REPORT OF EXAMINATION

OF THE

FINANCIAL PACIFIC INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

Filed on May 7th, 2020

TABLE OF CONTENTS

Los Angeles, California
April 24, 2020

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FINANCIAL PACIFIC INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 118 Second Avenue SE, Cedar Rapids, Iowa 52401. The Company's statutory home office is located at 3880 Atherton Road, Rocklin, California 95765.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2013. This examination covered the period from January 1, 2014 through December 31, 2018.

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 an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This was a coordinated examination with Iowa as the lead state of the United Fire Group. It was conducted concurrently with other insurance entities in the holding company group. The following states participated in the examination: California, Louisiana, New Jersey, Pennsylvania, and Texas.

COMPANY HISTORY

On June 29, 2015, Financial Pacific Insurance Group (FPIG) transferred 100% of its ownership interest in the Company to United Fire & Casualty Company (UFC) through a dividend for the purpose of simplifying the ownership structure. Subsequently, on August 13, 2015, FPIG was dissolved.

Capitalization

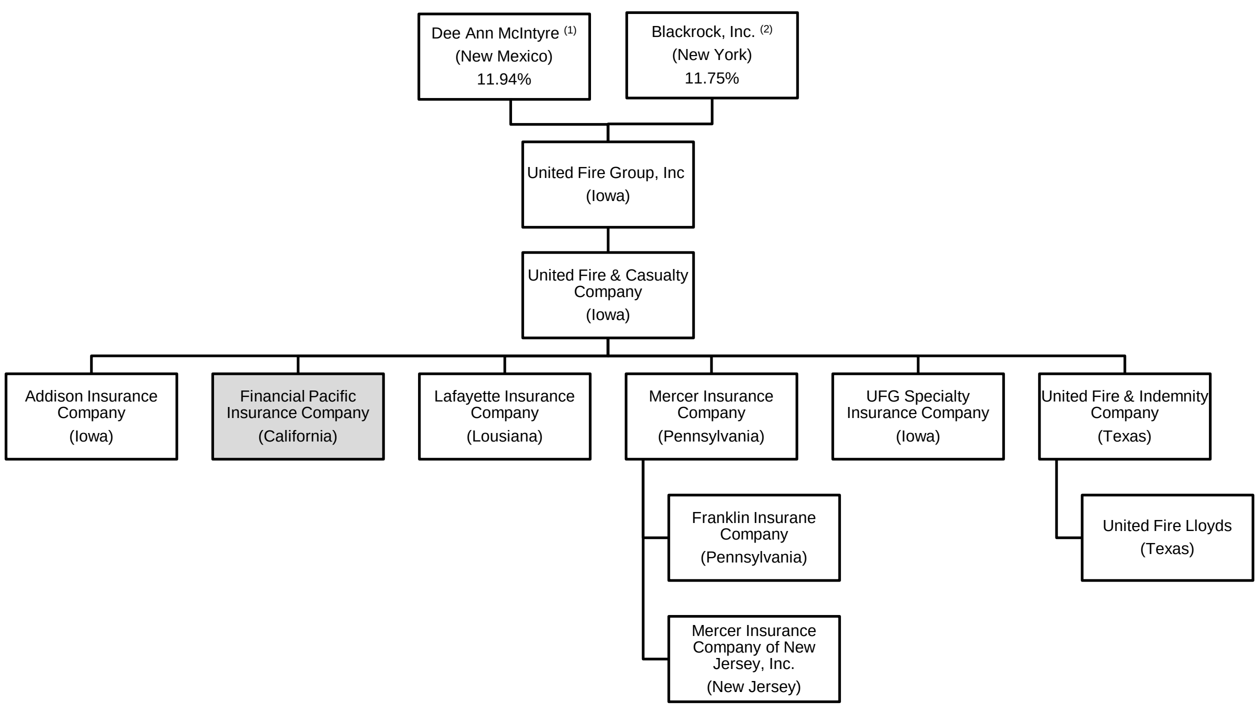
The Company is authorized to issue 242,000 shares of common stock with a par value of $650 per share. As of December 31, 2018, paid-in capital of $31.5 million is comprised of 4,620 shares of common stock at a par value of $650 per share, and $28.5 million of contributed surplus.

Dividends

The Company paid ordinary cash dividends of $12 million in 2016 to its parent, UFC.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. Following is an abridged organizational chart that depicts the interrelationships of the Company with its affiliated entities within the holding company system: (All ownership is 100% unless otherwise noted)



(1) On September 12, 2014, the California Department of Insurance approved the disclaimer of affiliation by Ms. McIntyre.

(2) BlackRock, Inc. has filed disclaimers of control with all six state insurance departments where United Fire Group has an insurance company domiciled.

The five members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2018:

Directors

Name and Location	Principal Business Affiliation
Jack B. Evans Cedar Rapids, Iowa	Chairman of the Board Retired
John R. Hollingshead [(a)] Roseville, California	Vice President and Staff Counsel United Fire & Casualty Company
Dawn M. Jaffray Solon, Iowa	Senior Vice President and Chief Financial Officer United Fire & Casualty Company
Randy A. Ramlo Cedar Rapids, Iowa	President and Chief Executive Officer United Fire & Casualty Company
Michael T. Wilkins Mount Vernon, Iowa	Executive Vice President and Chief Operating Officer United Fire & Casualty Company

Principal Officers

Name	Title
Randy A. Ramlo	President and Chief Executive Officer
Michael T. Wilkins	Executive Vice President and Chief Operating Officer
Dawn M. Jaffray [(b)]	Senior Vice President and Chief Financial Officer
Neal R. Scharmer	Vice President and Secretary
John R. Hollingshead	Vice President
Dennis J. Richmann	Vice President
Janice A. Martin	Treasurer

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

[(a)] On July 11, 2019, John R. Hollingshead died unexpectedly and was replaced by

Mr. Neal R. Schamer as one of the board of directors.

[b] On May 15, 2019, Dawn M. Jaffray was promoted to Executive Vice President.

Management Agreements

Second Amended and Restated Intercompany Investment Apportionment Agreement: Effective March 31, 2018, the Company entered into a Second Amended and Restated Intercompany Investment Apportionment Agreement (Agreement) with United Fire & Casualty Company (UFC) and its subsidiaries and affiliates. Under the terms of the Agreement, UFC provides investment-related services to the other parties in the Agreement. Each party to the Agreement will pay a proportionate share of the projected investment expenses incurred by the Investment Department of UFC on a monthly basis. In return, UFC will charge each party a proportionate share of investment expenses based on the sum of the par value of its bonds and market value of its non-affiliated stocks in relation to the sum of the aggregate par value of all bonds and aggregate market value of all non-affiliated stocks of all the parties. The settlement of intercompany balances owed is due within 30 days of receipt. This Agreement was approved by the California Department of Insurance (CDI) on February 5, 2018. The amounts paid by the Company for 2014, 2015, 2016, 2017, and 2018 were $149,160, $168,504, $186,193, $159,888, and $244,774, respectively.

First Amended and Restated Agents' Balances Payment and Reimbursement Agreement: Effective November 1, 2013, the Company entered into a First Amended and Restated Agents' Balances Payment and Reimbursement Agreement (Agreement) with UFC and its subsidiaries and affiliates. UFC makes all payments to, and receives all payments from appointed agents and insureds on behalf of the parties to this Agreement. Settlements of the balances are due within 30 days following the end of each month. All non-admitted amounts and amounts collected, which are considered “unallocated remittances,” are recorded on UFC's books. This Agreement was approved by the CDI on August 29, 2012. The amounts paid by the Company for 2014, 2015, 2016, 2017, and 2018 were $80,051,948, $82,828,732, $84,544,811, $85,032,767, and $90,071,169, respectively.

Third Amended and Restated Federal Income Tax Allocation Agreement: Effective March 31, 2018, the Company entered into a Third Amended and Restated Federal Income Tax Allocation Agreement (Agreement) with United Fire Group, Inc. (UFG) and its subsidiaries and affiliates. Under the terms of the Agreement, each party will pay UFG the amount of regular income tax it would pay the Internal Revenue Services as if filing separately. Each party's regular income tax liability shall not be greater nor less than the regular income tax liability would be if they had filed a separate tax return for all years in the consolidated period. This Agreement was approved by the CDI on January 26, 2018. The amounts paid by the Company under this Agreement for 2014, 2015, 2016, 2017, and 2018 were $988,628, $4,289,610, $1,175,021, $466,849, and $738,318, respectively.

Third Amended and Restated Credit Agreement (UFC as borrower): Effective March 31, 2018, the Company entered into a Third Amended and Restated Credit Agreement (Agreement) with UFC and various subsidiaries and affiliates. UFC, the borrower, may borrow from its subsidiaries and affiliates up to an aggregate maximum of $50 million, subject to the limitation of not more than 10% of the surplus of the respective subsidiary/affiliate. The settlement of all minimum principal payments, interest, fees, or other liabilities due within 30 days from the end of the month in which they are incurred. This Agreement was approved by the CDI on February 6, 2018. There was no activity for the period under examination.

Third Amended and Restated Credit Agreement (UFC as lender): Effective March 31, 2018, the Company entered into a Third Amended and Restated Credit Agreement (Agreement) with UFC and various subsidiaries and affiliates. UFC, the lender, may make advances to its subsidiaries and affiliates up to an aggregate maximum of $5 million per subsidiary/affiliate on a short term basis and at prevailing interest rate. The settlement of all minimum principal payments, interest, fees, or other liabilities due within 30 days from the end of the month in which they are incurred. This Agreement was approved by the CDI on February 6, 2018. There was no activity for the period under examination.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write property and casualty insurance business in the following states:

Alaska	Iowa	North Dakota
Arizona	Kansas	Oklahoma
Arkansas	Minnesota	Oregon
California	Missouri	South Dakota
Colorado	Montana	Texas
Florida	Nebraska	Utah
Idaho	Nevada	Washington
Illinois	New Mexico	Wisconsin

Direct premiums written during 2018 were $104.4 million, of which California accounted for the majority at 83.6% or $87.3 million, followed by Nevada at 16.1% or $16.8 million, and Oregon at 0.2% or $0.2 million. The Company provides commercial property and casualty insurance products primarily to small and medium-sized businesses. The Company is part of the pooled group of United Fire Group, Inc., represented by 1,100 independent agents nationwide. The Company's product line includes contractors as well as light industrial and commercial property owners.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

Second Amended and Restated Reinsurance Pooling Agreement: Effective July 1, 2015, the Company entered into a Second Amended and Restated Reinsurance Pooling Agreement (Agreement) with United Fire & Casualty Company (UFC) and its subsidiaries and affiliates. Under the terms of this Agreement, UFC assumes 100% of the subsidiaries and affiliates' direct and assumed premiums, losses, loss adjustment expenses, and other underwriting expenses; and then retrocedes the same business to the subsidiaries and affiliates. There were various non-significant amendments made to the Agreement.

The following table illustrates each participant's share as of December 31, 2018:

Company	State of Domicile	Pooling Share
United Fire & Casualty Company	IA	64%
Mercer Insurance Company	PA	9%
Financial Pacific Insurance Company	CA	8%
Lafayette Insurance Company	LA	7%
Addison Insurance Company	IA	4%
Mercer Insurance Company of New Jersey, Inc.	NJ	3%
United Fire & Indemnity Company	TX	2%
Franklin Insurance Company	PA	1%
UFG Specialty Insurance Company	IA	1%
United Fire Lloyds	TX	1%
Pool Total		100%

The Company's intercompany pooling agreement stipulates that balances are to be settled on a quarterly basis within 90 days of the quarter-end.

Assumed

The Company did not assume reinsurance during the examination period other than from the Intercompany Reinsurance Pooling Agreement discussed above.

Ceded

The Company is a participant in the following United Fire Group reinsurance program as of December 31, 2018 (all reinsurers are either certified or authorized in California):

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
<u>Property Catastrophe, Excess, with One Reinstatement</u>	Lloyd's (UK) QBE Re (US) R+V (Germany) Renaissance Re (US) XL Bermuda Ltd. (Bermuda)	$20,000,000	100% of $230,000,000
<u>Multiple Line Excess of Loss (First Layer)</u>			
Property	31.25% Hanover Ruck SE 20.00% SCOR Re 16.25% Transatlantic Re 12.50% Partner Re US 10.00% QBE Re 10.00% Toa Re US	$2,500,000 each and every risk, each and every loss	$2,500,000 every risk, each and every loss; subject to an occurrence limitation of $7,500,000
Casualty, Umbrella, Workers' Compensation, EL and EPL	31.25% Hanover Ruck SE 20.00% SCOR Re 16.25% Transatlantic Re 12.50% Partner Re US 10.00% QBE Re 10.00% Toa Re US	$2,500,000 each and every loss occurrence, including Mold & Cyber	$3,500,000 each and every loss occurrence
Basket (Property, Casualty, Umbrella, Workers' Compensation, EL and EPL)	31.25% Hanover Ruck SE 20.00% SCOR Re 16.25% Transatlantic Re 12.50% Partner Re US 10.00% QBE Re 10.00% Toa Re US	$2,500,000 each and every loss occurrence	$2,500,000 each and every loss occurrence
<u>Property Second-Third Per Risk Excess of Loss (including Terrorism)</u>			
Second Layer	31.25% Hanover Ruck SE 20.00% SCOR Re 16.25% Transatlantic Re 12.50% Partner Re US 10.00% QBE Re 10.00% Toa Re US	$5,000,000 each and every loss	$10,000,000 each and every risk; $20,000,000 ultimate net loss in the aggregate in any one contract year
Third Layer	70.00% Lloyd's UK 10.00% Aspen Re US 10.00% Renaissance Re US 5.00% Axis Re 5.00% Hanover Ruck SE	$15,000,000 each and every loss	$10,000,000 each and every risk; $10,000,000 ultimate net loss in the aggregate in any one contract year
<u>Casualty Second-Fifth Excess of Loss (including Terrorism)</u>			
Second Layer	31.25% Hanover Ruck SE 20.00% SCOR Re 16.25% Transatlantic Re 12.50% Partner Re US 10.00% QBE Re 10.00% Toa Re US	$6,000,000 each and every loss occurrence	$5,000,000 each and every loss occurrence; $11,000,000 ultimate net loss in the aggregate in any one contract year

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Third Layer	31.25% Hanover Ruck SE 20.00% SCOR Re 16.25% Transatlantic Re 12.50% Partner Re US 10.00% QBE Re 10.00% Safety National	$11,000,000 each and every loss occurrence	$9,000,000 each and every loss occurrence; $18,000,000 ultimate net loss in the aggregate in any one contract year
Fourth Layer	65.00% Lloyd's UK 15.00% Hanover Ruck SE 10.00% Aspen Re US 5.00% Axis Re 5.00% Renaissance Re US	$20,000,000 each and every loss occurrence	$20,000,000 each and every loss occurrence; $40,000,000 ultimate net loss in the aggregate in any one contract year
Fifth Layer	65.00% Lloyd's UK 10.00% Aspen Re US 10.00% Axis Re 10.00% Renaissance Re US 5.00% Hanover Ruck SE	$40,000,000 each and every loss occurrence	$20,000,000 each and every loss occurrence; $40,000,000 ultimate net loss in the aggregate in any one contract year

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, 2018. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no adjustments made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2018

Underwriting and Investment Exhibit for the Year Ended December 31, 2018

Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2018

Statement of Financial Condition
as of December 31, 2018

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 226,709,287	$	$ 226,709,287	
Real estate	4,833,824		4,833,824	
Cash, cash equivalents and short-term investments	10,605,164		10,605,164	
Investment income due and accrued	2,175,448		2,175,448	
Uncollected premiums and agents' balances in course of collection	5,214,791		5,214,791	(1)
Amount recoverable from reinsurers	5,593,460		5,593,460	
Current federal and foreign income tax recoverable and interest thereon	105,602		105,602	
Net deferred tax asset	3,936,729	220,916	3,715,813	
Guaranty funds receivable or on deposit	10,777		10,777	
Receivables from parent, subsidiaries and affiliates	1,598,459		1,598,459	
Total assets	$ 260,783,541	$ 220,916	$ 260,562,625	

Liabilities, Surplus, and Other Funds	Current Year	Notes
Losses	$ 76,040,778	(2)
Reinsurance payable on paid losses and loss adjustment expenses	5,436,773	
Loss adjustment expenses	24,210,558	(2)
Commissions payable, contingent commissions and other similar charges	2,469,794	
Other expenses	4,386,059	
Taxes, licenses, and fees	358,514	
Unearned premiums	38,868,398	
Ceded reinsurance premiums payable	7,029,314	
Aggregate write-ins for liabilities	2,086	
Total liabilities	158,802,274	
Common capital stock	3,003,000	
Gross paid-in and contributed surplus	28,513,974	
Unassigned funds (surplus)	70,243,377	
Surplus as regards policyholders	101,760,351	
Total liabilities, Surplus, and other funds	$ 260,562,625	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2018

Statement of Income

Underwriting Income		Current Year
Premiums earned		$ 82,996,072
Deductions:		
Losses incurred		$ 48,213,959
Loss adjustment expenses incurred		10,370,151
Other underwriting expenses incurred		28,284,767
Total underwriting deductions		86,868,877
Net underwriting loss		(3,872,805)
Investment Income		
Net investment income earned		$ 7,382,870
Net realized capital loss		(37,246)
Net investment gain		7,345,624
Other Income		
Net gain from agents' or premium balances charged off (amount recovered)		$ 935
Finance and service charges not included in premiums		257,524
Aggregate write-ins for miscellaneous income		1,037
Total other income		259,496
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		3,732,315
Federal and foreign income taxes incurred		(154,122)
Net income		$ 3,886,437

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2017		$ 97,593,575
Net income	$ 3,886,437	
Change in net deferred income tax	(98,024)	
Change in nonadmitted assets	378,363	
Change in surplus as regards policyholders for the year		4,166,776
Surplus as regards policyholders, December 31, 2018		$ 101,760,351

Reconciliation of Surplus as Regards to Policyholders from December 31, 2013 through December 31, 2018

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2013			$ 81,286,790
Net income	$ 34,794,939	$	
Change in net deferred income tax		4,875,102	
Change in nonadmitted assets	2,541,171		
Change in provision for reinsurance	30,553		
Dividends to stockholders		12,000,000	
Total gains and losses	$ 37,366,663	$ 16,875,102	
Net increase in surplus as regards policyholders			20,491,561
Surplus as regards policyholders, December 31, 2018			$ 101,760,351

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Premiums and Agents' Balances in course of Collection

The Company did not report premiums received prior to the effective date of the policies as advanced premiums. Instead, the Company recorded unearned premiums in the amount of advance deposits. The Company's accounting methodology for premiums received prior to the effective date of the policies is not in compliance with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions nor with the Statement of Statutory Accounting Principles (SSAP) 53, paragraph 15. It is recommended that the Company comply with the NAIC Annual Statement Instructions and SSAP 53, paragraph 15, for the reporting of advance premiums. This is a repeat finding from the last two examinations.

(2) Losses and Loss Adjustment Expenses

The lead state retained Risk & Regulatory Consulting, LLC (RRC) for the purpose of determining the reasonableness of the United Fire Group's loss and loss adjustment expense reserves as of December 31, 2018. Based on the analysis by RRC and the review of their work by a Casualty Actuary from the California Department of Insurance, the Company's reserves as of December 31, 2018, were found to be reasonably stated, and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comments on Financial Statement Items - Premiums and Agents' Balances in Course of Collection (Page 14): It is recommended that the Company comply with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions and Statement of Statutory Accounting Principles (SSAP) 53, paragraph 15, for the reporting of advance premiums. This is a repeat finding from the last two examinations.

Previous Report of Examination

Comments on Financial Statement Items - Premiums and Agents' Balances in Course of Collection (Page 15): It was recommended that the Company comply with the NAIC Annual Statement Instructions and SSAP 53, paragraph 13, for the reporting of advance premiums. The Company has not complied with the requirement.

Comments on Financial Statement Items - Taxes, Licenses, and Fees (Page 15): It was recommended that the Company comply with the California Code of Regulations Title 10, Section 2682.62. The Company has complied.

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/

Eric Coria
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

/S/

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