share Retrocessional Agreement (Agreement) with Arch Reinsurance Ltd., Arch Reinsurance Europe Underwriting Designated Activity Company, and Arch Managing Agency Limited (collectively, "Retrocedent"). Pursuant to the Agreement, the Exchange assumes a percentage of paid loss, subject to a loss aggregate cap based on the final gross premium written for each underwriting year.

Quota Share Reinsurance Agreement: Effective January 1, 2023, the Exchange entered into a Quota Share Reinsurance Agreement (Agreement) with Lloyd's Syndicate 33. Pursuant to the Agreement, the Exchange assumes a percentage of the risks from Lloyd's Syndicate 33, as managed and underwritten by Hiscox Syndicates Limited. The aggregate cap and geographical occurrence cap are subject to a percentage of gross premium.

Ceded

The Exchange is party to a five-layer Catastrophe Excess of Loss treaty and cedes to various subscribing reinsurers, brokered through AON Benfield, for business defined as Homeowners Multiple Peril (property only), Automobile Physical Damage, Earthquake, Fire, Inland Marine, and Commercial. The 2023 Catastrophe Excess of Loss treaty provides protection in a series of layers up to \$1.3 billion in excess of \$200 million per occurrence, with one reinstatement. The second through the fifth layer of the treaty provides multi-year coverages, with various limits expiring between 2023 through 2025. The Catastrophe Excess of Loss treaty also has a Top and Drop coverage that responds to property catastrophes. It is an annual contract with an effective date of January 1, 2023. The coverage per occurrence is for \$100 million in excess of \$100 million, after a \$100 million aggregate annual deductible has been met. The coverage responds in two ways. If an event exceeds \$1.3 billion, the contract provides up to \$100 million in excess of \$1.3 billion. The second scenario is protection for events less than \$1.3 billion, providing \$100 million in excess of \$100 million for a second or third large catastrophe in the same year. The following is a summary of the principal ceded reinsurance treaties in-force as of December 31, 2023:

<u>Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limits</u>
<u>Catastrophe Excess of Loss</u> (2023 Combined Program)			
Layer One	<u>Authorized:</u> Lloyd's Underwriters, (11.15%), Arch Reinsurance, Ltd. (8.00%), DaVinci Reinsurance Ltd. (6.90%), Everest Reinsurance Company (5.00%), Renaissance Reinsurance Ltd. (4.60%), and various others totaling (8.68%). <u>Unauthorized:</u> Convex Re Ltd. (2.75%), Convex Insurance UK Ltd. (2.75%), Hannover Re (Bermuda) Ltd. (2.00%), Group Ark Insurance Ltd. (1.75%), and various others totaling (6.42%).	\$200 million plus 40.00% of \$150 million in excess of \$200 million, per occurrence	60.00% of \$150 million in excess of \$200 million, per occurrence

<u>Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limits</u>
Layer Two	<u>Authorized:</u> Lloyd's Underwriters, (13.25%), DaVinci Reinsurance Ltd. (9.80%), Arch Reinsurance, Ltd. (8.15%), Renaissance Reinsurance Ltd. (8.03%), Transatlantic Reinsurance Company (4.64%), and various others totaling (21.71%). <u>Unauthorized:</u> Hannover Re (Bermuda) Ltd. (6.60%), Munich Reinsurance America, Inc. (6.00%), Convex Re Ltd. (3.00%), Convex Insurance UK Ltd. (3.00%), Fidelis Insurance Bermuda Ltd. (3.00%), and various others totaling (12.22%).	\$350 million plus 0.60% of \$200 million in excess of \$350 million, per occurrence	99.40% of \$200 million in excess of \$350 million, per occurrence <u>Expires Year End 2023</u> 63.09% of \$200 million in excess of \$350 million, per occurrence <u>Expires Year End 2024</u> 25.06% of \$200 million in excess of \$350 million, per occurrence <u>Expires Year End 2025</u> 11.25% of \$200 million in excess of \$350 million, per occurrence
Layer Three	<u>Authorized:</u> Lloyd's Underwriters (15.30%), Arch Reinsurance Ltd. (7.86%), DaVinci Reinsurance Ltd. (7.50%), Renaissance Reinsurance Ltd. (6.25%), Transatlantic Reinsurance Company (4.07%), and various others totaling (23.56%). <u>Unauthorized:</u> Munich Reinsurance America, Inc. (6.00%), Hannover Re (Bermuda) Ltd. (4.60%), Fidelis Insurance Bermuda Ltd. (4.50%), Convex Re Ltd. (3.00%), Convex Insurance UK Ltd. (3.00%), and various others totaling (13.76%).	\$550 million plus 0.60% of \$300 million in excess of \$550 million, per occurrence	99.40% of \$300 million in excess of \$550 million, per occurrence <u>Expires Year End 2023</u> 62.86% of \$300 million in excess of \$550 million, per occurrence <u>Expires Year End 2024</u> 25.88% of \$300 million in excess of \$550 million, per occurrence <u>Expires Year End 2025</u> 10.67% of \$300 million in excess of \$550 million, per occurrence
Layer Four	<u>Authorized:</u> Lloyd's Underwriters (19.09%), Arch Reinsurance Ltd. (7.97%), DaVinci Reinsurance Ltd. (4.30%), Hiscox Insurance Company (Bermuda) Ltd. (4.23%), Renaissance Reinsurance Ltd. (3.85%), and various others totaling (21.18%). <u>Unauthorized:</u> Vermeer Reinsurance Ltd. (7.10%), Fidelis Insurance Bermuda Ltd. (5.25%), Munich Reinsurance America, Inc. (4.90%), Hannover Re (Bermuda) Ltd. (4.60%), Convex Re Ltd (3.00%), and various others totaling (16.15%).	None	101.62% of \$450 million in excess of \$850 million, per occurrence <u>Expires Year End 2023</u> 65.01% of \$450 million in excess of \$850 million, per occurrence <u>Expires Year End 2024</u> 27.68% of \$450 million in excess of \$850 million, per occurrence <u>Expires Year End 2025</u> 8.93% of \$450 million in excess of \$850 million, per occurrence

<u>Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limits</u>
Layer Five	<u>Authorized:</u> Lloyd's Underwriters (22.82%), Everest Reinsurance Company (13.00%), Arch Reinsurance Ltd. (8.00%), Hiscox Insurance Company (Bermuda) Ltd. (4.85%), Qatar Reinsurance Company (2.50%), and several others totaling (9.95%). <u>Unauthorized:</u> Vermeer Reinsurance Ltd. (13.5%), Hannover Re (Bermuda) Ltd. (6.00%), Conduit Reinsurance Ltd. (5.00%), Fidelis Insurance Bermuda Ltd. (5.00%), Korean Reinsurance Company (2.50%), and several others totaling (15.78%).	None	108.90% of \$150 million in excess of \$1.3 billion, per occurrence <u>Expires Year End 2023</u> 102.17% of \$150 million in excess of \$1.3 billion, per occurrence <u>Expires Year End 2025</u> 6.74% of \$150 million in excess of \$1.3 billion, per occurrence

LOSS EXPERIENCE

A review of the Exchange's loss experience during the examination period discloses a trend of net underwriting losses as follows:

Year	Net Underwriting Income or (Loss)	Net Income or (Loss)
2020	\$40,984,088	\$119,171,485
2021	(\$19,477,274)	\$130,203,236
2022	(\$117,938,067)	(\$15,869,198)
2023	(\$914,031,693)	(\$730,427,496)

The increase in losses and loss adjustment expenses (LAE) in 2022 was driven by non-catastrophe losses and higher claim frequency and severity. The increase of losses and LAE in 2023 were due to higher claim frequency and severity on personal automobile lines and increased catastrophic losses, primarily driven by winter storms in California and wind/thunderstorm events, mainly in Colorado, Oklahoma, and some Eastern states.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Exchange with the California Department of Insurance for the period ending December 31, 2023. The accompanying comments to the amounts in 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, 2023

Underwriting and Investment Exhibit for the Year Ended December 31, 2023

Reconciliation of Surplus as Regards Policyholders from December 31, 2019
through December 31, 2023

Statement of Financial Condition
as of December 31, 2023

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 5,290,669,938	\$	\$ 5,290,669,938	
Preferred stocks	54,630,548		54,630,548	
Common stocks	854,041,338		854,041,338	
Properties held for production of income	124,157,144		124,157,144	
Cash, cash equivalents, and short-term investments	1,215,820,433		1,215,820,433	
Other Invested Assets	623,474,641	81,408,640	542,066,001	
Receivable for securities	16,092,272		16,092,272	
Securities lending reinvested collateral assets	48,850,453		48,850,453	
Investment income due and accrued	44,664,027		44,664,027	
Uncollected premiums and agents' balances in the course of collection	270,043,088	3,804,338	266,238,750	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,004,998,773		2,004,998,773	
Amounts recoverable from reinsurers	3,003,314		3,003,314	
Current federal and foreign income tax recoverable and interest thereon	103,477,266		103,477,266	
Net deferred tax asset	288,848,959	58,400,914	230,448,045	
Guaranty funds receivable or on deposit	17		17	
Electronic data processing equipment and software	161,403,991	143,550,860	17,853,131	
Furniture and equipment, including health care delivery assets	6,376,575	6,376,575	0	
Receivables from parent, subsidiaries and affiliates	54,206,233		54,206,233	
Aggregate write-ins for other than invested assets	43,179,802	15,456,092	27,723,710	
Total assets	<u>\$ 11,207,938,812</u>	<u>\$ 308,997,419</u>	<u>\$ 10,898,941,393</u>	

<u>Liabilities, Surplus, and Other Funds</u>		<u>Notes</u>
Losses	\$ 3,211,208,221	(1)
Reinsurance payable on paid losses and loss adjustment expenses	99,725,027	
Loss adjustment expenses	327,289,634	(1)
Commissions payable, contingent commissions and other similar charges	65,358,199	
Other expenses	9,374,925	
Taxes, licenses and fees	8,134,890	
Unearned premiums	3,227,473,986	
Advance premium	44,154,369	
Ceded reinsurance premiums payable	678,914	
Amounts withheld or retained by company for account of others	2,745,311	
Remittance and items not allocated	207,940	
Payable to parent, subsidiaries and affiliates	229,322,085	
Payable for securities	10,075,892	
Payable for securities lending	48,854,361	
Aggregate write-ins for liabilities	<u>259,652,368</u>	
Total liabilities	7,544,256,122	
Aggregate write-ins for special surplus funds	\$ (12,524,846)	
Unassigned funds (surplus)	<u>3,367,210,117</u>	
Surplus as regards policyholders	<u>3,354,685,271</u>	
Total liabilities, surplus, and other funds	<u>\$ 10,898,941,393</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2023

Underwriting Income

Premiums earned		\$ 5,289,905,269
Deductions:		
Losses incurred	\$ 4,228,775,185	
Loss adjustment expenses incurred	487,238,904	
Other underwriting expenses incurred	1,487,922,873	
Total underwriting deductions		6,203,936,962
Net underwriting loss		(914,031,693)

Investment Income

Net investment income earned	\$ 249,598,030	
Net realized capital gains (losses) less capital gains tax	(141,649,059)	
Net investment gain		107,948,971

Other Income

Net loss from agents' or premium balances charged off	\$ (19,936,947)	
Finance and service charges not included in premiums	48,351,593	
Aggregate write-ins for miscellaneous income	(26,996,084)	
Total other income		1,418,562
Net income before dividends to policyholders, after capital gains and before all other federal and foreign income taxes		(804,664,160)
Dividends to policyholders		0
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		(804,664,160)
Federal and foreign income taxes incurred		(74,236,664)
Net income		\$ (730,427,496)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2022		\$ 3,984,648,738
Net income	\$ (730,427,496)	
Change in net unrealized capital gains	25,352,426	
Change in net unrealized foreign exchange capital gain	2,033,610	
Change in net deferred income tax	79,380,973	
Change in nonadmitted assets	3,636,491	
Aggregate write-ins for losses in surplus	(9,939,471)	
Change in surplus as regards policyholders for the year		(629,963,467)
Surplus as regards policyholders, December 31, 2023		<u>\$ 3,354,685,271</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2019 through December 31, 2023

Surplus as regards policyholders, December 31, 2019			\$ 3,580,934,683	<u>Notes</u>
	Gain in Surplus	Loss in Surplus		
Net income	\$	\$	496,921,972	
Change in net unrealized capital gains	75,192,927			
Change in net unrealized foreign exchange capital gain	5,062,500			
Change in net deferred income tax	113,142,029			
Change in nonadmitted assets	158,381,600			
Cumulative effect of changes in accounting principles		91,886,028		
Aggregate write-ins for losses in surplus	10,779,532			
Total gains and losses in surplus	\$ 362,558,588	\$ 588,808,000		
Net decrease in surplus as regards policyholders			(226,249,412)	
Surplus as regards policyholders, December 31, 2023			<u>\$ 3,354,685,271</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expense

Based on an analysis by a Casualty Actuary from the California Department of Insurance, the Exchange's loss and loss adjustment expense reserves as of December 31, 2023 were found to be reasonable and have been accepted for the purpose of this examination.

SUBSEQUENT EVENTS

On November 20, 2024, the Exchange filed with the California Department of Insurance (CDI) an application for a securities permit to authorize the Exchange to issue, offer, and sell up to \$500 million in surplus notes in 2025 to raise capital and fund operations. The financial impact will be an increase of up to \$450 million in surplus and annual interest of \$38.5 million. This application is currently under review by the CDI.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

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

Respectfully submitted,

Lee, Jack Digitally signed by Lee, Jack
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Jack Lee, CFE
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