

REPORT OF EXAMINATION
OF THE
ORION INDEMNITY COMPANY
AS OF
DECEMBER 31, 2021

A handwritten signature in blue ink, appearing to be 'D. DeLa', is written over a horizontal line.

Filed on May 30th, 2023

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION	1
COMPANY HISTORY:	3
Capitalization	3
MANAGEMENT AND CONTROL:.....	3
Management Agreements.....	5
TERRITORY AND PLAN OF OPERATION.....	7
REINSURANCE:	7
Intercompany	7
Assumed.....	7
Ceded	7
ACCOUNTS AND RECORDS:.....	9
Vehicle Fraud Assessment	9
Annual Statement Instructions	9
FINANCIAL STATEMENTS:	10
Statement of Financial Condition as of December 31, 2021	11
Underwriting and Investment Exhibit for the Year Ended December 31, 2021	12
Reconciliation of Surplus as Regards to Policyholders from December 31, 2017 through December 31, 2021	13
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	14
Losses and Loss Adjustment Expenses	14
SUBSEQUENT EVENTS	14
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	15
Current Report of Examination	15
Previous Report of Examination	15
ACKNOWLEDGMENT	16

Los Angeles, California
April 28, 2023

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ORION INDEMNITY COMPANY

(formally known as Workmen's Auto Insurance Company) (hereinafter also referred to as the Company). Its primary location of its books and records is located at 4484 Wilshire Boulevard, Los Angeles, California, 90010. The Company's statutory home office and main administrative office is located at 1400 N Harbor Boulevard Suite #200, Fullerton, California, 92835.

SCOPE OF EXAMINATION

We have performed our multi-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, 2021.

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 the Company'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 includes 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 examination was a coordinated examination of the Mercury Insurance Group with California as the lead state, and conducted concurrently with the Florida, Georgia, Illinois, Oklahoma, and Texas Departments of Insurance. The insurance entities reviewed as part of this examination are identified below by state of domicile:

<u>Company</u>	<u>State</u>
California Automobile Insurance Company	California
California General Underwriters Insurance Company, Inc.	California
Mercury Casualty Company	California
Mercury Insurance Company	California
Orion Indemnity Company (fka Workmen's Auto Insurance Company)	California
Mercury Indemnity Company of America	Florida
Mercury Insurance Company of Florida	Florida
Mercury Indemnity Company of Georgia	Georgia
Mercury Insurance Company of Georgia	Georgia
Mercury Insurance Company of Illinois	Illinois
American Mercury Insurance Company	Oklahoma
Mercury County Mutual Insurance Company	Texas
American Mercury Lloyds Insurance Company	Texas

COMPANY HISTORY

The Company was incorporated on August 1, 1949 as Workmen's Auto Insurance Company and commenced operations on December 10, 1949. On January 2, 2015, the Company was acquired by Mercury General Corporation (MGC). Effective August 19, 2021, the Company's name was changed from Workmen's Auto Insurance Company to Orion Indemnity Company. The name change was approved by the California Department of Insurance on August 26, 2021. The Company is a wholly-owned subsidiary of MGC, a publicly traded insurance holding company.

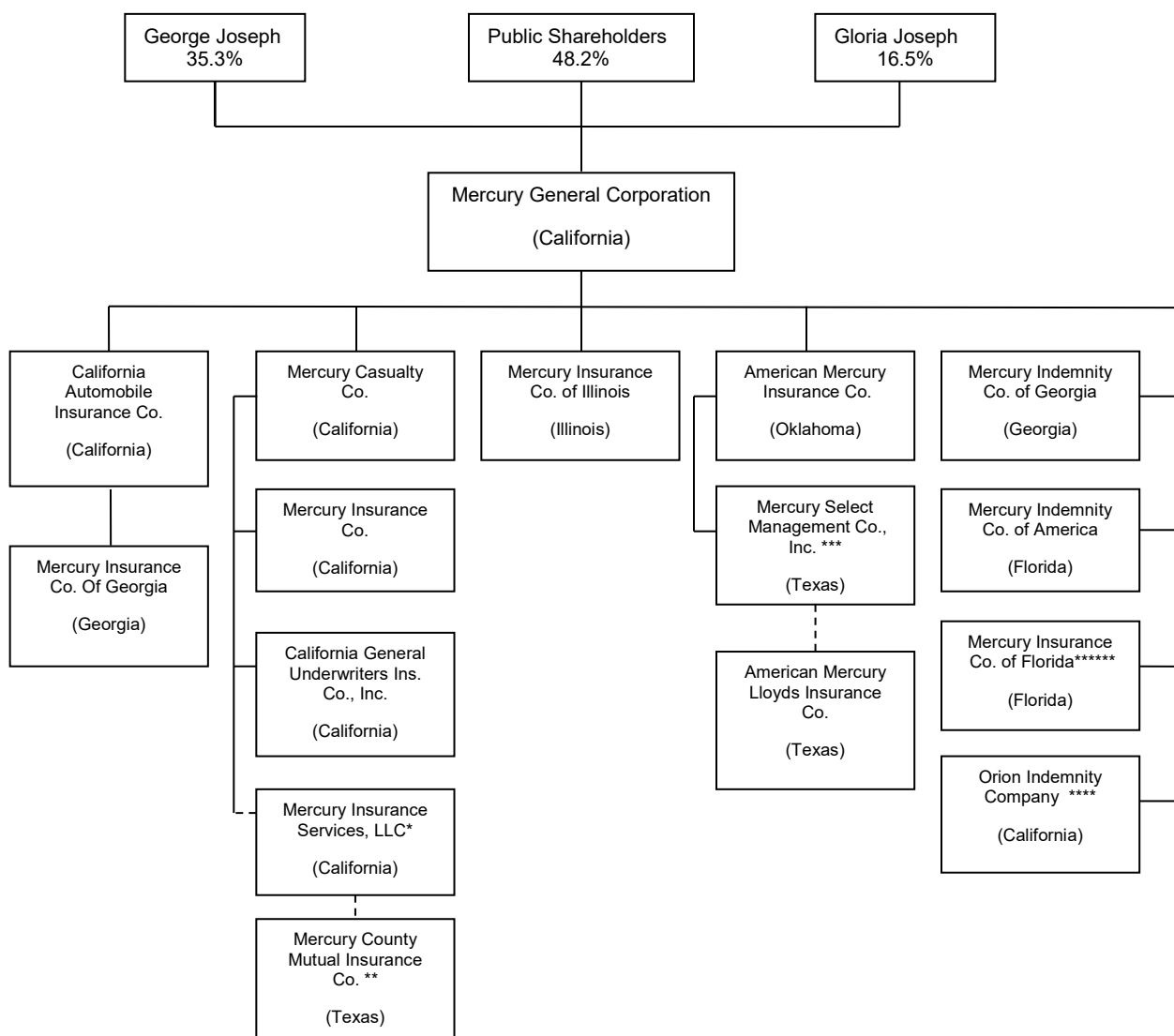
Capitalization

The Company has 2,600,000 shares of \$1 par value common stock authorized, issued and outstanding.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Mr. George Joseph is the ultimate controlling person. Mercury General Corporation (MGC) is a publicly traded insurance holding company. As of December 31, 2021, the controlling stockholders, George Joseph and Gloria Joseph own 35.3% and 16.5%, respectively, of MGC's stock with the remaining 48.2% held by public shareholders, none of whom own 10% or more interest.

The following organizational chart depicts the Company's relationship within the holding company system. All ownership is 100% unless otherwise indicated.



* Mercury Insurance Services, LLC, is controlled by its sole and managing member, Mercury Casualty Company, through a management agreement.

** Mercury County Mutual Insurance Company is managed and controlled by Mercury Insurance Services, LLC, through a management agreement.

*** Mercury Select Management Company, Inc. is Attorney-in-fact for American Mercury Lloyds Insurance Company, a Texas Lloyds Plan Insurer.

****Orion Indemnity Company, a California insurer, was formerly named Workmen's Auto Insurance Company.

*****Mercury National Insurance Company, an Illinois domiciled insurance company and 100% owned subsidiary of MICIL, was dissolved.

*****Mercury Insurance Company of Florida was dissolved effective November 30, 2022.

The four members of the Company's 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, 2021:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Norris W. Clark Granada Hills, California	Financial & Regulatory Specialist Locke Lord LLP
Don E. Franzen Pacific Palisades, California	Attorney Don Erik Franzen PC
Shana Horonetz Fairlawn, Ohio	President, Treasurer, and Chief Operating Officer Orion Indemnity Company
Gabriel Tirador Tustin, California	Chief Executive Officer Mercury General Corporation

Principal Officers

<u>Name</u>	<u>Title</u>
Shana Horonetz	President and Treasurer
Joseph B. Miller	Secretary
Lisa M. Campbell	Vice President

Management Agreements

Service Agreement: Effective January 2, 2015, the Company entered into a Services Agreement with Mercury Insurance Services, LLC (MIS). The agreement was approved by the California Department of Insurance (CDI) on February 23, 2015. Under the terms of this agreement, MIS performs management services for the Company, including claims, investments, accounting and support services. The management fee is equal to actual incurred expenses. The fee for allocated loss adjustment expenses is based on actual payments by MIS for claims on policies issued by the Company. The unallocated loss adjustment expenses portion of the management fee is allocated between the Company and its affiliates based upon their proportionate share of direct losses incurred. The Company paid service fees of \$5,569,254, \$7,036,170, \$7,722,302, and \$10,530,839

during the years 2018, 2019, 2020, and 2021, respectively.

Tax Allocation Agreement: Effective January 2, 2015, the Company was added as a party to the Tax Allocation Agreement with the ultimate parent, Mercury General Corporation (MGC), and various affiliates. Under the terms of this agreement, the tax liability of the Company and its affiliates are computed as if each entity filed a separate stand-alone return, with current credit for net losses incurred by the insurance subsidiaries to the extent it can be used in the current consolidated return. The amendment also deleted dissolved entities and included several technical provisions required by the CDI, which did not alter or affect existing practices. The amendment was approved by the CDI on June 5, 2015. Taxes paid or (recovered) by the Company totaled \$843,326, \$103,281, \$(18,327), and \$(1,305,525) for the years 2018, 2019, 2020, and 2021, respectively.

Multiple-Cedents Reinsurance Allocation Agreement: Effective July 1, 2018, the Company was added to a Multiple-Cedents Reinsurance Allocation Agreement with the Company's California affiliates and American Mercury Insurance Company. The agreement provides for the allocation of premiums and recoveries in connection with external reinsurance treaties covering all the parties at a single rate, as mandated by Statement of Statutory Accounting Principles No. 62R. The amendment adding the Company also renewed the agreement for three years until June 30, 2022. On June 11, 2019 and September 4, 2019, the agreement was approved by the Oklahoma Insurance Department and the CDI, respectively. A total of \$33,100 in premiums were transferred between affiliates under this agreement in 2021. The California insurers recovered \$2,076,512 under multi-cedent reinsurance in 2021, and reimbursed reinsurers \$5,318,712 in subrogation recoveries. Those amounts were paid to or by California Automobile Insurance Company (CAIC), respectively, and allocated to Mercury Casualty Company (MCC), Mercury Insurance Company (MIC), CAIC and the Company as follows pursuant to this agreement:

<u>Insurer</u>	<u>Recoveries</u>	<u>Subrogation Paid</u>
California Automobile Insurance Company	\$1,938,859	\$(5,144,019)
Mercury Casualty Company	112,311	(104,052)
Mercury Insurance Company	25,335	(70,422)
Orion Indemnity Company	7	(218)

The Multiple-Cedents Reinsurance Allocation Agreement was renewed effective July 1, 2022, and will automatically renew for consecutive one-year terms until June 30, 2025.

TERRITORY AND PLAN OF OPERATION

The Company is licensed solely in California writing private passenger automobile insurance. During 2021, the Company wrote \$18.9 million of direct premiums in California. The Company's business is distributed and marketed through a network of independent agents and brokers.

REINSURANCE

Intercompany

Effective October 1, 2021, the Company entered into a Quota Share Reinsurance Agreement with Mercury Casualty Company (MCC), under which MCC reinsures 100% of the direct business written by the Company. The agreement was submitted to and approved by the California Department of Insurance. The agreement was approved by the California Department of Insurance on September 23, 2021. The Company ceded \$4,913,054 in premium and \$10,810,789 in losses in calendar year 2021.

Assumed

The Company did not assume reinsurance during the period covered by this examination.

Ceded

The Company is party to a Catastrophe Reinsurance Treaty (2021 Treaty) with affiliated companies that are under the ownership, control or management of Mercury General

Corporation. The 2021 Treaty covers a wide range of perils that is effective from July 1, 2021 through June 30, 2022. The 2021 Treaty provides \$792 million of coverage on a per occurrence basis after covered catastrophe losses exceed the \$40 million combined company retention limit. The 2021 Treaty specifically excludes coverage for any Florida business and for California earthquake losses on fixed property policies, such as homeowners, but does cover losses from fires following an earthquake. In addition, the 2021 Treaty provides for one full reinstatement of coverage limits and excludes losses from wildfires on certain coverage layers of the 2021 Treaty.

Coverage on individual catastrophes provided for the 12 months ended June 30, 2022 under the 2021 Treaty is presented below in various layers.

	<u>Catastrophe Loss and LAE</u>		<u>Percentage of Coverage</u>
	<u>In Excess of</u>	<u>Up to</u>	
	(Amounts in Millions)		
Layer of Coverage (1)	\$ 40	\$ 100	70
Layer of Coverage (2)	100	400	100
Layer of Coverage (2)(3)(4)	400	792	100

- (1) The 2021 Treaty covers 70% placement for the layer of \$40 million to \$100 million.
- (2) Layer of Coverage represents multiple actual treaty layers that are grouped for presentation purposes.
- (3) 13.4% of this layer covers only California wildfires and fires following an earthquake in California, and is not subject to reinstatement.
- (4) 14% of this layer includes a territorial restriction covering California, Arizona, and Nevada only.

ACCOUNTS AND RECORDS

Vehicle Fraud Assessment

California Insurance Code (CIC), Section 1872.8(a) states, in part, that each insurer doing business in the state of 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 the state of California. During the course of this examination, it was found that the Company failed to include all insured vehicles in its vehicle counts. It is recommended the Company include all insured vehicles in its vehicle counts in accordance with CIC Section 1872.8(a). Since the amount was deemed not material, no adjustment was made to the Company's financial statements. The Company subsequently submitted amended filings and payment for the affected quarters where the Company underpaid.

Annual Statement Instructions

Pursuant to the National Association of Insurance Commissioners (NAIC) Annual Statements Instructions, Note to Financial Statements, 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 2021 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. It is recommended the Company implement procedures to ensure compliance with the National Association of Insurance Commissioner's Annual Statement Instructions for Note 14D to the Financial Statements, Claims related extra contractual obligations and bad faith losses stemming

from lawsuits. The Company has subsequently updated its reporting procedures to ensure Note 14D is in compliance with the NAIC Annual Statement Instructions.

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, 2021. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements filed by the Company.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	Ledger and <u>Nonledger Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$ 23,188,869	\$	\$ 23,188,869	
Cash and short-term investments	761,641		761,641	
Investment income due and accrued	246,849		246,849	
Premiums and agents' balances in course of collection	71,958	346	71,612	
Premiums, agents' balances and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums.	2,662,490		2,662,490	
Amounts recoverable from reinsurer	1,870,224		1,870,224	
Current federal and foreign income tax recoverable and interest there on	109,174		109,174	
Aggregate write-ins for other than invested assets	310,827	55,961	254,866	
Total assets	<u>\$ 29,222,032</u>	<u>\$ 56,307</u>	<u>\$ 29,165,725</u>	

<u>Liabilities, Surplus and Other Funds</u>	<u>Current Year</u>	<u>Notes</u>
Losses	0	(1)
Loss adjustment expenses	0	(1)
Commissions payable, contingent commissions and other similar charges	121,841	
Other expenses	519,974	
Taxes, licenses and fees	71,757	
Net deferred tax liability	468,981	
Advance premiums	61,776	
Ceded reinsurance premiums payable	10,308	
Payable for parent, subsidiaries and affiliates	<u>1,098,896</u>	
Total liabilities	2,353,533	
Common capital stock	2,600,000	
Gross paid-in and contributed surplus	55,359,316	
Unassigned funds (surplus)	<u>(31,147,124)</u>	
Surplus as regards policyholders	<u>26,812,192</u>	
Total liabilities, surplus, and other funds	<u>\$ 29,165,725</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

State of Income

<u>Underwriting Income</u>	<u>Current Year</u>
Premiums earned	\$ 17,654,545
Deductions:	
Losses incurred	\$ 12,011,560
Loss adjustment expenses incurred	4,938,136
Other underwriting expenses incurred	<u>5,643,040</u>
Total underwriting deductions	<u>22,592,736</u>
Net underwriting loss	(4,938,191)

<u>Investment Income</u>	
Net investment income earned	\$ 912,544
Net realized capital gain	<u>4,770,671</u>
Net investment gain	5,683,215

<u>Other Income</u>	
Net loss from agents' or premium balances charged off (amount recovered \$15,200 amount charged off \$207,366)	\$ (192,166)
Finance and service charges not included in premiums	<u>1,452,681</u>
Total other income	<u>1,260,515</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes	2,005,539
Federal and foreign income taxes incurred	<u>(1,136,913)</u>
Net income	<u>\$ 3,142,452</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020	\$ 27,285,203
Net income	\$ 3,142,452
Change in net unrealized capital gains	(2,231,316)
Change in net deferred income tax	(1,390,637)
Change in nonadmitted assets	<u>6,490</u>
Change in surplus as regards policyholders for the year	<u>(473,011)</u>
Surplus as regards policyholders, December 31, 2021	<u>\$ 26,812,192</u>

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2017 through December 31, 2021

Surplus as regards policyholders, December 31, 2017			\$ 22,472,834
	Gain in Surplus	Loss in Surplus	
Net income	\$ 7,013,378	\$	
Change in net unrealized capital losses		1,096,094	
Change in net deferred income tax		1,579,831	
Change in nonadmitted assets		4,095	
Change in provision for reinsurance	6,000		
Total gains and losses	<u>\$ 7,019,378</u>	<u>\$ 2,680,020</u>	
Net increase in surplus as regards policyholders			<u>4,339,358</u>
Surplus as regards policyholders, December 31, 2021			<u>\$ 26,812,192</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2021 were found to be reasonably stated and have been accepted for the purpose of this examination. As of December 31, 2021, the Company reported zero net loss and loss adjustment expense reserves (LAE) because one hundred percent of its losses and LAE expenses were ceded to Mercury Casualty Company, effective October 1, 2021.

SUBSEQUENT EVENTS

On October 5, 2021, the California Department of Insurance (CDI) requested additional information on the amount of premium refunds or credits that the Company has provided or plans to further provide to its private passenger automobile policyholders, and the methodology used in determining such refunds or credits for the time period of March 2020 through at least March 2021, due to reduced driving during the pandemic. On November 21, 2022, after review of loss and expense data requested from and provided by the Company, the CDI notified the Company that additional refunds should be provided to its private passenger automobile policyholders, based upon its analysis of the Company's data. The Company is engaged in settlement discussions with the CDI regarding voluntary refunds or credits and future rate increases. The Company cannot reasonably estimate the amount of such additional refunds or other losses, if any, due to any potential actions by the CDI or the courts and the Company's responses to such actions.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Vehicle Fraud Assessment (Page 9): It is recommended the Company include all insured vehicles in its vehicle counts in accordance with California Insurance Code Section 1872.8(a).

Accounts and Records – Annual Statement Instructions (Page 9): It is recommended the Company implement procedures to ensure compliance with the National Association of Insurance Commissioner's Annual Statement Instructions for Note 14D to the Financial Statements, Claims related extra contractual obligations and bad faith losses stemming from lawsuits.

Previous Report of Examination

Accounts and Records – Automobile Assessment File (Page 8): It was recommended the Company maintain an auto assessment file in compliance with California Code of Regulations 10 (CCR) § 2698.62(d). The Company has complied with the recommendations.

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,

Elizabeth Nielson, CFE
Examiner-In-Charge
Contract Examiner
Department of Insurance
State of California

Anjanette Briggs, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California