

REPORT OF EXAMINATION  
OF THE  
SAN DIEGO INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2023

*Insurance Commissioner*

A handwritten signature in blue ink, appearing to read "D. Peña", is positioned to the right of the "Insurance Commissioner" text.

Filed on June 10, 2025

## TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION .....	1
COMPANY HISTORY .....	2
MANAGEMENT AND CONTROL:.....	3
Management Agreements.....	4
TERRITORY AND PLAN OF OPERATION.....	6
REINSURANCE: .....	7
Quota Share Reinsurance Agreement.....	7
Assumed.....	7
Ceded Insurance.....	7
FINANCIAL STATEMENTS: .....	7
Statement of Financial Condition as of December 31, 2023.....	8
Underwriting and Investment Exhibit for the Year Ended December 31, 2023 .....	9
Reconciliation of Surplus as Regards to Policyholders from December 31, 2018 through December 31, 2023.....	10
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	11
Aggregate Write-ins for Liabilities – Deposit Liability .....	11
SUMMARY OF COMMENTS AND RECOMMENDATIONS: .....	11
Current Report of Examination .....	11
Previous Report of Examination .....	11
ACKNOWLEDGMENT .....	12

Los Angeles, California  
May 27, 2025

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

### SAN DIEGO INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office was located at 1615 Murray Canyon Road, San Diego, California 92108. As of January 2024, the Company relocated its statutory home office to 790 The City Drive, Orange, California, 92868.

### SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2018. This examination covered the period from January 1, 2019 through December 31, 2023.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the 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.

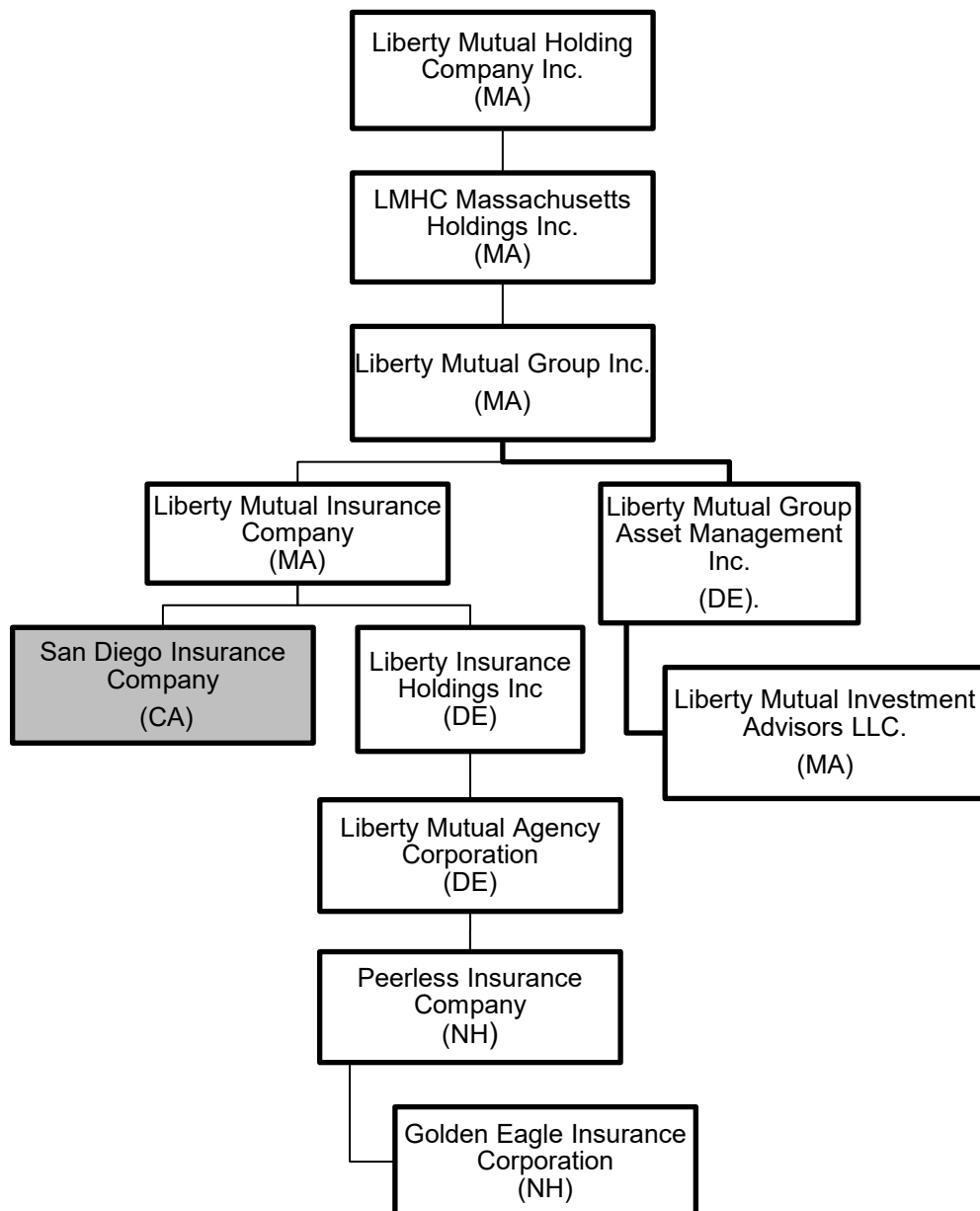
This was a coordinated examination with Massachusetts as the lead state of the Liberty Mutual Insurance Group. It was conducted concurrently with other insurance entities in the holding company group, 69 total legal entities. The following states participated in the examination: Arizona, California, Connecticut, Illinois, Indiana, Iowa, Minnesota, New Hampshire, Ohio, Oregon, Texas, and Wisconsin.

### COMPANY HISTORY

The Company was incorporated under the laws of the state of California on July 9, 1997, and commenced business on August 22, 1997. Liberty Mutual Insurance Company (LMIC) formed the company exclusively as a vehicle to run off the business of Golden Eagle Insurance Company (GEIC) as part of the GEIC rehabilitation plan, which was placed under conservation on March 1, 1997, by the Insurance Commissioner of the state of California.

## MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Liberty Mutual Holding Company Inc. (LMHC) is the ultimate controlling entity. LMHC is incorporated in the Commonwealth of Massachusetts. Following is an abridged organizational chart. All ownership is 100%.



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 on December 31, 2023:

### Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Vlad Y. Barbalat Newton, Massachusetts	Executive Vice President and Chief Investment Officer Liberty Mutual Group Inc.
Damon P. Hart Brookline, Massachusetts	Executive Vice President, Chief Legal Officer, and Secretary Liberty Mutual Group Inc.
James M. MacPhee Boston, Massachusetts	Executive Vice President and Chief Operating Officer Liberty Mutual Group Inc.
Christopher L. Pierce North Attleboro, Massachusetts	Executive Vice President and Chief Financial Officer Liberty Mutual Group Inc.
Timothy M. Sweeney Boston, Massachusetts	Chief Executive Officer Liberty Mutual Group Inc.

### Principal Officers

<u>Name</u>	<u>Title</u>
Timothy M. Sweeney	President
Damon P. Hart	Executive Vice President, Chief Legal Officer, and Secretary
Nikos Vasilakos	Executive Vice President and Treasurer

### Management Agreements

Management Services Agreement: The Company is a party to a Management Services Agreement with its direct parent, Liberty Mutual Insurance Company (LMIC), effective August 21, 1997. LMIC provides investment management and administrative services to

the Company. The California Department of Insurance (CDI) approved this agreement in June 2001. Charges for the services include direct expenses and directly allocable expenses. Under the terms of this agreement, fees are settled quarterly. However, due to the minimum number of transactions incurred, no fees were charged to the Company during the examination period.

**Management Services Agreement:** The Company entered into a Management Services Agreement with its affiliate, Golden Eagle Insurance Corporation (GEIC), effective August 21, 1997. Under the terms of this agreement, GEIC provides the Company with accounting, tax, and auditing services, as well as services related to claim administration. GEIC also provides the Company with personnel, office space, equipment, and supplies in order for the Company to conduct its operations. Charges for the services include direct expenses and directly allocable expenses. Under the terms of this agreement, the net amount owed shall be determined not less frequently than quarterly. Payment is made upon the presentation of invoices covering the specific period to which the expenses apply. This agreement was approved by the CDI on December 4, 2007. During the examination period, no services were provided by GEIC to the Company. Consequently, no payment was made by the Company.

**Investment Services Agreement:** The Company entered into an Investment Services Agreement with Liberty Mutual Group Asset Management Inc. (LMGAMI), effective July 1, 2011. Under this agreement, LMGAMI is the Company's investment advisor, agent, and attorney-in-fact to exercise the investment discretion. The CDI approved this agreement on June 24, 2011. The Company pays LMGAMI a monthly fee, calculated by taking the sum of the US Generally Accepted Accounting Principles (US GAAP) market value of all cash and securities in the Company's account on the first day of each month and on the last day of that same month, divided by two, and multiplied by 0.00015. Under the terms of the agreement, the Company paid LMGAMI \$128,612, \$140,126, \$138,955, \$132,581, and \$131,199 in 2019, 2020, 2021, 2022, and 2023, respectively.

**Cash Management Agreement:** The Company entered into a Cash Management Agreement with LMIC, effective January 1, 2016. Under the terms of this agreement,

LMIC provides the Company with short-term cash liquidity pool management services. The CDI approved this agreement on November 6, 2015. The Company pays LMIC a monthly fee, calculated by taking the sum of the US Generally Accepted Accounting Principles (US GAAP) market value of all cash and securities in the Company account on the first day of each month and on the last day of that same month, divided by two, and multiplied by 0.00015. No services were provided, and therefore, no fees were paid during the examination period.

Federal Tax Sharing Agreement: The Company and its affiliates entered into a Federal Tax Sharing Agreement with its ultimate parent, Liberty Mutual Holding Company, Inc. (LMHC), effective September 22, 2008. The allocation of taxes is based upon the separate return calculations with intercompany balances settled in the quarter subsequent to the filing of the consolidated return. The CDI approved the agreement on September 5, 2008. The Company paid federal income taxes of \$302,000, \$301,000, \$275,000, \$269,000, and \$399,000 in 2019, 2020, 2021, 2022, and 2023, respectively.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed in California as a property and casualty insurer. The Company was formed to run-off pre-March 1, 1997 insurance policies and surety bond liabilities of Golden Eagle Insurance Company, an unaffiliated insurer that was under conservation. The Company agreed to only transact the run-off liabilities assumed under the reinsurance agreement approved by the California Court of Conservation on August 21, 1997, and would not transact any other business without prior written approval by the California Department of Insurance.



## REINSURANCE

### Quota Share Reinsurance Agreement

The Company entered into a Quota Share Reinsurance Agreement with its parent, Liberty Mutual Insurance Company (LMIC), effective November 30, 2006. Under the terms of this agreement, the Company cedes 100% of the remaining losses and loss adjustment expenses liability reinsured from Golden Eagle Insurance Company rehabilitation plan, and the California Department of Insurance approved the agreement on March 19, 2007.

### Assumed

The Company has no reinsurance assumed.

### Ceded

The Company has no reinsurance ceded.

## 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, 2023. The accompanying comments on financial statements reflect the amounts reported in the annual statements and 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, 2023

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

Reconciliation of Surplus as Regards Policyholders from December 31, 2018  
through December 31, 2023

Statement of Financial Condition  
as of December 31, 2023

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 75,379,840	\$	\$ 75,379,840	
Cash, cash equivalents, and short-term investments	131,681		131,681	
Receivable for securities	72,014		72,014	
Securities lending reinvested collateral assets	4,294,779		4,294,779	
Investment income due and accrued	<u>355,231</u>		<u>355,231</u>	
Total assets	<u>\$ 80,233,545</u>	<u>\$</u>	<u>\$ 80,233,545</u>	
<u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Current federal and foreign income taxes			\$ 99,347	
Net deferred tax liability			71,000	
Payable for parent, subsidiaries and affiliates			723,784	
Payable for securities lending			4,294,779	
Aggregate write-ins for liabilities			<u>1,908,552</u>	(1)
Total liabilities			7,097,462	
Common capital stock		\$ 2,600,000		
Gross paid-in and contributed surplus		52,800,000		
Unassigned funds (surplus)		<u>17,736,083</u>		
Surplus as regards policyholders			<u>73,136,083</u>	
Total liabilities, surplus, and other funds			<u>\$ 80,233,545</u>	

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

State of Income

Underwriting Income

Premium earned		\$ 0
Deductions:		
Other underwriting expenses incurred	\$ 17,051	
Total underwriting deductions		<u>17,051</u>
Net underwriting loss		(17,051)

Investment Income

Net investment income earned	<u>1,959,699</u>	
Net investment gain		1,959,699
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		1,942,648
Federal and foreign income taxes incurred		<u>399,000</u>
Net income		<u>\$ 1,543,648</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2022		\$ 71,577,435
Net income	\$ 1,543,648	
Change in net deferred income tax	<u>15,000</u>	
Change in surplus as regards policyholders for the year		<u>1,558,648</u>
Surplus as regards policyholders, December 31, 2023		<u>\$ 73,136,083</u>

Reconciliation of Surplus as Regards to Policyholders  
from December 31, 2018 through December 31, 2023

Surplus as regards policyholders, December 31, 2018			\$ 66,763,290
	Gain in Surplus	Loss in Surplus	
Net income	\$ 6,423,793	\$	
Change in net deferred income tax		51,000	
Total gains and losses	\$ 6,423,793	\$ 51,000	
Net increase in surplus as regards policyholders			<u>6,372,793</u>
Surplus as regards policyholders, December 31, 2023			<u>\$ 73,136,083</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Aggregate Write-ins for Liabilities – Deposit Liability

According to Statements of Statutory Accounting Principles No. 62R, a reinsurance agreement which does not transfer insurance risk shall be accounted for and reported as deposit accounting. As aforementioned, under the “Reinsurance” section, the Company was established to manage the business assumed under the conservation order and ceded without risk transfer. The reinsurance agreement met the definition, and the assumed balance is reported as a deposit under Aggregate write-ins for liabilities. As of December 31, 2023, the Company reported a liability deposit balance of \$1,908,552.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

None.

### Previous Report of Examination

None.

## ACKNOWLEDGMENT

The courtesy and cooperation extended by the Company's officers and parents' employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

---

Shu Young, CFE  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California

---

Thomas Podsiadlo, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California