

REPORT OF EXAMINATION  
OF THE  
WAWANESA GENERAL INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2016

Filed on February 20, 2018

## TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION .....	1
COMPANY HISTORY: .....	2
Capitalization .....	2
MANAGEMENT AND CONTROL:.....	3
Management Agreements.....	4
TERRITORY AND PLAN OF OPERATION.....	6
REINSURANCE: .....	7
Assumed.....	7
Ceded .....	7
FINANCIAL STATEMENTS: .....	8
Statement of Financial Condition as of December 31, 2016.....	9
Underwriting and Investment Exhibit for the Year Ended December 31, 2016 .....	10
Reconciliation of Surplus as Regards Policyholders from December 31, 2011 through December 31, 2016.....	11
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	12
Losses and Loss Adjustment Expenses .....	12
SUBSEQUENT EVENTS .....	12
SUMMARY OF COMMENTS AND RECOMMENDATIONS: .....	12
Previous Report of Examination .....	12
ACKNOWLEDGMENT .....	13

Los Angeles, California  
December 29, 2017

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

WAWANESA GENERAL INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 9050 Friars Road, San Diego, California 92108.

SCOPE OF EXAMINATION

We have performed a multi-state examination of the Company. The previous examination of the Company was as of December 31, 2011. This examination covered the period from January 1, 2012 through December 31, 2016.

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.

### COMPANY HISTORY

In 2013, The Wawanesa Mutual Insurance Company (TWMIC), the parent company, contributed \$259,394 in cash to the Company.

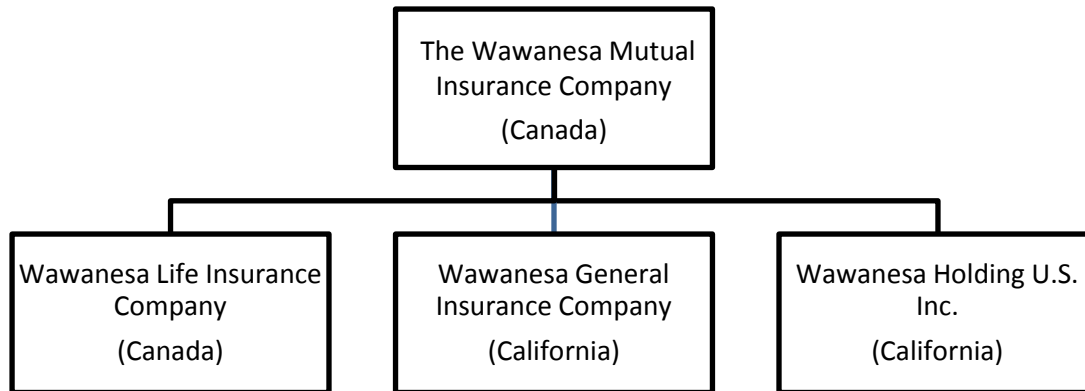
In December 2016, TWMIC contributed \$50 million cash in capital to the Company as part of the Capital and Maintenance Agreement, as discussed in the "Management Agreements" section of this report.

### Capitalization

The Company is authorized to issue 10,000 shares of common stock with a par value of \$1,000 per share. As of December 31, 2016, there were 2,600 shares outstanding.

## MANAGEMENT AND CONTROL

The Company is wholly-owned by The Wawanesa Mutual Insurance Company (TWMIC). The following abridged organizational chart depicts the Company relationship within the holding company system as of December 31, 2016. All ownership is 100%.



Management of the Company is vested in a ten-member board of directors elected annually. Following are members of the board and principal officers of the Company serving at December 31, 2016:

### Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Elizabeth Jane Beale Nova Scotia, Canada	Retired
Catherine May Best Alberta, Canada	Retired
Richard Ramsay Bracken Manitoba, Canada	Chairman and Director Royal Canadian Securities Limited
Shannon Jeffrey Goy Manitoba, Canada	President and Chief Executive Officer The Wawanesa Group of Companies

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Bruce W.J. Jack Manitoba, Canada	President and Director BWJ Jack Chartered Accountant Ltd.
Robert Orville Landry Ontario, Canada	Retired
Nicholas Robert Logan Manitoba, Canada	President and Director Logan Point Investment, Inc.
Kenneth Leslie Matchett Manitoba, Canada	Retired
Alexander Scott Penman Manitoba, Manitoba	Retired
David Gerhard Unruh British Columbia, Canada	Retired

#### Principal Officers

<u>Name</u>	<u>Title</u>
Shannon Jeffrey Goy	President and Chief Executive Officer
Evan Todd Johnston	Senior Vice President, Chief Legal Officer, and Corporate Secretary
Cameron Robert Loeppky	Vice President, U.S Operations
Cara Mae Low	Vice President, Corporate Actuarial and Appointed Actuary
Gary John Timlick	Vice President of Finance and Treasurer
Larry Edward Smith	Chief Financial Officer

#### Management Agreements

Services and Cost Allocation Agreement: The Company is party to a Services and Cost Allocation Agreement, effective June 30, 2011, with its parent, TWMIC. TWMIC provides the following services to the Company: actuarial and related service, information technology, computer and communication service, and additional services. TWMIC is reimbursed based on actual cost paid and accrued based on appropriate time allocations, activity count expense sharing, or other appropriate methods of allocation. For 2012, 2013, 2014, 2015, and 2016, the Company paid \$6,883,366, \$7,712,058,

\$8,380,335, \$9,390,585, and \$12,268,634, respectively, in fees to TWMIC under the terms of this agreement. The California Department of Insurance (CDI) approved this agreement on June 30, 2011.

Office Lease Agreement: The Company was party to an Office Lease Agreement, effective July 1, 2011, with Wawanesa Holdings U.S. Inc., (Wawanesa Holdings), an affiliate. Monthly rent was calculated by basic monthly rent of \$1.74 per rentable square foot. For 2012, 2013, and 2014, the Company paid \$1,695,425, \$1,777,351, and \$1,824,453, respectively, to Wawanesa Holdings under the terms of this agreement. The CDI approved the agreement on June 30, 2011.

This lease agreement was renewed for a 3-year period beginning July 1, 2014 through June 30, 2017 and again for a 5-year period beginning August 1, 2017 through July 31, 2022. Monthly rent is calculated by basic monthly rent of \$1.94 per rentable square foot for the first year (August 1, 2017 to July 31, 2018). The remaining four years of the lease agreement will reflect annual increases effective each August 1. For 2015 and 2016, the Company paid \$1,847,793, and \$2,073,788, respectively, to Wawanesa Holdings under the terms of the agreement. The CDI approved this agreement on July 31, 2017.

Services and Cost Sharing Agreement: The Company is party to a Services Cost Sharing Agreement with Wawanesa Holdings, an affiliate, effective May 15, 2017. The Company provides the following services to Wawanesa Holdings: legal services, financial and accounting services, information technology services and support, property and facilities management services, and other additional services as may be needed from time to time. The Company is reimbursed based on actual cost paid and accrued based on appropriate time studies, activity count expense sharing, or other appropriate method of allocation. The agreement was approved by CDI on May 10, 2017.

Capital Maintenance Agreement: The Company is party to a Capital Maintenance Agreement, effective January 1, 2007, with its parent, TWMIC, and amended on September 7, 2010. Under the terms of the agreement, TWMIC agrees to contribute additional capital to the Company, if at any time the Company's total capital as shown on any regulatory quarterly or annual statement is less than 50% of the Company's net premiums written. Additional contributions are limited to a maximum of \$50 million within any 12-month period. Additional capital shall be received by the Company within sixty days of the Company's quarterly or annual statutory reporting deadline.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Company was licensed to transact multiple lines of property and casualty insurance in California and Oregon. The Company is a direct writer of private passenger automobile liability and physical damage coverage, insuring preferred risks. The Company also offers preferred homeowners and condominium insurance, including earthquake coverage. From commencement of business in 1997, all policies were issued for a 12-month term. Beginning with all new and renewal business with an effective date of October 1, 2016 and after, California automobile policies were issued with a 6-month term. Similarly, beginning with all new and renewal business with an effective date of April 1, 2017 and after, all Oregon automobile policies will also be issued with a 6-month term. All homeowner policies continue to be issued as 12-month policies.

In October, 2012, the Company added renters insurance as a new property product in California. Since then much of the Company's property policy-in-force growth has been in renters insurance.

Effective July 1, 2016, the Company began offering new coverages for two of its property products – homes and condominiums: Home System Protection and Service Line Coverage. These new coverages are 100% ceded to Hartford Steam Boiler.



In 2016, direct premiums written were \$362.4 million of which 98% were written in California and 2% in Oregon. The lines of business written were private passenger automobile liability (53.1%), automobile physical damage (38.0%), homeowners multiple peril (8.1%), earthquake (0.8%) and the remainder (less than 1%) in fire and allied lines, which are a part of Fair Plan writings.

REINSURANCE

Assumed

The Company does not assume any reinsurance.

Ceded

The Company is covered under its parent’s, The Wawanesa Mutual Insurance Company, reinsurance program including a catastrophe excess of loss contract, aggregate excess of loss contract, and a casualty excess of loss contract. The business covered under the parent’s program includes personal, commercial property, and automobile physical damage. The following is a summary of the reinsurance program in-force as of December 31, 2016.

Layer	Reinsurance Limit
<u>Two Layer Catastrophe Excess of Loss</u>	
1 <sup>st</sup> Catastrophe Cover	100% of \$50 million excess of \$50 million
2 <sup>nd</sup> Catastrophe Cover	100% of \$50 million excess of \$100 million
<u>Catastrophe Drop Down (Second Event Cover)</u>	
Drop Down 2 <sup>nd</sup> Event Coverage	100% of \$25 million excess of \$25 million

One Layer Aggregate  
Excess of Loss

First Aggregate 100% of \$75 million excess aggregate  
deductible of \$100 million

Casualty Excess of Loss

First Excess 100% of \$15 million excess a deductible of \$5  
million

Note: The above limits are in Canadian dollars.

The reinsurance program utilizes the services of Guy Carpenter & Company, Inc., as a reinsurance intermediary. The above program is primarily reinsured with Underwriters at Lloyd's of London. Lloyd's of London has approximately one-third of the program, spread between 38 syndicates. There are approximately another 30 reinsurance companies from around the globe participating in the program.

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, 2016. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2016

Underwriting and Investment Exhibit for the Year Ended December 31, 2016

Reconciliation of Surplus as Regards Policyholders from December 31, 2011  
through December 31, 2016

Statement of Financial Condition  
as of December 31, 2016

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 515,678,870	\$	\$ 515,678,870	
Cash and short-term investments	23,645,793		23,645,793	
Receivable for securities	93		93	
Investment income due and accrued	3,516,046		3,516,046	
Premiums and agents' balances in course of collection	11,266,026	381,614	10,884,412	
Premiums, agents' balances and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums)	51,162,932		51,162,932	
Amount recoverable from reinsurers	16,429		16,429	
Current federal and foreign income tax recoverable and interest thereon	4,866,527		4,866,527	
Electronic data processing equipment and software	625,997		625,997	
Furniture and equipment	1,226,519	1,226,519	0	
Receivables from parent, subsidiaries and affiliates	120,847		120,847	
Aggregate write-ins for other than invested assets	<u>1,556,353</u>	<u>1,445,700</u>	<u>110,653</u>	
 Total assets	 <u>\$ 613,682,432</u>	 <u>\$ 3,053,833</u>	 <u>\$ 610,628,599</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 140,944,400	(1)
Loss adjustment expenses			33,155,942	(1)
Other expenses			13,846,210	
Taxes, licenses and fees			40,945	
Unearned premiums			157,120,958	
Advance premiums			2,504,011	
Ceded reinsurance premiums payable			1,237,814	
Draft outstanding			21,444,450	
Payable to parent, subsidiaries and affiliates			2,875,456	
Aggregate write-ins for liabilities			<u>55,370</u>	
 Total liabilities			 373,225,556	
Common capital stock		\$ 2,600,000		
Gross paid-in and contributed surplus		268,366,173		
Unassigned funds (surplus)		<u>(33,563,130)</u>		
Surplus as regards policyholders			<u>237,403,043</u>	
 Total liabilities, surplus and other funds			 <u>\$ 610,628,599</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2016

Statement of Income

Underwriting Income

Premiums earned		\$ 383,854,827
Deductions:		
Losses and loss expenses incurred	\$ 363,671,584	
Other underwriting expenses incurred	<u>47,188,614</u>	
Total underwriting deductions		<u>410,860,198</u>
Net underwriting loss		(27,005,371)

Investment Income

Net investment income earned	\$ 14,232,689	
Net realized capital gain	<u>2,090,751</u>	
Net investment gain		16,323,440

Other Income

Finance and service charges	\$ 3,932,394	
Aggregate write-ins for miscellaneous income	<u>595</u>	
Total other income		<u>3,932,989</u>
Net loss		<u>\$ (6,748,942)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2015		\$ 195,539,323
Net loss	\$ (6,748,942)	
Change in net unrealized capital gains	105,237	
Change in net deferred income tax	54,213	
Change in nonadmitted assets	(1,546,788)	
Surplus adjustments:		
Paid-in	<u>50,000,000</u>	
Change in surplus as regards policyholders for the year		<u>41,863,720</u>
Surplus as regards policyholders, December 31, 2016		<u>\$ 237,403,043</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2011 through December 31, 2016

Surplus as regards policyholders, December 31, 2011			\$ 227,968,429
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net losses	\$	\$	23,458,220
Net unrealized capital gains	288,553		
Change in net deferred income tax		16,057,496	
Change in nonadmitted assets		1,597,617	
Surplus adjustments: Paid-in	<u>50,259,394</u>		
Total gains and losses	<u>\$ 50,547,947</u>	<u>\$ 41,113,333</u>	
Net increase in surplus as regards policyholders			<u>9,434,614</u>
Surplus as regards policyholders, December 31, 2016			<u>\$ 237,403,043</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2016 were found to be reasonably stated and have been accepted for purposes of this examination.

## SUBSEQUENT EVENTS

Effective August 31, 2017, Christopher Michael Henn was appointed President of U.S. Operations of the Company.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

None.

### Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

/S/

Cuauhtémoc Beltran, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California

/S/

Grace Asuncion, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California