

REPORT OF EXAMINATION
OF THE
CALIFORNIA INSURANCE GUARANTEE ASSOCIATION
AS OF
JUNE 30, 2024

Commissioners Signature

A handwritten signature in blue ink, appearing to be "D. Hefner", written over a horizontal line.

Filed on June 5, 2025

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Los Angeles, California
May 22, 2025

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA INSURANCE GUARANTEE ASSOCIATION

(hereinafter also referred to as the Association). Its home office is located at 330 North Brand Boulevard, Glendale, California 91203.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Association. The previous examination of the Association was as of June 30, 2020. This examination covered the period from July 1, 2020 through June 30, 2024.

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 Association'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 the Association's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and an analysis of the Association's projected cash flows through 2034.

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 Association's financial statements.

This examination report includes general information about the Association 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 Association.

ASSOCIATION HISTORY

The Association was organized pursuant to, and operates in accordance with California Insurance Code (CIC), Division 1, Part 2, Article 14.2, Section 1063. In addition, the Association functions pursuant to a Plan of Operation approved by the California Department of Insurance. The purpose of the Association is to provide against loss arising from the failure of an insolvent insurer to discharge its obligations under its insurance policies.

The Association is a statutory entity that depends on the Guarantee Act (CIC Sections 1063-1063.78) for its existence and for a definition of the scope of its powers, duties, and protections. The Association issues no policies, collects no premiums, makes no profits, and assumes no contractual obligations from policyholders.

MANAGEMENT AND CONTROL

California Insurance Code (CIC) Section 1063(b) requires the Association's Board of Governors to be comprised of nine member insurers who shall be appointed by the California Insurance Commissioner. At least five of the member insurers shall be domestic insurers, at least three shall be stock insurers, and at least three shall be nonstock insurers. In addition to the nine member insurers, the membership shall also include one public member appointed by the President pro Tempore of the Senate, one public member appointed by the Speaker of the Assembly, one business member appointed by the Commissioner, and one labor member appointed by the Commissioner. A public member has not been appointed by the President pro Tempore of the Senate since August 2023. It is recommended that the Association take steps to ensure compliance with CIC Section 1063(b) and a public member be appointed by the President pro Tempore of the Senate to the Board of Governors.

A listing of the Board of Governors and principal officers serving at June 30, 2024 follows:

Governors

<u>Name</u>	<u>Principal Business Affiliation</u>
Tony Borrego ^(a)	Founder Spring Street Business Law
Andrew Chick	President and Chief Executive Officer Lawyers' Mutual Insurance Company
Richard De La Mora	Head of Personal Lines, Specialty Lines, and Strategy Farmers Group Inc.
Peter Guastamachio	Chief Financial Officer and Chief Investment Officer State Compensation Insurance Fund
Shane Gusman ^(b)	Administrator Broad & Gusman, LLP

<u>Name</u>	<u>Principal Business Affiliation</u>
Don Jones	Vice President, Product Design Allstate Insurance Company
Carol Kim ^(c)	Founder and Principal Shasta Advisory, LLC
Christina Ozuna	Vice President of Quality Assurance Employers Insurance Group
Heather Pierce	Assistant Vice President, Actuary State Farm
Jennifer Schnittjer	Vice President, Controller Automobile Club of Southern California
Deepika Srivastava	Chief Operating Officer The Doctors' Company
Vacant ^(d)	
Vacant ^(e)	

(a) Public member appointed by the Insurance Commissioner to represent business.

(b) Public member appointed by the Insurance Commissioner to represent labor.

(c) Public member appointed by the Speaker of the Assembly.

(d) Tim Hyman, Vice President, Product Analytics, representing American Family Insurance, was appointed to the Board on August 14, 2024.

(e) Public member appointed by the President Pro Tempore of the Senate.

Principal Directors

<u>Name</u>	<u>Title</u>
Brad Roeber	Executive Director
Adriana Ortiz	Director of Audit
Danny Thomassen	Director of Finance
Terri Harrison	Director of Claims
Mohamed Awad	Director of Information Technology
Carolyn Merkel	Director of Human Resources
Dianna Janow	Director of Operations

Management Agreements

Authorization for the direct management of the Association's investment portfolio has been granted to two separate investment management firms, Payden & Rygel and Western Asset Management Company (WAM). Both agreements have been in effect for over 24 years. Each firm is responsible for the management of a designated segment of the Association's investment portfolio. Within the confines of the Association's codified guidelines, each investment management firm has authority to execute transactions without prior consultation with the Association's management. In addition, the Association has approximately ten percent of its unrestricted investments in an Standards & Poor (S&P) 500 commingled fund managed by State Street Bank & Trust Company.

Subsequent to the examination period, the Association terminated its agreement with WAM, effective November 27, 2024. As of February 27, 2025, the Association entered into a new investment management agreement with Income Research + Management.

Third-Party Administrators

As of June 30, 2024, the majority of the Association's workers' compensation claims are administered in-house, with approximately 30 percent of open claims administered by Sedgwick Claims Management Services, a third-party administrator (TPA). Prior TPA agreements with Tristar Risk Management and Intercare Holdings Insurance Services, Inc., were terminated in June 2021 and October 2022, respectively. During the exam period, TPA fees were determined based on the number of claim files administered each month. The TPAs have the authority to issue claim payments up to \$150,000. Claim payments in excess of \$150,000 require the approval of the Association's management.

TERRITORY AND PLAN OF OPERATION

The purpose of the Association is to provide insolvency insurance for each member insurer and to protect policyholders against loss arising from the failure of an insolvent, admitted insurer to discharge its obligations under its insurance policies. The Association obtains funds to pay its covered claims through assessments of admitted insurers,

release of special statutory security deposits previously placed with the state of California by the insolvent carriers, distributions from insolvent carriers' estates, and investment income.

Insurance companies writing property and casualty insurance business in California are required to participate in the Association. If an admitted property and casualty insurance company becomes insolvent, the Association administers unpaid claims and may assess each property and casualty insurance company up to 2 percent for all lines of written premium in the appropriate category(ies) if required. California Insurance Code (CIC) Section 1063.145 requires all property and casualty insurance companies to surcharge policies to recover these assessments.

The Association has the responsibility to pay and discharge covered claims of insurers as of the date a court of competent jurisdiction declares the property and casualty insurance company insolvent and a liquidator is appointed. Covered claims primarily include the policy obligations of insolvent insurers arising from property and liability coverages (exclusive of those lines not included per CIC Section 1063.1).

The Association allocates its claim payments and costs, incurred or estimated to be incurred, to one or more of the following categories: (a) workers' compensation claims; (b) homeowners' claims, and automobile claims, which include: automobile material damage, automobile liability (both personal injury and death, and property damaged), medical payments and uninsured motorist claims; and (c) claims other than workers' compensation, homeowners, or automobile. Separate premium charges (assessments) are required for each category. The assessments for each category are used to pay the claims and costs allocated to that category. The CIC and labor laws establish the maximum claim settlement amounts for workers' compensation claims. Workers' compensation claims are paid in full. Claims for damage to, or loss of, a dwelling structure under a policy of residential property insurance are paid at full value up to one million dollars or the policy limit, whichever is less. All other claims, including automobile and personal injury claims, are paid at full value up to \$500,000 or the policy limits, whichever is less.

When a property and casualty insurance company becomes insolvent, the control of its assets transfers to the state insurance liquidator in its domiciliary state. The liquidator uses the assets of the insolvent insurance company to settle the outstanding liabilities of the company. Liquidators may advance funds to the Association prior to the settlement of all outstanding debts. The Association recognizes these advances as revenue when received. The advances are utilized to discharge claims against the insolvent insurance companies. The respective liquidator can recall these advances, in whole or in part. The Association recognizes any recall of advances when notified by the respective liquidator or receiver.

To the extent that assets, including advances from liquidators, are insufficient to discharge claim obligations, additional premium charges are assessed from member insurers when determined necessary by the Board of Governors (Board) of the Association. Conversely, to the extent that the assets exceed the ultimate cost of claim obligations for insolvent insurers, the excess fund balance, if any, will be applied to reduce future premium charges by the Association in the appropriate category.

Premium charges are accrued as of the date declared by the Board of the Association and become due from the member insurers when billed. The rate of premium charges to each member is initially based on the written premium shown on the latest year's annual financial statement on file with the California Insurance Commissioner.

CIC Section 1063.70 authorizes the Association to request the issuance of bonds by the California Infrastructure and Economic Development Bank, to more expeditiously and effectively provide for the payment of covered claims that arise as a result of the insolvencies of insurance companies. Pursuant to CIC Section 1063.72, proceeds for the sale of bonds shall be deposited into separate accounts for each line of business from which bonds are issued. Notwithstanding any other limits on assessments, the Association shall have authority to levy upon member insurers special bond assessments in the amount necessary to pay the principal of and interest on the bonds. Any bonds issued to provide funds for covered claim obligations shall not exceed in an aggregate

principal amount outstanding at any one time \$1.5 billion per line of business. As of June 30, 2024, there were no outstanding bonds.

The Association was providing insolvency insurance for 139 insolvent companies including both active and inactive insurers at June 30, 2024.

REINSURANCE

Reinsurance entered into by insurers prior to their insolvencies is administered by the California Department of Insurance, Conservation and Liquidation Office (CLO) or the domestic liquidator of a non-California domiciled company, and is therefore excluded from the Association's financial statements. Reinsurance recoveries made by the CLO or the domestic liquidator may be advanced to the Association subject to the priority needs of the estate in liquidation. Ancillary liquidations may also have a demand on assets recoverable including reinsurance recoverable.

California Insurance Code Section 1063.2 (a) authorizes the Association may, with the express approval of the Commissioner, reinsure with, or transfer liabilities to, a California admitted and authorized reinsurer, or other reinsurer approved by the Commissioner. As of June 30, 2024, the Association did not enter into any reinsurance agreements.

ACCOUNTS AND RECORDS

The financial statements presented by the Association, which are regularly audited by independent certified public accountants, are prepared on a Generally Accepted Accounting Principles basis with the fiscal year ended June 30th. The Association's financial statements are prepared on a conservative basis (i.e., full value of estimated California-risk reserves are established with no deduction for insuring reinsurance recoverables, no anticipation of advances from estates in liquidation, and advances are recorded only when received).

FINANCIAL STATEMENTS

The following financial statements are based on the annual audited reports filed by the Association with the California Department of Insurance and present the financial condition of the Association for the period ending June 30, 2024. 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 reported by the Association.

Statement of Financial Condition as of June 30, 2024

Statement of Comprehensive Income for the Fiscal Year Ended June 30, 2024

Statement of Cash Flows as of June 30, 2024

Statement of Financial Condition
as of June 30, 2024

<u>Assets</u>	Net Admitted <u>Assets (000s)</u>	<u>Notes</u>
Cash and cash equivalents:		
Unrestricted	\$ 128,104	
Restricted for workers' compensation claims	3,687	
Investments in debt securities available-for-sale, at fair value:		
Unrestricted	3,316,782	
Restricted for workers' compensation claims	240,328	
Investments in equity securities, at fair value:		
Unrestricted	470,012	
Accrued investment income	32,489	
Accrued but not received statutory deposits	32,549	
Receivable for unsettled securities	26,224	
Fixed assets, net	3,702	
Operating lease right-of-use asset, net	7,187	
Deposits and other assets	<u>1,472</u>	
Total assets	<u>\$ 4,262,536</u>	
 <u>Liabilities, Surplus and Other Funds</u>		 <u>Notes</u>
Reserve for claims	\$ 955,151	(1)
Reserve for claim adjustment and administrative expenses	108,007	(1)
Reserve for excess liquidator advances and statutory deposits	53,998	
Payable for unsettled securities	61,778	
Premium charge credits due to members	2,309	
Operating lease liability	8,172	
Accounts payable and accrued expenses	<u>3,499</u>	
Total liabilities	<u>\$ 1,192,914</u>	
Fund Surplus:		
Workers' Compensation	1,459,786	
Automobile and homeowners	500,254	
All Other	<u>1,125,526</u>	
Lines of business ("LOB") fund surplus	3,085,566	
Accumulated other comprehensive income	<u>(15,944)</u>	
Total fund surplus	<u>3,069,622</u>	
Total liabilities, surplus, and other funds	<u>\$ 4,262,536</u>	

Statement of Comprehensive Income
for the Fiscal Year Ended June 30, 2024

		<u>(000s)</u>
Assessments and investment activity:		
Premium (refunds), net	\$	(2,309)
Net investment income		146,461
Net realized and unrealized investment gain		58,266
 Liquidator activity:		
Advances from liquidators, net		33,470
Statutory deposits		32,549
Decrease in reserve for excess liquidator advances and statutory deposits		5,040
 <u>Claims activity:</u>		
Claims paid, net	\$	(76,070)
Claim adjustment expenses paid		(13,742)
Decrease in reserve for claims		51,042
Decrease in reserve for claim adjustment and administrative expenses		11,408
		(27,362)
 <u>Unearned premiums activity:</u>		
Unearned premiums paid		(2)
Administrative expense activity:		
Administrative expenses		(30,059)
Net income		216,054
 <u>Other comprehensive income:</u>		
Net unrealized gain on debt securities available-for-sale arising during the year	54,502	
Reclassification adjustment for sale of debt securities available-for-sale included in net income	34,321	
		88,823
Comprehensive income		<u>\$304,877</u>

Statement of Cash Flows
for the Fiscal Year Ended June 30, 2024

		<u>(000s)</u>
<u>Cash flows from operating activities:</u>		
Net Income	\$	216,054
Adjustments to reconcile net income to net cash provided by		
Operating activities:		
Non-cash lease expense – operating right-of-use assets	935	
Realized and unrealized investment loss	(58,266)	
Amortization of debt securities available-for-sale	(6,283)	
Decrease (increase) in:		
Provision for uncollectible premium charges		
Accrued investment income	(8,653)	
Accrued but not received statutory deposits	(32,549)	
Deposits and other assets	(276)	
		(102,964)
Increase (Decrease) in:		
Reserve for claims, claim adjustment expenses, and		
Administrative expenses	(62,450)	
Reserve for excess liquidator advances and		
statutory deposits	(5,040)	
Assessment returns due to members	2,309	
Operating lease liability	(932)	
Accounts payable and accrued expenses	(658)	
		(66,771)
Net cash provided by operating activities		<u>46,319</u>
 <u>Cash flows from investing activities:</u>		
Debt securities available-for-sale:		
Purchases, unrestricted	(2,593,002)	
Proceeds from sales, unrestricted	2,224,252	
Proceeds from calls or maturities, unrestricted	326,483	
Purchases, restricted for workers' compensation claims	(148,925)	
Proceeds from sales, unrestricted	135,831	
Proceeds from calls or maturities, restricted for workers'		
compensation claims	23,976	
Equity securities:		
Proceeds from sales, unrestricted	78	
Increase in receivable for unsettled securities	(19,224)	
Increase in payable for unsettled securities	46,975	
Purchase of fixed assets	(681)	
Net cash used in investing activities:		<u>(4,237)</u>
Net increase in cash and cash equivalents including restricted		
balances		42,082
Cash and cash equivalents including restricted balances:		
Beginning of year		<u>89,709</u>
End of year	\$	<u>131,791</u>

COMMENTS ON FINANCIAL STATEMENTS

(1) Reserves for Claims and Claim Adjustment and Administrative Expenses

The Association's reserves for claims and claim adjustment and administrative expenses are primarily comprised of workers' compensation reserves associated with insolvencies for workers' compensation carriers. The Association's workers' compensation reserves are 85% of its total stated reserves. A Senior Casualty Actuary of the California Department of Insurance reviewed the actuarial report and concurred that the reserves for claims and claim adjustment and administrative expenses of the Association are reasonably stated as of June 30, 2024.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Board of Governors (Page 3): It is recommended that the Association take steps to ensure future compliance with California Insurance Code Section 1063(b) and a public member be appointed by the President pro Tempore of the Senate to the Board of Governors.

Previous Report of Examination

None.

ACKNOWLEDGMENT

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

Respectfully submitted,

Eduardo Montenegro, CFE (Fraud)
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

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