

REPORT OF EXAMINATION
OF THE
LOYA CASUALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2022



Insurance Commissioner

Filed on April 26, 2024

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Los Angeles, California
March 21, 2024

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

LOYA CASUALTY INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's home office and main administrative office is located at 1800 Lee Trevino, Suite 201, El Paso, Texas 79936.

SCOPE OF EXAMINATION

We have performed our single 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 Texas as the lead state of Loya Insurance Group. It was conducted concurrently with other Texas-domiciled insurance entities in the holding company group, including Loya Insurance Company, Vision Insurance Company, and Young America Insurance Company.

COMPANY HISTORY

The Company was incorporated in California on December 14, 2004. On June 7, 2006, the Company received its Certificate of Authority from the California Department of Insurance to transact property and casualty business.

Capitalization

The Company is authorized to issue 100,000 shares of common stock, with a par value of \$60 per share. As of December 31, 2022, there were 43,334 shares of common stock issued and outstanding.

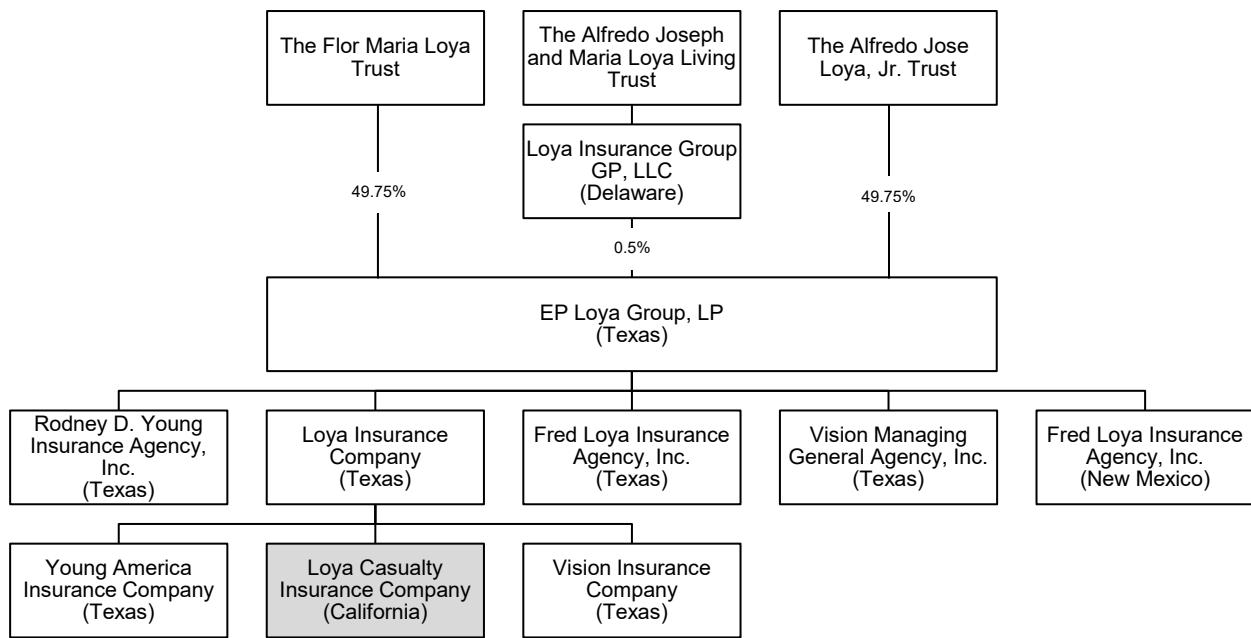
On March 27, 2018, the Company received a capital contribution of \$5,000,000 from its parent, Loya Insurance Company (LIC).

On November 15, 2018, the Company received a capital contribution of \$5,000,000 from its parent, LIC.

On December 20, 2019, the Company received a capital contribution of \$2,500,000 from its parent, LIC.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. Following is an abridged organizational chart that depicts the interrelationships of the Company with its affiliated entities within the holding company system: (All ownership is 100% unless otherwise noted).



The five 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> |
|--|---|
| Alfredo J. Loya El Paso, Texas | Chairman of the Board Loya Insurance Company |
| Alfredo J. Loya, Jr. El Paso, Texas | Secretary and Chief Executive Officer Loya Insurance Company |
| Flor M. Loya El Paso, Texas | President Loya Insurance Company |
| Maria Loya El Paso, Texas | Director Loya Casualty Insurance Company |
| Jose A. Ramirez El Paso, Texas | Treasurer and Chief Financial Officer Loya Insurance Company |

Principal Officers

| <u>Name</u> | <u>Title</u> |
|-----------------------|---------------------------------------|
| Flor M. Loya | President |
| Alfredo J. Loya, Jr. | Secretary and Chief Executive Officer |
| Jose A. Ramirez | Treasurer and Chief Financial Officer |
| Benjamin Salazar, Jr. | Chief Operating Officer |

Management Agreements

Managing General Agency Agreement: The Company entered into a Managing General Agency Agreement with its affiliate, Vision Managing General Agency, Inc. (MGA). Under the terms of the agreement, the MGA provides underwriting, marketing, claims handling, administrative services, and collection of premiums. In return, the MGA receives a commission of 26.65% of net premiums collected plus reimbursement of loss adjustment expenses at 10% of gross premiums earned. In addition, the MGA charges and retains a policy fee and an inspection fee to cover certain agency expenses. The agreement presets the annual net written premium volume at \$20,000,000. This agreement was approved by the California Department of Insurance (CDI) on June 7, 2006. The amounts paid by the Company under this agreement for 2018, 2019, 2020, 2021, and 2022 were

\$72,829,837, \$73,805,945, \$65,885,152, \$72,046,203, and \$73,096,271, respectively.

On January 28, 2018, an amendment was made to the agreement to revise the annual net written premium volume from \$20,000,000 to \$250,000,00, the revision is considered to be a significant change to the agreement. However, the amendment was not submitted to the CDI for prior approval as required by California Insurance Code (CIC) Section 1215.5(b)(4). It is recommended the Company submit the amended agreement to the CDI for approval in accordance with CIC Section 1215.5(b)(4).

Tax Reimbursement Agreement: Effective December 31, 2018, the Company and its affiliates entered into the Tax Reimbursement Agreement to file consolidated federal income tax returns with its ultimate parent, EP Loya Group, LP. The allocation of taxes is based upon separate return tax calculation. Intercompany tax allocation is settled within 60 days after the filing of the consolidated income tax return. This agreement was approved by the CDI on October 10, 2019. The Company incurred federal income taxes for 2019, 2020, 2021, and 2022 were \$691,538, \$3,547,325, (\$640,018), and (\$1,218,519), respectively.

TERRITORY AND PLAN OF OPERATION

The Company's operations are conducted jointly with its affiliates at its home office in El Paso, Texas. As of December 31, 2022, the Company was licensed to transact automobile insurance business only in California.

The Company writes six-month policies for low limits of liability automobile insurance and low-value property damage automobile insurance through its affiliates, Vision Managing General Agency, Inc. and Fred Loya Insurance Agency, Inc. (FLI). The Company's products are produced solely by FLI through captive agency offices under authority allowed by the Managing General Agencing Agreement.

In 2022, the Company wrote \$163.8 million of direct premium. Of the direct premium

written, 55.4% or \$94.7 million was private passenger automobile liability, and 40.4% or \$69.1 million was private passenger automobile physical damage.

LOSS EXPERIENCE

A review of the Company's loss experience during the examination period discloses a continued trend of net underwriting losses and net losses as follows:

| Year | Net Underwriting Income or (Loss) | Net Income or (Loss) |
|-------|-----------------------------------|----------------------|
| 2018 | \$ 32,667 | \$2,709,345 |
| 2019 | (\$302,594) | \$2,946,954 |
| 2020 | \$12,901,665 | \$13,393,266 |
| 2021 | (\$7,689,830) | (\$2,937,187) |
| 2022 | (\$9,328,827) | (\$3,765,820) |
| 2023* | (\$11,728,149) | (\$5,328,179) |

*Based on the subsequent 2023 Annual Statement

As a result of the Company's consistent efforts for operating improvements, including premium rate increase of 11% in 2018 and implementation of attorney-represented bodily injury claims handling initiative to diminish claims severity, the Company reported favorable operating results for 2018 and 2020. In 2020, due mainly to the reduction in claims frequency as a result of less miles driven with fewer personal auto claims during the pandemic restriction, the Company reported net income of \$13.4 million. In 2021 and 2022, however, the Company reported net losses, as it experienced continued adverse trend in claims frequency and severity for attorney-represented bodily injury claims, as well as adverse claims frequency and severity in property damage claims in associated with inflationary pressures on body shops, automobile parts, and cash value of used cars. As of December 31, 2023, the net losses increased from \$3.8 million in 2022 to \$5.3 million in 2023. The increase is mainly due as a result of higher claim and underwriting expenses due to inflation. To help mitigate its losses, the Company filed for a rate revision in June of 2023, which is still pending.

REINSURANCE

Assumed

The Company did not assume risks through reinsurance during the examination period.

Ceded

The Company was a party to a catastrophe reinsurance coverage agreement along with other insurance carriers under the the Loya Group from 2018 to 2020, on the annual renewal basis. The latest coverage expired in March 2020, and has not been renewed.

ACCOUNTS AND RECORDS

Annual Statement Instructions

Pursuant to the Statement of Statutory Accounting Principle (SSAP) No. 55 and the Annual Statement Instructions prescribed by the National Association of Insurance Commissioners (NAIC), Notes to the Financial Statements Number 14D, Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits, the Company shall disclose the dollar amount paid (for the extra contractual and bad faith portion of the total claim amount) for claims related extra contractual obligations and bad faith losses stemming from lawsuits, in the current reporting period on a direct basis. The Company's Annual Statement Note to Financial Statements 14D was not prepared in accordance to the NAIC's Annual Statement Instructions and did not disclose the potential risk and/or uncertainties related to lawsuits in the manner or format required by the NAIC. The Company should compile its bad faith/extra contractual litigation settlements arising from claims and disclose it annually in the Notes to Financial Statements 14D in accordance with the NAIC Annual Statement Instructions. The Company failed to comply with the instructions for all years under examination. It is recommended that the Company

implement procedures to ensure compliance with the NAIC Annual Statement Instructions and SSAP No. 55.

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 to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements reported 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 | \$ 175,364,888 | \$ | \$ 175,364,888 | |
| Cash, cash equivalents, and short-term investments | 6,937,807 | | | 6,937,807 |
| Receivables for securities | | | | |
| Investment income due and accrued | 1,381,449 | | 1,381,449 | |
| Uncollected premiums and agents' balances in the course of collection | 2,233,472 | | 2,233,472 | |
| Net deferred tax asset | 1,720,074 | 429,426 | 1,290,648 | |
| Guaranty funds receivable or on deposit | <u>47,842</u> | | <u>47,842</u> | |
| Total assets | <u>\$ 187,685,532</u> | <u>\$ 429,426</u> | <u>\$ 187,256,106</u> | |
| <u>Liabilities, Surplus and Other Funds</u> | | | | |
| Losses | | | | |
| Loss adjustment expenses | | | \$ 107,197,470 | (1) |
| Other expenses | | | 10,625,845 | (1) |
| Current federal and foreign income taxes | | | 152,877 | |
| Unearned premiums | | | 981,876 | |
| Advance premiums | | | <u>18,685,295</u> | |
| | | | <u>1,281,228</u> | |
| Total liabilities | | | 138,924,591 | |
| Common capital stock | | \$ 2,600,040 | | |
| Gross paid-in and contributed surplus | | 64,900,147 | | |
| Unassigned funds (surplus) | | <u>(19,168,672)</u> | | |
| Surplus as regards policyholders | | | <u>48,331,515</u> | |
| Total liabilities, surplus, and other funds | | | <u>\$ 187,256,106</u> | |

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

State of Income

Underwriting Income

| | |
|---|--------------------|
| Premium earned | \$ 172,676,901 |
| Deductions: | |
| Losses incurred | \$ 103,680,906 |
| Loss adjustment expenses incurred | 23,050,607 |
| Other underwriting expenses incurred | 48,184,127 |
| Aggregate write-ins for underwriting deductions | <u>182,005,728</u> |
| Total underwriting deductions | <u>182,005,728</u> |
| Net underwriting loss | (9,328,827) |

Investment Income

| | |
|------------------------------|-----------------|
| Net investment income earned | \$ 4,354,514 |
| Net realized capital losses | <u>(10,026)</u> |
| Net investment gain | 4,344,488 |

Other Income

| | |
|--|-----------------------|
| Net loss before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes | (4,984,339) |
| Net loss after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes | (4,984,339) |
| Federal and foreign income taxes incurred | <u>(1,218,519)</u> |
| Net loss | <u>\$ (3,765,820)</u> |

Capital and Surplus Account

| | |
|---|----------------------|
| Surplus as regards policyholders, December 31, 2021 | \$ 52,201,260 |
| Net loss | \$ (3,765,820) |
| Change in net unrealized capital gains or (losses) | (60,805) |
| Change in net deferred income tax | (36,330) |
| Change in nonadmitted assets | <u>(6,790)</u> |
| Change in surplus as regards policyholders for the year | <u>(3,869,745)</u> |
| Surplus as regards policyholders, December 31, 2022 | <u>\$ 48,331,515</u> |

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

| | | |
|--|----------------------|----------------------|
| Surplus as regards policyholders, December 31, 2017 | | \$ 23,138,015 |
| | Gain in Surplus | Loss in Surplus |
| Net income | \$ 12,346,558 | \$ 60,804 |
| Change in net unrealized capital | 619,921 | 272,145 |
| Change in net deferred income tax | | |
| Change in nonadmitted assets | | |
| Surplus adjustment: Paid-in | 12,500,000 | |
| Total gains and losses | <u>\$ 25,466,479</u> | <u>\$ 332,949</u> |
| Net increase in surplus as regards policyholders | | <u>25,133,530</u> |
| Surplus as regards policyholders, December 31, 2022 | | <u>\$ 48,331,545</u> |

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

As Texas was the lead of the Loya insurance group examination, the Texas Department of Insurance's (TDI) Actuary performed the evaluation of the loss and loss adjustment expense reserves for all companies under the group as of December 31, 2022. In addition, a Senior Casualty Actuary from the California Department of Insurance (CDI) reviewed the work of the TDI Actuary and performed additional analysis as deemed appropriate. Based on the evaluation and analysis performed by both TDI and CDI Actuaries, the Company's losses and loss adjustment expenses reserves as of December 31, 2022, were found to be reasonably stated, and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Managing General Agency Agreement (Page 5): It is recommended the Company submit the amended Managing General Agency Agreement to the California Department of Insurance for approval in accordance with the California Insurance Code (CIC) Section 1215.5(b)(4).

Accounts and Records – Annual Statement Instruction (Page 7): It is recommended that the Company implement procedures to ensure its Notes to Financial Statements Number 14D complies with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions and Statement of Statutory Accounting Principles No. 55.

Previous Report of Examination

Management and Control – Agreement to File Consolidated Federal Income Tax Returns (Page 4): It is recommended that the Company submit the Agreement to File

Consolidated Federal Income Tax Returns for the CDI approval, as required by the CIC Section 1215.5(b)(4). The Company has complied with this recommendation.

Account and Records – Information Systems Controls (Page **Error! Bookmark not defined.7**): The Company should evaluate the recommendations and make appropriate changes to strengthen its information systems controls. The Company has complied with this recommendation.

Accounts and Records – Unclaimed Property (Page7): It is recommended that the Company submit its Unclaimed Property Notice and Remit Reports to the California State Controller's Office in a timely manner, as required by the California Code of Civil Procedure Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532. The Company has complied with this recommendation.

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,

Ralph Oseguera, CFE
Examiner-In-Charge
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California

Vivien Fan, CFE
Bureau Chief
Department of Insurance
State of California