

REPORT OF EXAMINATION
OF THE
RESPONSE INDEMNITY COMPANY OF CALIFORNIA
AS OF
DECEMBER 31, 2021

Insurance Commissioner

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

Filed on June 30, 2023

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Los Angeles, California
May 26, 2023

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

RESPONSE INDEMNITY COMPANY OF CALIFORNIA

(hereinafter also referred to as the Company). Its administrative office is located at 10751 Deerwood Park Boulevard, Suite 200, Jacksonville, Florida 32256. The Company's statutory home office is located at 435 North Pacific Coast Highway, Suite 200, Redondo Beach, California 90227.

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, 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 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 Delaware serving as the lead state of the Tiptree Financial Group. It was conducted concurrently with other insurance entities in the holding company group, including the following:

<u>Company</u>	<u>State of Domicile</u>
Lyndon Southern Insurance Company	Delaware
Insurance Company of the South	Georgia
Response Indemnity Company of California	California
Fortegra Specialty Insurance Company	Arizona
Blue Ridge Indemnity Company	Delaware

COMPANY HISTORY

The Company was incorporated on August 28, 1997 under the laws of California and commenced business on May 7, 1999.

Capitalization

The Company is authorized to issue 500,000 shares of common stock, with a par value of \$50 per share. As of December 31, 2021, there were 52,000 shares issued and outstanding.

On August 31, 2021, the Company received a \$8,200,000 capital cash contribution from its parent, LOTS Intermediate Company.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system, of which Tiptree Inc. (Tiptree) is the ultimate controlling entity. Tiptree is a publicly traded holding company.

Following is an abridged organizational chart that depicts the interrelationship of the companies as of December 31, 2021. All ownership is 100% unless otherwise noted.

Tiptree Inc. (Maryland) ⁽¹⁾

 Tiptree Holdings, LLC (Delaware)

 Tiptree Asset Management, LLC (Delaware)

 Corvid Peak Holdings GP, LP (Delaware)

 Corvid Peak Holdings, L.P. (Delaware)

 Corvid Peak Capital Management, LLC (Delaware)

 The Fortegra Group, LLC (Delaware) ⁽²⁾

 Fortegra Financial Corporation (Delaware)

 LOTS Intermediary Company (Delaware) ⁽³⁾

 LOTSolutions, Inc. (Georgia)

Response Indemnity of California (California)

 Fortegra Specialty Insurance Company (Arizona)

 Insurance Company of the South (Georgia) ⁽⁴⁾

 Southern Financial Life Insurance Company (Kentucky)
 (85% Owned)

 Lyndon Southern Indemnity Company (Delaware)

 Blue Ridge Indemnity Company (Delaware)

 Fortegra Indemnity Insurance Company Ltd. (Turks and
 Caicos)

 Life of the South Insurance Company (Georgia)

 Bankers Life Insurance Company of Louisiana
 (Louisiana)

⁽¹⁾ 27.48% owned by Michael G. Barnes Beneficially

⁽²⁾ The Fortegra Group, LLC converted to a corporation on June 2022; As of June 21, 2022, Warburg Pincus owns approximately 24% interest in The Fortegra Group.

⁽³⁾ 96.8% owned by Fortegra Financial Corporation

⁽⁴⁾ 70% owned by LOTS Intermediate Company and 30% owned by Life of the South Insurance Company

The four members of the board of directors, who are elected annually, oversee 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>
Richard S. Kahlbaugh Ponte Vedra Beach, Florida	Chairman, President, and Chief Executive Officer Fortegra Financial Corporation
Michael F. Grasher Jacksonville, Florida	Executive Vice President and Chief Financial Officer Fortegra Financial Corporation
Michael Vrbán Ponte Verda Beach, Florida	Executive Vice President and Chief Accounting Officer Fortegra Financial Corporation
Janie Hartley Ponte Vedra Beach, Florida	Senior Vice President, Premium Operations Fortegra Financial Corporation

Principal Officers

<u>Name</u>	<u>Title</u>
Richard S. Kahlbaugh	President
Christopher D. Romaine ⁽¹⁾	Secretary
Michael Vrbán	Treasurer

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

(1) On August 5, 2022, Christopher D. Romaine resigned from his position as Secretary of the Company. On the same day, John G. Short was appointed as his replacement.

Management Agreements

Administrative Service Agreement: Effective February 1, 2013, an Administrative Service Agreement was executed between the Company and LOTsolutions Inc. (Solutions), an affiliate. Under the terms of the agreement, Solutions provides administrative services

relating to the production and distribution of policies, including but not limited to, marketing, underwriting, policyholder services, premium collection, reinsurance, and claims handling for the Company. Reimbursements for services provided are to occur within fifteen days of quarter end, and are based on actual costs and expenses incurred. Any indirect or shared expenses are allocated in accordance with the Statements of Statutory Accounting Principles No. 70. The agreement was approved by the California Department of Insurance (CDI) on July 8, 2013. There were no expenses charged to the Company under this agreement during the examination period.

Tax Sharing Agreement: Effective January 1, 2016, the Company was party to a Tax Sharing Agreement with Tiptree Inc. (Tiptree) and its subsidiaries. Under the terms of the agreement, the Company's tax liability or receivable is calculated as if it had filed on separate return basis. The agreement was approved by the CDI on July 18, 2016. The agreement was amended three times during the exam period to revise the parties to the agreement. All amendments were approved by the CDI. Effective April 28, 2021, the agreement was amended for the fourth time and also restated. The purpose of the amendment was to reflect additions of entities in the consolidated group due to acquisitions and dissolutions, provided for the methodology to allocate disallowed interest expense, foreign taxes and foreign attributes to participating member companies, clarify the realization of tax benefits, provide a process for dispute resolution among participating companies, and address the potential deconsolidation related to the Fortegra Group going public through and Initial Public Offering (IPO) process. The Amended and Restated Tax Sharing Agreement was approved by the CDI on June 4, 2021. Taxes paid by the Company under the agreement during the years, 2018, 2019, 2020, and 2021 were \$0, \$49,142, \$313,268, and \$249,983, respectively.

On August 29, 2022, pursuant to California Insurance Code, Section 1215.5(b)(4), the Company filed with the CDI a Tax Sharing Agreement. The agreement is between The Fortegra Group, Inc. and subsidiaries, including the Company. The agreement replaced a prior tax agreement and has an effective date of June 21, 2022. Under the terms of the agreement, the Company's tax liability or receivable is calculated as if it had filed on separate return basis. The agreement was approved by the CDI on December 12, 2022.

Investment Advisory Agreement: Effective May 12, 2021, the Company entered into an Investment Advisory Agreement with The Fortegra Group, LLC (Fortegra), various Fortegra subsidiaries, and Corvid Peak Capital Management, LLC (Corvid Peak), an affiliated investment advisor. Corvid Peak has full and sole discretionary authority, on behalf of Fortegra and each subsidiary, to manage and control the accounts and to invest and reinvest the assets. Corvid Peak receives fair and reasonable compensation described in the Fee Schedule attached to the agreement. The agreement was approved by the CDI on May 12, 2021. In 2021, the Company paid \$38,183 to Corvid Peak.

TERRITORY AND PLAN OF OPERATION

The Company is a California domiciled property and casualty insurance company licensed to write business only in California. The primary lines of business written are commercial multi peril, warranty, commercial automobile physical damage, private passenger automobile liability, and homeowner multi peril. The Company's business is generated through networks of small loan companies, automobile dealerships, banks, and various third party administrators. The Company wrote direct premiums of \$26.1 million in 2018, \$58.1 million in 2019, \$79.0 million in 2020, and \$103.0 million in 2021. For the year ended December 31, 2021, commercial multi peril (25.1%), warranty line (18.3%), commercial automobile physical damage (16.2%), private passenger automobile liability (11.8%) and homeowner multi peril (8%) accounted for 79.4% of the direct premiums written.

REINSURANCE

Intercompany Reinsurance Agreements

Intercompany Pooling Agreement: Effective January 1, 2015, the Company entered into an Intercompany Pooling Agreement with its affiliates, Lyndon Southern Insurance Company (LSIC), domiciled in Delaware, and Insurance Company of the South (ICOTS), domiciled in Georgia. Under the terms of the agreement, the Company and ICOTS cede 100% of direct and assumed business net of other external reinsurance to LSIC. The cessions from the Company and ICOTS are combined with LSIC's business, resulting in

the pooled balance to be allocated to each company in the pool. The pooling agreement was approved by the California Department of Insurance (CDI) on May 1, 2015.

On July 1, 2018, Blue Ridge Indemnity Company, domiciled in Delaware, was added to the pooling agreement with 2% participation as a first amendment to the pooling agreement. The amendment was not properly filed for prior approval pursuant to the California Insurance Code (CIC) Section 1215.5(b)(4).

On January 1, 2021, Fortegra Specialty Insurance Company, domiciled in Arizona, was added to the pooling agreement with 8% participation as a second amendment to the pooling agreement. The first amendment to the pooling agreement was reviewed together with the Form D filing made for the second amendment, and they were approved by the CDI on February 3, 2021.

This is a repeated finding from the previous examination and it is again recommended that the Company implement procedures to properly submit amendments to existing affiliated agreements with the CDI pursuant to CIC Section 1215.5(b)(4).

The entities and the respective percentage shares of the pooled business as of December 31, 2021, are as follows:

Lyndon Southern Insurance Company	67%
Insurance Company of the South	21%
Fortegra Specialty Insurance Company	8%
Response Indemnity Company of California	2%
Blue Ridge Indemnity Company	2%

Subsequent to the examination date and on April 2, 2023, the Company filed Form D with CDI requesting approval of a third amendment to the pooling agreement to reflect new percentage shares. As of the date of this report, the application is under review by CDI. The proposed percentage shares for this amendment are as follows:

Lyndon Southern Insurance Company	51%
Insurance Company of the South	35%
Fortegra Specialty Insurance Company	8%
Response Indemnity Company of California	4.5%
Blue Ridge Indemnity Company	1.5%

Quota Share Agreement: Effective January 1, 2018, the Company entered into a Quota Share Agreement with Fortegra Indemnity Insurance Company, Ltd. (Fortegra Indemnity), a Turks and Caicos captive reinsurer. Under the terms of the agreement, the Company cedes 90% of its credit property business, not ceded elsewhere, to Fortegra Indemnity. The agreement was approved by the CDI on March 15, 2018. Effective January 1, 2018, a first amendment to the agreement was made to delete the loss carry-forward and experience refund provisions of the agreement that did not meet the transfer of risk requirement pursuant to the Statement of Statutory Accounting Practices (SSAP) No. 62R. This first amendment was approved by the CDI on July 8, 2019. Effective April 1, 2021, a second amendment to the agreement was made to add mechanical breakdown insurance. The second amendment was approved by the CDI on June 23, 2021.

CIC 1215.4(b) (Form B) requires, in part, that every insurer file a registration statement with the commissioner on a form and in a format prescribed by the National Association of Insurance Commissioners (NAIC). Additionally, CIC Section 1215.4(c) (Form C) requires that registration statements include a summary outlining all items in the current registration statement that are changes from the prior registration statement. Based on a review of the Company's 2021 Form B and C, it was observed that a second amendment to an existing reinsurance agreement with Fortegra Indemnity was not disclosed. Subsequently, the Company filed an amended Form B and C, which included the said amendment.

This is a repeated finding from the previous examination and it is again recommended that the Company implement procedures to ensure the completeness of its Form B and C filings in accordance with CIC Section 1215.4(b) and (c).

Assumed

Assumed business is limited to the Company's participation in the Intercompany Pooling Agreement as disclosed in the table above.

Ceded

The following is a summary of principal ceded reinsurance agreements in place as of December 31, 2021.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
<u>Private Passenger Automobile Liability and Physical Damage Quota Share Reinsurance</u> Private Passenger Auto written through Clearcover Insurance Agency	<u>Unauthorized:</u> Clearcover Insurance Company	0%	100%
<u>Non-Standard Automobile Quota Share Reinsurance Contract</u> Private Passenger Auto written through Connect of California	<u>Authorized:</u> American Family Connect Property and Casualty Company (32.5%) Endurance Assurance (37.5%) Odyssey Reinsurance Company (15%) <u>Unauthorized:</u> Peak Reinsurance Company (5%) Corinthian Re SPC (10%)	0%	100%
<u>Specialty Portfolio Quota Share Reinsurance</u>	<u>Authorized:</u> Allianz Global Corporate & Specialty SE (38%) <u>Unauthorized:</u> Citadel Reinsurance Company Ltd. (1.5%) Third Point Reinsurance (8.5%) Oil Casualty Insurance Ltd. (8.5%) Malaysian Reinsurance (5%) Osprey Reinsurance (9%)	29.5%	70.5% of specialty portfolio program with: \$2 million for each loss occurrence and \$4 million for all loss occurrence

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
<u>Property and Automobile</u> <u>Physical Damage Corporate</u> <u>Catastrophe Excess of Loss</u> <u>Reinsurance</u>	<u>Authorized:</u> American Family Connect Property and Casualty Insurance Company (5%) Allied World Assurance Company, Ltd (6%) Arch Reinsurance Company (8%) American Agricultural Insurance Company (9%) Everest Reinsurance Company (18%) Fidelis Insurance Bermuda Ltd (11.5%) Renaissance Reinsurance U.S. Inc. (1%) XL Bermuda Ltd (7%) Lloyd's of London (10%) <u>Unauthorized:</u> Chaucer Insurance Company DAC (2.5%) Axis Reinsurance Company (6.5%) Allianz Global Risks US Insurance Company (7.5%) Partner Reinsurance Company Ltd (8%)	\$3 million per occurrence, each and every risk	\$3 million for each loss occurrence and \$6 million for all loss occurrence
First Layer			
Second Layer	<u>Authorized:</u> American Family Connect Property and Casualty Insurance Company (5%) Allied World Assurance Company, Ltd (8%) Arch Reinsurance Company (6%) American Agricultural Insurance Company (9%) Everest Reinsurance Company (20%) Fidelis Insurance Bermuda Ltd (12.5%) Renaissance Reinsurance U.S. Inc. (1%) XL Bermuda Ltd (7%) Lloyd's of London (10%) <u>Unauthorized:</u> Chaucer Insurance Company DAC (2.5%) Axis Reinsurance Company (6.5%) Allianz Global Risks US Insurance Company (7.5%) Partner Reinsurance Company Ltd (5%)	\$6 million per occurrence, each and every risk	\$9 million for each loss occurrence and \$18 million for all loss occurrence

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Third Layer	<u>Authorized:</u> American Family Connect Property and Casualty Insurance Company (5%) Allied World Assurance Company, Ltd (3%) Arch Reinsurance Company (9%) American Agricultural Insurance Company (9%) Everest Reinsurance Company (21%) Fidelis Insurance Bermuda Ltd (11.5%) Renaissance Reinsurance U.S. Inc. (1%) XL Bermuda Ltd (7%) Lloyd's of London (10%) <u>Unauthorized:</u> Chaucer Insurance Company DAC (2.5%) Axis Reinsurance Company (6.5%) Allianz Global Risks US Insurance Company (7.5%) Partner Reinsurance Company Ltd (7%)	\$15 million per occurrence, each and every risk	\$30 million for each loss occurrence and \$60 million for all loss occurrence
<u>Supermarket Property Excess of Loss Reinsurance</u>	<u>Authorized:</u> Renaissance Reinsurance US Inc. (42%) XL Reinsurance America Inc. (33%) Odyssey Reinsurance Company (25%)	\$1 million per occurrence, each and every risk	\$5 million for each loss occurrence and \$10 million for all loss occurrence

ACCOUNTS AND RECORDS

Annual Statement Instructions

Notes to Financial Statements, Note 9.F: It was noted the Company failed to disclose accurate information on the parties who are party to the consolidated federal income tax return in its Annual Statement Notes to Financial Statements, Note 9.F for all years under the examination.

Notes to Financial Statements, Note 10.B: It was noted that the Company failed to disclose capital contribution received from LOTS Intermediate Company in the amount of \$8,200,000 in its 2021 Annual Statement Notes to Financial Statements, Note 10.B.

Notes to Financial Statements, Note 10.E: It was noted that the Company failed to include the investment management fees paid to Corvid Peak Capital Management, LLC (Corvid Peak), an affiliated investment advisor, in its 2021 Annual Statement Notes to the Financial Statements, Note 10.E.

General Interrogatory, Part 1, Items 29.05 and 29.06: In its 2021 Annual Statement, General Interrogatories, Part 1, Item 29.05 and 29.06, the Company failed to list Corvid Peak as its investment advisor.

General Interrogatories, Part 1, Items 31 and 31.4: It was noted that the Company did not disclose fair value information in its 2021 Annual Statement, General Interrogatories, Part 1, Item 31. Further, the Company did not describe the sources or methods utilized in determining the fair values, as required under General Interrogatories, Part 1, Item 31.4.

General Interrogatories, Part 1, Item 32.2: It was noted that the Company did not complete its 2021 Annual Statement, General Interrogatories, Part 1, Item 32.2 to respond whether the Company has a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source.

This is a repeated finding from the previous examination and it is again recommended that the Company implement procedures to ensure that its Annual Statement is completed in accordance with the National Association of Insurance Commissioners Annual Statement Instructions.

Custodial Agreement

The Company entered in to a new custodial agreement with U.S. Bank National Association, effective February 24, 2020. CIC Section 1104.9(c) states, in part, that securities shall not be deposited in or with a qualified custodian, qualified depository, or qualified subcustodian 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. The agreement had not been submitted to the California Department of Insurance (CDI) for approval as specified by CIC Section 1104.9(c).

It is recommended that the Company submit the custodial agreement to the CDI for approval pursuant to CIC Section 1104.9(c). Based on this recommendation, and during the course of the examination, the Company submitted the custodial agreement to CDI for approval in accordance with CIC Section 1104.9(c).

Vehicle Fraud Assessment

California Insurance Code (CIC) Section 1872.8 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 investigation and prosecution of fraudulent automobile insurance claims and automobile theft in the state of California. California Code of Regulations (CCR), Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62(d) requires the Auto Assessment File shall contain vehicle identification, policy number, and transaction for every vehicle for which a policy was in force for each quarter or any part thereof. The data shall be kept in a computer format for a minimum of five years after each calendar year quarter.

During the course of this examination, it was noted that the Company failed to maintain a detailed Auto Assessment File for all programs. It is recommended that the Company establish and implement procedures to ensure that adequate and complete documentation is maintained to support its filing with the CDI to ensure future compliance of CCR Section 2698.62(d).

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 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. There were no examination adjustments made as a result of the examination.

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>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 27,400,745	\$	\$ 27,400,745	
Cash, cash equivalents, and short-term investments	1,919,506		1,919,506	
Investment income due and accrued	79,871		79,871	
Uncollected premiums and agents' balances in the course of collection	6,610,187		6,610,187	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,028,170		10,028,170	
Amounts recoverable from reinsurers	7,606,346		7,606,346	
Other amounts receivable under reinsurance contracts	25,803		25,803	
Net deferred tax asset	276,150	87,740	276,150	
Receivables from parent, subsidiaries and affiliates	4,183,411		4,183,411	
Aggregate write-ins for other than invested assets	<u>11,030</u>	<u>11,030</u>	<u>0</u>	
Total assets	<u>\$ 58,141,219</u>	<u>\$ 98,770</u>	<u>\$ 58,042,449</u>	
 <u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses			\$ 2,911,867	(1)
Loss adjustment expenses			126,454	(1)
Commissions payable, contingent commissions and other similar charges			1,799,577	
Other expenses			46,923	
Taxes, licenses and fees			438,196	
Current federal and foreign income taxes			90,624	
Unearned premiums			4,811,729	
Ceded reinsurance premiums payable			13,753,746	
Funds held by company under reinsurance treaties			18,338,479	
Provision for reinsurance			<u>196,220</u>	
Total liabilities			42,513,815	
Common capital stock	\$ 2,600,000			
Gross paid-in and contributed surplus	11,700,200			
Unassigned funds (surplus)	<u>1,228,434</u>			
Surplus as regards policyholders			<u>15,528,634</u>	
Total liabilities, surplus, and other funds			<u>\$ 58,042,449</u>	

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

Statement of Income

Underwriting Income

Premium earned		\$ 7,083,662
Deductions:		
Losses incurred	\$ 3,235,785	
Loss adjustment expenses incurred	199,200	
Other underwriting expenses incurred	<u>2,759,414</u>	
Total underwriting deductions		<u>6,194,399</u>
Net underwriting gain		889,264

Investment Income

Net investment income earned	\$ 263,710	
Net realized capital gains	<u>24,578</u>	
Net investment gain		2,88,288

Other Income

Aggregate write-ins for miscellaneous income	<u>(5,844)</u>	
Total other income		<u>(5,844)</u>
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		1,171,708
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		1,171,708
Federal and foreign income taxes incurred		<u>268,513</u>
Net income		<u>\$ 903,194</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$ 6,643,130
Net income	\$ 903,194	
Change in net deferred income tax	26,673	
Change in nonadmitted assets	(62,285)	
Change in provision for reinsurance	(182,079)	
Surplus adjustments: Paid-in	<u>8,200,000</u>	
Change in surplus as regards policyholders for the year		<u>8,885,503</u>
Surplus as regards policyholders, December 31, 2021		<u>\$ 15,528,634</u>

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

Surplus as regards policyholders, December 31, 2017			\$	5,011,893
	Gain in Surplus	Loss in Surplus		
Net income	\$ 2,252,531	\$		
Change in net deferred income tax	108,239			
Change in nonadmitted assets		(42,173)		
Change in provision for reinsurance		(1,858)		
Surplus adjustments: Paid-in	<u>8,200,000</u>			
Total gains and losses	\$ 9,129,867	\$ (244,364)		
Net increase in surplus as regards policyholders				<u>10,516,739</u>
Surplus as regards policyholders, December 31, 2021			\$	<u>15,528,634</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the actuarial work prepared by the Delaware's, lead state, consulting actuary, INS Consulting, Inc., and concurred that the losses and loss adjustment expense reserves as of December 31, 2021 were reasonably stated and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

On April 11, 2023, an Order Adopting Stipulation was entered between the Company and the Commissioner of the California Department of Insurance. Under the terms of the settlement, the Company agreed that any consumer who purchased a home warranty, as a result of misleading mails, are permitted to cancel the warranty and receive a full refund.

As of the date of this report, the Company estimates that a small number of policies will be canceled and/or refunded in relation to this matter. The total number of policies affected is approximately 12,321, with a total net premium of approximately \$7,993,712, less the value of prior repairs and services provided, subject to refund. Of the total policies affected, 6,255 remain active. Since the Order Adopting Stipulation was entered, there have been zero cancellation/refund requests.

It is recommended that the Company ensure that appropriate disclosures for contingent liabilities in accordance with Statement of Statutory Accounting Practices No. 5R, paragraph 30, are made in future filings.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Reinsurance – Intercompany Reinsurance Agreement (Page 6): It is recommended that the Company implement procedures to properly submit amendments to existing affiliated agreements with the CDI pursuant to CIC Section 1215.5(b)(4). This is a repeat finding from the previous examination.

Reinsurance – Intercompany Reinsurance Agreement (Page 6): It is recommended that the Company implement procedures to ensure the completeness of its Form B and C filings in accordance with CIC Section 1215.4(b) and (c). This is a repeat finding from the previous examination. This is a repeat finding from the previous examination.

Accounts and Records – Annual Statement Instructions (Page 11): It is recommended that the Company implement procedures to ensure compliance when completing its Annual Statement in accordance with the National Association of Insurance Commissioners Annual Statement Instructions. This is a repeat finding from the previous examination.

Accounts and Records – Custodial Agreement (Page 13): It is recommended that the Company submit the custodial agreement to the CDI for approval pursuant to CIC Section 1104.9(c). Based on this recommendation, and during the course of the examination, the Company submitted the custodial agreement to CDI for approval in accordance with CIC Section 1104.9(c).

Accounts and Records – Vehicle Fraud Assessment (Page 13): It is recommended that the Company establish and implement procedures to ensure that adequate and complete documentation is maintained to support its filing with the CDI to ensure future compliance of California Code of Regulations Section 2698.62(d).

Subsequent Events (Page 18) - It is recommended that the Company ensure that appropriate disclosures for contingent liabilities in accordance with Statement of Statutory Accounting Practices No. 5R, paragraph 30, are made in future filings.

Previous Report of Examination

Corporate Records - Form B and C Filings (Page 4): A number of issues were noted in regards to the completeness and accuracy of the Company's Holding Company System Annual Registration Statements, Form B and C filings. It was recommended the Company implement procedures to ensure the completeness and accuracy of its Insurance Holding Company System Annual Registration Statements, in accordance with CIC Sections 1215.4(b) and (c). The Company did not comply with the recommendation.

Corporate Records – Form D Filings (Page 4): The Company failed to file a Form D, Prior Notice of a Transaction, with the California Department of Insurance (CDI) for certain of its affiliated agreements. It was recommended the Company implement procedures to ensure it files its affiliated agreements, and changes thereto, in a timely manner with the CDI, in accordance with CIC 1215.5(b). The Company did not comply with this recommendation.

Corporate Records – Presentation of Examination Report to the Board (Page 5): It was noted during review of the Board of Director minutes, that the 2014 examination report was not presented to the Board, which was not in compliance with CIC Section 735. It was recommended the Company implement procedures to ensure compliance with CIC Section 735. The Company complied with this recommendation.

Comments on Financial Statement Items – Reinsurance Ceded (Page 9): The Company was party to two multi-year, quota share reinsurance agreements with LOTS Reassurance Company (LOTS Re), an affiliate. The agreements contained loss carry-forward and experience refund provisions that did not meet the transfer of risk requirement in Statement of Statutory Accounting Practices (SSAP) No. 62R. It is recommended the Company amend this agreement in accordance with the requirements in SSAP No. 62R, paragraphs 10 – 21. The Company complied with this recommendation.

Comments on Financial Statement Items – LOTS Re Collateral (Page 11): LOTS Re was incorrectly classified as an Authorized Affiliated Reinsurer on the Company's 2017 Annual Statement, Schedule F, Part 3, in violation of CIC Section 923, Annual and Quarterly Statement Filing. In addition, the Company incorrectly took reinsurance credit of \$338,000, without having the required collateral for reinsurance, in accordance with CIC Section 922.5. No examination adjustment was made for this reporting error due to materiality. It was recommended the Company implement procedures to ensure that they properly report reinsurance in its Annual Statements, in accordance with the NAIC Annual Statement Instructions. The Company complied with this recommendation.

Accounts and Records – Investment Interrogatory (Page 12): In its 2017 Annual Statement, General Interrogatories, Part 1, Item 28.05, the Company did not list all investment advisors. In addition to Sterling Capital Management, it also uses Clearwater and Blackrock. It was recommended the Company provide complete information in its Annual Statement reporting, in accordance with the NAIC Annual Statement Instructions. The Company did not comply 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,

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