REPORT OF EXAMINATION

OF THE

CRUSADER INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

Filed on June 23, 2017

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Los Angeles, California
May 23, 2017

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CRUSADER INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 26050 Mureau Road, Calabasas, California 91302 and offsite at the Department of Insurance office at 300 South Spring Street, Los Angeles, California 90013.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2011. This examination covered the period from January 1, 2012 through December 31, 2015.

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 significant 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.

COMPANY HISTORY

The Company was incorporated under the laws of California in June 1976 and commenced business in January 1985.

Dividends

In April 2012, the Company filed with the California Department of Insurance (CDI) and paid an ordinary cash dividend to Unico American Corporation (Unico) totaling $2,250,000.

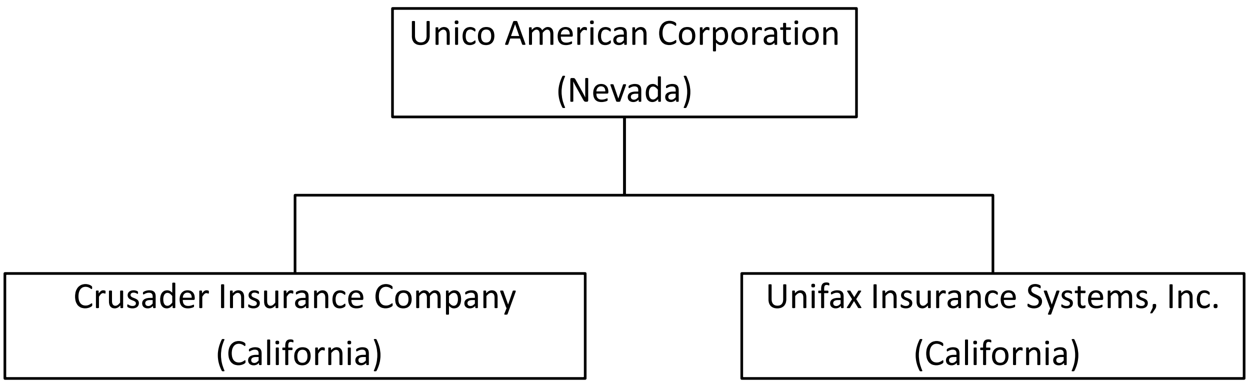
In September 2012, the Company filed with the CDI and paid an ordinary cash dividend to Unico totaling $1,500,000.

In December 2012, the Company paid an extraordinary cash dividend to Unico totaling $8,000,000. The CDI approved this transaction in November 2012.

In May 2015, the Company filed with the CDI and paid an ordinary cash dividend to Unico totaling $3,000,000.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Unico American Corporation (Unico), an insurance holding company system. Following is an abridged organizational chart. All ownership is 100% unless otherwise noted.



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, 2015:

Directors

Name and Location	Principal Business Affiliation
Lester A. Aaron [(a)] Calabasas, California	Treasurer and Chief Financial Officer Unico American Corporation
Cary L. Cheldin Calabasas, California	Chairman of the Board and President Unico American Corporation
Erwin Cheldin Calabasas, California	Retired Chairman of the Board and President Unico American Corporation

Principal Officers

Name	Title
Cary L. Cheldin	President and Chief Executive Officer
Lester A. Aaron [b]	Treasurer, Chief Financial Officer, and Secretary

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

[a] As of August 5, 2016, Lester A. Aaron was appointed as Executive Vice President of Unico American Corporation.

[b] As of March 6, 2017, Lester A. Aaron was appointed as Executive Vice President of the Company and Michael Budnitsky was appointed as Treasurer, Chief Financial Officer, and Secretary of the Company.

The Company's by-laws state the board shall be composed of five members. It was noted and brought to the Company's attention, that the Company did not have the proper number of board members during the years under examination. It was recommended that the Company comply with its by-laws. On May 23, 2017 two additional members were elected to the Company's board of directors, bringing the total to five in compliance with the Company's bylaws

Management Agreements

General Agency Agreement: The Company has a General Agency Agreement with its affiliate, Unifax Insurance Systems, Inc. (Unifax). Unifax provides production, underwriting, accounting, data processing, administration, and other management services to the Company. The Company pays Unifax a commission of 27.5% of direct premiums written. Payments made to Unifax for 2012, 2013, 2014, and 2015 were $8,921,740, $8,549,365, $8,987,911, and $9,967,734, respectively. The California Department of Insurance (CDI) approved this agreement on June 19, 2009.

Intercompany Cost Allocation Agreement: The Company and its parent, Unico, are parties to an Intercompany Cost Allocation Agreement. Under the terms of the agreement, the Company reimburses Unico for operating expenses primarily related to the claims department which includes salaries and related employee benefits, profit sharing, rent, and other expenses. The agreement was amended to reflect that on October 15, 2015, the Company ended its rent sharing agreement with Unico. Payments made to Unico for 2012, 2013, 2014, and 2015 were $891,802, $1,002,709, $1,042,815, and $1,336,314, respectively. The CDI approved this agreement on June 5, 2009.

Intercompany Federal Income Tax Allocation Agreement: The Company and its affiliates, are part of a consolidated federal income tax agreement with its parent, Unico. Allocation of taxes is based upon separate return calculations. Intercompany tax allocations are settled within 30 days after the filing of the consolidated income tax return. The payments made by the Company during 2012, 2013, 2014, and 2015 were $1,779,310, $510,000, $1,845,465, and $400,000, respectively. The CDI approved this agreement on June 5, 2009.

Lease Agreement: On September 26, 2013, the Company purchased its current statutory home office building in Calabasas which included rental leases to non-affiliated companies. The Company leased space vacated by a previous tenant to Unico under a lease agreement effective October 9, 2015. Unico occupies approximately 29,100 square feet at $1.95 per foot for a total monthly rent of $56,745. The lease expires September 30, 2020 with an option to extend for an additional five years. The rent payments made by Unico to the Company during 2015 were $151,221. The CDI approved this agreement on February 8, 2016.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2015, the Company was licensed to transact multiple lines of property and casualty insurance in Arizona, California, Nevada, Oregon, and Washington. From 2004 to June 2014, all of the Company’s business was written in

California. In June 2014, the Company began writing business in Arizona. In 2015, the Company wrote $36.4 million in direct premiums of which 99.5% was written in California and the remainder in Arizona.

The principal line of business written is commercial multiple peril, which accounted for approximately 98% of the Company's total premiums written in 2015. Classes of business include apartments, commercial buildings, auto-body shops, auto dealers, towing operators, bars, and restaurants. Business is produced primarily through the Company's affiliated general agent, Unifax Insurance Systems, Inc., which works with independent agents and brokers. In 2011, the Company started appointing insurance agents to market its product.

REINSURANCE

Assumed

The Company has no assumed reinsurance.

Ceded

The following is a summary of the principal ceded reinsurance treaties in force with authorized reinsurers as of December, 31, 2015:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Commercial Multi-Peril:			
Excess of Loss			
First Layer	Platinum Underwriters Reinsurance, Inc. 45%; Hannover Ruckversicherungs 35%: TOA Reinsurance Company 10% All companies are authorized or licensed in California	$500,000 each loss occurrence and up to 10% of $500,000	Property – 90% of $500,000 per risk; $2 million each loss occurrence Casualty – 90% of $500,000 per occurrence

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Second Layer	Platinum Underwriters Reinsurance, Inc. 50% Hannover Ruckversicherungs 40% TOA Reinsurance Company 10% All companies are authorized or licensed in California	$1 million each loss occurrence	Property - 100% of $2 million per risk: $6 million per occurrence Casualty – 100% of $2 million
Third Layer	Platinum Underwriters Reinsurance, Inc. 50%; Hannover Ruckversicherungs 40%; TOA Reinsurance Company 10% All companies are authorized or licensed in California	$3 million each loss occurrence	Property - 100% of $5 million per occurrence Casualty – 100% of $5 million per occurrence Aggregate limit - $15 million
Catastrophe First layer	Various domestic, foreign and alien companies led by Platinium Underwriters Reinsurance, Inc . 20%; R+V Versicherung AG 15%; and American Standard Insurance Company 14% Companies are authorized, licensed in California, or unauthorized.	$1 million each loss occurrence	$9 million each loss occurrence, $18 million aggregate limit, per year
Second layer	Various domestic, foreign and alien companies led by R+V Versicherung AG1 13%; Hannover Re (Bermuda) Ltd. 12.5%; and Shelter Mutual Insurance Company 12.5% Companies are authorized, licensed in California, or unauthorized.	$10 million each loss occurrence	$31 million each loss occurrence $62 million aggregate limit, per year
Facultative	Arch Reinsurance Company Authorized	$3 million each loss occurrence	$5 million per risk $15 million per occurrence on all risks

ACCOUNTS AND RECORDS

Vehicle Fraud Assessment Controls

California Insurance Code (CIC) Section 1872.8(a) states, in part, that each insurer doing business in California must pay an annual Vehicle Fraud Assessment fee for each vehicle insured under an insurance policy it issues in California. The fee provides funding for the increased investigation and prosecution of fraudulent automobile insurance claims and automobile theft in California.

California Code of Regulations (CCR) Section 2698.62(c) states, in part, an insurer may use an alternate California Department of Insurance (CDI) approved method to identify the vehicles subject to this assessment. On April 26, 2006, the Company was given approval by the CDI for an alternate method to identify certain vehicles; that approval applies to used car dealers within the Auto Dealer program. It was noted that the Company did not follow the approved method. It is recommended that the Company comply with the agreement instructions and obtain the inventory listing from the automobile dealerships to be in compliance with CCR, Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62(c).

The Company stated that it has discontinued writing its Auto Dealer program. There are currently only two policies in force, with the last policy scheduled to be non-renewed on its expiration date, January 21, 2018.

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, 2015. The financial statements were prepared by the Company and are the responsibility of management. 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, 2015

Underwriting and Investment Exhibit for the Year Ended December 31, 2015

Reconciliation of Surplus as Regards Policyholders from December 31, 2011 through December 31, 2015

Statement of Financial Condition
as of December 31, 2015

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 82,202,727	$	$ 82,202,727	
Properties occupied by the Company	9,397,148		9,397,148	
Cash and short-term investments	14,958,884		14,958,884	
Investment income due and accrued	85,915		85,915	
Premiums and agents' balances in course of collection	1,506,775		1,506,775	
Amount recoverable from reinsurers	751,323		751,323	
Current federal and foreign income tax recoverable and interest thereon	358,791		358,791	
Net deferred tax asset	2,041,734	335,717	1,706,017	
Guaranty funds receivable or on deposit	15,196		15,196	
Furniture and equipment	8,036	8,036	0	
Aggregate write-ins for other than invested assets	8,899,666	6,374	8,893,292	(1)
Total assets	$ 120,266,195	$ 350,127	$ 119,876,068	

Liabilities, Surplus and Other Funds			Notes
Losses and loss adjustment expenses		$ 39,456,610	(2)
Other expenses		73,612	
Taxes, licenses and fees		85,592	
Unearned premiums		18,007,779	
Advance premiums		352,649	
Ceded reinsurance premiums payable		510,974	
Aggregate write-ins for liabilities		21,124	
Total liabilities		58,508,340	
Common capital stock	$ 3,000,200		
Gross paid-in and contributed surplus	8,100,000		
Unassigned funds (surplus)	50,267,528		
Surplus as regards policyholders		61,367,728	
Total liabilities, surplus and other funds		$ 119,876,068	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2015

Statement of Income

Underwriting Income		
Premiums earned		$ 29,573,797
Deductions:		
Losses and loss expenses incurred	$ 19,043,316	
Other underwriting expenses incurred	9,612,125	
Total underwriting deductions		28,655,441
Net underwriting gain		918,356
Investment Income		
Net investment income earned	$ 186,353	
Net realized capital loss	(7,251)	
Net investment gain		179,102
Other Income		
Total other income		179,725
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		1,277,183
Federal and foreign income taxes incurred		365,456
Net income		$ 911,727

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2014		$ 63,492,369
Net income	$ 911,727	
Change in net deferred income tax	(78,726)	
Change in nonadmitted assets	42,358	
Dividends to stockholders	(3,000,000)	
Change in surplus as regards policyholders for the year		(2,124,641)
Surplus as regards policyholders, December 31, 2015		$ 61,367,728

Reconciliation of Surplus as Regards Policyholders
from December 31, 2011 through December 31, 2015

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2011			$ 67,277,035
Net income	$ 9,264,245	$	
Change in net deferred income tax		404,668	
Change in nonadmitted assets		18,884	
Dividends to stockholders		14,750,000	
Total gains and losses	$ 9,264,245	$ 15,173,552	
Net decrease in surplus as regards policyholders			(5,909,307)
Surplus as regards policyholders, December 31, 2015			$ 61,367,728

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Write-ins for Other than Invested Assets

The Company has recorded $8,622,459 for multiple appeal deposits in lieu of appeal bonds. These deposits are required by appellate courts and represent 150% of trial courts judgements. The largest deposit, in amount of $7,924,178, was placed with Los Angeles Superior Court on December 28, 2015, to appeal a judgement which was finalized in December 2015 on a Company's policy liability claim. The Company's management believes the ultimate outcome of this litigation will be covered by the Company's reinsurance. Since this litigation was related to a claim in the Company's normal course of business, the Company's management's best estimate for ultimate liability related to this litigation was included in the Company's loss and loss adjustment expense reserves in December 31, 2015.

(2) Losses and Loss Adjustment Expenses

The Company's loss and loss adjustment expense reserves were evaluated by a Casualty Actuary from the California Department of Insurance (CDI). Based on the analysis by the Casualty Actuary from the CDI, the Company's December 31, 2015 reserves for losses and loss adjustment expenses appear reasonable and have been accepted for purposes of this examination report.

SUBSEQUENT EVENTS

In February 2017, the Company changed its 2016 appointed actuary from Weber Consulting to Perr & Knight.

In March 2016, the Company placed an additional deposit of $5,449,615 with Los Angeles Superior Court to appeal an additional judgement on the Company's policy liability claim mentioned in "Aggregate Write-ins for Other than Invested Assets" section.

In March 2016, the Company filed with the California Department of Insurance (CDI) and paid an ordinary cash dividend to Unico American Corporation (Unico) totaling $1,000,000.

In May 2016, the Company filed with the CDI and paid an ordinary cash dividend to Unico totaling $1,000,000.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control (page 3): The Company's by-laws state the board shall consist of five members. It is recommended the Company comply with its by-laws. During the examination period, it was brought to the Company's attention, and on May 23, 2017 two additional members were elected to the Company's board of directors, bringing the total to five in compliance with the Company's bylaws.

Accounts and Records - Vehicle Fraud Assessment (Page 7): It was noted that the Company did not follow the approved alternate method for vehicle counts pertaining to used car dealers within the Auto Dealer program. It is recommended that the Company comply with the agreement instructions and obtain the inventory listing from the automobile dealerships to be in compliance with CCR, Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62(c).

The Company stated that it has discontinued writing its Auto Dealer program. There are currently only two policies in force, with the last policy scheduled to be non-renewed on its expiration date, January 21, 2018.

Previous Report of Examination

None

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,

__/S/__________________________

Thomas Podsiadlo, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

__/S/__________________________

Grace Asuncion, CFE
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