REPORT OF LIMITED SCOPE EXAMINATION

OF THE

TOPA INSURANCE COMPANY

AS OF

DECEMBER 31, 2023

Commissioners Signature

Filed on June 4, 2025

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Los Angeles, California
April 11, 2025

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

TOPA INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's home office is located at 24025 Park Sorrento, Suite 330, Calabasas, California 91302.

SCOPE OF EXAMINATION

We have performed our multi-state limited-scope examination of the Company. This limited-scope examination covers the period from January 1, 2022 through December 31, 2023. The previous full-scope examination was conducted by the California Department of Insurance as of December 31, 2021.

The limited-scope examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*. The scope of the examination was limited to a review of the remediation of prior examination findings, the Company's practices and procedures, its corporate and accounting records, details of certain transactions, an evaluation of certain assets and liabilities reported, and certain other procedures to understand and test the operations of the new business underwritten and issued by Swyfft, LLC, a managing general agent as of December 31, 2023, as well as compliance with the NAIC Annual Statement Instructions, Statement of Statutory Accounting Principles, and the California Insurance Code.

This limited-scope examination was coordinated with the U.S. Virgin Islands, and conducted concurrently with the limited-scope examination of its wholly-owned subsidiary, Dorchester Insurance Company, a U.S. Virgin Islands insurance company. California served as the lead state.

SUMMARY OF SIGNIFICANT FINDINGS

Examination Adjustments

As a result of the audit performed by the Company's independent auditors, a number of adjustments were made to the reported balance items, resulting in a reduction of surplus as regards policyholders was reduced by $1,292,354, from $45,712,006 to $44,419,652 as of December 31, 2023. The adjustments were made to non-admit electronic data processing equipment and software, broker rebate commission receivables, and contingent commission receivables which did not qualify as admitted assets under the Accounting Practices and Procedures Manual. These adjustments were offset by an adjustment to reduce the provision for reinsurance due to the Company underreporting collateral held on behalf of some of its reinsurers. Greater detail is discussed in the "Comments on Financial Statement Items" section of the report. It is recommended that the Company implement procedures to ensure proper reporting of its statutory financial statements to comply California Insurance Code Section 923.

Oversight of Managing General Agent (MGA)

The Company entered into a General Agent Agreement (MGA Agreement) with Swyfft, LLC (Swyfft) on May 1, 2023. Under the terms of the MGA Agreement, Swyfft performs nearly all business functions related to the operation of the policies issued under this program with the exception of reinsurance. Pursuant to the California Insurance Code (CIC) Section 769.81(c), Swyfft meets the definition of an MGA. A review of the Company's oversight practice over Swyfft noted that the Company did not comply with several areas of the Managing General Agent Act, as outlined in the CIC Section 769. The following areas of non-compliance were observed:

- Swyfft did not maintain a fidelity bond for its protection of the Company in accordance with the MGA Agreement or CIC Section 769.82(c). It is recommended that a fidelity bond be maintained by Swyfft for the sole benefit of the Company or add the Company as an additional Named Insured.
- Swyfft is the owner of all bank accounts set up for the purposes of collecting premiums and paying claims on behalf of the Company. CIC Section 769.83(c) requires that the funds collected shall be held by Swyfft in a fiduciary capacity. It is recommended that the Company set up bank accounts for the purpose of managing the funds associated with the Swyfft business that is in the name of the Company, with Swyfft named as a fiduciary to comply with CIC Section 769.83(c).
- The MGA Agreement allows joint employment, as long as an individual was employed by Swyfft first. It is recommended the Company amend the MGA Agreement to remove the exception for joint employment as specified in CIC Section 769.83(j)(7).
- The Company has not conducted semi-annual onsite reviews of the underwriting and claims processing operations of Swyfft as required by CIC Section 769.84(c). It is recommended the Company conduct such review at least semiannually as required, and maintain documentation to support the results of the reviews.
- The Company did not provide written notification to the Commissioner of the appointment of Swyfft as MGA pursuant to the CIC Section 769.84(e). It is recommended that the Company submit a written notice of appointment, which shall include a statement of duties that the MGA is expected to perform on behalf of the Company and the lines of insurance it is authorized to act.

COMPANY HISTORY

The Company was incorporated on October 4, 1984, under the laws of the State of California and commenced transacting property and casualty business on January 1, 1985. The Company is a wholly-owned subsidiary of Topa Insurance Group (TIG), which is a wholly-owned subsidiary of Topa Equities, Ltd., a privately held California insurance holding company.

Capitalization

The Company is authorized to issue 200,000 shares of common stock with a par value of $25 per share. As of December 31, 2023, there were 200,000 shares issued and outstanding.

The following capital contributions were made by TIG:

Year	Type	Amount
2022	Cash	$ 5,000,000
2023	Cash	$25,000,000
2024*	Cash	$ 5,000,000

* On March 15, 2024, the Company received a $5,000,000 capital contribution from TIG, that was recognized as a Type I subsequent admitted asset in its 2023 Annual Statement pursuant to Statement of Statutory Accounting Principles No. 72, paragraph 8, and which was approved by the California Department of Insurance on March 20, 2024.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Topa Insurance Group (TIG). TIG, in turn, is a wholly-owned subsidiary of Topa Equities, Ltd. (TEL), a privately held California insurance holding company, which at December 31, 2023, was equally owned by five trusts. The following is an abridged depiction of the holding company structure as of December 31, 2023:

Marion Anderson Grantor Trust FBO M. Susan McKinley	20%
Marion Anderson Grantor Trust FBO Judith Munzig	20%
Marion Anderson Grantor Trust FBO John E. Anderson, Jr.	20%
Marion Anderson Grantor Trust FBO William S. Anderson	20%
Marion Anderson Grantor Trust FBO Gloria Flores	20%
Topa Equities,Ltd (CA)	100%
Topa Insurance Group (CA)	100%
Topa Insurance Services	100%
Topa Insurance Company (CA)	**100%**
Dorchester Insurance Company (USVI)	100%

The trusts noted above were not disclosed on Schedule Y of the 2023 Annual Statement. Additionally, there were entities that were controlled by one or more of the trusts that own TEL which are considered affiliates per Statutory Statement of Accounting Principles (SSAP) No. 25 and the California Insurance Code (CIC) Section 1215(a). These entities were also not disclosed on Schedule Y nor in the Insurance Holding Company System Annual Registration Statement (Form B). The Company properly disclosed the trusts and affiliates /in its 2024 Annual Statement and 2024 Form B to comply with SSAP No. 25 and CIC Section 1215(a).

The six members of the board of directors, who are to be elected annually, oversee the business and affairs of the Company. The following are members of the board and principal officers of the Company serving on December 31, 2023:

<u>Directors</u>

Name and Location	Principal Business Affiliation
William Eyre Calabasas, California	Managing Director Guy Carpenter

Name and Location	Principal Business Affiliation
Simon Fascione Calabasas, California	President and Chief Executive Officer Topa Insurance Company
Lawrence Genalo[(a)] Calabasas, California	Senior Vice President and Chief Financial Officer Topa Insurance Company
Christopher Greco Los Angeles, California	Chief Financial Officer Anderson Holdings
Judy Mann Calabasas, California	Retired, President and Chief Executive Officer Swiss Re Underwriters Agency Inc.
Judith Munzig Los Angeles, California	President Marion & John E. Anderson Foundation

Principal Officers

Name	Title
Christopher Greco	Chairman of the Board
Simon Fascione	President and Chief Executive Officer
Lawrence Genalo [(a)]	Senior Vice President, Chief Financial Officer

The following changes occurred subsequent to the examination date:

(a) The Company announced that Lawrence Genalo resigned as Director and Officer effective November 22, 2024. Jay Millstone was elected as Director and VP, Chief Financial Officer, effective November 25, 2024.

Management Agreements

Brokerage Agreement: Effective February 5, 1996, a Brokerage Agreement was executed between the Company and its affiliate, Topa Insurance Services, Inc. (TIS). Under this Agreement, TIS is not authorized to bind insurance unless the prior submission is made and written approval is obtained from the Company. The commission is calculated based on a negotiated rate on a per policy basis. The agreement was in place before the prior approval provisions of California Insurance Code (CIC) Section 1215.5 (b)(4) went into effect and has never been amended. The commissions paid by the Company to TIS for the years 2023 and 2022 were $0 and $1,331, respectively.

Tax Sharing Agreement: Effective November 16, 2018, the Company and its parent, TIG, entered into a Tax Sharing Agreement (Agreement). Under the terms of the Agreement, the consolidated federal tax liability is allocated among the members in the ratio that each member's separate tax return liability bears to the total consolidated federal tax liabilities. Intercompany tax balances and deposits are settled monthly, based on the consolidated return. The Agreement was approved by the California Department of Insurance (CDI) on November 5, 2018. The Company did not incur federal income taxes for 2022 or 2023 due to the net losses reported in each calendar year.

Assignment and Assumption Agreement: Effective March 16, 2020, the Company entered into the Assignment and Assumption Agreement with TIG. Under the terms of the Agreement the Company assigns and TIG assumes the Lease Agreement with Kilroy Realty, L.P. (Kilroy), a Delaware limited partnership for the leased space located at 24025 Park Sorrento, Calabasas, California. The Agreement was approved by the CDI on November 5, 2018. The Company continued to make payments to Kilroy with the intention of being reimbursed by TIG.

Program Administration Agreement: Effective June 1, 2021, the Company and its subsidiary, Dorchester Insurance Company (DIC), entered into a Program Administrator Agreement to facilitate the Cannasure Insurance Program (Program) produced by CIS Insurance Services, LLC (CIS), an independent producer, in which the Company and DIC jointly participate. Under the terms of the Agreement, all premiums collected by CIS are remitted to the Company regardless of which insurer has issued the policy. The Company maintains premiums collected on DIC's behalf in a fiduciary account and remits to DIC no later than ninety (90) days of the policy effective date. The Company provides the following additional services upon DIC's request: accounting, tax, auditing, underwriting, claims, investment, and certain defined functional support services, such as actuarial, legal, and purchasing. Services rendered under the Agreement are paid at cost. The Agreement was approved by the CDI on November 18, 2021.

No fees were paid in 2022 and 2023 as a result of the Company and DIC entering into a Multi-Line Common Account Reinsurance Contract. Refer to the Intercompany Reinsurance in the Reinsurance Section.

Related Party Transactions

A review of related party transactions noted that there were various transactions between the Company and TIG, without a written agreement being executed to establish the terms of the services provided or specify the due date as required by SSAP No. 25. In addition, the Company loaned TIG cash that amounted to $2,750,000 as of November 30, 2023. The balance was settled in full on December 29, 2023, with no interest charged. No written agreement was executed between the parties to establish the terms of the loan and provide for the timely settlement of the amounts owed, with a specified due date, in accordance with SSAP No. 25.

Failure to have written agreements for all transactions between related parties is a repeat finding from the previous Report of Examination. On November 3, 2023, the Company provided a written plan of action to the CDI stating that “All intercompany agreements and transactions will be formally documented moving forward.” It is recommended the Company immediately implement procedures to ensure written agreements are established and entered for all transactions between related parties in accordance with SSAP No. 25 and file the agreements with CDI in accordance with the CIC Section 1215.5(b).

Corporate Records

Significant transactions during the examination period, including the annual election of its directors and officers, were not approved by the board or shareholders, nor disclosed in the minutes. This is a repeat finding from the past two examinations. The Company provided a written plan of action to the CDI on November 3, 2023, stating “The Company has added additional resources and a stronger review process to monitor the recording and documentation of all Board-related activity that occurs, including proper documentation in the minutes and recording of all elections in the future." It is recommended that the board reevaluate its review process to ensure documentation in its minutes include reviews and approvals of all significant events and transactions affecting the Company, including the election of its directors and officers.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2023, the Company was licensed and authorized to write various property and casualty lines of insurance in the following 22 states and the District of Columbia:

Arizona	Iowa	New Jersey	South Carolina
Arkansas	Kansas	New Mexico	Utah
California	Maryland	Ohio	Virginia
Colorado	Missouri	Oklahoma	Washington
Delaware	Nebraska	Oregon	
Georgia	Nevada	Pennsylvania	

As of December 31, 2023, the Company was also authorized to write surplus lines in the following 12 states:

Alabama	Illinois	Michigan	Texas
Florida	Louisiana	North Carolina	Wisconsin
Hawaii	Massachusetts	Tennessee	U.S. Virgin Islands

During 2023, the Company wrote $94.7 million in direct premiums. The top 5 lines of business written were commercial multiple peril (non-liability portion) with $41.7 million (44.1%), homeowners' multiple peril with $31.8 million (33.5%), commercial multiple peril (liability portion) with $5.9 million (6.2%), other liability occurrence with $4.6 million (4.8%), and other commercial automobile liability with $3.9 million (4.2%). The total direct premiums were predominantly written in the following states: $50.3 million (53.1%) in Florida; $15.7 million (16.6%) in California; $12.1 million (12.9%) in Texas; $12.0 million (12.7%) in Utah, and $1.1 million (1.1%) in Alabama. Business is generated through a combination of independent agents and wholesale brokers.

During 2023, the Company submitted an application to remove the automobile line of business from its certificate of authority to withdraw from automobile insurance in California in order to exit an underperforming insurance program. Until all outstanding liabilities have been settled, the application is pending approval. In addition, the Company began non-renewing policies in its other admitted lines of business. In May 2023, the Company launched a non-admitted residential and commercial property program in the surplus lines market through a partnership with Swyfft, LLC, a managing general agent.

LOSS EXPERIENCE

The Company reported incurred losses and loss expenses, underwriting losses, and net losses under the examination as follows:

Year	Net Earned Premiums	Incurred Loss and Loss Expense	Net Underwriting Loss	Net Loss
2022	$ 67,025,015	$ 63,679,192	$(27,875,628)	$(24,535,146)
2023	50,096,441	65,870,886	(40,789,318)	(32,362,499)
2024*	20,385,982	27,993,256	(19,052,412)	(13,793,364)
Total	$137,507,438	$157,543,334	$(87,717,358)	$(70,691,009)

*subsequent period

The losses sustained by the Company during the examination period were primarily due to poor operating performance across its legacy book of business, most notably in the commercial automobile line of business. In 2022, the Company began reducing writings in its commercial automobile program and ultimately withdrew from all automobile lines of insurance in June 2023. Increases in losses in 2023 were mainly due to the adverse loss development on prior years as well as current year losses in the legacy business written by the Company. The Company partially offset the losses by partnering with Swyfft, LLC (Swyfft), a managing general agent, to launch non-admitted residential and commercial property programs in the surplus line market, mainly in the Southeast United States.

In 2024, losses and loss adjustment expenses decreased primarily due to the continued settlement of claims associated with the run-off legacy business. The net underwriting loss was due to the three hurricanes that hit Florida during the third quarter, impacting the Swyfft book of business along with the continued run-off of the legacy business.

REINSURANCE

Intercompany Reinsurance Agreements

Adverse Development Cover Reinsurance Agreement: Effective January 1, 2019, the Company entered into the Adverse Development Cover Reinsurance Agreement (ADC Agreement) with its former affiliate, NevPac Reinsurance Company, Ltd. (NevPac), a British Virgin Islands unauthorized reinsurer. Under the terms of the ADC Agreement, NevPac agrees to provide reinsurance on a stop-loss basis not to exceed $25 million on all lines of insurance written by the Company, including those which have been placed into run-off, for all accident years 2018 and prior. The ADC Agreement was approved by the California Department of Insurance (CDI) on October 5, 2020.

Novation and Release Agreement: Effective December 15, 2020, the Company entered into the Novation and Release Agreement (Novation Agreement) with NevPac and Topa Re Inc. (Topa Re), a Montana corporation and captive reinsurer. Under the terms of the Novation Agreement, NevPac transferred all rights, liabilities, duties, and obligations under the ADC Agreement to Topa Re, resulting in the dissolution of NevPac. Upon the effective date, the Company releases NevPac of all rights, liabilities, duties, and obligations under the ADC Agreement. The Novation Agreement was approved by the CDI on February 19, 2021. Topa Re paid $2.8 million of claims covered by the ADC Agreement during 2023, with no remaining outstanding reserves. Effective October 31, 2023, Topa Re was dissolved.

Multiple Lines Common Account Reinsurance Contract: Effective January 1, 2021, the Company and Dorchester Insurance Company (DIC) entered into a Multiple Lines Common Account Reinsurance Contract (Reinsurance Contract). Under the terms of the Reinsurance Contract, DIC will cede, and the Company will assume 100% of the net liability of its cannabis related policy packages offered and sold by an unaffiliated insurance producer, CIS Insurance Services, LLC. The Reinsurance Contract was approved by the CDI on March 22, 2022. The Reinsurance Contract is a quota share agreement and was incorrectly reported as an Intercompany Pooling Arrangement in Schedule F of the Annual Statements. It is recommended that the Company report the Reinsurance Contract in the proper sections of the exhibits within the Annual Statement to ensure compliance with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions.

Assumed

During 2023, the Company assumed approximately $11.4 million in premiums and assumed approximately $10.4 million in loss and loss adjustment expenses reserves. The Company assumed premiums covering risks originating in the U.S. Virgin Islands that are produced by its wholly-owned subsidiary, DIC, through a quota share agreement. Under the quota share agreement, the Company assumes between 60% and 100% of DIC’s Net Liability depending on the type of policy. The Company also assumed a minimal amount from two unaffiliated reinsurers, Sutton Specialty Insurance Company and Axis Specialty Insurance Company.

Ceded

The Company cedes business to various reinsurers under several excess of loss and quota share treaties, an automatic facultative treaty, and individual facultative contracts. During 2023, the Company ceded approximately $50.4 million in premiums and ceded approximately $49.2 million in loss and loss adjustment expense reserves.

The Company has reinsurance in place to cover all admitted and non-admitted programs. The reinsurance program for the admitted programs is designed to limit its retention to $750,000 for property and $1,000,000 for casualty cessions that provides up to $25 million and $10 million in coverage, respectively. The reinsurance program in place for the non-admitted programs included limits of $100 million with a retention of $5 million for catastrophes and limits of $15 million with a retention of $2 million per risk.

The Company had the following ceded reinsurance programs in effect as of December 31, 2023 and is summarized in the chart below:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Casualty Cessions			
Excess of Loss			
Casualty Per Occurrence Excess of Loss – 1st Layer 100% Participation	Authorized: Lloyd's (Various) (85%) Insurance Company of the West (15%)	$1,000,000	$4,000,000 per occurrence; $8,000,000 aggregate
Casualty Per Occurrence Excess of Loss – 2nd Layer 100% Participation	Authorized: Lloyd's (Various) (100%)	$5,000,000	$5,000,000 per occurrence; $10,000,000 aggregate
Property Cessions			
Excess of Loss			
Property Per Risk Excess of Loss – 1st Layer – Section A (Commercial) (Excluding United Insurance Group) 90% Participation	Authorized: Hannover Ruck SE (35%) Swiss Re America (30%) Allied World Re (25%)	$750,000 plus $25,000 per risk	$250,000 per risk; $750,000 per occurrence/aggregate; $500,000 terrorism limit
Property Per Risk Excess of Loss – 2nd Layer - Section A 100% Participation	Authorized: Hannover Ruck SE (35%) Swiss Re America (30%) Allied World Re (25%) Dual Commercial (10%)	$1,000,000	$4,000,000 per risk, occurrence & terrorism limit; $12,000,000 term limit (all sections)
Property Per Risk Excess of Loss – 1st Layer - Section B (Personal) 90% Participation	Authorized: Hannover Ruck SE (35%) Swiss Re America (30%) Allied World Re (25%)	$750,000 plus $25,000 per risk	$250,000 per risk; $750,000 per occurrence/aggregate
Property Per Risk Excess of Loss – 2nd Layer – Section B 100% Participation	Authorized: Hannover Ruck SE (35%) Swiss Re America (30%) Allied World Re (25%) Dual Commercial (10%)	$1,000,000	$2,000,000 per risk & per occurrence; $4,000,000 occurrence limit; $12,000,000 term limit (all sections)

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property Per Risk Excess of Loss – Section A and B 50% Participation	Authorized: Hanover Ruck SE (50%)	$500,000 Section A & B plus $750,000 per risk & per occurrence	$1,500,000 per risk & per occurrence (Section A &B) & terrorism limit; $1,500,000 loss occurrence aggregate; $3,000,000 term limit aggregate
Property Catastrophe Excess of Loss - 1st Layer 100% Participation	Authorized: Allianz Global (52%) American Agricultural (16%) Aspen Bermuda (10%) Allianz Global (10%) Lloyd (Various) (7%) Allied World (5%)	$2,000,000	$3,000,000 per occurrence; $6,000,000 aggregate
Property Catastrophe Excess of Loss - 2nd Layer 100% Participation	Authorized: Lloyd (Various) (51.5%) American Agricultural (13%) Aspen Bermuda (10%) Allianz (10%) Hanover Ruck SE (7.5%) Allied World (5%) Shelter Mutual (3%)	$5,000,000	$20,000,000 per occurrence; $40,000,000 aggregate
Swyfft			
Excess of Loss – Per Risk			
Commercial Property Per Risk - Excess of Loss – 1st Layer 52.5% Participation	Authorized: Lloyd's #2791 (20%) Odyssey Re (15%) Lloyd's #2001 (10%) Trisura (7.5%)	$2,000,000 plus $475,000 per risk; $1,425,000 per occurrence	$1,000,000, per risk; $3,000,000 per occurrence; $4,000,000 aggregate
Commercial Property Per Risk - Excess of Loss – 2nd Layer 52.5% Participation	Authorized: Lloyd's #2791 (20%) Odyssey Re (15%) Lloyd's #2001 (10%) Trisura (7.5%)	$3,000,000 plus $950,000 per risk; $1,900,000 per occurrence	$2,000,000, per risk; $4,000,000 per occurrence; $8,000,000 aggregate
Commercial Property Per Risk - Excess of Loss – 3rd Layer 57.5% Participation	Authorized: Lloyd's (Various) (50%) Trisura (7.5%)	$5,000,000 plus $1,062,500 per risk; $1062,500 per occurrence	$2,500,000, per risk; $2,500,000 per occurrence; $7,500,000 aggregate
Commercial Property Per Risk – Excess of Loss – 4th Layer Eff 11/1/2023 100% Participation	Authorized: Arch Re (35%) Arch Re (20%) Lloyd's (Various) (30%) Odyssey Re (15%)	$7,500,000	$5,000,000 per risk; $5,000,000 per occurrence; $15,000,000 aggregate

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Excess of Loss - Catastrophe			
Property Catastrophe Excess of Loss – 1st Layer 80% Participation	Authorized: Cincinnati (5%) Lloyd's (5%) Lloyd's Map #2791 (5%) Amer. Family (2.5%) Unauthorized: Artex Axcell (62.5%)	$5,000,000 ultimate net loss plus $1,000,000 per occurrence	$5,000,000, per occurrence; $10,000,000 aggregate
Property Catastrophe Excess of Loss – 2nd Layer 100% Participation	Authorized: Swiss Re (40%) DaVinci (12%) Lloyd's (Various) (20%) Ren Re (8%) Everest Re (7.5%) Aspen (5%) Cincinnati (5%) Amer. Family (2.5%)	$10,000,000 ultimate net loss	$10,000,000, per occurrence; $20,000,000 aggregate
Property Catastrophe Excess of Loss – 3rd Layer 100% Participation	Authorized: Swiss Re (24%) DaVinci (12%) Munich Re (10%) Ren Re (8%) Aspen (7.5%) Everest Re (7.5%) Lloyd's (Various) (18.5%) Cincinnati (5%) Odyssey Re (5%) Amer. Family (2.5%)	$20,000,000 ultimate net loss	$10,000,000, per occurrence; $20,000,000 aggregate
Property Catastrophe Excess of Loss – 4th Layer 100% Participation	Authorized: Munich Re (20%) Nautical (16.67%) DaVinci (12%) Ren Re (8%) Aspen (7.5%) Everest Re (7.5%) Lloyd's Arch #1955 (7.5%) Odyssey Re (7.33%) Lloyd's (Various) (11%) Amer. Family (2.5%)	$30,000,000 ultimate net loss	$30,000,000, per occurrence; $60,000,000 aggregate
Property Catastrophe Excess of Loss – 5th Layer 100% Participation	Authorized: Markel Bermuda (70%) Lloyd's #2357 (30%)	$60,000,000 ultimate net loss	$30,000,000, per occurrence; $60,000,000 aggregate

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property Catastrophe Excess of Loss – 6th Layer 100% Participation	Authorized: Vermeer (80%) DaVinci (12%) Ren Re (8%)	$90,000,000 ultimate net loss	$10,000,000; $20,000,000 aggregate
Property Catastrophe Excess of Loss – Second Event 24% participation	Authorized: Markel Bermuda (24%)	$20,000,000 ultimate net loss plus $7,600,000 per occurrence	$10,000,000, per occurrence; $10,000,000 aggregate
Quota Share			
Property Quota Share (Non-Catastrophe) 30% Participation	Unauthorized: Topsail (30%)	70% Quota Share	$1,000,000 per occurrence; $2,000,000 aggregate
Property Quota Share (Including Catastrophe) 20% Participation	Authorized: Hannover Ruck (20%)	80% Quota Share	$10,000,000, per catastrophe occurrence; $20,000,00 aggregate

ACCOUNTS AND RECORDS

Uncollected Premiums

It was observed that the Company's accounting for uncollected premiums was not in compliance with Statement of Statutory Accounting Principles (SSAP) No. 6, paragraph 7a, which requires the days overdue to be calculated based on the due date of the underlying contract and not on any agent/reporting entity contractual relationship. In contrast to SSAP No. 6, paragraph 7a, the Company determines the age of the uncollected premium using the policy expiration date. In addition, the Company offsets the total balance due per policy by the claims paid. Further, payments were received for certain policies that exceeded the total premium due, and funds were due back to the policyholder. The amounts due to policyholders were deducted from the total balance of uncollected premiums instead of reporting the amount due as a liability. SSAP No. 6 and the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions do not specifically include either item as an allowable deduction. Pursuant to SSAP No. 64, the amounts shall only be offset and reported as net when a valid right of offset exists. The amounts were recalculated using the correct date and removing the offsetting balances, and found that a liability should have been established for the amounts due to policyholders. In addition, there were premiums that should have been non-admitted as they were over ninety days due. No examination adjustment was made as the amounts over ninety days due were immaterial. It is recommended that the Company account and report the uncollected premiums in accordance with SSAP No. 6 and to not offset the balance due unless specifically permitted within SSAP No. 6, the NAIC's Annual Statement Instructions, or meets the conditions set forth in SSAP No. 64. It is also recommended that the Company report any amounts due to policyholders as an Aggregate write-in for liabilities and timely reimburse policyholders for any payments made in excess of the premium or other amounts due.

Insurance Holding Company System Annual Registration Statement (Form B)

Pursuant to California Insurance Code (CIC) Section 1215.4(b), all insurers subject to registration are required to file a registration statement on a form and in a format prescribed by the NAIC. The Insurance Holding Company System Annual Registration Statement (Form B) instructions require the insurer to submit annual financial statements of the ultimate controlling person (UCP) as of the end of the person's latest fiscal year. Unless permitted by the Commissioner, the annual financial statements shall be accompanied by a certificate of an independent public accountant to the effect that the statements present fairly the financial position of the UCP and the results of its operations for the year then ended, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles prescribed or permitted under law. The Company failed to submit a copy of the audited financial statements of its UCP as an attachment to their Form B as required by CIC Section 1215.4(b). This is a repeat finding from the previous examination. On November 3, 2023, the Company provided a written plan of action to the CDI stating that "The Company and UCP are currently discussing additional steps to provide needed support to comply with CIC Section 1215.4(b)."

Pursuant to CIC 700(c) after the issuance of a certificate of authority, the holder shall continue to comply with the requirements as to the business set forth in this code and the other laws of this state. Whenever an admitted insurer fails to take steps necessary to maintain the continuance of its certificate of authority as required, the CDI reserves the right to take regulatory actions against the Company's license pursuant to CIC Section 1065.2, It is again recommended the Company comply with CIC Section 1215.4(b) and submit a copy of the audited financial statements of its UCP as an attachment to the Form B.

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 any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

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, 2021 through December 31, 2023

Analysis of Changes to Surplus as of December 31, 2023

Statement of Financial Condition
as of December 31, 2023

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 66,738,608	$	$ 66,738,608	
Common stocks	31,264,951		31,264,951	
Cash and short-term investments	70,927,017		70,927,017	
Receivable for securities	2,175,000		2,175,000	
Investment income due and accrued	427,156		427,156	
Premiums and agents' balances in the course of collection	15,944,616	193,706	15,800,910	
Premiums, agents' balances, and installments booked but deferred and not yet due	81,170		81,170	
Amount recoverable from reinsurers	3,787,463		3,787,463	
Electronic data processing equipment and software	1,179,266	1,157,645	21,621	(1)
Furniture and equipment	967	967	0	
Receivables from parent, subsidiaries, and affiliates	6,386,902		6,386,902	
Aggregate write-ins for other than invested assets	8,427,193	5,575,903	2,851,290	(2)
Total assets	$ 207,390,308	$ 6,928,221	$ 200,462,087	

Liabilities, Surplus, and Other Funds		Current Year	Notes
Losses and loss adjustment expenses		$ 98,528,317	(4)
Reinsurance payable on paid loss and loss adjustment expenses		415,813	
Commissions payable, contingent commissions, and other similar charges		1,694,578	
Other expenses		4,183,009	
Unearned premiums		36,399,818	
Ceded reinsurance premiums payable		5,977,962	
Funds held by company under reinsurance treaties		1,739,303	
Provision for reinsurance		2,148,442	(3)
Aggregate write-ins for liabilities		4,955,192	
Total liabilities		156,042,435	
Common capital stock	$ 5,000,000		
Gross paid in and contributed surplus	61,639,733		
Unassigned funds (surplus)	(22,220,081)		
Surplus as regards policyholders		44,419,652	
Total liabilities, Surplus, and other funds		$ 200,462,087	

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

State of Income

Underwriting Income		Current Year
Premium earned		$ 50,096,441
Deductions:		
Losses and loss expenses incurred		$ 65,870,886
Other underwriting expenses incurred		25,014,872
Total underwriting deductions		90,885,758
Net underwriting loss		(40,789,318)
Investment Income		
Net investment income earned		$ 4,525,142
Net realized capital gain		4,023,472
Net investment gain		8,548,614
Other Income		
Net loss from agents' or premium balances charged off (amount recovered ($121,796) amount charged off $0)		$ (121,796)
Total other loss		(121,796)
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		(32,362,499)
Net income after dividends to policyholders, after capital gains tax, and before federal and foreign income taxes		(32,362,499)
Federal and foreign income taxes incurred		0
Net loss		$ (32,362,499)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2022		$ 54,594,584
Net loss	$ (32,362,499)	
Change in net unrealized capital gains	(2,700,808)	
Change in net deferred income tax	(464,690)	
Change in non-admitted assets	(2,498,491)	
Change in provision for reinsurance	(2,148,442)	
Surplus adjustments:		
Paid-in	30,000,000	
Change in surplus as regards policyholders for the year		(10,174,930)
Surplus as regards policyholders, December 31, 2023		$ 44,419,654

Reconciliation of Surplus as Regards Policyholders
from December 31, 2021 through December 31, 2023

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2021			$ 82,835,213
Net income	$	$ 58,200,747	
Net unrealized capital gains (losses)		5,388,752	
Change in net deferred income tax		5,074,345	
Change in non-admitted assets		2,603,273	
Change in provision for reinsurance		4,689,895	
Surplus adjustment: Paid-in	35,000,000		
Total gains and losses	$ 35,000,000	$ 73,415,559	
Net decrease in surplus as regards policyholders			(38,415,559)
Surplus as regards policyholders, December 31, 2023			$ 44,419,654

Analysis of Changes to Surplus as of December 31, 2023

As a result of the audit performed by the Company's independent auditors, the following adjustments were made to the Company's reported balance sheet items. Electronic Data Processing (EDP) equipment and software were decreased due to non-admitting the non-operating software as of December 31, 2023. The aggregate write-ins for other than invested assets decreased to non-admit balances from agents and brokers. The provision for reinsurance decreased due to letters of credit that were undervalued in the Annual statement, Schedule F. The sum of the effect on surplus is shown below:

	Increase	Decrease	
Surplus as regards policyholders, December 31, 2023, per Annual Statement			$ 45,712,006
EDP equipment and software		$ (1,157,645)	
Aggregate write-ins for other-than-invested assets		(2,676,162)	
Provision for reinsurance	$ 2,541,453	$	
Net decrease			(1,292,354)
Surplus as regards policyholders, December 31, 2023, after adjustment			$ 44,419,652

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Electronic Data Processing Equipment and Software

The Company reported nonoperating software in the amount of $1,157,645. Per Statutory Statement of Accounting Principle (SSAP) No. 4, nonoperating system software is a non-admitted asset. An adjustment was made to non-admit this balance.

(2) Aggregate Write-ins for Other Than Invested Assets

The Company reported broker rebate commission receivables in the amounts of $1,203,970 for estimated amounts to be billed to the agents to true up premiums. Additionally, the Company reported a contingent commission receivable of $1,472,192 from agents, which is primarily from amounts accrued over the years for the profit/loss sharing provision in the general agent agreement with United Insurance Group. These assets are not specifically identified as admitted assets within the Accounting Practices and Procedures (AP&P) Manual. SSAP No. 4, paragraph 3.b states that a non-admitted asset is one that is not specifically identified as an asset in the AP&P Manual. As such, an adjustment was made to non-admit the balances totaling $2,676,162 reported in Aggregate write-ins for other-than-invested assets in accordance with SSAP No. 4.

(3) Provision for Reinsurance

The Company underreported the collateral on evergreen letters of credit for four reinsurers by $2,541,453, which resulted in a penalty to be recorded in Schedule F of the Annual Statement due to the collateral deficiency. As a result, an adjustment was made to the provision of reinsurance to decrease by $2,541,453.

(4) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2023 were found to be reasonably stated and have been accepted for the purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Summary of Significant Findings – Exam Adjustments (Page 2): It is recommended the Company implement procedures to ensure proper reporting of its statutory financial statements to comply California Insurance Code Section 923.

Summary of Significant Findings – Oversight of Managing General Agent (Page 2): The following is recommended to ensure compliance with California Insurance Code (CIC) Section 769 – Managing General Agents (MGA) Act:

- It is recommended that a fidelity bond be maintained by Swyfft, LLC (Swyfft) for the sole benefit of the Company or add the Company as an additional Named Insured.
- It is recommended that the Company set up bank accounts for purposes of managing the funds for the Swyfft business that is in the name of the Company, with Swyfft named as a fiduciary to comply with CIC Section 769.83(c).
- It is recommended the Company amend the General Agent Agreement to remove the exception for joint employment as specified in CIC Section 769.83(j)(7).
- It is recommended the Company perform an onsite review of the underwriting and claims processing for Swyfft at least semiannually and maintain documentation to support the results of this review to comply with CIC Section 769.84(c).
- It is recommended that the Company submit a written notification to the

commissioner for the appointment of Swyfft which shall include a statement of duties that the MGA is expected to perform on behalf of the Company and the lines of insurance it is authorized to act in order to comply with CIC Section 769.84(e).

Management and Control – Related Party Transactions (Page 8): It is recommended the Company immediately implement procedures to ensure written agreements are established and entered for all transactions between related parties in accordance with Statutory Statement of Accounting Principles (SSAP) No. 25 and file the agreements with CDI in accordance with the CIC Section 1215.5(b). This is a repeat finding.

Management and Control – Corporate Records (Page 9): It is recommended that the board reevaluate its review process to ensure documentation in its minutes include reviews and approvals of all significant events and transactions affecting the Company, including the election of its directors and officers. This is a repeat finding.

Reinsurance – Intercompany Reinsurance Agreements (Page 12): It is recommended that the Company report the Reinsurance Contract with Dorchester Insurance Company in the proper sections of the exhibits to ensure compliance with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions.

Accounts and Records – Uncollected Premiums (Page 17): It is recommended that the Company calculate the uncollected premiums using the dates permitted in SSAP No. 6 and to not offset the balance due unless specifically permitted within SSAP No. 6, the NAIC's Annual Statement Instructions, or meets the condition set forth in SSAP No. 64. It is also recommended that the Company report any amounts due to policyholders as an Aggregate write-in for liabilities and timely reimburse policyholders for any payments made in excess of the premium or other amounts due.

Accounts and Records – Form B (Page 18): It is again recommended the Company comply with CIC Section 1215.4(b) and submit a copy of the audited financial statements of its ultimate controlling person as an attachment to the Form B. This is a repeat finding.

Previous Report of Examination

Summary of Significant Findings – Record Accessibility (Page 2): It was recommended that the Company implement procedures to ensure compliance with California Insurance Code (CIC) Section 734. The Company complied with this recommendation.

Company History – Dividends (Page 4): It was recommended that the Company implement procedures to ensure compliance with CIC Section 1215.4(f). The Company implemented procedures to comply with this recommendation. However, no dividends were distributed during this exam period to confirm its effectiveness.

Management and Control - Program Administration Agreement (Page 8): It was recommended the Company maintain sufficient records for premium distribution and pay appropriate interest to DIC in accordance with the terms of the Program Administration Agreement. The Cannasure Program was in runoff during the exam period. As such, no additional testing was performed to verify the Company's compliance during the examination period.

Management and Control – Related Party Transactions (Page 9): It was recommended the Company implement procedures to ensure compliance with CIC Section 1215.5(b). It is also recommended the Company execute written agreements for all transactions with affiliates per SSAP No. 25. The Company has not complied with this recommendation, therefore it is again recommended that the Company implement procedures to ensure compliance with CIC Section 1215.5(b) and execute written agreements for all transactions with affiliates.

Management and Control – Corporate Records (Page 9): It was recommended that the board should document in its minutes that review and approval of all significant events and transactions affecting the Company including the election and/or the termination of its directors and officers. The Company did not comply with this recommendation.

Management and Control – Corporate Records (Page 9): It was again recommended that the Company maintain the exact number of directors stated in its bylaws. The Company complied with this recommendation.

Accounts and Records – Information Systems Controls (Page 16): The Company should evaluate the recommendation and make appropriate changes to strengthen its information system controls. A review of the Company's information systems controls was not performed as part of this examination. As such, no testing was performed to confirm the Company's compliance with this recommendation.

Accounts and Records – Annual Statement Instructions (Page 16): It was recommended that the Company implement procedures to ensure its Notes to Financial Statements Number 14D complies with the NAIC Annual Statement Instructions and Statement of Statutory Accounting Principles No. 55. There were no extra contractual obligations or bad faith payments identified during the exam period that would warrant a disclosure. As such, the Company's remediation efforts could not be tested for effectiveness.

Accounts and Records – Form B (Page 17): It was recommended the Company comply with CIC Section 1215.4(b) and submit a copy of the audited financial statements of its ultimate controlling person as an attachment to the Form B. The Company has not complied with this recommendation.

Accounts and Records – Audit Committee (Page 17): It was recommended that the Company implement procedures to ensure compliance with California Code of Regulations (CCR), Title 10, Chapter 5, Subchapter 3, Article 3.3, Sections 2309.14(a) and 2309.14(f)(1) as well as Statement of Auditing Standards 61. The Company has complied with this recommendation.

Comments on Financial Statements Items - Loss and Loss Adjustment Expenses (Page 23): It was recommended that the Company increase its carried reserves to be more aligned to the actuarial mid-point estimate to allow for additional development. 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,

Jessica Lynch

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Jessica Lynch, CFE
Examiner-In-Charge
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Briggs, Anjanette

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