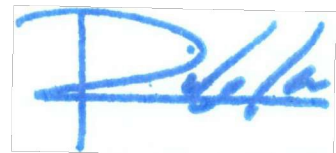


REPORT OF EXAMINATION
OF THE
HOME SERVICE CLUB OF CALIFORNIA, INC.
AS OF
DECEMBER 31, 2020

Insurance Commissioner

A handwritten signature in blue ink, appearing to read "P. DeFina", enclosed in a thin black rectangular border.

FILED on May 24, 2022

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Los Angeles, California
April 29, 2022

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

HOME SERVICE CLUB OF CALIFORNIA, INC.

(hereinafter also referred to as the Company). The Company's main administrative office is located at 8910 University Center Lane, Suite 400, San Diego, California 92122, and its primary location of its books and records is located at 305 Broadway, 7th Floor, New York, New York 10007.

SCOPE OF EXAMINATION

We have performed our single state examination of the Company. This is the first examination of the Company since its Qualifying Examination on December 16, 2015. This examination covered the period from December 17, 2015 through December 31, 2020.

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.

COMPANY HISTORY

The Company was incorporated as Axiom Home Warranty on March 7, 2014, under the laws of California. On April 6, 2016, the California Department of Insurance (CDI) issued a Certificate of Authority to the Company to transact home protection contracts as a domestic home protection company. On April 7, 2016, the Company commenced business in California.

On March 19, 2019, Shemaya Zakarin and Netanel Jacobov (together, the Buyers) entered into a Stock Purchase Agreement for the purchase of all of the issued and outstanding shares of the Company for the price of \$1,500,000. The Buyers filed a Form A to acquire the Company with the CDI, which the CDI approved on March 12, 2019. The transaction closed on or about April 9, 2019, and, as a result, the Buyers became the ultimate controlling persons of the Company.

On April 30, 2019, the Company filed with the CDI an Application for Amended Certificate of Authority to facilitate a change of the Company's name from Axiom Home Warranty to the Company's current name. On May 29, 2019, the CDI issued a certificate approving the name change.

On August 30, 2020, the Company notified the CDI of the Company's move to a new physical/statutory address, 8910 University Center Lane, Suite 400, San Diego, California.

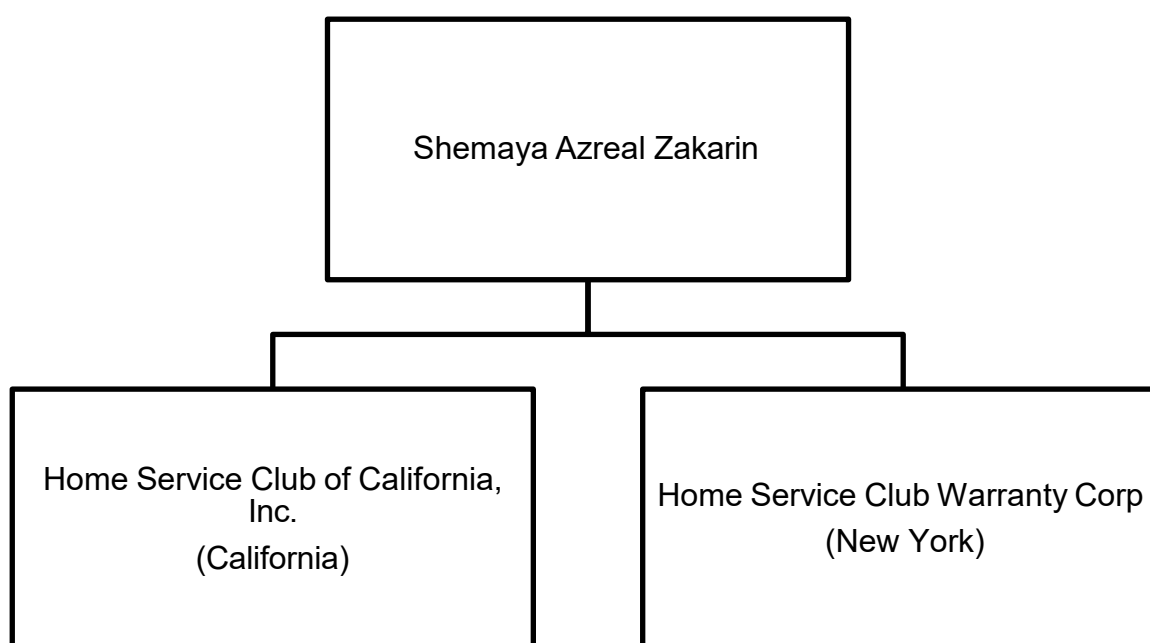
Ultimate controlling persons, Shemaya Zakarin and Netanel Jacobov, entered into a Stock Purchase Agreement dated November 30, 2020, pursuant to which Mr. Zakarin would acquire all 1,320 shares of the Company then held by Mr. Jacobov for the amount of \$778,000. On September 18, 2020, pursuant to California Insurance Code section 1215.2(g), the Company filed with the CDI an application for exemption from the Form A filing requirement. By letter dated December 28, 2020, the CDI approved that application. The parties closed the transaction on December 30, 2020. Thereafter, Mr. Zakarin became the sole owner of the Company.

Capitalization

The Company is authorized to issue 10,000 shares of Class A voting common stock with a par value of \$50 per share. As of December 31, 2020, there were 6,000 shares issued and outstanding.

MANAGEMENT AND CONTROL

The ultimate controlling person of the Company is Shemaya Azreal Zakarin. The following organizational chart as of December 31, 2020. All ownership is 100%.



The Company is managed by one member of the board of directors and principal officer as of December 31, 2020.

Director

Name and Location

Principal Business Affiliation

Shemaya Azreal Zakarin
Brooklyn, New York

Chief Operating Officer, Secretary, and Chief
Financial Officer
Home Service Club Warranty Corp

Principal Officer

Name

Title

Shemaya Azreal Zakarin

Chief Operating Officer, Secretary, and Chief
Financial Officer

Management Agreement

Inter-Company Services Agreement: The Company entered into an Inter-Company Services Agreement effective April 5, 2019. Under the terms of the agreement, Home Service Club Warranty Corp, an affiliate, agrees to make available its resources and services to the Company to manage all California Contracts, customer service, provide claims handling logistics, manage contracts in the database, maintain qualified service network for repairs, collect provider fees, assist and maintain the books and records. Compensation for providing these services is a monthly fee of \$16,667.67. The agreement was approved by the California Department of Insurance (CDI) on August 22, 2019, pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). The annual payment made by the Company is approximately \$200,000.

TERRITORY AND PLAN OF OPERATION

The Company provides home protection warranties for residential consumers in the state of California. The Company specializes in service contracts on repairing or replacing the consumers' air conditioning and/or heating system, plumbing, electric, etcetera household systems.

ACCOUNTS AND RECORDS

This examination experienced some delays in obtaining supporting documentation for various information reported in the Company's Annual Statement. This includes routine examination requests such as bank statements, account reconciliations, detailed supporting records, schedules, and reports. In addition, the Annual Statement was inadequately prepared with unreconciled items between schedules, unreported trial balance items, and insufficient detail to support the reported balances. Due to the delay and incomplete records, it is determined that the Company does not comply with California Insurance Code (CIC) Section 734. As a result of the finding, various financial adjustments and reclassifications of the trial balance accounts were made to the 2020 Annual Statement. It is recommended that:

1. The Company shall follow the Annual Statement Blank provided by the California Department of Insurance when preparing the Annual Statement. The reported balance should reconcile to the trial balance. Any adjusting entry shall be documented to reflect any difference between the trial balance and the Annual Statement.
2. The Company shall maintain adequate documentation to support all information reported in its financial statements. The documentation shall be prepared in sufficient detail to allow for a full and complete audit trail from the Company's financial statements to individual records.
3. All of the Company's books and records must be made available for examination pursuant to CIC Section 734. The Company shall consider engaging the experts to rewrite, post, and balance the financial statements and related reporting to ensure compliance with relevant codes and regulations.

Unclaimed Property

California Code of Civil Procedure (CCP) Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532 (Unclaimed Property Law) requires that all tangible personal property located in the state of California that is held or owing in the ordinary course of business and has remained unclaimed by the owner for more than three years after it became payable or distributable, is escheated to the California State Controller's Office (SCO).

During the review of the unclaimed property filings, it could not be determined if the Company had unclaimed property to remit due to the prior owners not advising the current owner of any outstanding checks before the purchase of the Company, and there were no filing records prior to the acquisition. It is recommended that the Company establish an internal policy on escheating the unclaimed property to the SCO and implementing procedures to ensure future compliance with CCP Sections 1530 and 1532.

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, 2020. The accompanying comments on financial statements reflect the examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2020

Underwriting and Investment Exhibit for the Year Ended December 31, 2020

Reconciliation of Surplus as Regards Contract Holders from December 17, 2015
through December 31, 2020

Analysis of Changes to Surplus as of December 31, 2020

Statement of Financial Condition
as of December 31, 2020

<u>Assets</u>	Current Year	Prior Year	<u>Notes</u>
Cash, cash equivalents, and short term investments	\$ <u>864,922</u>	\$ <u>785,798</u>	(1)
Other assets	<u>6,393</u>	<u>6,084</u>	(2)
Total assets	<u>\$ 871,315</u>	<u>\$ 785,798</u>	
 <u>Liabilities Surplus and Other Funds</u>			
Claims adjusted & unpaid or in process of adjustments	\$ 5,832	\$	(3)
Borrowed money		739	
Unearned home protection contract fees	267,732	349,933	(4)
Accounts payable	<u>100,249</u>	<u>6,084</u>	(1)(5)
Total Liabilities	373,813	356,756	
Common stocks	\$ 300,000	\$ 299,218	(2)
Gross paid-in and contributed surplus	1,926,535		(6)
Unassigned funds (Surplus)	<u>(1,729,033)</u>	<u>129,824</u>	(6)
Surplus as regards contract holders	<u>497,502</u>	<u>429,042</u>	
Total assets	<u>\$ 871,315</u>	<u>\$ 785,798</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2020

Statement of Income

<u>Underwriting Income</u>		<u>Notes</u>
Home protection contract fees earned	\$ 756,042	
Deductions:		
Claims service expense incurred	53,019	
Other underwriting expenses incurred	543,530	
Total deductions	<u>596,549</u>	
Net underwriting income	<u>\$ 159,493</u>	

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2019	\$ 429,042	
Net Income	\$ 159,493	
Surplus Changes		
Claims adjusted & unpaid or in process of adjustment	(5,832)	
	<u>(85,201)</u>	(7)
Change in Surplus as regards contract holders for the year		<u>68,460</u>
Surplus as regards contract holders December 31, 2020		<u>\$ 497,502</u>

Reconciliation of Surplus as Regards Contract Holders
from December 17, 2015 through December 31, 2020

Surplus as regards contract holders, December 17, 2015				\$	0
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>			
Net loss	\$	\$ 1,617,302			
Accounts payable		92,845			
Claims adjusted and unpaid or in process of adjustment		5,832			
Capital Common Stock	300,000				
Gross Paid in	1,926,535				
Loss on purchase of company		20,698			
Unreported reconciliation item	<u>7,644</u>				
 Total gains and losses	 \$ 2,234,179	 \$ 1,736,677			
 Net increase in surplus as regards contract holders					 <u>497,502</u>
 Surplus as regards contract holders, December 31, 2020, per Examination				 \$	 <u>497,502</u>

Analysis of Changes to Surplus as of December 31, 2020

As a result of the examination, the following adjustments were made to the Company's reported balance sheet item based on the best of our knowledge and available information. Claims Adjusted and Unpaid or in process of adjustment and Accounts Payable were increased due to reported balances improperly carried from the Annual Statement schedules to the Balance Sheet. Unreported Reconciliation Item was added to the Income Statement to balance the adjusted financial statements. The Company failed to provide various information and other supporting documents on various line items for a total of \$91,033.

The sum of the effect on surplus is shown below:

Surplus as regards contract holders, December 31, 2020, per Annual Statement		\$ 588,535
	<u>Increase</u>	<u>Decrease</u>
Claims adjusted & unpaid or in process of adjustment		(5,832)
Accounts payable		(92,845)
Unreported reconciliation items	7,644	
Net Decrease		<u>(91,033)</u>
Surplus as regards contract holders, December 31, 2020 after adjustment		<u>\$ 497,502</u>

Summary of Reclassifications as of December 31, 2020

As a result of the examination, the following reclassifications were made that have no impact on Surplus. The Company misclassified certain liability accounts as offset balance to the assets and equity accounts as follows:

<u>Annual Statement Line Item</u>	<u>Balance per</u> <u>Annual Statement</u>	<u>Increase</u>	<u>Decrease</u>	<u>Adjusted Balance</u>
Cash, Cash Equivalents, and Short-term Investments	\$ 863,671	\$ 1,251		\$ 864,922
Other Assets	0	6,393		6,393
Accounts Payable	(7,404)	(1,251)		(8,655)
Capital Common Stock	(293,606)	(6,393)		(300,000)
Gross Paid-In and Contributed Surplus	0	1,926,535		1,926,535
Unassigned Funds (Surplus)	(294,929)	(1,434,104)		(1,729,033)

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash, Cash Equivalents, and Short-Term Investments

The reported balance for Cash, Cash Equivalents, and Short-Term Investments included available year-end bank balances and an outstanding Accounts Payable for the amount of \$1,251. The Accounts Payable was related to customer refunds and shall be classified as a liability, instead of reconciliation items to offset reported assets. As a result, a reclassification entry is made to the reported balance on Cash, Cash Equivalents, Short-Term Investments by \$1,251, and Accounts Payable was increased by the same amount to reflect the adjustment made. Reclassification entry has no impact to the Surplus as regards contact holders.

(2) Other Assets

Two asset accounts, Axiom Receivables and HSC Corp Receivable in the amounts of \$5,043.33 and \$1,350, respectively, from the trial balance, were reported as an offset balance to the Capital Common Stock on the 2020 Annual Statement. The value of Capital Common Stock shall reflect all of the outstanding shares at par value. To correctly reflect the balance of the Capital Common Stock, a reclassification entry is made to the reported balance on Other Assets by \$6,393.33, and Capital Common Stock increased by the same amount to reflect the adjustment made. Reclassification entry has no impact to the Surplus as regards contact holders.

(3) Claims Adjusted & Unpaid or in Process of Adjustment

The reported Claims Adjusted and Unpaid or in Process of Adjustment on Annual Statement Part 3, Column 5, was incorrectly carried over to the Liability page of the Balance Sheet, Line 1 of the Annual Statement. In addition, the Company failed to provide any supporting detail to validate the balance. An examination adjustment of \$5,832 was made to the line item; Unassigned Funds (Surplus) decreased by the same amount to reflect the adjustment made.

(4) Unearned Home Protection Contract Fees

California Insurance Code (CIC) Section 12754 states, "a home protection company shall maintain a reserve for unearned premiums in an amount no less than 40% of the aggregate premiums charged on its contract currently in force". The Company reported a balance of \$267,732 on the line item of the 2020 Annual Statement. However, the balance did not reconcile with the reported balance of \$154,938 in the Underwriting and Investment Exhibit, Part 2, Line 8.5. The Company also failed to provide supporting detail on the open and closed contracts to validate the reported balance on the Underwriting and Investment Exhibit. The carried balance from the trial balance was selected to be included on the financial statement for the examination purpose. Although no examination adjustment was made to the line item, the Company is not compliant with CIC Section 12754. It is recommended that the Company maintains sufficient detail to support the calculation of the Unearned Home Protection Contract Fees and trial balance and ensure future compliance with CIC Section 12754.

(5) Accounts Payable

Two liability accounts, Accounts Payable (AP) and Deferred Sales, in the amounts of \$9,393, and \$82,201, respectively, from the trial balance, were not included in Annual statement reporting. Including the previously made adjustment under the Notes to Financial Item (1), a total examination adjustment of \$92,845 was made to the line item, Accounts Payable; Unassigned Fund (Surplus) was decreased by the same amount to reflect the adjustment made.

(6) Gross Paid-in and Contributed Surplus
Unassigned Funds (Surplus)

The reported Unassigned Funds consisted of Gross Paid-in and Contributed Surplus, Retained Earnings, and Unassigned Funds. Instead of reporting it in the separate line as instructed by the Annual Statement blank provided by the California Department of Insurance, the netted amount of \$294,929 of all three accounts was reported as Unassigned Funds. To correctly reflect the balance under each of the trial balance

accounts, and including the previously made adjustment under the Notes to Financial Items (3) and (5), the following adjustments were made to the line items:

Line Item	Per Company	Per Exam
Capital Common Stock	\$ 293,606	\$ 300,000
Gross Paid-In and Contributed Surplus	\$ 0	\$ 1,926,535
Unassigned Funds (Surplus)	\$ 294,929	\$ (1,729,033)

(7) Unreported Reconciliation item

Various versions of trial balance were presented during the examination, and discrepancies were noted during the review. Some account items were adjusted and reclassified. However, the credit and debit of the trial balance were not balanced before and after the examination adjustments. In the effort to present balanced financial statements, a reconciliation item was added to the income statement to reflect the examination adjustments. As a result, the Unassigned Funds increased by \$7,644.

SUBSEQUENT EVENTS

On January 1, 2022, the Company and its affiliate, Home Service Club of California Insurance Services, Inc. (HSCCIS), entered into an Amended Producer Agreement. Under the terms of the agreement, HSCCIS is authorized to solicit, receive, and transmit applications for home protection contracts written by the Company in the territories where HSCCIS has been appointed. The Company will pay a 15% commission on premiums or other such amounts as mutually agreed in writing. The agreement is for one year and is automatically renewed on the anniversary date. The agreement was submitted to the California Department of Insurance (CDI) on December 29, 2021. This agreement is currently under review by the CDI.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 6): It is recommended that 1. The Company shall follow the Annual Statement Blank provided By the California Department of Insurance when preparing the Annual Statement. The reported balance should reconcile to the general ledger and trial balance. Any adjusting entry shall be documented to reflect any difference between the trial balance and the Annual Statement.; 2. The Company shall maintain adequate documentation to support all information reported in its financial statements. The documentation shall be prepared in sufficient detail to allow for a full and complete audit trail from the Company's financial statements to individual records; 3. All of the Company's books and records must be made available for examination pursuant to California Insurance Code (CIC) Section 734. The Company shall consider engaging the experts to rewrite, post, and balance the financial statements and related reporting to ensure compliance with relevant codes and regulations.

Accounts and Records - Unclaimed Property (Page 7): It is recommended that the Company establish an internal policy on escheating the unclaimed property to the California State Controller's Office and implementing procedures to ensure future compliance with California Code of Civil Procedure Sections 1530 and 1532.

Notes to Financial Statement Items - Unearned Home Protection Contract Fees (Page 13): It is recommended that the Company maintains sufficient detail to support the calculation of the Unearned Home Protection Contract Fees and trial balance and ensure future compliance with CIC Section 12754.

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,

Podsiadlo,
Thomas

 Digitally signed by Podsiadlo,
Thomas
Date: 2022.05.20 13:21:01
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Thomas Podsiadlo, CFE
Examiner-In-Charge
Department of Insurance
State of California

Oseguera,
Ralph

 Digitally signed by Oseguera,
Ralph
Date: 2022.05.23 07:44:56
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Ralph Oseguera, CFE
Supervisor
Department of Insurance
State of California