

REPORT OF EXAMINATION  
OF THE  
CRUSADER INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2011

Filed June 6, 2013

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Los Angeles, California  
February 22, 2013

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 the statutory home office and primary location of its books and records, 23251 Mulholland Drive, Woodland Hills, California 91364.

**SCOPE OF EXAMINATION**

The previous examination of the Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2011, and is conducted by the California Department of Insurance. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. 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 management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; accounts and records; growth of company; loss experience; and statutory deposits.

### COMPANY HISTORY

#### Dividends Paid to Parent

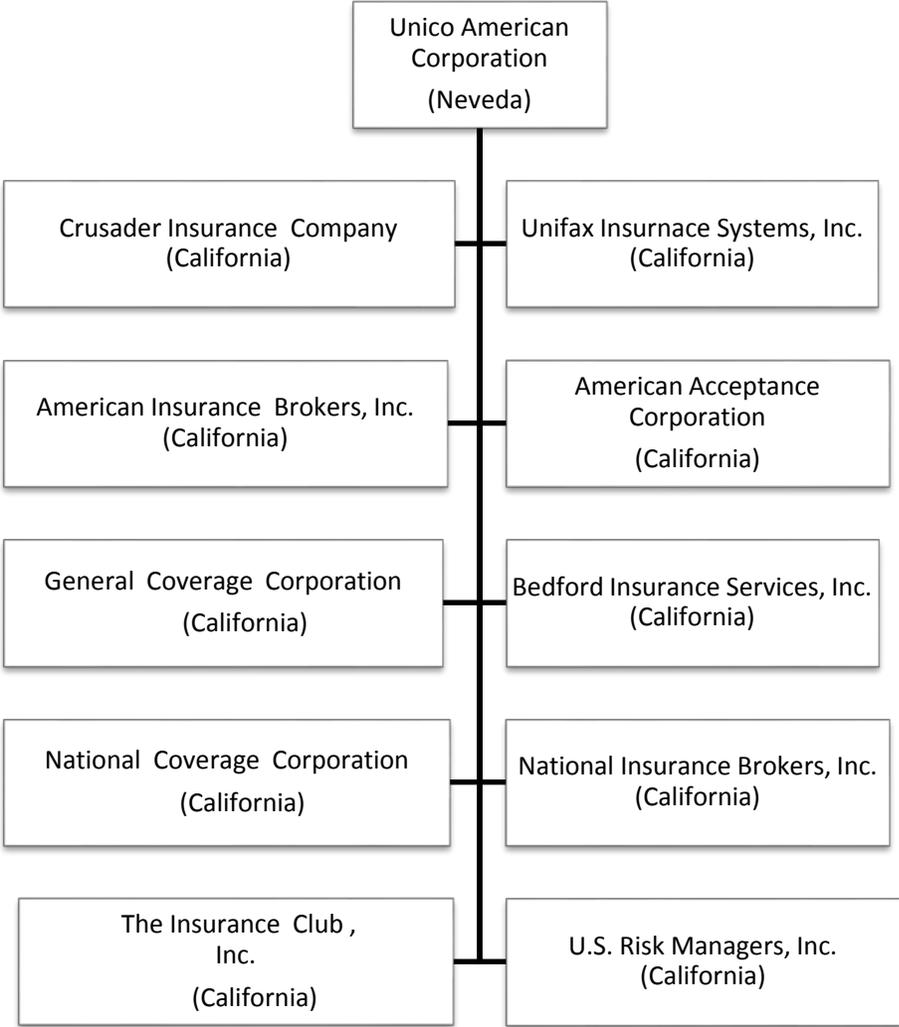
During the examination period, the Company paid the following ordinary cash dividends to its parent, Unico American Corporation.

<u>Year</u>	<u>Amount</u>
2009	\$ 7,000,000
2010	4,250,000
2011	<u>1,250,000</u>
Total	12,500,000

### MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Unico American Corporation (Unico). Unico is a publicly owned insurance holding company that underwrites property and casualty insurance through the Company and provides various insurance related services through its other subsidiaries. The following organizational chart reflects the

Company's position within the holding company system (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, 2011:

#### Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Lester A. Aaron Woodland Hills, California	Treasurer and Chief Financial Officer Unico American Corporation
Cary L. Cheldin Woodland Hills, California	Chairman of the Board and President Unico American Corporation
Erwin Cheldin Woodland Hills, California	Retired Chairman of the Board and President, Unico American Corporation

#### Principal Officers

<u>Name</u>	<u>Title</u>
Cary L. Cheldin	President and Chief Executive Officer
Lester A. Aaron	Executive Vice President and Chief Financial Officer
Terry L. Kinigstein	Senior Vice President and Secretary

#### 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 the years 2009, 2010, and 2011 were \$12,730,670, \$10,861,720, and \$10,573,307, respectively. The California Department of Insurance (CDI) approved this agreement on June 16, 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. Payments made to Unico for the years 2009, 2010, and 2011 were \$1,401,276, \$1,216,895, and \$4,046,536, 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 2009, 2010, and 2011 were \$990,984, \$964,328, \$814,473, respectively. The CDI approved this agreement on June 5, 2009.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company was licensed to transact multiple lines of property and casualty insurance in Arizona, California, Nevada, Oregon, and Washington. Although licensed in other states, the Company has written exclusively in California since 2004. In 2011, the Company wrote \$32.1 million of direct premiums.

The principal line of business written is commercial multiple peril, which amounted to approximately 98% of the Company's total premiums written. 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. Currently, the Company has 12 agents.

## REINSURANCE

### Assumed

The Company has no assumed reinsurance.

### Ceded

The following is a summary of the principal ceded reinsurance treaties inforce with authorized reinsurers as of December 31, 2011:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
1 <sup>st</sup> Excess of Loss	Platinum Underwriters Reinsurance, Inc. – 55% Hannover Ruckversicherungs – 25% TOA Reinsurance Company of America – 10%	\$500,000 each loss occurrence	90% of \$2,000,000 each loss occurrence
2 <sup>nd</sup> Excess of Loss	Platinum Underwriters Reinsurance, Inc. – 55% Hannover Ruckversicherungs – 30% TOA Reinsurance Company of America – 10%	\$1 million each loss occurrence	95% of \$1 million each loss occurrence
3 <sup>rd</sup> Excess of Loss	Platinum Underwriters Reinsurance, Inc. – 60% Hannover Ruckversicherungs – 30% Liberty Mutual Insurance Company – 10%	\$2 million each loss occurrence	100% of \$5 million each loss occurrence
1 <sup>st</sup> Catastrophe Excess of Loss	Platinum Underwriters Re. – 25% Arch Reinsurance Company – 15% Paladin Cat Management – 9.5% Odyssey American Re Corp – 5% Ariel Reinsurance Company Ltd.- 15% Flagstone Re Suisse SA – 12.5% SCOR Global P&C SE – 5% Sirius Intl Insurance Corp – 3%	\$1 million each loss occurrence	\$9 million each loss occurrence, \$18 million all occurrences
2 <sup>nd</sup> Catastrophe Excess of Loss	Paladin Cat Management – 15% Shelter Mutual Insurance Co. – 10% Arch Reinsurance Company – 3% Allied World Assurance Co. Ltd. - 6.5% Ariel Reinsurance Company Ltd. – 17.5% Hanover Re ( Bermuda) Ltd. – 5% Mapfre Re Compania SA – 10% SCOR Global P&C SE – 5.5% Sirius Intl Insurance Corp – 10% Lloyds Amlin Syndicate 2001 – 17.5%	\$10 million each loss occurrence	\$31 million each loss occurrence, \$62 million all occurrences

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Underwriting and Investment Exhibit for the Year Ended December 31, 2011

Reconciliation of Surplus as Regards Policyholders from December 31, 2008  
through December 31, 2011

Statement of Financial Condition  
as of December 31, 2011

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 89,902,677		\$ 89,902,677	
Cash and short-term investments	36,874,845		36,874,845	
Investment income due and accrued	680,626		680,626	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	1,153,738		1,153,738	
Reinsurance:				
Amounts recoverable from reinsurers	60,300		60,300	
Current federal and foreign income tax and interest thereon	264,310		264,310	
Net deferred tax asset	2,446,402	326,364	2,446,402	
Guaranty funds receivable or on deposit	15,196		15,196	
Aggregate write-ins for other than invested assets	<u>178,852</u>	<u>4,879</u>	<u>173,973</u>	
Total assets	<u>\$ 131,576,946</u>	<u>\$ 331,243</u>	<u>\$ 131,245,703</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 4,258,594	(1)
Loss adjustment expenses			2,253,585	(1)
Other expenses			7,348	
Taxes, licenses and fees			(25,943)	
Unearned premiums			15,837,500	
Advance premiums			329,935	
Ceded reinsurance premiums payable			1,233,495	
Aggregate write-ins for liabilities			<u>74,154</u>	
Total liabilities			\$ 63,968,668	
Common capital stock		\$ 3,000,200		
Gross paid-in and contributed surplus		8,100,000		
Unassigned funds (surplus)		<u>56,176,835</u>		
Surplus as regards policyholders			<u>67,277,035</u>	
Total liabilities, surplus and other funds			<u>\$ 131,245,703</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2011

Statement of Income

Underwriting Income

Premiums earned		\$ 26,723,942
Deductions:		
Losses incurred	\$ 8,413,805	
Loss adjustment expenses incurred	5,853,521	
Other underwriting expenses incurred	<u>8,449,412</u>	
Total underwriting deductions		<u>22,716,738</u>
Net underwriting gain		4,007,204

Investment Income

Net investment income earned	\$ <u>2,896,774</u>	
Net investment gain		2,896,774

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>1,170,453</u>	
Total other income		<u>1,170,453</u>
Net income before federal income taxes		8,074,431
Federal income taxes incurred		<u>2,413,033</u>
Net income		<u>\$ 5,661,398</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2010		\$ 62,520,958
Net income	\$ 5,661,398	
Change in net deferred income tax	(335,281)	
Change in non-admitted assets	679,960	
Dividends to stockholders	<u>(1,250,000)</u>	
Change in surplus as regards policyholders for the year		<u>4,756,077</u>
Surplus as regards policyholders, December 31 ,2011		<u>\$ 67,277,035</u>

Reconciliation of Surplus as Regards Policyholders  
From December 31, 2008 through December 31, 2011

Surplus as regards policyholders,  
 December 31, 2008 per Examination \$ 64,736,230

	Gain in Surplus	Loss in Surplus	
Net income	\$ 15,117,411		
Change in net deferred income tax		\$ 954,906	
Change in non-admitted assets	878,300		
Dividends to stockholders	_____	12,500,000	
Totals gains and losses	\$ 15,117,411	\$ 13,454,906	

Net increase in surplus as regards policyholders for  
 the examination period 2,540,805

Surplus as regards policyholders,  
 December 31, 2011 per Examination \$ 67,277,035

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

The Company's 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, 2011 reserves for losses and loss adjustment expenses appear reasonable and have been accepted for purposes of this examination report.

## 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 Company's officers and employees during the course of this examination.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Gintaras Prismantas, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California