REPORT OF EXAMINATION

OF THE

INTERINSURANCE EXCHANGE OF THE AUTOMOBILE CLUB

AS OF

DECEMBER 31, 2023

Commissioners Signature

Filed on March 27, 2025

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Los Angeles, California
February 14, 2025

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

INTERINSURANCE EXCHANGE OF THE AUTOMOBILE CLUB

(hereinafter also referred to as the Exchange). The Exchange's statutory home office is located at 3333 Fairview Road, Costa Mesa, California 92626.

SCOPE OF EXAMINATION

We have performed a multi-state examination of the Exchange. The previous examination of the Exchange was as of December 31, 2019. This examination covered the period from January 1, 2020 through December 31, 2023.

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 Exchange'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 Exchange 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 Exchange’s financial statements.

This examination report includes findings of fact and general information about the Exchange 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 Exchange.

This was a coordinated examination with California serving as the lead state and was conducted concurrently with the examinations of the following insurance entities in the holding company group:

Company	State of Domicile
Automobile Club Inter-Insurance Exchange (MO Exchange)	MO
Auto Club Family Insurance Company (ACFIC)	MO
Motor Club Insurance Company (MCIC)	RI
Auto Club Casualty Company (ACCC)	TX
Auto Club County Mutual Insurance Company (ACCM)	TX
Auto Club Indemnity Company (ACIC)	TX

Missouri, Rhode Island, and Texas participated in the examination.

EXCHANGE HISTORY

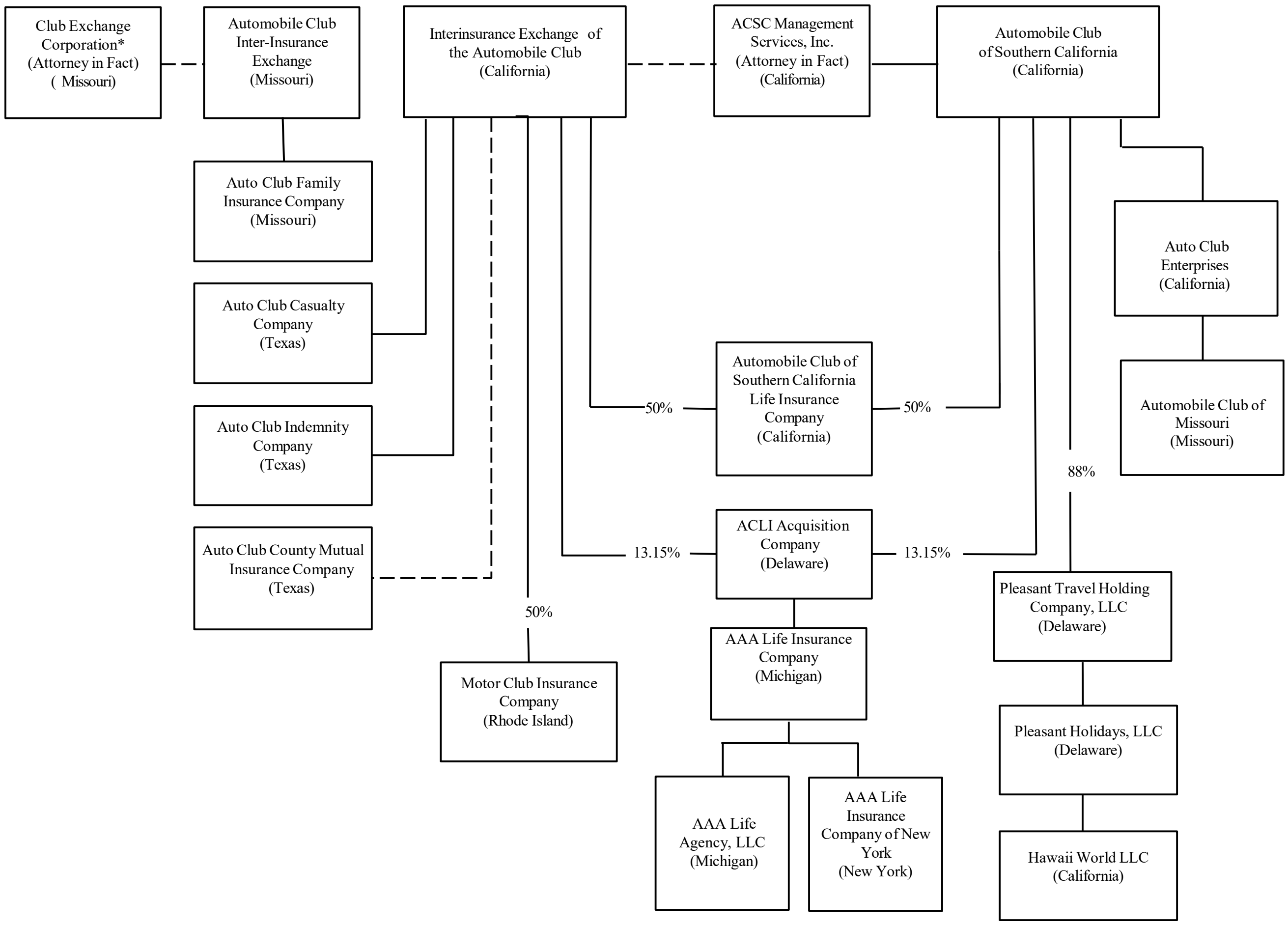
The Exchange, a reciprocal insurer organized under the laws of the state of California, was incorporated on October 4, 1912. The Exchange offers automobile, homeowner, watercraft, and personal excess liability insurance primarily to members of its affiliate, the Automobile Club of Southern California (ACSC), and its subsidiaries and affiliates, and to other non-affiliated American Automobile Association clubs.

ACSC is a non-profit mutual benefit corporation incorporated in the state of California. The general objective of ACSC is to provide members with services that meet their motoring and travel needs. These services include, but are not limited to, emergency road service, travel agency services, Department of Motor Vehicle related services, financial services, and map distribution.

ACSC Management Services, Inc. (Management Services) is a wholly-owned subsidiary of ACSC and is the corporate attorney-in-fact for the Exchange. Management Services employs all personnel of the Exchange.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which includes the Exchange and its affiliated insurance companies, depicts the Exchange's relationship within the holding company system at December 31, 2023. All ownership is 100% unless otherwise indicated.



* Club Exchange Corporation, a Missouri corporation, the attorney-in-fact of the Automobile Club Inter-Insurance Exchange, is a wholly owned subsidiary of Automobile Club of Missouri

Possession of 100% of voting interests unless otherwise noted =------------

Contractual or other relationship = - - - - - -

The Exchange is managed and controlled by a seven-member Board of Governors who are members of, and appointed by, the Board of Directors of the Automobile Club of Southern California (ACSC). A listing of the Board of Governors, principal officers of the Exchange, and principal officers of its Attorney-in-Fact serving on December 31, 2023 follows:

Governors

Name and Location	Principal Business Affiliation
Peter K. Barker Los Angeles, California	Retired Investment Banking Executive J. P. Morgan Chase & Co.
Robert T. Bouttier Los Angeles, California	Chair and Retired Executive Automobile Club of Southern California
Anthony J. Buzzelli Somerset, Virginia	Retired Certified Public Accountant Deloitte LLP
Robert A. DeMichiei Gibsonia, Pennsylvania	Retired Executive University of Pittsburgh Medical Center
Patrick C. Haden San Marino, California	President Wilson Avenue Consulting, Inc.
Antonia Hernandez Pasadena, California	Retired Executive California Community Foundation
Martha H. Munsch Sewickley, Pennsylvania	Retired Attorney Reed Smith LLP

Principal Officers

Name	Title
Gail C. Louis	Corporate Secretary
April F. Savoy	Assistant Secretary
Katherine A. Sieck	Assistant Secretary

Principal Officers of ACSC Management Services, Inc. [*]

Name	Title
John F. Boyle[a]	President, Chief Executive Officer, and Manager
Greg L. Backley[a]	Chief Operating Officer
Christopher M. Baggaley	Senior Vice President
Katrina E. Bradley	Senior Vice President
Chad D. Hourigan	Senior Vice President, Chief Financial Officer, and Treasurer
Malek K. Khouri	Senior Vice President
Michael S. Mohamed	Senior Vice President
April F. Savoy	Senior Vice President, General Counsel, and Assistant Secretary
Katherine A. Sieck	Senior Vice President and Assistant Secretary
Christopher G. Simpson	Senior Vice President and Chief Technology Officer
Raju T. Varma	Executive Vice President
Suzanne J. Wisdom	Senior Vice President
Gail C. Louis	Corporate Secretary

(*) Attorney-in-Fact of the Exchange

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

(a) John F. Boyle retired on March 31, 2024. Greg L. Backley was appointed as his successor, effective April 1, 2024. Following this appointment, the Chief Operating Officer position was eliminated.

Management Agreements

Management Agreement: ACSC and its affiliates, including ACSC Management Services, Inc. (Management Services), the Attorney-in-Fact for the Exchange, employ all personnel of the Exchange pursuant to a Management Agreement, dated as of December 19, 1996. Management Services performs all of the operations of the Exchange, providing services related to the acquisition and issuance of insurance and the administrative activities associated with the business of the Exchange. In consideration of services rendered, the Exchange reimburses Management Services for salaries and other employee-related costs through a management service fee. A portion of the employee benefit costs are also allocated directly to the Exchange.

Management service fees are calculated as follows:

(1) A sum equal to 1% of the premiums earned less the tax computed according to the provisions of California Insurance Code (CIC) Section 1530; and

(2) A sum equal to the amount of the operating expenses incurred (i.e., cost reimbursement) by Management Services for the performance of the aforementioned services. Each quarter, cost allocation studies are performed to determine the cost to be allocated to the Exchange.

Fees paid under the terms of the agreement for the years 2020, 2021, 2022, and 2023 were $676,002,523, $743,345,828, $799,689,079, and $841,824,717, respectively. This agreement went into effect December 19, 1996, before the prior approval provisions of CIC Section 1215.5(b)(4) went into effect and has never been amended.

Administrative Service Agreements: Effective February 1, 2000, the Exchange entered into separate Administrative Service Agreements with its subsidiaries, Auto Club Indemnity Company (ACIC) and Auto Club Casualty Company (ACCC). Under the terms of these agreements, the Exchange provides the following services to ACIC and ACCC; personnel services, financial services, management information systems support, facilities support, procurement support, insurance support services, marketing, advertising and promotional activities, and legal services. The services are provided on a cost allocation/reimbursement basis in accordance with insurance accounting principles. Fees paid by ACIC to the Exchange under the terms of the agreement for the years 2020, 2021, 2022, and 2023 were $37,677,056, $41,845,856, $64,250,473, and $ $66,393,338, respectively. No fees were paid by ACCC to the Exchange under the terms of the agreement for the years under examination due to ACCC ceasing writing business. The California Department of Insurance (CDI) approved these two agreements on November 2, 1999 as required under CIC Section 1215.5(b)(4).

Managerial Service Agreement: On September 30, 2002, the Exchange entered into a Management Service Agreement that allows it to manage Auto Club County Mutual Insurance Company (ACCM), a Texas mutual insurer. Fees paid by ACCM to the Exchange under the terms of the agreement for the years 2020, 2021, 2022, and 2023 were $119,558,700, $124,253,564, $148,602,395, and $153,994,298, respectively. The CDI approved this agreement on November 13, 2002, as required under CIC Section 1215.5(b)(4).

Effective December 31, 2009, the Exchange entered into Amendment No. 1 of the above agreement to add new language to promote the timely settlement of amounts owed between the parties in accordance with Statements of Statutory Accounting Principles (SSAP) No. 96 and to provide a right of setoff clause between the parties under the agreement. The CDI approved this amendment on January 8, 2010.

Administrative Services Agreement: The Exchange and AAA Northeast Holding, Inc. (ANEH), a wholly-owned subsidiary of AAA Northeast (ANE), each own 50% of Motor Club Insurance Company (MCIC), a Rhode Island domiciled insurer. Under the terms of the agreement, dated December 1, 2017, the Exchange provides MCIC with a broad range of services to support its operations, including product development and management, pricing, underwriting, claims handling, and other support services. ANE provides certain marketing and distribution services for MCIC. Services fees are based on a cost-reimbursement basis and are allocated in accordance with SSAP No. 70. Service fees allocated and paid to the Exchange during 2020, 2021, 2022, and 2023 were $2,343,951, $2,399,061, $3,508,240, and $3,556,181, respectively. The CDI approved this agreement on November 13, 2017, as required under CIC Section 1215.5(b)(4).

Tax Sharing Agreement: Effective February 2, 2000, the Exchange, ACCC, and ACIC entered into a Tax Sharing Agreement. Under the terms of the agreement, the Exchange files a consolidated federal income tax return with ACCC and ACIC. Allocation is based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled annually when tax payments are remitted to the Internal Revenue Service. The Exchange paid taxes in the amounts of $173,065,056 and $47,727,373 in

2020 and 2021, respectively. No taxes were paid in 2022. The Exchange received a tax refund in 2023 in the amount of $84,104,466. The CDI approved this agreement on August 27, 1999, as required under CIC Section 1215.5(b)(4).

Affiliation Agreement: An Affiliation Agreement was executed on March 1, 2006 among the Exchange, ACSC, Auto Club Enterprises (ACE), Automobile Club of Missouri (ACM), Automobile Club Inter-Insurance Exchange (the MO Exchange), Management Services, and Club Exchange Corporation (CEC). The agreement sets forth provisions for control among the companies and various terms and conditions agreed upon in order to affect the consummation of transactions detailed in the agreement. Pursuant to the agreement, the Exchange, the MO Exchange, and Auto Club Family Insurance Company, a wholly-owned subsidiary of the MO Exchange (ACFIC) entered into a Reinsurance Pooling Agreement, as noted under the "Reinsurance" caption in this report.

Amended and Restated Multiple Cedant Allocation Agreement: Effective January 1, 2008, the Exchange entered into an Amended and Restated Multiple Cedant Allocation Agreement with the MO Exchange to allocate reinsurance premiums, reinstatement premiums, and reinsurance recoveries under their single reinsurance program. The allocation method for reinsurance premiums is based on the average annual losses, and the reinsurance recoveries are based on the actual claim payments. The CDI approved this agreement on March 28, 2008, as required under CIC Section 1215.5(b)(4)

Related Party Transactions

Exchange Commitment - Capital Contributions to ACSCLIC

The Exchange and ACSC each have a 50% ownership in the Automobile Club of Southern California Life Insurance Company (ACSCLIC). Since 2013, the Exchange has filed a Commitment Letter with the CDI pledging, that the Exchange and ACSC will make capital contributions to ACSCLIC in order for that entity to maintain a specific Risk-Based Capital (RBC) level. During the examination period, the Exchange made capital contributions of $25,000,000, $16,450,000, and $4,000,000 in 2020, 2021, and 2022 to ACSCLIC, respectively. There were no capital contributions made to ACSCLIC in 2023.

From the inception of the Commitment Letter through year-end 2023, the Exchange's cumulative capital contributions totaled $175,850,000. The previous Commitment Letter expired on December 31, 2023, and a new letter extended the commitment until December 31, 2026, with the same terms.

ACLI Acquisition Company Commitment

The Exchange and ACSC each have a 13.15% ownership interest in ACLI Acquisition Company (ACLI), which is a holding company that owns all the outstanding shares of AAA Life Insurance Company (AAA Life). As part of the Fifth Amended and Restated Shareholder Agreement, effective March 11, 2022, the Exchange and ACSC together have a contingent commitment to make capital contributions to ACLI in order to maintain a particular RBC level of AAA Life. Although the Exchange made no capital contributions during the examination period, it has previously made capital contributions totaling $14,944,063. The agreement was not subject to prior approval by the CDI.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2023, the Exchange was licensed to write various lines of property and casualty business in the following states:

California	New Hampshire	Texas
Hawaii	New Mexico	Vermont
Maine	Ohio	Virginia
Missouri	Pennsylvania	

In 2023, the Exchange wrote $4.6 billion in direct premiums. Of the direct premiums written, $4.3 billion (93.9%) was written in California and $282 million (6.1%) was written in seven other states. The Exchange is licensed in Missouri, Ohio, and Texas but does not write policies on a direct basis. The Exchange is also an accredited reinsurer in Florida, Michigan, and Rhode Island.

During 2023, the Exchange's $4.6 billion in direct business written consisted of approximately $3.8 billion (81.8%) automobile insurance, $789 million (17%) homeowners insurance; $37.6 million (0.8%) fire; and $18.6 million (0.4%) other lines of business. The Exchange offers insurance to members of the Automobile Club of Southern California (ACSC) and its affiliated motor clubs as well as non-members in some states. Business is predominantly acquired through the agents of ACSC and its affiliates.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

Effective July 1, 2006, the Exchange (lead company) is a party to a Reinsurance Pooling Agreement (Pooling Agreement) with its affiliates, Automobile Club Inter-Insurance Exchange (MO Exchange), and Auto Club Family Insurance Company (ACFIC). This Pooling Agreement was a part of the previously noted Affiliation Agreement described within the "Management Agreements" section of this report. The following are the pooling participation percentages under the terms of this agreement:

Company	State of Domicile	Pooling Share
Interinsurance Exchange of the Automobile Club	CA	95%
Automobile Club Inter-Insurance Exchange	MO	4%
Auto Club Family Insurance Company	MO	1%
Pool Total		100%

Under the Pooling Agreement, the participants pool all their net underwriting business after cessions to non-affiliated reinsurers. The Pooling Agreement also provides for the sharing of various underwriting assets and liabilities. Investments and investment-related operating items, income taxes, and non-insurance related assets and liabilities are excluded from the pooling program.

Effective December 31, 2010, the Pooling Agreement was amended to revise the definition of reinsurance recoveries to provide that any uncollectible external reinsurance receivables are to be deducted from the amount retroceded by the Exchange to MO Exchange and ACFIC. In addition, the amendment revised certain commencement and termination provisions, and run-off of liabilities following termination. The amendment also adds a new section to provide for the reapportionment of the quota share percentages applicable to each pool member upon the termination of the MO Exchange or ACFIC. The

California Department of Insurance (CDI) approved the amendment on December 13, 2010, as required under CIC Section 1215.5(b)(4).

Assumed

The Exchange assumes 100% of the private passenger automobile business written by its subsidiary, Auto Club Casualty Company (ACCC), and 100% of the homeowners, inland marine, other liability, and private passenger automobile business written by its subsidiary, Auto Club Indemnity Company (ACIC), through two Quota-Share Reinsurance Agreements effective February 1, 2000. The CDI approved these two agreements on November 2, 1999, as required under CIC Section 1215.5(b)(4).

The Exchange also assumes 100% of the private passenger automobile business written by the Auto Club County Mutual Insurance Company (ACCM) (formerly known as AAA Texas County Mutual Insurance Company) through a Quota-Share Reinsurance Agreement effective October 1, 2002. The CDI approved this agreement on November 13, 2002, as required under CIC Section 1215.5(b)(4).

On December 1, 2017, the Exchange entered into a Quota Share Reinsurance Agreement pursuant to which policies written on or after January 1, 2018 by Motor Club Insurance Company (MCIC) are 100% ceded to and reinsured by the Exchange. MCIC is 50% owned by the Exchange and 50% owned by AAA Northeast Holding, Inc. MCIC is managed and operated by the Exchange pursuant to an Administrative Services Agreement. MCIC writes homeowners, other liability, and automobile insurance policies in Rhode Island and Connecticut, and is in the process of expanding into New York and New Jersey.

Effective May 31, 2023, the Exchange and MCIC entered into Amendment No. 1 to the Quota Share Reinsurance Agreement pursuant to which the parties revised the quota share of the reinsured policy liabilities assumed by the Exchange to (a) 100% with respect to all reinsured policies issued in a state other than the state of New York and (b) 80% with respect to all reinsured policies issued in the state of New York.

Effective January 1, 2018, the Exchange entered into a reinsurance agreement with Auto

Club Insurance Association (ACIA), pursuant to which the Exchange assumed 100% of business written by ACIA in Ohio, West Virginia, and Kentucky. As of August 1, 2020, the Exchange's subsidiary, ACIC started writing business in Ohio and West Virginia, and as of June 1, 2021, ACIC started writing business in Kentucky. ACIA contemporaneously stopped writing business in those markets.

Overall, as of December 31, 2023, the Exchange reported total premiums assumed of $1.4 billion, with nearly 100% assumed from its affiliated entities.

Ceded

The following is a summary of the ceded reinsurance treaties in force as of December 31, 2023:

Type of Contract	Reinsurer's Name	Exchange's Retention (In 000's)	Reinsurer's Maximum Limits (In 000's)
Catastrophe Excess of Loss			
1st Layer	Various Authorized and Unauthorized	(A) $250,000 per Occurrence (B) $350,000 per Occurrence	$200,000 per Occurrence
2nd Layer	Various Authorized and Unauthorized	(A) $450,000 per Occurrence (B) $550,000 per Occurrence	$350,000 per Occurrence
3rd Layer	Various Authorized and Unauthorized	(A) $800,000 per Occurrence (B) $9000,000 per Occurrence	$375,000 per Occurrence
4th Layer	Various Authorized and Unauthorized	(A) $1,175,000 per Occurrence (B) $1,275,000 per Occurrence	$425,000 per Occurrence
5th Layer	Various Authorized and Unauthorized	(A) $1,600,000 per Occurrence (B) $1,700,000 per Occurrence	$100,000 per Occurrence

(A) All Other Markets
(B) California Market Only

As previously noted under the "Assumed Reinsurance" section, effective December 1, 2017, the Exchange entered into a 100% quota share assumed reinsurance agreement with the MCIC. In addition, effective December 1, 2017, the Exchange entered into a quota share agreement with Motor Club Insurance Captive, LLC. (MCI Captive) to cede 50% of this assumed business from MCIC.

As of December 31, 2023, reinsurance recoverables (gross of ceded balances payable) for all ceded reinsurance totaled $349.9 million or 3.8% of surplus as regards policyholders. Of the total reinsurance recoverables, $309.9 million (or 88.6%) was from affiliates who are authorized reinsurers.

ACCOUNTS AND RECORDS

Vehicle Fraud Assessment

California Code of Regulations (CCR), Title 10, Section 2698.62(d) states, in part, that "in order to verify the number of vehicles for which an assessment is due and has been paid under this section, each insurer shall maintain a file known as the Automobile Assessment File. The data shall be kept in a computer format that allows for the insurer to place each calendar year quarter data on a computer media format in a format specified by the Commissioner. The data in the file shall be kept for a minimum of five years after each calendar year quarter." Currently, the Exchange re-runs the Vehicle Fraud Assessment data files as necessary when they are required to provide vehicle fraud information. It is recommended that the Exchange comply with CCR 2698.62(d) and implement a process to save the supporting Automobile Assessment Files after each quarter and retain the files for a minimum of five years.

Custodial Agreement

California Insurance Code (CIC) Section 1104.9(c) mandates that securities shall not be deposited in or with a qualified custodian, qualified depository, or qualified sub-custodian except as authorized by an agreement between the insurer and the qualified custodian, if the agreement is satisfactory to and has been approved by the Commissioner. As a result of a merger between U.S. Bank of California and J.P. Morgan Chase, the trust and custody business was acquired by J.P. Morgan Chase. Effective June 15, 1995, J.P. Morgan Chase became the custodial bank for the Company. The Exchange did not execute a new custodial agreement with J.P. Morgan Chase to reflect the change. It is recommended that the Exchange enter into a new custodial agreement with J.P. Morgan Chase and submit the custodial agreement to the California Department of Insurance for approval in accordance with CIC Section 1104.9(c).

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Exchange with the California Department of Insurance and present the financial condition of the Exchange for the period ending December 31, 2023. 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. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2023

Underwriting and Investment Exhibit for the Year Ended December 31, 2023

Reconciliation of Surplus as Regards Policyholders from December 31, 2020 through December 31, 2023

<u>Statement of Financial Condition</u>
<u>as of December 31, 2023</u>

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 6,722,904,556	$	$ 6,722,904,556	
Common Stock	6,953,040,881		6,953,040,881	
Real Estate: Property occupied by the company	176,951,880		176,951,880	
Cash, cash equivalents, and short-term investments	324,094,809		324,094,809	
Other Invested Assets	5,000,000		5,000,000	
Receivables for securities	1,237,228		1,237,228	
Investment income due and accrued	84,244,131		84,244,131	
Uncollected premiums and agents' balances in the course of collection	184,582,170	2,226,296	182,355,874	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,359,790,316		1,359,790,316	
Amounts recoverable from reinsurers	21,637,875		21,637,875	
Current federal and foreign income tax recoverable and interest thereon	95,940,260		95,940,260	
Guaranty funds receivable or on deposit	721,027		721,027	
Electronic data processing equipment and software	96,227,353	91,029,582	5,197,771	
Furniture and equipment	7,622,957	7,622,957	0	
Receivables from parent, subsidiaries, and affiliates	1,035,386		1,035,386	
Aggregate write-ins for other than invested assets	44,840,867	29,461,586	15,379,281	
Total assets	$16,079,871,695	$ 130,340,421	$15,949,531,274	

Liabilities, Surplus, and Other Funds			Notes
Losses		$ 2,368,792,143	(1)
Reinsurance payable on paid loss and loss adjustment expenses		85,038,998	
Loss adjustment expenses		376,933,726	(1)
Other expenses		10,373,561	
Taxes, licenses, and fees		51,281,370	
Net Deferred tax liability		764,439,701	
Unearned premiums		2,780,972,015	
Advance premiums		56,746,327	
Dividends declared and unpaid: Policyholders		40,736,002	
Ceded reinsurance premiums payable		130,424,846	
Amounts withheld or retained by company for account of others		12,678,801	
Remittances and items not allocated		1,546,186	
Payable for parent, subsidiaries, and affiliates		26,447,685	
Payable for securities		16,735,332	
Aggregate write-ins for liabilities		12,886,575	
Total liabilities		6,736,003,268	
Common capital stock	$ 0		
Gross paid-in and contributed surplus	0		
Unassigned funds (surplus)	9,213,498,006		
Surplus as regards policyholders		9,213,498,006	
Total liabilities, surplus, and other funds		$15,949,531,274	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2023

Statement of Income

Underwriting Income

Premium earned		$ 5,157,429,375
Deductions:		
Losses incurred	$ 4,074,808,567	
Loss adjustment expenses incurred	497,377,142	
Other underwriting expenses incurred	1,084,632,548	
Total underwriting deductions		5,656,818,257
Net underwriting loss		(499,388,882)

Investment Income

Net investment income earned	$ 362,692,525	
Net realized capital losses	(350,539,501)	
Net investment gain		12,153,024

Other Income

Net loss from agents' or premium balances charged off	$ (21,559,028)	
Finance and service charges not included in premiums	155,396,226	
Aggregate write-ins for miscellaneous income	921,029	
Total other income		134,758,227
Net loss before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		(352,477,631)
Dividends to policyholders		143,941,032
Net loss after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		(496,418,663)
Federal and foreign income taxes incurred		(5,703,643)
Net loss		$ (490,715,020)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2022		$ 8,661,563,286
Net loss	$ (490,715,020)	
Change in net unrealized capital gains	1,004,495,630	
Change in net deferred income tax	47,283,968	
Change in nonadmitted assets	(9,129,858)	
Change in surplus as regards policyholders for the year		551,934,720
Surplus as regards policyholders, December 31, 2023		$ 9,213,498,006

Reconciliation of Surplus as Regards Policyholders
from December 31, 2020 through December 31, 2023

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2019			$ 7,827,282,709
Net income	$ 59,399,465	$	
Change in net unrealized capital gains	1,234,309,907		
Change in net deferred income tax	80,549,837		
Change in nonadmitted assets	11,956,089		
Total gains and losses	$ 1,386,215,298	$ 0	
Net increase in surplus as regards policyholders			1,386,215,298
Surplus as regards policyholders, December 31, 2023			$ 9,213,498,007

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Because the business of the Exchange's property and casualty companies were pooled, it was necessary to review the loss and loss adjustment expense reserves on a group-wide basis. Based on an analysis by a Casualty Actuary from the California Department of Insurance, the Exchange's December 31, 2023 reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for the purposes of this examination.

SUBSEQUENT EVENTS

Wawanesa Acquisition

Subsequent to the examination period, effective as of March 31, 2024, the Exchange acquired 100% of the issued and outstanding shares of Wawanesa General Insurance Company (Wawanesa), a California stock insurer, through a Stock Purchase Agreement dated July 31, 2023. The California Department of Insurance (CDI) approved the Exchange's application for this transaction on January 5, 2024. The Exchange's acquisition of Wawanesa is reflected on the holding group's organizational chart effective March 31, 2024.

As a result of the acquisition, the Exchange entered into a Quota Share Reinsurance Agreement with Wawanesa, effective April 1, 2024. Pursuant to the agreement, the Exchange assumes 100% of all policy liabilities on Wawanesa's automobile and homeowner's (including home, condominium, and renters) personal lines policies on or after the agreement's effective date. In consideration, Wawanesa cedes, and the Exchange assumes 100% of the direct premium and premium receivable on such policies. The CDI issued a letter of consent on February 22, 2024.

The Exchange also entered into a Loss Portfolio Transfer Reinsurance Agreement with Wawanesa, effective April 1, 2024. Pursuant to the agreement, the parties effected a loss portfolio transfer from Wawanesa to the Exchange with Wawanesa ceding all loss reserves and the Exchange assuming and reinsuring 100% of policy liabilities on Wawanesa's automobile and homeowner's (including home, condominium, and renters) personal lines prior to the effective date. In consideration, Wawanesa paid the Exchange a sum equal to the loss and loss adjustment expense reserves on the reinsured policy liabilities. The agreement will remain in force until all reinsured policy liabilities are fully settled. The CDI issued a letter of consent on February 22, 2024.

The Exchange and Wawanesa also entered into (i) an intercompany Administrative Services Agreement effective April 1, 2024, pursuant to which the Exchange will provide, through the Exchange's affiliates, Wawanesa certain technology, human resources, finance, accounting, risk management, digital, general administration, and other services, and (ii) a separate intercompany Services Agreement effective April 1, 2024, pursuant to which Wawanesa will provide certain claims, human resources, finance, accounting, legal, procurement, facilities support, and other services to the Exchange as the Exchange may request from time to time. The CDI approved the agreements on February 14, 2024, as required under CIC Section 1215.5(b)(4).

California Wildfires

In January 2025, the greater Los Angeles area experienced three devastating wildfires Eaton, Palisades, and Hurst that caused significant property damage. As of the conclusion of this examination, February 14, 2025, the Exchange was continuing to gather data on loss exposure and claim activity. As of February 7, 2025, the Exchange had received over 6,600 claims and has paid approximately $184 million to policyholders. The Exchange estimates its ultimate losses will be $2.25 billion.

The Exchange has comprehensive catastrophe reinsurance coverage in place to mitigate the financial impact of these wildfires. Under the 2024-2025 catastrophe excess of loss treaty, which covers July 1, 2024 to June 30, 2025, the Exchange has a reinsurance coverage up to $2.30 billion, with a $350 million retention. As of February 7, 2025, the Exchange had already begun receiving funds from its reinsurers and expects to recognize a recoverable from reinsurance of $1.9 billion, net of $142 million in reinstatement premiums.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Vehicle Fraud Assessment (Page 14): It is recommended that the Exchange comply with California Code of Regulations, Title 10, Section 2698.62(d) and implement a process to save the supporting Automobile Assessment Files after each quarter and retain the files for a minimum of five years.

Accounts and Records – Custodian Agreement (Page 15): It is recommended that the Exchange enter into a new custodial agreement with J.P. Morgan Chase and submit the custodial agreement to the California Department of Insurance for approval in accordance with California Insurance Code Section 1104.9(c).

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Attorney-in-Fact's officers and employees during the course of this examination.

Respectfully submitted,

Alea Talbert Pence

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