

REPORT OF EXAMINATION  
OF THE  
PREMIER ACCESS INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2014

Filed on May 27, 2016

## TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION .....	1
SUMMARY OF SIGNIFICANT FINDINGS: .....	2
Insurance Holding Company System Regulatory Act .....	2
Annual Financial Reporting .....	2
Annual Statement Instructions .....	3
COMPANY HISTORY: .....	4
Capitalization .....	5
Dividends .....	5
MANAGEMENT AND CONTROL:.....	6
Management Agreements.....	8
CORPORATE RECORDS:.....	11
Notice to the Board of Prior Examination Report .....	11
Insurance Holding Company System Annual Registration Statement .....	11
TERRITORY AND PLAN OF OPERATION.....	12
REINSURANCE: .....	13
Assumed.....	13
Ceded .....	13
FINANCIAL STATEMENTS: .....	13
Statement of Financial Condition as of December 31, 2014 .....	14
Statement of Revenue and Expenses for the Year Ended December 31, 2014 .....	15
Reconciliation of Capital and Surplus from December 31, 2009 through December 31, 2014.....	16
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	17
Claims Unpaid and Unpaid Claims Adjustment Expenses.....	17
SUBSEQUENT EVENTS .....	17
SUMMARY OF COMMENTS AND RECOMMENDATIONS: .....	17
Current Report of Examination .....	17
Previous Report of Examination .....	18
ACKNOWLEDGMENT .....	20

San Francisco, California  
April 8, 2016

Honorable Dave Jones  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

**PREMIER ACCESS INSURANCE COMPANY**

(hereinafter also referred to as the Company) at its home office located at 8890 Cal Center Drive, Sacramento, California 95826.

**SCOPE OF EXAMINATION**

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2009. This examination covered the period from January 1, 2010 through December 31, 2014.

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 would be documented separately following the Company's financial statements.

This examination report includes significant 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.

### SUMMARY OF SIGNIFICANT FINDINGS

#### Insurance Holding Company System Regulatory Act

Pursuant to California Insurance Code (CIC) Section 1215.2, all requests or invitation for tenders or inviting tenders of the voting securities of the insurer, and a copy of the agreement to exchange or otherwise acquire securities or to merge with or otherwise to acquire control of the insurer, shall be filed with the Commissioner. It was noted that the 72.46% ownership change of the Company from Abbaszadeh Dental Group (currently Premier Group, Inc.) to First Commonwealth, Inc. via the "Stock Power Separate From Certificate" executed on August 1, 2014 was not filed with the California Department of Insurance (CDI). It is recommended that the Company immediately submit the proper filing with the CDI to comply with CIC Section 1215.2.

#### Annual Financial Reporting

The Company did not file the 2014 audited financial report by the due date as required by the National Association of Insurance Commissioners (NAIC); it was filed on

December 4, 2015. Pursuant to CIC Section 900.2(b), the CDI may grant 30-day extensions of the audit report filing date upon a showing by the insurer and its independent certified public accountant (CPA) of the reasons for requesting each extension and the determination by the CDI of substantial cause for an extension. The request for an extension shall be submitted in writing not less than 10 days prior to the due date in sufficient detail to permit the CDI to make an informed decision on the requested extension. It was noted that the Company did not submit timely requests, nor provided reasons from its independent CPA. It is recommended that the Company properly and timely file its annual audited financial report or submit its request for extensions in accordance with CIC Section 900.2(b).

Pursuant to California Code of Regulations (CCR), Title 10, Chapter 5, Subchapter 3, Article 3.3, Section 2309.6(c), if an independent CPA who was the CPA for the immediately preceding filed audited financial report is dismissed or resigns, the insurer shall within five (5) business days notify the CDI of this event. The Company shall also furnish the CDI with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former CPA. The Company shall also request the former CPA to furnish a letter addressed to the Company stating whether the CPA agreed with the statements contained in the Company's letter; and the Company shall furnish the responsive letter from the former CPA to the CDI together with its own. It was noted that the Company failed to notify and furnish the required letters to the CDI. Upon request, the Company subsequently furnished the required letters to the CDI on December 7, 2015. It is recommended that the Company timely notify the CDI in the event of external CPA changes in accordance with CCR, Title 10, Chapter 5, Subchapter 3, Article 3.3, Section 2309.6(c).

#### Annual Statement Instructions

During the examination period, it was noted that the Company has changed its Appointed Actuary. Pursuant to the NAIC Annual Statement Instructions, when an

insurer's Appointed Actuary is replaced by an action of the Board of Directors, the insurer shall within five (5) business days notify the domiciliary commissioner of this event. The Company shall also furnish the Insurance Department of the state of domicile with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event, there were any disagreements with the former appointed actuary. The Company shall also request the former appointed actuary to furnish a letter addressed to the Company stating whether the actuary agreed with the statements contained in the Company's letter; and the Company shall furnish such responsive letter from the former actuary to the CDI together with its own. It was noted that the Company did not notify and furnish the required letters timely. It is recommended that the Company timely notify the CDI in the event of an appointed actuary changes in accordance with the NAIC Annual Statement Instructions.

A review of 2013 and 2014 Annual Statement, Schedule Y, disclosed that the Company did not properly include all members of the holding company system as required by the NAIC Annual Statement Instructions. It is recommended that the Company comply with the NAIC Annual Statement Instructions and disclose all required entities in its Schedule Y of the Annual Statement.

#### COMPANY HISTORY

Effective August 1, 2014, the Company was acquired by First Commonwealth, Inc. (FCI), a Delaware corporation, which is a direct subsidiary of The Guardian Life Insurance Company of America (GLIC), a New York domestic mutual life insurer. Prior to the acquisition, the Company was owned 27.54% (9,500 shares) by Reza Abbaszadeh, DDS, (Dr. Abbaszadeh) and 72.46% (25,000 shares) by Abbaszadeh Dental Group, Inc. (ADG), a California professional corporation wholly owned by Dr. Abbaszadeh. FCI purchased Dr. Abbaszadeh's shares and all of his interest in ADG. Concurrently, FCI also acquired other insurance and non-insurance entities of Dr. Abbaszadeh. The aforementioned acquisition was approved by the California

Department of Insurance (CDI) on July 15, 2014. Subsequently, ADG transferred all of its ownership (25,000 shares of common stock) of the Company to FCI via the “Stock Power Separate From Certificate” on August 1, 2014. This results in the Company becoming a direct, wholly owned subsidiary of FCI. On the same day, ADG’s name was changed to Premier Group, Inc.

### Capitalization

The Company is authorized to issue 100,000 shares of common stock at \$50 par value in 1997. The Company amended its Articles of Incorporation to increase par value from \$50 to \$78 per share in 2010. The Amendment was endorsed and filed with the California Secretary of State on August 30, 2010. As of December 31, 2014, there were 34,500 shares issued and outstanding.

### Dividends

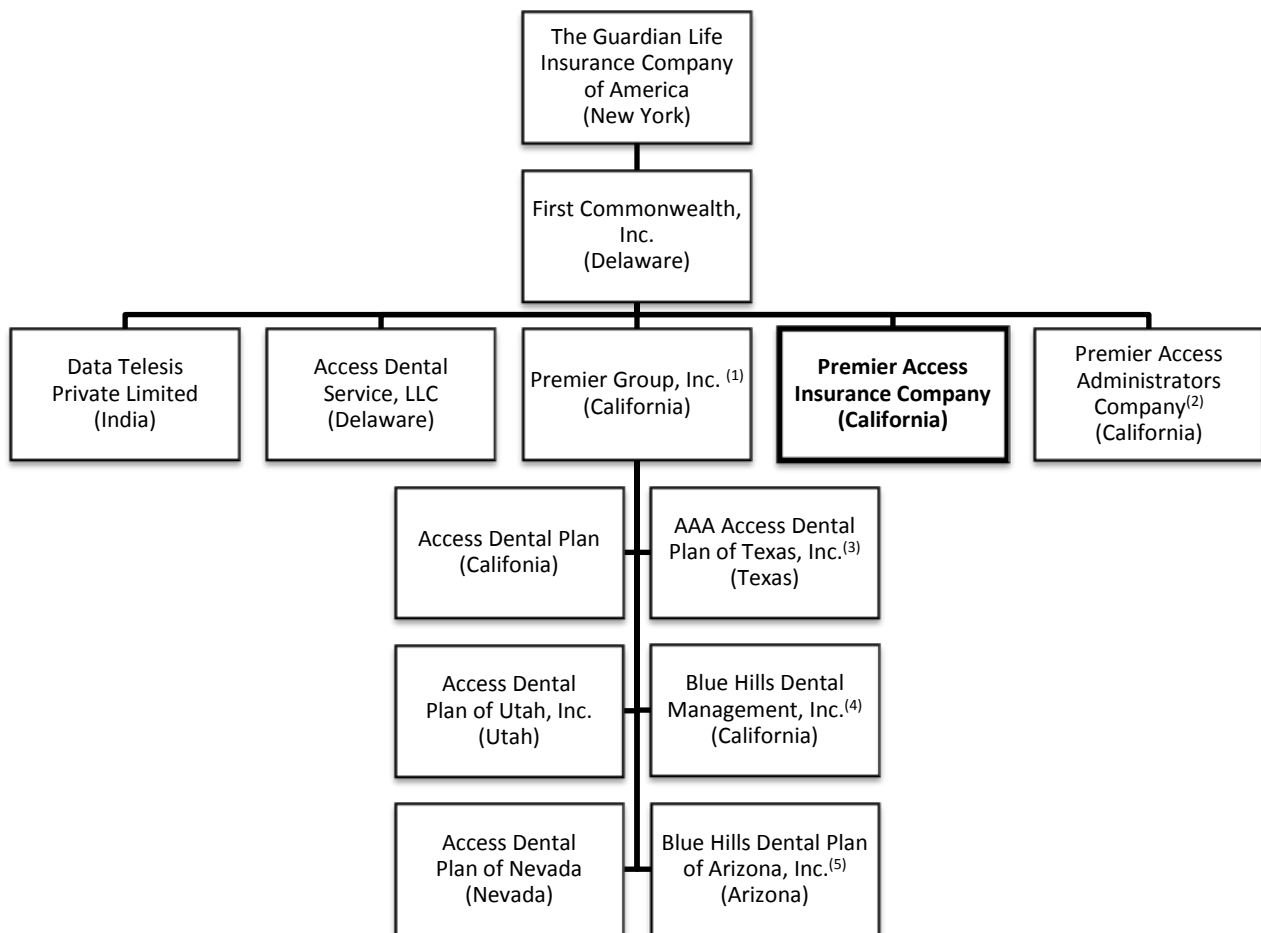
In December 2011, the Company paid an extraordinary cash dividend to its shareholders, ADG and Dr. Abbaszadeh, in the amount of \$10 million. This dividend was approved by the CDI on December 22, 2011.

In December 2012, the Company paid an extraordinary cash dividend to its shareholders, ADG and Dr. Abbaszadeh, totaling \$29 million. This dividend was approved by the CDI on December 13, 2012.

In December 2013, the Company paid an ordinary cash dividend to its shareholders, ADG and Dr. Abbaszadeh, in the amount of \$5 million. The Company provided proper notification to the CDI on December 9, 2013.

## MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The Guardian Life Insurance Company of America (GLIC) is the ultimate controlling entity. The following abridged organizational chart depicts the relationship between the Company and its affiliates within the holding company system as of December 31, 2014 (all ownership is 100%):



(1) Premier Group, Inc. was formerly known as Abbaszadeh Dental Group, Inc.

(2) Premier Access Administrators Company was formerly known as WebHR.com Administrators.

(3) AAA Access Dental Plan of Texas, Inc. was dissolved in February 2015.

(4) Blue Hills Dental Management, Inc. was dissolved in February 2015.

(5) Blue Hills Dental Plan of Arizona, Inc. was dissolved in February 2015.



A five-member Board of Directors, elected annually, oversees the business and affairs of the Company. Following are the members of the Board and principal officers serving at December 31, 2014:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Dong H. Ahn Center Valley, Pennsylvania	Executive Vice President The Guardian Life Insurance Company of America
Roberto C. Ecker Simsbury, Connecticut	Vice President The Guardian Life Insurance Company of America
Raymond J. Marra Hartford, Connecticut	Senior Vice President The Guardian Life Insurance Company of America
Stuart J. Shaw Northampton, Pennsylvania	Vice President The Guardian Life Insurance Company of America
Christopher T. Swanker Nazareth, Pennsylvania	Vice President The Guardian Life Insurance Company of America

Principal Officers

<u>Name</u>	<u>Position</u>
Jolynne J. Williamson*	President
Stuart J. Shaw*	Vice President
Jermaine D. Jones	Controller
Walter R. Skinner	Treasurer

\* In July 2015, Jolynne J. Williamson resigned as President and was replaced by Stuart J. Shaw in the same month.

## Management Agreements

Administrative Services with Right of Setoff Agreement: Effective January 1, 2002, the Company entered into an Administrative Services with Right of Setoff Agreement with its affiliate, Access Dental Plan (ADP). Pursuant to the Agreement, each party agrees to perform certain services for the other party as is determined to be reasonably necessary in the conduct of operations. Services include, but are not limited to, the following: ADP employees shall provide certain accounting services for the Company as may be required; the Company shall provide actuarial services to ADP as needed; ADP employees shall perform customer and provider services duties for the Company under the direction and supervision of the Company as necessary, and vice versa; sharing of employees to perform information technology services; and marketing. This Agreement was approved by the California Department of Insurance (CDI) on September 29, 2004 pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). The total fees incurred by the Company for services under this Agreement for 2010, 2011, 2012, 2013, and 2014 were \$875,000, \$1,077,300, \$875,900, \$2,818,500, and \$2,846,300, respectively.

Administrative Services Agreement: Effective July 1, 2005, the Company entered into an Administrative Services Agreement with Reza Abbaszadeh Dental Practice Clinic, Inc. (known as Abbaszadeh Professional Dental Corporation (APDC) currently). Under the terms of this Agreement, each party desires to cooperate in the performance of certain administrative services and shares in the use of certain property, equipment, and facilities. All charges for services and use of facilities incurred under the Agreement will reflect actual costs. This Agreement was approved by the CDI on October 4, 2010 pursuant to CIC Section 1215.5(b)(4). The total fees incurred by APDC for services under this Agreement for 2010, 2011, 2012, 2013, and 2014 were \$351,000, \$734,300, \$754,000, \$179,900, and \$82,500, respectively. Since APDC was acquired by a third party, Cherag Dinshaw Sarkari, DDS, effective August 1, 2014, the transactions under this Agreement are no longer considered as affiliated.

Service Agreement: Effective as of July 2003, the Company entered into a Service Agreement with Data Telesis, Private Limited (DT). Under the terms of the Agreement, DT provides administrative support and services to the Company. Services include, but are not limited to, the following: claim processing, data entry, comprehensive accounting functions including accounts payable, accounts receivable, consolidation of information, commission calculations and financial analysis, collection services, telephone member services, enrollment services, dental billing services, payroll, and human resources tasks. This Agreement was deemed approved by the CDI on January 13, 2005 pursuant to CIC Section 1215.5(b)(4). The total fees incurred by the Company for services under this Agreement for 2010, 2011, 2012, 2013, and 2014 were \$1,623,000, \$1,721,000, \$2,025,960, \$2,078,000 and \$1,726,080, respectively.

Administrative Services with Right of Setoff Agreement: Effective November 9, 2006, the Company entered into an Administrative Service with Right of Setoff Agreement (Setoff) with its affiliate, WebHR.com Administrators (WebHR), currently known as Premier Access Administrators Company. Each party agrees to perform services as described in this Agreement for the other party as is determined to be reasonably necessary in the conduct of operations. Services include, but are not limited to, the following: the Company agrees to make available its facilities to WebHR; the Company shall provide accounting services for WebHR; the Company employees shall perform, or coordinate, information technology services for WebHR under the direction and supervision of WebHR; joint marketing; and the Company shall provide other functional support services to WebHR as reasonable and necessary. Other functional support services include, but are not limited to, mailroom services, reception, payroll, human resources, and translation. In addition, WebHR shall perform enrollment, billing and COBRA administration services for the Company. This Agreement was approved by the CDI on November 9, 2006 pursuant to CIC Section 1215.5(b)(4). No material amounts were incurred under this Agreement during the examination period.

Office Lease Agreement: Effective on May 1, 2005, the Company entered into a 20-year lease agreement with Executive Offices of California Center (EOCC), a California

Limited Partnership. The general partner of EOCC is California Center Office Development, LLC which is wholly owned by Dr. Reza Abbaszadeh, who is also the limited partner of EOCC. The office building has served as the corporate headquarters of the Company since June 2005. The Company filed the Certificate of Exemption application with the CDI in October 2005 in accordance with CIC Section 1101. This Agreement was approved by the CDI on October 4, 2010. The total lease expenses incurred under this Agreement for 2010, 2011, 2012, 2013, and 2014 were \$1,042,116, \$1,051,000, \$1,093,200, \$1,112,777, and \$1,125,420, respectively. After the acquisition by First Commonwealth, Inc. on August 1, 2014, the Company is no longer considered an affiliate with EOCC.

Services Agreements: Prior to the ownership change in July 2014, the Company entered into two Services Agreements with GLIC. One of the Services Agreements pertains to GLIC's New York policies only, and the other Services Agreement relates to its policies written in Florida, Illinois, and Texas plus additional jurisdictions subsequently added in the future with mutual consent from both parties. Under the terms of the Agreements, the Company provides certain services in regards to GLIC's individual Dental Health Maintenance Organization insurance, including the enrollment of members, administrative services, premium collection, and claims payment. The services provided under both Agreements are identical except that under the Services Agreement with GLIC's New York policies, all activities that require claims adjudication discretion, including the authority to modify or deny claims, remains solely vested in GLIC. Both Services Agreements were subsequently revised to reflect service compensation at cost. These amended Agreements were submitted to the CDI for approval pursuant to CIC Section 1215.5(b)(4). They were approved by the CDI on August 7, 2015.

Tax Sharing Agreement Joinder: Effective December 30, 2014, the Company entered into a Tax Sharing Agreement Joinder with GLIC, whereby it files its federal income taxes on a consolidated basis along with GLIC and other affiliated companies pursuant to the existing Tax Sharing Agreement which was entered on July 19, 2001. This

Joinder was approved by the CDI on December 8, 2014 pursuant to CIC Section 1215.5(b)(4).

Intercompany Administrative Services Agreement: Effective January 1, 2015, the Company entered into an Intercompany Administrative Services Agreement with GLIC, the current ultimate parent. Under the terms of this Agreement, GLIC will provide various back office administrative support including: account establishment, billing and accounting, claims administration, dentist accounting, financial and other services as needed, such as facilities and personnel, financial information, marketing, and member service. In addition, GLIC may coordinate arrangement for external consultants, specialists or experts for the purpose of legal, financial and actuarial services. All incurred cost related to these will be paid by the Company. This Agreement was approved by the CDI on August 5, 2015 pursuant to CIC Section 1215.5(b)(4).

## CORPORATE RECORDS

### Notice to the Board of Prior Examination Report

California Insurance Code (CIC) Section 735 states that an insurer shall inform the Board members of the receipt of the examination report. The Board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Commissioner. These facts shall be entered in the Board minutes. A review of the Board minutes failed to provide evidence pertaining to the receipt of the examination report. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 735.

### Insurance Holding Company System Annual Registration Statement

Pursuant to CIC Section 1215.4(b)(6), effective January 1, 2013, statements that the Board of Directors is responsible for overseeing corporate governance and internal controls and that the insurer's officers or senior management have approved, implemented, and continue to maintain and monitor corporate governance and internal

control procedures shall be included in the Insurance Holding Company System Annual Registration Statement (Form B) filed with the California Department of Insurance (CDI). It was noted that the Form B filed on April 30, 2014 and April 29, 2015 did not include the required statements. It is recommended that the Company comply with CIC Section 1215.4(b)(6) and include the required statements in its future Form B filings.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2014, the Company was licensed to transact life, disability, accident, or health insurance in the states of Arizona, California, Colorado, Connecticut, Florida, Kentucky, Nevada, New Jersey, New York, Oregon, Pennsylvania, Texas, Utah, Virginia, and Washington. The Company withdrew its licenses from Florida and New York in 2015. The withdrawal applications were approved by Florida Office of Insurance Regulation on June 26, 2015 and by New York State Department of Financial Services on December 18, 2015.

The Company primarily writes dental indemnity insurance. Direct premiums written during 2014 were approximately \$113.5 million. California accounted for the majority of the direct premiums at 75.5% (\$85.7 million) followed by Utah at 20% (\$22.7 million), Nevada at 1.9% (\$2.1 million), and Arizona at 1.7% (\$1.9 million) with the remaining 0.9% (\$1.1 million) written in Colorado, New Jersey, Pennsylvania, Texas, and Virginia. The business was generated through independent brokers and agents.

The Company's largest line of business is commercial Preferred Provider Organization (PPO) with direct premiums written of \$88.1 million at December 31, 2014. There were 315,125 members under the commercial PPO.

In addition, the Company offers Medicaid managed care programs in California and Utah. It participates as a contracted dental insurer in Utah for the Medicaid and Children's Health Insurance Program and in California for the Healthy Kids Santa Barbara program. Since 2014, the Company has been a participant in the Affordable

Care Act (ACA) Exchanges in six states: California, Nevada, Arizona, Colorado, Utah, and Texas. The Company had a total of \$1.2 million written premiums from individual ACA Health Exchange as of December 31, 2014.

Moreover, the Company performs administrative services for self-insured dental plans on a fee basis. In 2014, the total administrative fee revenue was \$3.3 million.

### REINSURANCE

#### Assumed

The Company did not assume any reinsurance during the examination period.

#### Ceded

The Company did not cede any reinsurance during the examination period.

### 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, 2014. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2014

Statement of Revenue and Expenses for the Year Ended December 31, 2014

Reconciliation of Capital and Surplus from December 31, 2009 through  
December 31, 2014

Statement of Financial Condition  
as of December 31, 2014

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 15,610,639	\$	\$ 15,610,639	
Cash and short-term investments	17,145,298		17,145,298	
Investment income due and accrued	82,743		82,743	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	917,030		917,030	
Current federal and foreign income tax recoverable and interest thereon	2,932,351		2,932,351	
Net deferred tax asset	633,105	104,170	528,935	
Electronic data processing equipment and software	159,429	159,429	0	
Furniture and equipment, including health care delivery assets	786,719	786,719	0	
Receivables from parent, subsidiaries, and affiliates	899,028	33,240	865,788	
Aggregate write-ins for other than invested assets	<u>506,097</u>	<u>370,791</u>	<u>135,306</u>	
 Total assets	 <u>\$ 39,672,439</u>	 <u>\$1,454,349</u>	 <u>\$ 38,218,090</u>	
 <u>Liabilities, Capital and Surplus</u>				
Claims unpaid			\$ 10,476,020	(1)
Unpaid claims adjustment expenses			205,500	(1)
Aggregate health policy reserves, including the liability of \$ 0 for medical loss ratio rebate per the Public Health Services Act			68,246	
Premiums received in advance			4,635,854	
General Expenses due or accrued			4,075,580	
Amounts due to parent, subsidiaries and affiliates			69,416	
Aggregate write-ins for other liabilities			<u>47,415</u>	
 Total liabilities			 19,578,031	
Aggregate write-ins for special surplus funds		\$ 2,124,000		
Common capital stock		2,691,000		
Gross paid-in and contributed surplus		8,309,000		
Unassigned funds (surplus)		<u>5,516,059</u>		
Capital and surplus			<u>18,640,059</u>	
 Total liabilities, capital and surplus			 <u>\$ 38,218,090</u>	



Statement of Revenue and Expenses  
for the Year Ended December 31, 2014

Statement of Revenue and Expense

Underwriting Income

Total Revenue		\$ 116,796,576
Less:		
Total hospital and medical	\$ 84,993,656	
Claims adjustment expenses, including \$446,108 cost containment expenses	2,004,810	
General administrative expenses	30,801,162	
Increase in reserves for life and accident and health contracts (including \$0 increase in reserves for life only)	<u>1,211</u>	
Total underwriting deductions		<u>117,800,839</u>
Net underwriting loss		(1,004,263)

Investment Income

Net investment income earned	\$ 509,042	
Net realized capital gain	<u>68,006</u>	
Net investment gain		577,048

Other Income

Net loss after capital gains tax and before all other federal income taxes		(427,215)
Federal and foreign income taxes incurred		<u>(123,350)</u>
Net loss		<u><u>\$ (303,865)</u></u>

Capital and Surplus Account

Capital and Surplus, December 31, 2013		\$ 19,186,864
Net loss	\$ (303,865)	
Change in net unrealized foreign exchange capital loss	(21,958)	
Change in net deferred income tax	(55,895)	
Change in nonadmitted assets	<u>(165,090)</u>	
Net Change in capital and surplus		<u>(546,808)</u>
Capital and surplus for the year, December 31, 2014		<u><u>\$ 18,640,056</u></u>

Reconciliation of Capital and Surplus  
from December 31, 2009 through December 31, 2014

Capital and Surplus, December 31, 2009			\$ 30,670,091
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 25,315,341	\$	
Net unrealized capital losses		147,144	
Change in net foreign exchange capital losses	(80,986)		
Change in net deferred income tax		636,895	
Change in nonadmitted assets	845,379		
Dividends to stockholders		44,000,000	
Surplus adjustments: Paid-in	<u>6,674,270</u>	<u>                    </u>	
Total gains and losses	<u>\$ 32,834,990</u>	<u>\$ 44,865,025</u>	
Net decrease in capital and surplus			<u>(12,030,035)</u>
Capital and surplus, December 31, 2014			<u>\$ 18,640,056</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Claims Unpaid and Unpaid Claims Adjustment Expenses

A health actuary from the California Department of Insurance performed an actuarial evaluation of the Company's claims unpaid and unpaid claims adjustment expense reserves. Based on the evaluation, the Company's reserves as of December 31, 2014 were found to be reasonably stated and have been accepted for purposes of this examination.

## SUBSEQUENT EVENTS

On November 23, 2015, the Company declared a cash dividend of \$1.794 million to be paid to its parent First Commonwealth, Inc. The dividend was paid in January 2016. The Company filed a dividend report with the California Department of Insurance on November 30, 2015.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Summary of Significant Findings – Insurance Holding Company System Regulatory Act (page 2): It is recommended that the Company immediately submit the proper filing with the California Department of Insurance (CDI) to comply with California Insurance Code (CIC) Section 1215.2.

Summary of Significant Findings – Annual Financial Reporting (page 2): It is recommended that the Company properly and timely file its annual audited financial report or submit its request to the CDI for extensions in accordance with CIC Section 900.2(b).

Summary of Significant Findings – Annual Financial Reporting (page 2): It is recommended that the Company timely notify the CDI in the event of its external certified public accountant changes in accordance with California Code of Regulations, Title 10, Chapter 5, Subchapter 3, Article 3.3, Section 2309.6(c).

Summary of Significant Findings – Annual Statement Instructions (page 3): It is recommended that the Company timely notify the CDI in the event of its appointed actuary changes in accordance with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions.

Summary of Significant Findings – Annual Statement Instructions (page 3): It is recommended that the Company comply with the NAIC Annual Statement Instructions and disclose all required entities in Schedule Y of the Annual Statement.

Corporate Records – Notice to the Board of Prior Examination Report (page 11): It is recommended that the Company implement procedures to ensure future compliance with CIC Section 735.

Corporate Records - Insurance Holding Company System Annual Registration Statement (page 11): It is recommended that the Company comply with CIC Section 1215.4(b)(6) and include the required statements in its future Insurance Holding Company System Annual Registration Statement filings.

#### Previous Report of Examination

Corporate Records (Page 6): It was recommended that the Company implement procedures to ensure future compliance with CIC Section 1201. The Company has complied with this recommendation.

Accounts and Records – Information Systems Controls (Page 8): It was recommended that the Company evaluate the recommendations from the Information Systems review

and make appropriate changes to strengthen its information systems controls. The Company has complied with this recommendation.

Comments on Financial Statement Items - Bonds (Page 13): It was recommended that the Company adopt formal written procedures to identify and report such items in accordance with the unclaimed property laws of applicable states. The Company has complied with this recommendation.

Comments on Financial Statement Items - Bonds (Page 13): It was recommended that the Company record its securities on their trade date, not the settlement date, in accordance with Statements of Statutory Accounting Principles (SSAP) No. 26, paragraph 4, for bonds; SSAP No. 30, paragraph 5, for common stocks; and SSAP No. 43, paragraph 6, for loan-backed and structured securities. The Company has complied with this recommendation.

Comments on Financial Statement Items - Bonds (Page 13): It was recommended that the Company establish procedures to ensure its investment securities are reported in accordance with the Securities Valuation Office (SVO) filing guidelines as stated in the Purposes and Procedures Manual of the NAIC SVO. 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,

/S/

Mei Gu, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California

/S/

Kyo Chu, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California