

REPORT OF EXAMINATION  
OF THE  
MONTEREY INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2019

Filed on February 22, 2021

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Oakland, California  
January 25, 2021

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

MONTEREY INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office is located at 2300 Garden Road, Monterey, California 93940.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2015. This examination covered the period of January 1, 2016 through December 31, 2019.

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. The examination also included identifying and evaluating significant risks that could cause the Company'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 an adjustment was identified during the course of the

examination, the impact of such adjustment would 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 whereby Michigan is the lead state for the Auto-Owners Group (AO Group). The California Department of Insurance is the facilitating state for the Capital Insurance Group subgroup of this coordinated examination. The subgroup examination was performed concurrently with the examination of AO Group. The companies in the subgroup consisted of the Company, California Capital Insurance Company, Eagle West Insurance Company, and Nevada Capital Insurance Company. The Nevada Department of Business and Industry, Division of Insurance participated on this subgroup examination.

## COMPANY HISTORY

### Acquisition

Effective May 22, 2019, CIG Holding Company, Inc. (CIG Holding) and all of its insurance subsidiaries were acquired by Auto-Owners Insurance Company (Auto-Owners). After the acquisition, the Company, California Capital Insurance Company (CCIC), Eagle West Insurance Company (EWIC), and Nevada Capital Insurance Company (NCIC) became wholly-owned indirect subsidiaries of Auto-Owners. Pursuant to California Insurance Code Section 1215.2, the California Department of Insurance consented to the acquisition on May 6, 2019.

## Capitalization

The Company is authorized to issue 1,000,000 shares of common stock with a par value of \$116 per share. As of December 31, 2019, there were 26,000 shares issued and outstanding.

The Company received capital contributions in the amount of \$14,000,000 in 2019 from its parent, CCIC. The contributions were recorded as gross paid-in and contributed surplus on the balance sheet.

## MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Auto-Owners Insurance Company (Auto-Owners) is the ultimate controlling entity. The following chart depicts the inter-relationship of the insurers within the holding company system as of December 31, 2019 (all ownership is 100% unless otherwise indicated):

- Auto-Owners Insurance Company (Michigan)
  - Auto-Owners Life Insurance Company (Michigan)
  - Home-Owners Insurance Company (Michigan)
  - Southern-Owners Insurance Company (Michigan)
  - Property-Owners Insurance Company (Indiana)
  - Owners Insurance Company (Ohio)
  - Auto-Owners Specialty Insurance Company (Delaware)
  - Atlantic Casualty Insurance Company (North Carolina)
  - CIG Holding Company, Inc. (Delaware)
    - California Capital Insurance Company (California)
      - Eagle West Insurance Company (California)
      - Monterey Insurance Company (California)**
      - Nevada Capital Insurance Company (Nevada)
    - Concord General Mutual Insurance Company (New Hampshire)<sup>(a)</sup>
      - Green Mountain Insurance Company (Vermont)
      - Vermont Accident Insurance Company, Inc. (Vermont)
      - State Mutual Insurance Company (Maine)
      - Sunapee Mutual Fire Insurance Company (New Hampshire)
      - Bow Mutual Fire Insurance Company (New Hampshire)
      - Weare Mutual Fire Insurance Company (New Hampshire)

*(a) Concord General Mutual Insurance Company and its subsidiaries are affiliated with Auto-Owners Insurance Company through an affiliate board of directors only.*

A six-member board of directors, elected manually, oversees the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2019:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Lindsay A. Chatterton <sup>(a)</sup> Monterey, California	President and Chief Executive Officer California Capital Insurance Company
Andrew J. Doll Pacific Grove, California	Treasurer and Chief Financial Officer California Capital Insurance Company
Carolyn D. Muller <sup>(b)</sup> DeWitt, Michigan	Executive Vice President Auto-Owners Insurance Company
Jeffrey S. Tagsold DeWitt, Michigan	Chief Executive Officer Auto-Owners Insurance Company
Daniel J. Thelen <sup>(c)</sup> DeWitt, Michigan	President Auto-Owners Insurance Company
William F. Woodbury DeWitt, Michigan	General Counsel Auto-Owners Insurance Company

The following changes in directors occurred subsequent to the examination date:

*(a) Effective December 31, 2020, Lindsay A. Chatterton retired, and Brandi E. Holly was elected to the board of directors.*

*(b) Effective January 1, 2020, Carolyn B. Muller retired and William D. Pike was appointed to fill the vacancy.*

*(c) Daniel J. Thelen will retire from the board of directors effective February 1, 2021.*

## Principal Officers

<u>Name</u>	<u>Title</u>
Lindsay A. Chatterton <sup>(a)</sup>	President and Chief Executive Officer
William F. Woodbury	Secretary
Andrew J. Doll <sup>(b)</sup>	Treasurer and Vice President
Robert R. Zic <sup>(c)</sup>	Controller

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

- (a) Effective December 31, 2020, Lindsay A. Chatterton retired from the Company.*
- (b) On January 1, 2020, Andrew J. Doll was appointed as Senior Vice President and Chief Operating Officer. Effective January 1, 2021, Andrew J. Doll replaced Lindsay A. Chatterton as President and Chief Executive Officer. The Senior Vice President and Chief Operating Officer position has not been filled.*
- (c) Effective January 1, 2020, Robert R. Zic was appointed as Chief Financial Officer and Treasurer.*

## Management Agreements

Management Agreement: Effective January 1, 2002, the Company entered into a Management Agreement (Agreement) with its parent, California Capital Insurance Company (CCIC). The Agreement was amended to include a settlement provision effective January 1, 2020 and was approved by the California Department of Insurance (CDI) on December 3, 2009 pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). Under the terms of the Agreement, CCIC provides sales, reinsurance, underwriting, premium billing and collection, data processing, claims and policy payments, investment, personnel, and other general administrative services based on actual cost of these services.

Auto-Owners Insurance Group Amended and Restated Agreement for Allocation of Consolidated Federal Income Tax Liability: The Company was added to the Amended and Restated Agreement for Allocation of Consolidated Federal Income Tax Liability (Agreement) with Auto-Owners Insurance Company (Auto-Owners). The previous tax sharing agreement among the Company, CCIC, Eagle West Insurance Company (EWIC), and Nevada Capital Insurance Company (NCIC) was terminated. Under the terms of the Agreement, Auto-Owners files a consolidated federal income tax return on behalf of each

affiliate. The tax liability of each participant is calculated on a separate income tax return basis. The Agreement was filed with the CDI for approval pursuant to CIC Section 1215.5(b)(4). The CDI issued a non-disapproval on May 24, 2019.

Agreement for Administrative Services: Effective May 22, 2019, the Company, CCIC, EWIC, NCIC, and Auto-Owners entered into an Agreement for Administrative Services (Agreement). Pursuant to CIC Section 1215.5(b)(4), the CDI issued a non-disapproval letter on May 24, 2019. According to the Agreement, Auto-Owners makes administrative and other management services available to each affiliate sufficient to carry on the normal business functions. All funds and invested assets of each affiliate are its exclusive property, are held for the benefit of the affiliate, and are subject to the control of the affiliate. Auto-Owners is reimbursed for any expenses identified as directly incurred for its services provided on behalf of the affiliate. The services shall consist of general operating services, which are charged to each affiliate based on its pro-rata share of various cost center expenses, and in accordance with Statement of Statutory Accounting Principles No. 25. The pro-rata share is generally determined based on the total premium writings of each affiliate and its relationship to the total premium writings of all affiliates of Auto-Owners Group of companies. General operating expenses shall be limited to actual cost without a profit factor build into cost.

Effective May 22, 2020, Article II, Cost of Administrative Services Methodology, of the Agreement was amended to allocate the general expenses by resource allocation spent by Auto-Owners, contract value, or time spent by Auto-Owners' employees who provide the services. The amended Agreement was approved by the CDI on May 21, 2020.

#### TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was licensed to property and casualty insurance business in Arizona, California, Idaho, Montana, New Mexico, Oregon, and Washington. The Company was also eligible to write surplus lines business in Nevada.

During 2019, the Company reported total direct premiums written of \$14.0 million. Direct premiums written by state were as follows: California (84.0%), Washington (10.9%),

Oregon (5.0%), and Arizona (0.1%). The Company's primary lines of business written were commercial multiple peril (88.9%), other liability occurrence (6.2%), and boiler and machinery (2.2%). The remaining 2.7% is comprised of fire, allied lines, farmowners multiple peril, inland marine, earthquake, other liability claims-made, commercial auto liability, auto physical damage, and burglary and theft.

The Company operates on a joint basis with its parent, California Capital Insurance Company (CCIC) and its two affiliates, Eagle West Insurance Company (EWIC) and Nevada Capital Insurance Company (NCIC), pursuant to an intercompany reinsurance pooling agreement with each company using a different marketing approach. The Company writes direct commercial multiple peril business at deviated rates, while CCIC and EWIC write all standard lines of business on a preferred basis, and NCIC writes policies on an admitted basis in Nevada and on a surplus lines basis in Arizona, California, Oregon, and Washington.

Business is marketed directly and distributed through 455 independent agents. The Company has branch offices located in Bakersfield, Fresno, Roseville, and Westlake Village, California, Reno, Nevada, and Spokane, Washington.

## REINSURANCE

### Quota Share Pooling Agreement

Effective January 1, 2002, the Company, California Capital Insurance Company (CCIC), Eagle West Insurance Company (EWIC), and Nevada Capital Insurance Company (NCIC) (collectively referred to as Capital Insurance Group, or CIG) entered into a Quota Share Pooling Agreement (Agreement). The Agreement authorizes CCIC to collect and receive all premiums, to adjust and pay all losses and to reinsure or cancel all contracts and policies for the pool. Effective January 1, 2006, the pooling percentages were revised under Amendment 2 and approved by the California Department of Insurance (CDI) on September 17, 2007 pursuant to California Insurance Code (CIC) Section 1215.5(b)(3). CCIC is the pool leader, and the Company, MIC, and NCIC cede 100% of all premiums,

losses, loss adjustment expenses, and most underwriting expenses to CCIC, which then retrocedes a pro-rated amount to each company based on the following pooling percentages:

<u>Company</u>	<u>Participation</u>
California Capital Insurance Company	61%
Eagle West Insurance Company	16%
Monterey Insurance Company	11%
Nevada Capital Insurance Company	12%
Total	<u>100%</u>

### Assumed

The Company did not assume any business during the examination period other than the business assumed under the Quota Share Pooling Agreement described above.

### Ceded

The following is a summary of principal reinsurance agreements in effect as of December°31,°2019:

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Property Per Risk Excess of Loss Reinsurance	Property (per risk)	<u>Authorized:</u> Allied World Insurance Company (5%) Aspen Insurance UK Limited (5%) Axis Reinsurance Company (10%) Hannover Ruck SE (10%) Odyssey Reinsurance Company (7.5%) SCOR Reinsurance Company (14.5%) Transatlantic Reinsurance Company (2.5%) Lloyd's of London – Various (23%)  <u>Unauthorized</u> Fidelis Insurance Bermuda Limited (10%) General Reinsurance Company (2.5%) The New India Assurance Company Ltd. (5%)  <u>Certified:</u> Arch Reinsurance Ltd. (5%)	\$15 million ultimate net loss, one risk, each loss occurrence	\$35 million excess of \$15 million ultimate net loss each loss occurrence, up to \$70 million in aggregate

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Excess Per Occurrence Catastrophe Reinsurance  First Excess Layer	Property	<u>Authorized:</u> Auto-Owners Insurance Company (49.0%) Various reinsurers (8.5%)  <u>Unauthorized:</u> General Insurance Corporation of India (5%) Hannover Re (Bermuda) Ltd. (11%) Various reinsurers (16.5%)  <u>Certified:</u> Arch Reinsurance Ltd. (10%)	\$10 million ultimate net loss per occurrence	\$10 million excess of \$10 million ultimate net loss per occurrence, with \$20 million term limit
Second Excess Layer	Property	<u>Authorized:</u> Auto-Owners Insurance Company (13.25%) Odyssey Reinsurance Company (7.5%) Lloyd's of London – Various (16%) Various reinsurers (9.5%)  <u>Unauthorized:</u> General Insurance Corporation of India (5%) Hannover Re (Bermuda) Ltd. (15%) Various reinsurers (18.75%)  <u>Certified:</u> Arch Reinsurance Ltd. (15%)	\$20 million ultimate net loss per occurrence	\$40 million excess of \$20 million ultimate net loss per occurrence with \$80 million term limit
Third Excess Layer	Property	<u>Authorized:</u> Auto-Owners Insurance Company (10%) Lloyd's of London – Various (23%) Various reinsurers (20.9%)  <u>Unauthorized:</u> General Insurance Corporation of India (5%) Hannover Re (Bermuda) Ltd. (10%) Various reinsurers (19%)  <u>Certified:</u> Arch Reinsurance Ltd. (12.1%)	\$60 million ultimate net loss per occurrence	\$60 million excess of \$60 million ultimate net loss per occurrence with \$120 million term limit
Fourth Excess Layer	Property	<u>Authorized:</u> Auto-Owners Insurance Company (10%) Odyssey Reinsurance Company (7.5%) Lloyd's of London – Various (22%) Various reinsurers (13.4%)  <u>Unauthorized:</u> General Insurance Corporation of India (5%) Hannover Re (Bermuda) Ltd. (10%) Various reinsurers (20.5%)  <u>Certified:</u> Arch Reinsurance Ltd. (11.6%)	\$120 million ultimate net loss per occurrence	\$70 million excess of \$120 million ultimate net loss per occurrence with \$140 million term limit

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Fifth Excess Layer	Property	<u>Authorized:</u> Auto-Owners Insurance Company (10%) Munich Reinsurance America, Inc. (10%) Odyssey Reinsurance Company (7.5%) Lloyd's of London – Various (20.65%) Various reinsurers (10.85%)  <u>Unauthorized:</u> General Insurance Corporation of India (5%) Hannover Re (Bermuda) Ltd. (8.5%) Various reinsurers (15.5%)  <u>Certified:</u> Arch Reinsurance Ltd. (12%)	\$190 million ultimate net loss per occurrence	\$110 million excess of \$190 million ultimate net loss per occurrence with \$220 million term limit
Casualty Clash Excess of Loss Reinsurance	Casualty	<u>All Authorized:</u> Hannover Ruck SE (10%) Renaissance Reinsurance U.S. Inc. (15%) Lloyd's of London – Various (75%)	\$15 million ultimate net loss per event	\$10 million excess of \$15 million ultimate net loss per event
Cyber Liability and Breach Response Casualty Quota Share Reinsurance	Casualty	<u>Unauthorized:</u> Beazley syndicate 623 (18%) Beazley syndicate 2623 (82%)	None	None
Employment Practices Liability Reinsurance	Liability	<u>Authorized:</u> The Hartford Steam Boiler Inspection and Insurance Company (100%)	None	Not exceed \$250,000 each wrongful employment act, subject to annual aggregate limit in the Policy not to exceed \$250,000
100% Quota Share Reinsurance	Equipment Breakdown Coverage	<u>Authorized:</u> Factory Mutual Insurance Company (100%)	None	Homeowners: \$50,000 per occurrence on any one risk Commercial and Farmowners Multi-Peril: \$50 million on any one risk Service Line: \$10,000
Property Facultative Reinsurance	Property	<u>Authorized:</u> Arch Re Facultative, a division of Arch Reinsurance Company/Arch Reinsurance Company	\$50 million Net and Treaty	Up to \$100 million per location
Commercial Earthquake Quota Share Reinsurance	Property	<u>Authorized:</u> Palomar Specialty Insurance Company (100%)	None	None
Multiple Line Excess of Loss Reinsurance	Personal, Farm, and Commercial	<u>All Authorized:</u> Aspen Insurance UK Limited (10%) AXIS Reinsurance Company (5%) Hannover Ruck SE (25%)	\$2 million ultimate net loss, each	Coverage A (property): up to \$5 million excess of \$2 million

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
First Layer	Umbrella Liability	Partner Reinsurance Company of the U.S. (7.5%) Renaissance Reinsurance U.S. Inc. (10%) SCOR Reinsurance Company (32.5%) Transatlantic Reinsurance Company (10%)	risk, each occurrence	ultimate net loss, maximum \$10 million per occurrence  Coverage B (liability): up to \$5 million excess of \$2 million ultimate net loss per occurrence  Coverage C (property and liability): up to \$2 million ultimate net loss per occurrence
Second Layer	Personal, Farm, and Commercial Umbrella Liability	<u>All Authorized:</u> Arch Reinsurance Company (8%) Aspen Insurance UK Limited (5%) AXIS Reinsurance Company (5%) Hannover Ruck SE (25%) Odyssey Reinsurance Company (5%) Partner Reinsurance Company of the U.S.(7.5%) SCOR Reinsurance Company (32.5%) Transatlantic Reinsurance Company (12%)	\$7 million ultimate net loss, each risk, each occurrence	Coverage A (property): up to \$8 million excess of \$7 million ultimate net loss per occurrence  Coverage B (liability): up to \$8 million excess of \$7 million ultimate net loss per occurrence  Up to \$8 million excess for ultimate net loss arising from NBCR Terrorism

On July 1, 2019, Auto-Owners Insurance Company (Auto-Owners), CIG's ultimate parent, became a participating reinsurer on the CIG's Excess Per Occurrence Catastrophe Reinsurance treaty. When the treaty was renewed effective September 1, 2019, Auto-Owners' participation in each layer increased due to some reinsurers electing to not renew or to reduce their participation on the Excess Per Occurrence Catastrophe Reinsurance treaty. Auto-Owners' participation in the above reinsurance treaty was approved by the CDI on December 12, 2019 and on December 26, 2019 pursuant to CIC Section 1215.5(b)(3).

Effective September 1, 2019, CIG entered into a Reinsurance Agreement (Agreement) with Auto-Owners whereby CIG will participate in the Auto-Owners Group property catastrophe reinsurance program. The Auto-Owners Group property catastrophe reinsurance program consisted of a Four-Layer Property Catastrophe Excess of Loss reinsurance treaty covering losses of \$1.4 billion in excess of Auto-Owners \$200 million retention. Pursuant to CIC Section 1215.5(b)(3), the Agreement was authorized by the CDI on April 10, 2020.

Effective January 1, 2020, Auto-Owners started to provide property and liability per risk loss occurrence coverage to CIG, which was added to the Agreement for losses exceeding:

- a) \$2 million per risk in any one property loss occurrence
- b) \$2 million per risk in any one liability loss occurrence

This amendment further provides that within any calendar year, CIG retained losses exceeding the limit specified shall be limited to a maximum of five occurrences each under a and b. After the number of maximum occurrences has been reached, all future losses exceeding the maximums shall be 100% ceded to Auto-Owners. The CDI authorized the amendment pursuant to CIC Section 1215.8(b)(3) on April 10, 2020. As a result, the Casualty Clash Excess of Loss Reinsurance Contract, Property Per Risk Excess of Loss Reinsurance Contract, Property Facultative Reinsurance Contract, and Multiple Line Excess of Loss Reinsurance Contract ceded reinsurance that CIG had with external reinsurers were terminated on January 1, 2020.

Effective June 1, 2020, CIG's Excess Per Occurrence Catastrophe Reinsurance treaty was fully replaced by Auto-Owners Group property catastrophe reinsurance program which now consisted of a Five-Layer Property Catastrophe Excess of Loss Reinsurance treaty covering losses of \$1.6 billion in excess of Auto-Owners \$200 million retention. Under the terms of the Agreement, CIG retains \$10 million per property catastrophe loss occurrence with a maximum of two loss occurrences retained within any calendar year. All future losses exceeding the maximums shall be 100% ceded to Auto-Owners. The

Agreement was amended to reflect these changes and approved by the CDI pursuant to CIC Section 1215.5(b)(3) on July 30, 2020. As a result, the Excess Per Occurrence Catastrophe Reinsurance treaty was terminated on May 31, 2020.

Effective January 1, 2021, the Agreement was amended to increase the number of maximum occurrences of per risk property and liability losses within any calendar year from five to six. Pursuant to CIC Section 1215.5(b)(3), the CDI issued a non-disapproval letter to the amendment on November<sup>o</sup>12,<sup>o</sup>2020.

## FINANCIAL STATEMENTS

The following 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, 2019. The accompanying comments to the amounts in the financial statements 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, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2015  
through December 31, 2019

Statement of Financial Condition  
as of December 31, 2019

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 65,375,040	\$	\$ 65,375,040	
Cash and cash equivalent	5,647,471		5,647,471	
Investment income due and accrued	413,046		413,046	
Uncollected premiums and agents' balances in the course of collection	1,032,357	30,355	1,002,002	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,863,927		5,863,927	
Amount recoverable from reinsurers	2,937,193		2,937,193	
Current federal and foreign income tax recoverable and interest thereon	464,086		464,086	
Net deferred tax asset	4,868,082	2,935,628	1,932,454	
Receivable from parent, subsidiaries and affiliates	4,681,262		4,681,262	
Aggregate write-ins for other than invested assets	411,878	262,444	149,434	
Total assets	<u>\$ 91,694,342</u>	<u>\$ 3,228,427</u>	<u>\$ 88,465,914</u>	

Liabilities, Surplus, and Other Funds

				<u>Notes</u>
Losses			\$ 31,807,101	(1)
Reinsurance payable on paid losses and loss adjustment expenses			0	
Loss adjustment expenses			9,839,007	(1)
Commissions payable, contingent commissions and other similar charges			816,586	
Other expenses			645,034	
Taxes, licenses and fees			184,759	
Net deferred tax liability			130,971	
Unearned premiums			21,202,486	
Advance premiums			180,090	
Ceded reinsurance premiums payable			293,847	
Drafts outstanding			41,296	
Payable for securities			581,597	
Aggregate write-ins for liabilities			<u>(794,293)</u>	
Total liabilities			64,928,483	
Aggregate write-ins for special surplus funds		\$ (163,447)		
Common capital stock		3,016,000		
Gross paid-in and contributed surplus		14,024,180		
Unassigned funds (surplus)		<u>6,660,698</u>		
Surplus as regards policyholders			<u>23,537,431</u>	
Total liabilities, surplus, and other funds			<u>\$ 88,465,914</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2019

State of Income

Underwriting Income

Premiums earned		\$ 42,099,442
Deductions:		
Losses incurred	\$ 28,661,002	
Loss expenses incurred	4,661,666	
Other underwriting expenses incurred	<u>13,678,511</u>	
Total underwriting deductions		<u>47,001,179</u>
Net underwriting loss		(4,901,737)

Investment Income

Net investment income earned	\$ 1,809,814	
Net realized capital gains	<u>333,112</u>	
Net investment gain		2,142,926

Other income

Net loss from agents' or premium balances charged off	(26,511)	
Finance and service charges not included in premiums	235,028	
Aggregate write-ins for miscellaneous income	(201,111)	
Total other income		<u>7,407</u>
Net loss after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		(2,751,405)
Federal and foreign income taxes incurred		<u>(482,264)</u>
Net loss		<u>\$ (2,269,141)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		\$ 12,346,022
Net loss	\$ (2,269,141)	
Change in unrealized capital gains	23,083	
Change in net deferred income tax	(1,388,939)	
Change in nonadmitted assets	826,406	
Surplus adjustment: Paid-in	<u>14,000,000</u>	
Change in surplus as regards policyholders for the year		<u>11,191,409</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 23,537,431</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2015 through December 31, 2019

Surplus as regards policyholders, December 31, 2015			\$ 34,057,329
	Gain in Surplus	Loss in Surplus	
Net loss	\$	\$ 24,164,359	
Change in unrealized capital gains		2,744	
Change in net deferred income tax	1,619,822		
Change in nonadmitted assets		1,972,617	
Surplus adjustment: Paid-in	14,000,000		
Total gains and losses	\$ 16,477,475	\$ 36,722,519	
Net decrease in surplus as regards policyholders			<u>(10,519,898)</u>
Surplus as regards policyholders, December 31, 2019			<u>\$ 23,537,431</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

A Senior Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2019 prepared by the Company's independent actuary and concurred with the actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2019 were reasonable and have been accepted for purposes of this examination.

### SUBSEQUENT EVENTS

During 2020, a series of deadly and destructive wildfires occurred in California, Oregon, and Washington. Capital Insurance Group (CIG) reported gross incurred loss from those wildfires of approximately \$21.0 million and net loss of \$18.5 million as of December 31, 2020.

The coronavirus disease 2019 (COVID-19) global pandemic has triggered unprecedented government mandates and health and safety measures, which have significantly impacted the global economy and financial markets. However, CIG reported minimal business and financial impact as a result of COVID-19 as of December 31, 2020. As of the date of this report, significant uncertainty remains regarding the effect that the pandemic will have on the insurance industry and the global economy at large. °

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

None.

### Previous Report of Examination

None.

ACKNOWLEDGMENT

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

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_

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

\_\_\_\_\_/S/\_\_\_\_\_

Li Lim, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California