

REPORT OF EXAMINATION  
OF THE  
PACIFIC PIONEER INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2019

*Insurance Commissioner*

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

FILED ON June 14, 2021

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Los Angeles, California  
May 27, 2021

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

PACIFIC PIONEER INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's home office was located at 6363 Katella Avenue, Cypress, California 90630 as of December 31, 2019. The Company's new home office is located at 30 Enterprise Suite 180, Aliso Viejo, California 92656.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2014. This examination covered the period from January 1, 2015 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 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

As of December 31, 2019, Pacific Pioneer Insurance Company was a wholly-owned subsidiary of Pacific Pioneer Insurance Group, Inc. (PPIG), a Delaware corporation. PPIG was owned by Lin W. Lan, the sole shareholder.

In November 2019, PPIG executed a Stock Purchase Agreement allowing 1251 Capital Group, Inc. (1251 Capital) to acquire 100 percent of the common shares of the Company. On December 19, 2019, 1251 Capital filed a Form A application in connection with the Stock Purchase Agreement with the California Department of Insurance (CDI). The Form A application was approved on March 4, 2020. The acquisition was closed on July 7, 2020.

On November 20, 2020, the CDI issued an Amended Certificate of Authority to reflect the name change to Lio Insurance Company, effective November 12, 2020.

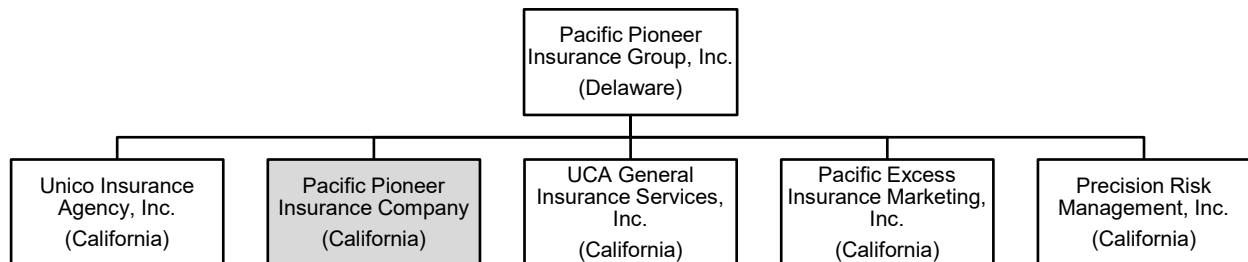
Capitalization

As of December 31, 2019, the Company had 100,000 shares of \$60 par value common stock authorized and 58,400 shares issued and outstanding.

In 2018, the sole shareholder made a capital contribution of \$825,709 in cash to the Company. The capital contribution was mistakenly reported under common capital stock as of December 31, 2018 and later reclassified to gross paid-in and contributed surplus in 2019.

MANAGEMENT AND CONTROL

The Company was a member of an insurance holding company system <sup>(a)</sup>. Following is the organizational chart as of December 31, 2019 that depicts the interrelationships of the Company with its affiliated entities within the holding company system: (All ownership is 100%)



The two members of the board of directors, who are elected annually, managed 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 <sup>(a)</sup>

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Robert C. Lan Whittier, California	President Pacific Pioneer Insurance Company
Lin W. Lan Whittier, California	Chairman of the Board Pacific Pioneer Insurance Company

Principal Officers <sup>(a)</sup>

<u>Name</u>	<u>Title</u>
Robert C. C. Lan	President
Ping Chen	Treasurer
Frank Stipati	Secretary

- <sup>(a)</sup> The entire organizational chart, members of the board, and principal officers have changed and been re-elected due to the Company's acquisition by 1251 Capital Group, Inc.

Management Agreements

Administrative Services Agreement: Effective December 31, 1992, the Company entered into an Administrative Services Agreement with its former affiliate, UCA General Insurance Services, Inc. (UCA). Under the terms of the Agreement, UCA provides the following services: consultation on rate filing process; reinsurance negotiation; the processing of premium and payments to the Company; policy issuance; and investment management. Compensation to UCA is based on the actual costs incurred. The Agreement was approved by the California Department of Insurance (CDI) in conjunction with Pacific Pioneer Insurance Group's (PPIG) acquisition of the Company in 1992.

On March 28, 2017, the Company filed an Amended and Restated Administrative Services Agreement with the CDI. The Agreement was amended to include other services not covered by the original approved Agreement. The shared cost of the service provided remained on the actual cost incurred, without a profit factor built into the cost. The CDI

approved the amended Agreement on July 3, 2017.

Claims Management Agreement: Effective December 31, 1992, the Company entered into a Claims Management Agreement with its former affiliate, Precision Risk Management, Inc., (PRM). Under the terms of the Agreement, PRM handles the processing and adjusting of all claims for the Company. Compensation for its services is based on an hourly rate of \$60 plus reimbursement of allocated expenses paid to third parties. The Agreement was approved by the CDI in conjunction with PPIG acquisition of the Company in 1992.

Consolidated Federal Income Tax Sharing Agreement: Effective December 31, 1992, the Company and its former affiliates entered into a Consolidated Federal Income Tax Sharing Agreement with its former parent, PPIG. Allocation of taxes is based upon separate return calculations with inter-company tax balances settled within 60 days of payment or refund of taxes. The Agreement was approved by the CDI in conjunction with PPIG's acquisition of the Company in 1992.

As a result of the acquisition by 1251 Capital Group, Inc., the above-mentioned inter-company agreements were terminated as of June 30, 2020.

#### TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was licensed to transact multiple lines of property and casualty insurance in the following 11 states:

California	Oklahoma
Idaho	Oregon
Kansas	Texas
Louisiana	Utah
Nevada	Washington
New Jersey	

As of December 31, 2019, \$2.8 million or 99.7 percent of the net premium written, was from the assumed commercial multiple peril (CMP) business, which was produced by its

former affiliate, UCA General Insurance Services, Inc., and written by a third-party insurer, Century National Insurance Company. The remaining .3 percent was from the run-off non-standard private passenger automobile program discontinued in October 2017. All of the direct and assumed business were written in the state of California.

As the result of the acquisition by 1251 Capital Group, Inc., the Company discontinued writing direct and assumed business as of March 31, 2020.

Going forward, the Company's plan of operation will shift to focus on marketing commercial property and casualty package for homeowner associations and residential condo associations. The Company plans to expand the product selection to directors and officers' liability, umbrella, crime, and automobile in the future. The Company filed its initial product rating filings with the California Department of Insurance (CDI) on November 25 2020. While the Company is waiting for the product rate filing approval from the CDI, the Company has filed a Uniform Certificate of Authority Expansion Application in Arizona, Colorado, Florida, Georgia, Illinois, Massachusetts, Minnesota, New York, North Carolina, and Virginia. The status of the licenses in the above mentioned states is currently pending review.

## REINSURANCE

### Assumed

As of December 31, 2019, the Company assumed commercial multiple peril (CMP) business from Century National Insurance Company (CNIC) through a Net Quota Share Reinsurance Agreement. CMP business assumed under this contract is produced exclusively through the Company's affiliate, UCA General Insurance Services, Inc. (UCA).

From April 1, 2014 through March 31, 2016, the Company assumed 30.0% of the first \$3 million of the general liability CMP business and 30.0% of the first \$2 million of the



property CMP business produced by UCA and written by CNIC.

From April 1, 2016 through March 31, 2017, the Company assumed 12.0% of the first \$3 million of the general liability CMP business and 12.0% of the first \$2 million of the property CMP business produced by UCA and written by CNIC.

From April 1, 2017 through March 31, 2018, the Company assumed 20.0% of the first \$2 million of the general liability CMP business and 20.0% of the first \$2 million of the property CMP business produced by UCA and written by CNIC.

From April 1, 2018 through March 31, 2019, the Company assumed 17.5% of the first \$2 million of the general liability CMP business and 20.0% of the first \$2 million of the property CMP business produced by UCA and written by CNIC.

From April 1, 2019 through March 31, 2020, the Company assumed 10.0% of the first \$2 million of the general liability CMP business and 10.0% of the first \$2 million of the property CMP business produced by UCA and written by CNIC.

### Ceded

Effective January 1, 2014, the Company entered into a Non-Standard Private Passenger Automobile Liability and Physical Damage Quota Share Reinsurance Agreement with Partner Reinsurance Company of U.S. (Partner Re), an authorized reinsurer. Under the terms of the Agreement, the Company ceded 90% of all new and renewal business produced and underwritten by or through Multi-State Insurance Services, Inc. to Partner Re. As a result of the acquisition by 1251 Capital Group, Inc., the Agreement was terminated as of March 31, 2020.

## 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, 2019. The accompanying comments to the amounts reported in the annual statements and 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, 2019

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

Reconciliation of Surplus as Regards Policyholders from December 31, 2014 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	\$ 7,664,310	\$	\$ 7,664,310	
Common stocks	4,751,817		4,751,817	
Cash, cash equivalents, and short-term investments	1,016,227		1,016,227	
Investment income due and accrued	123,538		123,538	
Uncollected premiums and agents' balances in the course of collection	552,717		552,717	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	381,407		381,407	
Amounts recoverable from reinsurers	185,613	65,588	120,025	
Net deferred tax asset	24,081	24,081	0	
Aggregate write-ins for other than invested assets	<u>388,182</u>		<u>388,182</u>	
Total assets	<u>\$ 15,087,892</u>	<u>\$ 89,669</u>	<u>\$ 14,998,223</u>	
 <u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses			\$ 2,743,956	(1)
Reinsurance payable on paid losses and loss adjustment expenses			855,163	
Loss adjustment expenses			676,086	(1)
Other expenses			43,677	
Unearned premiums			1,266,398	
Ceded reinsurance premiums payable			65,655	
Payable to parent, subsidiaries and affiliates			6,000	
Aggregate write-ins for liabilities			<u>327,588</u>	
Total liabilities			5,988,143	
Common capital stock		\$ 3,504,000		
Gross paid-in and contributed surplus		4,875,702		
Unassigned funds (surplus)		<u>630,378</u>		
Surplus as regards policyholders			<u>9,010,080</u>	
Total liabilities, surplus, and other funds			<u>\$ 14,998,223</u>	

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

State of Income

Underwriting Income

Premiums earned		\$ 3,445,220
Deductions:		
Losses incurred	\$ 4,145,617	
Loss adjustment expenses incurred	946,395	
Other underwriting expenses incurred	<u>(18,047)</u>	
Total underwriting deductions		<u>5,073,965</u>
Net underwriting loss		(1,628,745)

Investment Income

Net investment income earned	\$ 396,672	
Net realized capital losses	<u>(42,555)</u>	
Net investment gain		354,117

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>102,221</u>	
Total other income		<u>102,221</u>
Net loss after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		<u>(1,172,407)</u>
Federal and foreign income taxes incurred		<u>0</u>
Net loss		<u><u>\$ (1,172,407)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		\$ 9,096,556
Net loss	\$ (1,172,407)	
Change in net unrealized capital gains	1,085,931	
Change in net deferred income tax	(56,305)	
Change in nonadmitted assets	56,305	
Paid-in capital changes	(825,702)	
Paid-in surplus adjustments	<u>825,702</u>	
Change in surplus as regards policyholders for the year		<u>(86,476)</u>
Surplus as regards policyholders, December 31, 2019		<u><u>\$ 9,010,080</u></u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2014 through December 31, 2019

Surplus as regards policyholders, December 31, 2014			\$ 7,194,474
	Gain in Surplus	Loss in Surplus	
Net loss	\$	\$	1,028,172
Change in net unrealized capital gains	2,018,076		
Change in net deferred income tax		248,527	
Change in nonadmitted assets	248,527		
Capital change: Paid-in	825,702	825,702	
Surplus adjustment: Paid-in	<u>825,702</u>	<u>                    </u>	
Total gains and losses	<u>\$ 3,918,007</u>	<u>\$ 2,102,401</u>	
Net increase in surplus as regards policyholders			<u>1,815,606</u>
Surplus as regards policyholders, December 31, 2019			<u>\$ 9,010,080</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

Based on a review performed by a Senior Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2019 were found to be reasonably stated and have been accepted for this examination.

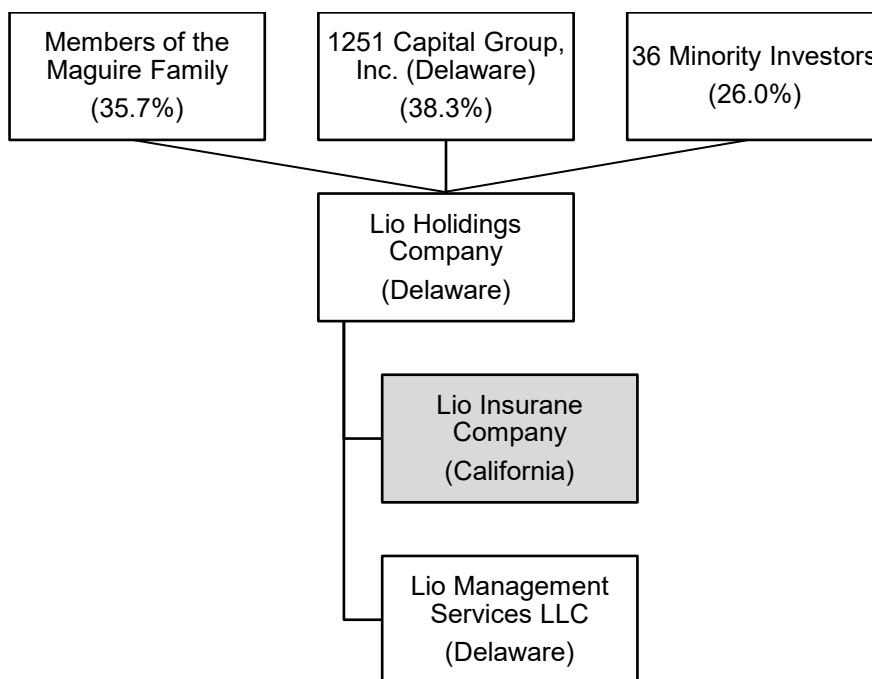
## SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. The pandemic has triggered unprecedented government mandates and health and safety measures which have significantly impacted the U.S. and global financial markets. The examination reviewed the potential impact of the pandemic to the Company and noted minimal impact on the Company's business operations as of the date of this report. However, a significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy, and the Company at large. The California Department of Insurance (CDI) continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

In December 2020, the Company entered into a Loss Portfolio Transfer Retrocession Agreement (LPT) with Accredited Surety & Casualty Company, Inc. (ASCC), with the retroactive date of March 31, 2020. Under the terms of the LPT, ASCC will assume the Company's current and future obligations arising from the assumed commercial multiple peril business from Century National Insurance Company (CNIC). This Agreement covers all in-force policies from April 1, 2013, through March 31, 2020, assumed from CNIC under the aforementioned Net Quota Share Reinsurance Agreement. ASCC will reimburse the Company for one hundred percent of the ultimate net loss, subject to an aggregate limit of \$10 million. The CDI approved the LPT on October 30, 2020, pursuant

to California Insurance Code (CIC) Section 1011(c).

On February 1, 2021, the Company submitted a Form A Exemption Request on the organizational change. 1251 Capital Group, Inc. (1251 Capital) formed a new corporation domiciled in the state of Delaware, Lio Holdings Company (Lio Holdings), with the intent of interposing Lio Holdings as an intermediate holding company between 1251 Capital and the Company, whereby Lio Holdings becomes the direct parent of the Company and 1251 Capital becomes the indirect parent of the Company. The CDI approved the application on March 10, 2021, pursuant to the CIC Section 1215.2(g). Following is the organizational chart that depicts the interrelationships of the Company with its affiliated entities within the holding company system after the acquisition: (All ownership is 100% unless otherwise noted)



In March 2021, Lio Holdings, the direct parent of the Company, raised capital, consisting of cash and in-kind contributions. The in-kind contribution is comprised of 1251 Capital's contributions of the Company and Lio Management Services, LLC (LMS), an affiliate, to Lio Holdings. Concurrently, Lio Holdings contributed \$45 million to the Company, in cash. These transactions were approved by the CDI on February 26, 2021.

Effective April 1, 2021, the Company entered into a Service Agreement with LMS, an affiliate. Under the terms of the Agreement, LMS will provide all necessary services for the operations of the Company, including but not limited to policyholder services, collection of premiums, underwriting, information systems, actuarial, claim adjustment and payment, reinsurance programs, accounting and financial, marketing and planning, legal and regulatory affairs, and agent services. The cost will be allocated to the Company as incurred, in accordance with Statements of Statutory Accounting Principles 70, with no fee or upcharge. The CDI approved the transaction on February 26, 2021, pursuant to CIC Section 1215.5(b)(4).

Effective April 23, 2021, the Company entered into a Tax Sharing Agreement with Lio Holdings and its subsidiary, LMS. Under the terms of the Agreement, the Company will pay or receive an amount equal to the federal income tax liability or benefit if it were filing a separate, unconsolidated tax return. The actual tax liability or benefit shall be settled within thirty days of filing such tax returns. The CDI approved the Agreement on April 21, 2021, pursuant to CIC section 1215.5(b)(4).

In May 2021, the Company received product rating filings approval from the CDI and issued its first policy in June 2021 post-acquisition. In addition, the Uniform Certificate of Authority Expansion Application for Arizona was approved on May 28, 2021.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

None.

### Previous Report of Examination

Management and Control: Corporate Records – (Page 4): The Company is not adhering to its bylaws. During a review of the board minutes for the years under examination, the board failed to hold meetings on the scheduled date and in the year 2012, and election



of new directors as stated in its bylaws. It was recommended that the Company comply with its bylaws. The Company complied with the recommendation.

Management and Control: Corporate Records – (Page 4): It was noted during review of the board of directors minutes that the Company failed to document the authorization and approval of its investment securities which is in violation of California Insurance Code Sections (CIC) 1200 and 1201. It was recommended that the Company comply with CIC Sections 1200 and 1201. The Company complied with the recommendation.

Management and Control: Management Agreements - Reimbursement Agreement (Page 5): Reimbursement Agreements were executed between the Company and UCA General Insurance Services, Inc. (UCA), its affiliate in 2007, 2008, and 2013 without the approval of the California Department of Insurance (CDI). It was recommended that these agreements be submitted to the CDI for prior approval in accordance with CIC Section 1215.5(b)(4). Due to the subsequent change in ownership, this finding and recommendation is no longer applicable.

Management and Control: Holding Company Transactions (Page 6): The reinsurance activities related to the assumed business, such as fronting fees, commission expense, and premium taxes, are regularly and directly settled between the Company and its affiliate, UCA, without going through its reinsurance intermediary, JLT Re. It was recommended that the Company comply with its Reinsurance Intermediary Agreement. Due to the subsequent change in ownership, this finding and recommendation is no longer applicable.

Management and Controls: Holding Company Transactions (Page 6): The Company's related party transaction disclosed reinsurance activities and loan transactions were 18 undertaken between the Company and its affiliate, UCA, without any documented agreements. These transactions were also undertaken without the required filing and prior approval from the CDI as required by CIC Section 1215.5(b)(4). It was recommended that the Company file and seek prior approval for any related party transactions as required by CIC Sections 1215.5(b)(4) and 1215.5(c). Due to the subsequent change in ownership, this finding and recommendation is no longer applicable.

Accounts and Records: Information System Controls (Page 10): As a result of a review of the Company's general controls some findings were noted and were presented to the Company along with recommendations to strengthen its controls. The Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems. This was a repeat recommendation. Due to the subsequent change in ownership, this finding and recommendation is no longer applicable.

Accounts and Records: Annual Statement Disclosure (Page 10): The composition of the board of directors in the years of exam as attested in the filed annual statements, the board of directors' minutes and statement from the Lin Lan, the Secretary of the Company disclosed to have all inconsistent list of board of directors. It was recommended that the Company identify and provide the correct board of directors' information on the filed Annual Statement Jurat page and in its books and records. The Company complied with the recommendation.

Comments on Financial Statement Items: Bonds (Page 16): The Company's bonds are held by Wells Fargo Bank under a custodial agreement that is not approved by the CDI in accordance with CIC Section 1104.9(c). It was recommended that the Company submit its custodial Agreement to the CDI for approval. Due to the subsequent change in ownership, this finding and recommendation is no longer applicable.

Comments on Financial Statement Items: Bonds (Page 16): The Company does not utilize the Purposes and Procedures (P&P) Manual of the National Association of Insurance Commissioners (NAIC) Investment Analysis (IA) Office to identify the Company's investment designation and valuation per Statement of Statutory Accounting Principles No. 26 paragraph 7. It was recommended that the Company utilize the P&P Manual of the NAIC IA Office to identify its investment designation and valuation. The Company complied with the 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,

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

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Vivien Fan, CFE  
Bureau Chief  
Department of Insurance  
State of California