

REPORT OF EXAMINATION
OF THE
CENTURY-NATIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2022

Commissioners Signature

A handwritten signature in blue ink, appearing to be 'D. H. L.', is written over a horizontal line.

Filed on June 20, 2024

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Los Angeles, California
May 17, 2024

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CENTURY-NATIONAL INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office is located at 5301 Truxtun Avenue, Bakersfield, California 93309.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2017. This examination covered the period from January 1, 2018 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 with Illinois as the lead state and North Carolina as the facilitating state of the National General Holdings Corporation subgroup. The following states participated in the National General Holdings Corporation subgroup examination: Alabama, California, Indiana, Michigan, Missouri, Mississippi, New Jersey, New York, Ohio, South Carolina, and Texas.

COMPANY HISTORY

The Company was incorporated in California on June 23, 1955, and is authorized to write property and casualty lines of business. The Company is a direct subsidiary of National General Holdings Corporation (NGHC) and Integon National Insurance Company (INIC). The Company is owned 78.0% by NGHC and 22.0% by INIC.

On January 4, 2021, following the receipt of all necessary regulatory approvals, NGHC was acquired by The Allstate Corporation (Allstate) pursuant to the Merger Agreement entered into on July 7, 2020. The Company is now an indirect subsidiary of Allstate.

Capitalization

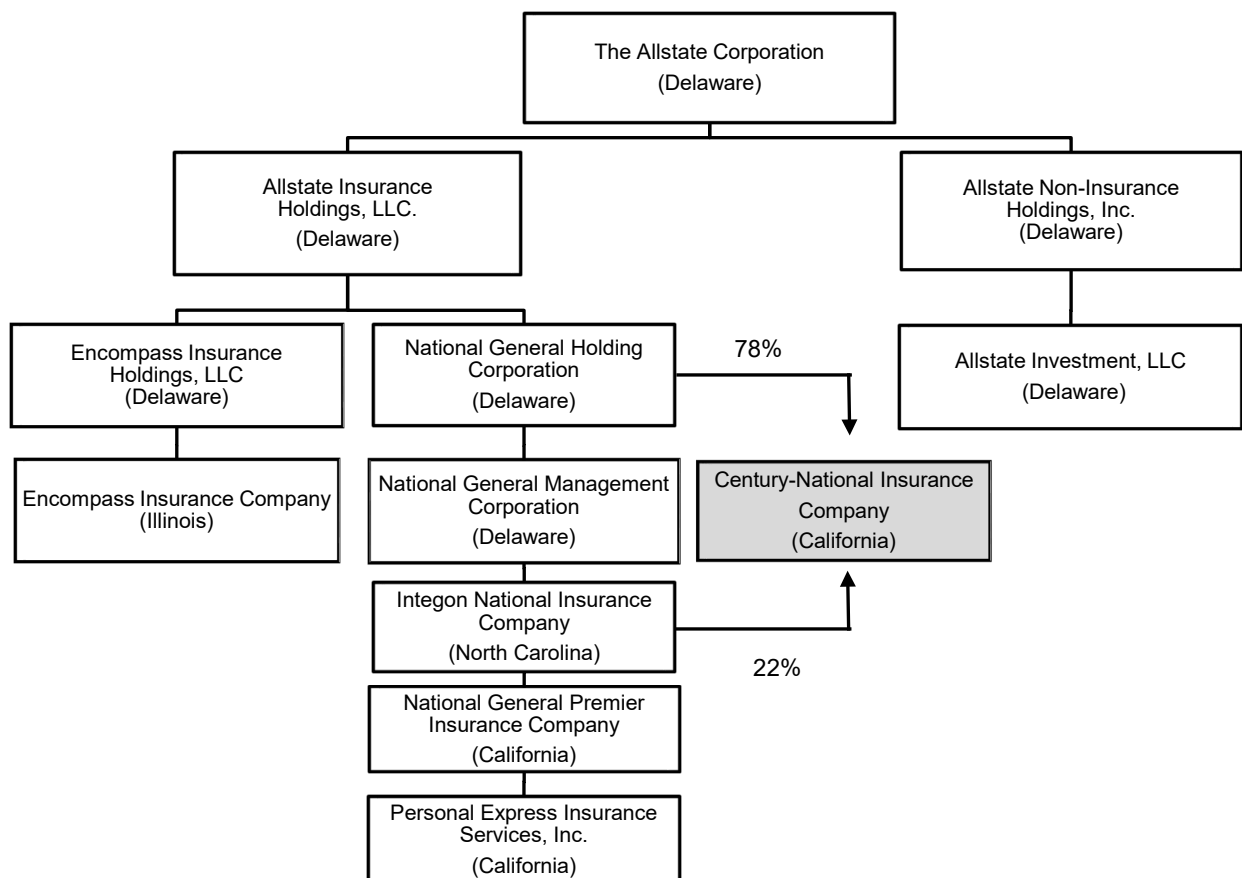
The Company has 500 shares of common stock authorized, issued, and outstanding with a par value of \$10,000 per share.

Dividends

On October 5, 2018, the Company paid an ordinary cash dividend totaling \$12,000,000 to its direct parents, NGHC (78%) and INIC (22%).

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which The Allstate Corporation is the ultimate controlling entity. Following is an abridged organizational chart. All ownership is 100% unless otherwise stated.



The three members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2022:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Douglas P. Hanes Advance, North Carolina	Senior Vice President Allstate Insurance Company
Peter A. Rendall Sanibel, Florida	Chairman of the Board, President, and Chief Financial Officer Century-National Insurance Company
Willam Borst III Arlington Heights, Illinois	Vice President Allstate Insurance Company

Principal Officers ⁽¹⁾

<u>Name</u>	<u>Title</u>
Peter A Rendall ⁽²⁾	Chairman of the Board, President, and Chief Operating Officer
Patrick J. Macellaro ⁽⁴⁾	Vice President and Chief Financial Officer
Donald J. Bolar	Vice President and Chief Accounting Officer
George H. Hall, Jr. ⁽³⁾	Vice President and Chief Claims Officer
Christina Hwang	Senior Vice President
Alexandra T. Band	Senior Vice President
Joseph M. Washburn	Vice President and Treasurer

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

- (1) Effective February 27, 2023, Christine M. DeBiase was elected as Executive Vice President and Secretary, filling previously vacant positions. Subsequently, effective March 14, 2024, Julie E. Cho replaced the roles of Executive Vice President and Secretary.
- (2) Effective September 25, 2023, Peter A. Rendall was elected as Chief Executive Officer.
- (3) Effective January 31, 2024, George H. Hall, Jr. left the Company.
- (4) Effective May 14, 2024, Toby R. Tomlin was appointed as Vice President and Chief Financial Officer to replace Patrick J. Macellaro.

Management Agreements

Management Services Agreement: Effective June 1, 2016, the Company became a party to a Management Services Agreement (Agreement) dated January 1, 2012, between National General Management Corporation (NGMC) and certain participating affiliates. Under the terms of the Agreement, NGMC provides actuarial, policyholder services, accounting, IT, and certain other administrative functions. An addendum to the Agreement, effective July 7, 2017, was filed with the California Department of Insurance (CDI) to add underwriting and claims services functions. The Company will reimburse NGMC for direct expenses on an actual cost basis. Common expenses, including salary and employee benefits, will be allocated in accordance with each company's proportionate share based on net written premiums for policy-related expenses, and net paid losses for claims-related expenses, based on reasonable allocation methods. The Agreement was approved by the CDI on August 24, 2016 as required under California Insurance Code (CIC) Section 1215.5(b)(4). For 2018, 2019, 2020, 2021, and 2022, the Company paid NGMC \$40,814,113, \$37,574,168, \$32,651,124, \$35,295,513, and \$37,962,917, respectively.

Amended and Restated Service and Expense Agreement: Effective January 4, 2021, the Company became a party to an Amended and Restated Service and Expense Agreement (Agreement) dated January 1, 2004, between Allstate and certain affiliates. Under the terms of the Agreement, Allstate Insurance Company (AIC), Allstate, and certain affiliates may provide services to each other for use in each other's respective business and may also provide management and other direct services to each other in the course of conducting their business. Costs are defined as the actual costs and expenses incurred by the party providing the services which are attributable to the services and facilities under this Agreement, such as, salaries and benefits, space rental, overhead expenses, building maintenance services, furniture and other office equipment, and supplies and special equipment. The Agreement was approved by the CDI on June 4, 2021, as required under CIC Section 1215.5(b)(4).

It was noted during the examination that under this Agreement, allocated costs were

commingled with allocated costs from the previously mentioned Management Services Agreement between the Company and NGMC. It is recommended that the Company implement procedures to separately report and settle activity under the two agreements.

Asset Management Agreement: Effective June 1, 2016, the Company was added to an Asset Management Agreement (Agreement) dated March 1, 2010 by and between All Insurance Management Limited (AIM), and certain affiliates under National General Holding Corporation (NGHC). Under the terms of the Agreement, AIM performs investment management services on behalf of the insurers. The Agreement was approved by the CDI on September 1, 2016 as required under CIC Section 1215.5(b)(4). On April 15, 2018, the Agreement was terminated. For 2018, the Company paid AIM \$30,497.

Investment Management Agreement: Effective May 7, 2018, NGHC and certain affiliates, including the Company, entered into an Investment Management Agreement (Agreement) with Blackrock Financial Management, Inc. (Blackrock). Under the terms of the Agreement, NGHC appointed Blackrock as its investment manager to invest and manage a portion or all of the assets of the Company, subject to the written guidelines and restrictions provided by NGHC. The Agreement was terminated on March 31, 2021. For 2018, 2019, 2020, and 2021, the Company paid fees to Blackrock of \$22,409, \$26,488, \$33,505, and \$11,427, respectively.

Investment Management Agreement: Effective January 4, 2021, the Company became party to an Investment Management Agreement (Agreement) with Allstate Investments, LLC (AILLC) dated January 1, 2007. Under the terms of the Agreement, AILLC provides investment management services and advice subject to and in accordance with the investment objectives, restrictions, and strategies set forth in the Investment Policy and Investment Plan adopted by the Company's board of directors with respect to its investment portfolio. The fee for services is equal to AILLC's fully burdened basis point charge for the management of such investment portfolio, which is AILLC's actual cost of managing the portfolio, including the provision of all administrative, reporting, or other services required to manage the portfolio and provide services. AILLC charges the

Company for services via the monthly expense allocation process, and payments are made through the monthly intercompany settlement process. This Agreement was approved by CDI on June 4, 2021, as required under CIC Section 1215.5(b)(4). For 2021 and 2022, the Company paid AILLC \$57,370 and \$46,776, respectively.

Tax Allocation Agreement: Effective June 1, 2016, the Company became a party to a Tax Allocation Agreement (Agreement) dated March 1, 2010, between NGHC and certain affiliates. Under the terms of the Agreement, NGHC files a consolidated tax return on behalf of the tax filing group. The Agreement provided that each party's liability for all tax payments or federal, state, or local tax refunds shall be based on the amount of its liability or entitlement to a refund calculated on a separate return basis. The Agreement was approved by the CDI on August 12, 2016 as required under CIC Section 1215.5(b)(4). This Agreement was terminated on January 4, 2021 due to the acquisition of NGHC by The Allstate Corporation (Allstate). For 2018, 2019, and 2020, the Company paid/(recovered), (\$9,338,122), (\$215,420), and \$177,823, respectively.

Tax Sharing Agreement: Effective January 4, 2021, the Company became party to a Tax Sharing Agreement (Agreement) between Allstate and various subsidiaries dated November 12, 1996. Under the terms of the Agreement, participants in the group file a consolidated federal income tax return. Allocation of taxes is based upon separate return calculations with the intercompany tax balance payable or receivable being settled in amounts as if separate returns were filed. Intercompany balances are settled quarterly within 45 days after the end of the quarter. This Agreement was approved by CDI on June 4, 2021 as required under CIC Section 1215.5(b)(4). For 2021 and 2022, the Company received tax refunds of \$323,728 and \$360,622, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company is licensed as a multiple peril, fire, earthquake, and casualty insurer. The Company voluntarily withdrew its Certificate of Authority from New Mexico on March 18, 2019. Following is a listing of the 44 states in which the Company is licensed:

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

During 2022, the Company wrote \$176 million in direct premiums; 89.4% of the writings pertained to the combination of homeowners multiple peril, other private passenger automobile liability, and private passenger automobile physical damage. Of the total direct premiums written, \$93.3 million (52.9%) was written in Connecticut, \$22.4 million (12.7%) was written in California, \$11.7 million (6.6%) was written in Nevada, \$8.3 million (4.7%) was written in Texas, and \$6.7 million (3.8%) was written in Washington. The Company's business is distributed through three primary distribution channels: independent agents, affinity partners, and direct marketing.

REINSURANCE

Intercompany Reinsurance Agreement

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

Assumed

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

Ceded

Ceded business is limited to the Company's participation in the above-referenced Intercompany Reinsurance Agreement.

ACCOUNTS AND RECORDS

Annual Statement Instructions

In accordance with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions, Schedule T should identify the reporting entity's status for each state or territory. As discussed in the Territory and Plan of Operation above, the Company withdrew its Certificate of Authority from New Mexico on March 18, 2019. However, the Company failed to properly reflect its licensed status in New Mexico in its 2020, 2021, and 2022 Annual Statements and subsequent quarterly statements.

It is recommended that the Company implement procedures to ensure compliance when completing its Annual Statement in accordance with the NAIC Annual Statement Instructions. Based on this recommendation the Company's 2023 Annual Statement, Schedule T, properly reflected the Company's licensed status in New Mexico.

Board Review and Approval of Investments

Based on the review of the board of directors minutes, it was observed that beginning in 2022 the board's action regarding the authorization and approval of investments did not comply with the requirements of California Insurance Code (CIC) Sections 1200 and 1201. The board did not authorize or approve investment transactions in accordance with CIC Section 1200. In addition, specific references to amounts, facts, and the value of the investments were not recorded in the minutes as required by CIC Section 1201.

It is recommended that the Company implement procedures to ensure compliance with CIC Sections 1200 and 1201. Based on this recommendation, starting with the 2023 annual meeting of the board of directors, the board implemented procedures to comply with CIC Sections 1200 and 1201.

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 on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. There were no examination adjustments made to the statutory financial statements filed by the Company.

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, 2017
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	\$ 52,001,758	\$	\$ 52,001,758	
Cash, cash equivalents, and short-term investments	7,452,410		7,452,410	
Investment income due and accrued	371,907		371,907	
Uncollected premiums and agents' balances in the course of collection	320,911	299,660	21,251	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	33,003,336		33,003,336	
Amounts recoverable from reinsurers	5,190,205		5,190,205	
Current federal and foreign income tax recoverable and interest thereon	608,146		608,146	
Net deferred tax asset	4,900,951	3,238,905	1,662,046	
Aggregate write-ins for other than invested assets	<u>123,598</u>		<u>123,598</u>	
Total assets	<u>\$ 103,973,223</u>	<u>\$ 3,538,565</u>	<u>\$ 100,434,658</u>	
<u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses and loss adjustment expense			\$ 0	(1)
Ceded reinsurance premiums payable			51,321,450	
Payable for parent, subsidiaries and affiliates			6,675,443	
Aggregate write-ins for liabilities			<u>1,442,289</u>	
Total liabilities			59,439,182	
Common capital stock	\$ 5,000,000			
Gross paid-in and contributed surplus	24,135,420			
Unassigned funds (surplus)	<u>11,860,056</u>			
Surplus as regards policyholders			<u>40,995,476</u>	
Total liabilities, surplus, and other funds			<u>\$ 100,434,658</u>	

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

Statement of Income

Underwriting Income

Premium earned		\$ 0
Deductions:		
Losses and loss expenses incurred	\$ 0	
Other underwriting expenses incurred	<u>564</u>	
Total underwriting deductions		<u>564</u>
Net underwriting loss		(564)

Investment Income

Net investment income earned	\$ 1,062,375	
Net realized capital losses	<u>(685,361)</u>	
Net investment gain		<u>377,014</u>
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		376,450
Federal and foreign income taxes incurred		<u>(377,981)</u>
Net income		<u><u>\$ 754,431</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2021		\$ 40,252,117
Net income	\$ 754,431	
Change in net unrealized capital losses	(13,764)	
Change in net deferred income tax	(692,780)	
Change in nonadmitted assets	<u>695,473</u>	
Change in surplus as regards policyholders for the year		<u>743,360</u>
Surplus as regards policyholders, December 31, 2022		<u><u>\$ 40,995,478</u></u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2022

Surplus as regards policyholders, December 31, 2017			\$ 41,265,589
	Gain in Surplus	Loss in Surplus	
Net income	\$ 7,647,725	\$	
Change in net unrealized capital gains		13,764	
Change in net deferred income tax	6,291,144		
Change in nonadmitted assets		3,432,572	
Dividend to stockholders		12,000,000	
Aggregate write-ins for gains and losses in surplus	<u>1,237,355</u>	<u></u>	
Total gains and losses	<u>\$ 15,176,224</u>	<u>\$ 15,446,336</u>	
Net decrease in surplus as regards policyholders			<u>(270,112)</u>
Surplus as regards policyholders, December 31, 2022			<u>\$ 40,995,478</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

As of December 31, 2022, the Company reported zero losses and loss adjustment expenses reserves (LAE) since one hundred percent of its losses and LAE expenses were ceded to Integon National Insurance Company. A Casualty Actuary from the California Department of Insurance reviewed the actuarial review performed by the lead state's Examination Actuary from the North Carolina Department of Insurance and concurred that the group's losses and loss adjustment expense reserves as of December 31, 2022 were reasonable and have been accepted for purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements – Amended and Restated Services Agreement and Management Services Agreement (Page 5): It is recommended that the Company implement procedures to separately report and settle activity under the Amended and Restated Services Agreement and Management Services Agreement.

Previous Report of Examination

Accounts and Records (Page 10) It was recommended that the Company make the appropriate changes to ensure accuracy of quarterly vehicle assessment fees, to ensure future compliance with California Insurance Code Section 1872.8, 1872.81, and 1874.8. Additionally, it was recommended the Company maintain an Automobile Assessment File, which includes the vehicle information number, in accordance with California Code of Regulations Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.629(d). The Company is now in compliance.

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,

Cuauhtemoc Beltran, CFE
Examiner-In-Charge
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California

Sayaka Dillon, CFE
Supervising Insurance Examiner
Department of Insurance
State of California