

REPORT OF EXAMINATION  
OF THE  
NATIONS INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2022

A handwritten signature in blue ink, appearing to read 'P. DeFina', is positioned above the filing date.

Filed on May 15, 2024

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Oakland, California  
May 8, 2024

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

#### NATIONS INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office is located at 12800 Center Court Drive South #550, Cerritos, California 90703.

#### SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2018. This examination covered the period from January 1, 2019 through December 31, 2022.

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 an adjustment is identified during the course of the

examination, 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 may 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 the Company.

### COMPANY HISTORY

The Company is a domestic insurance company incorporated on November 29, 2006 in California and commenced business on March 6, 2008. The Company is a wholly-owned subsidiary of Nations Holding Company ("NHC").

#### Capitalization

The Company is authorized to issue 100,000 shares of common stock at par value of \$60 per share of which 43,334 shares are issued and outstanding.

#### Dividends

On December 20, 2018, the Board of Directors declared an ordinary cash dividend of \$100,000 to the sole shareholder, NHC, and it was paid on January 10, 2019.

On February 23, 2021, the Board of Directors declared an ordinary cash dividend of \$700,000 payable to NHC. The dividend was paid on March 15, 2021.

## MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system in which the ultimate controlling person is Elias K. Assaf. The Company is wholly-owned by Nations Holding Company (NHC). Elias K. Assaf owns 86% of NHC and Raimundo Ruiz owns the remaining 14%. The following organization chart depicts this relationship:

Nations Holding Company (California) <sup>(1)</sup>  
**Nations Insurance Company (California)**  
Nations Insurance Services, Inc. (California) <sup>(1)</sup>  
MyCo General Insurance Agency (California) <sup>(2)</sup>  
Veronica's General Insurance Agency, Inc. (California) <sup>(3)</sup>

(1) Elias Assaf owns 86% and Raimundo Ruiz owns 14% of the company.

(2) Elias Assaf owns 50% and Adriana Gallardo owns 50% of the company.

(3) Elias Assaf owns 50% and Veronica Gallardo owns 50% of the company.

The business and affairs of the Company are overseen by a three-member Board of Directors who are elected annually. The members of the Board of Directors and principal officers serving on December 31, 2022 are as follows:

### Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Elias K. Assaf Huntington Beach, California	Chairman of the Board, President, and Chief Executive Officer Nations Insurance Company
Zeina Assaf Huntington Beach, California	Secretary Nations Insurance Company
Raimundo Ruiz Irvine, California	Member Nations Insurance Company

## Principal Officers

<u>Name and Location</u>	<u>Title</u>
Elias K. Assaf	President and Chief Executive Officer
Michael Budnitsky <sup>(1)</sup>	Chief Financial Officer and Treasurer
Zeina Assaf	Secretary

(1) Effective April 3, 2023, Raymond Fuentes became the Chief Financial Officer and Michael Budnitsky resigned effective April 6, 2023.

### Management Agreements

Program Administrator Agreement: Effective January 1, 2015, the Company entered into a Program Administrator Agreement with its affiliate, Nations General Insurance Agency (NGIA). On March 10, 2017, NGIA legally changed its name to Nations Insurance Services, Inc. (NIS). Pursuant to the Agreement, the Company appoints NIS as its exclusive Program Administrator to produce private passenger automobile, liability and physical damage lines of business. NIS's responsibilities include soliciting, binding, and servicing insurance policies on behalf of the Company. NIS did not commence business until September 1, 2016. For compensation, NIS receives: (a) 100% of all policy fees received less the State of California premium tax; (b) 100% of all other fees charged and collected by NIS in connection with the policies written, except for State of California fraud fees. This Agreement was approved by the California Department of Insurance (CDI) on January 5, 2015 pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

Effective May 1, 2021, the Company entered into a Second Amended Agreement with NIS to reflect that the Company will monitor NIS annually and that the Company shall own and have custody of records. The commission rate was set at 18.5% to cover sub-producer commissions to be paid by NIS. This Agreement was approved by CDI on April 16, 2021 pursuant to CIC Section 1215.5(b)(4). For the years, 2019, 2020, 2021, and 2022, the Company paid NIS \$ 347,326, \$281,145, \$379,389, and \$318,967.

Program Administrator Agreement: Effective June 28, 2021, the Company entered into a Program Administrator Agreement with its affiliate, MyCo General Insurance Agency

(MyCo). Pursuant to the Agreement, the Company appoints MyCo as its exclusive Program Administrator to produce private passenger automobile, liability and physical damage lines of business. MyCo's responsibilities include soliciting, binding, and servicing insurance policies on behalf of the Company. For compensation, MyCo will receive a commission of 18.5% of all direct premiums written. MyCo will be responsible for and shall pay all sub-producers' commission. For the year 2022, the Company paid MyCo \$13,713.

Services and Expense Sharing Agreement: Effective January 1, 2019, the Company entered into a Services and Expenses Sharing Agreement with its parent company, Nations Holding Company (NHC). Under the terms of this Agreement, NHC will provide accounting, tax and auditing; functional support Services; website; marketing services; supplies; premium collection & handling; and sublease of office space. This Agreement was approved by the CDI on December 4, 2018 pursuant to CIC Section 1215.5(b)(4).

Tax Sharing and Allocation Agreement: Effective January 1, 2019, the Company entered into an Income Tax Sharing/Allocation Agreement with NHC. Under the terms of this Agreement, it (1) establishes a method for allocating the consolidated federal income tax liability of the Affiliated Group (NHC; the Company; NIS, and MyCo) among the Members in an agreed fashion, (2) compensates any Member for use of its net operating and net capital losses and tax credits utilized in computing consolidated federal taxable income, and (3) provides for the allocation and payment of any refund arising from a carryback of net operating or capital losses or tax credits generated in subsequent taxable years. This Agreement was approved by CDI on December 4, 2018 pursuant to CIC Section 1215.5(b)(4).

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company is only licensed in the State of California to underwrite private passenger automobile physical damage and liability insurance. Its business is produced through over 500 independent brokers, two affiliated general agents Nations Insurance Services, Inc. (NIS) and MyCo General Insurance Agency (MyCo); and

two unaffiliated general agents (Bluefire/Multi-State Insurance Services, Inc. and Pronto California General Agency, LLC). The Company had used Embark General Insurance Agency during the examination period; however, those policies have been in run off since November 21, 2021.

The Company's direct premiums written during the examination period were \$33.86 million, \$28.32 million, \$23.99 million, and \$30.05 million in 2019, 2020, 2021, and 2022, respectively.

### LOSS EXPERIENCE

A review of the Company's loss experience during the examination period discloses a continued trend of net underwriting losses and net losses as follows:

Year	Net Underwriting Income or (Loss)	Net Income or (Loss)
2019	(\$526,299)	\$43,275
2020	\$1,504,044	\$1,550,372
2021	(\$2,406,048)	(\$1,283,342)
2022	(\$2,603,640)	(\$2,355,518)
2023	\$1,133,503	\$1,380,299

In 2019, the Company's inventory of claims grew significantly at the end of 2018 which impacted the loss ratio for 2019 as the Company oversaw the increase in the number of claim examiners and the general organization of the claim operations. The Company had a net income as a result of positive net investment income. In addition, the Company received a 6.9% rate increase in November 2018 which went into effect on January 15, 2019. The delayed approval of the non-gender rate filings submitted in April 2019 prevented the submission of additional filings for two rate increases based on the non-gender rate filing and caused the Company to have lower than expected premiums in 2019.

In 2020, as a result of the COVID-19 pandemic and the stay-at-home order on March 19, 2020 and subsequent reinstatement of that order throughout the year, the Company experienced a positive net underwriting income while experiencing a decline in premiums written and lower claim costs as policyholders were driving less.



In 2021, as the COVID-19 pandemic continued, there were supply chain shortages which caused prices for automobile parts and used car prices to inflate significantly, resulting in significant increase in severity for the Company’s collision and comprehensive claims for accident year 2021. The Company also experienced a decline in premiums written as result of a soft market due to the pandemic and slower rate filing process.

In 2022, the Company experienced an increase in premiums written due to the hardening of the market. The Company increased its reinsurance retention under the quota share agreements which caused an increase in losses and loss adjustment expenses. Ultimately, the Company reported net underwriting losses and a net loss for the year.

In 2023, the Company had a net underwriting gain of \$1.1 million and overall net income of \$1.4 million. The Company had two rate increases approved in 2023.

REINSURANCE

Assumed

The Company had no assumed reinsurance during the examination period.

Ceded

The following is a summary of the principal reinsurance agreements in-force as of December 31, 2022.

<u>Type of Contract</u>	<u>Line of Business</u>	<u>Reinsurer (s) and Participation</u>	<u>Company's Retention</u>	<u>Reinsurer's Limits</u>
Quota Share	Auto	Greenlight Reinsurance LTD (Unauthorized)	90%	10% business subject to the following limits: \$70,000 per Occurrence \$140,000 for all Occurrences
Quota Share	Auto	American Family Connect Property & Casualty Insurance Company (Authorized)	90%	10% business subject to following limits: \$150,000 per occurrence \$300,000 in the aggregate

## ACCOUNTS AND RECORDS

California Insurance Code (CIC) Section 735 requires that a designated officer of the Company inform the board of directors regarding the receipt of the report of examination and that the fact that such officer did so inform the members present be entered in the minutes of such meeting. The Company was not in compliance with CIC Section 735 because no entry was made in the meeting minutes of the board of directors noting that the members were informed about the receipt of the prior report of examination. It is recommended that the Company institute procedures to ensure compliance with CIC Section 735.

According to the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions, the Appointed Actuary must report to the Board of Directors each year on the items within the scope of the Actuarial Opinion. The Actuarial Opinion and Report must be made available to the Board of Directors. The minutes of the Board of Directors should indicate that the Appointed Actuary has presented such information to the Board of Directors and identify the manner of presentation (e.g., webinar, in-person presentation, written). It was noted that the Company's Board of Director meeting minutes did not reflect that the Actuarial Opinion and Report were presented to the Board of Directors for the years 2019 to 2022. It is recommended that the Actuarial Opinion and Report be presented to the Board and noted in the Board Meeting Minutes in accordance with the NAIC Annual Statement Instructions.

## 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, 2022. 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 to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2022

Underwriting and Investment Exhibit for the Year Ended December 31, 2022

Reconciliation of Surplus as Regards Policyholders from December 31, 2018  
through December 31, 2022

Statement of Financial Condition  
as of December 31, 2022

<u>Assets</u>	Ledger and Nonledger Assets	Assets not Admitted	Net Admitted Assets	<u>Notes</u>
Bonds	\$ 12,600,271	\$	\$ 12,600,271	
Common stocks	681,269		681,269	
Cash, cash equivalents, and short-term investments	6,474,426		6,474,426	
Investment income due and accrued	114,312		114,312	
Uncollected premiums & agents balances in course of collection	3,562,633	41,744	3,520,889	
Deferred premiums, agents' balance, and installments booked but deferred and not yet due	10,290,528		10,290,528	
Reinsurance recoverable from reinsurers	1,296,807		1,296,807	
Federal income tax recoverable	372,598		372,598	
Net deferred tax asset	789,265	9,807	779,458	
Aggregate write-ins for other-than-invested assets	35,989	31,314	4,675	
<b>Total assets</b>	<b>\$ 36,218,098</b>	<b>\$ 82,865</b>	<b>\$ 36,135,233</b>	
<u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses			\$ 7,315,860	(1)
Loss adjustment expenses			1,254,061	(1)
Commission payable			1,598,335	
Other expenses			700,451	
Taxes, licenses, and fees			405,172	
Unearned Premiums			11,402,987	
Ceded reinsurance premiums payable			3,801,406	
<b>Total Liabilities</b>			<b>28,478,272</b>	
Common Capital Stock		\$ 2,600,040		
Gross paid-in and contributed surplus		7,400,147		
Unassigned Funds		(343,226)		
Surplus as regards policyholders			9,656,961	
<b>Total liabilities, surplus and other funds</b>			<b>\$ 36,135,233</b>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2022

Underwriting Income

Premiums earned		\$ 18,904,342
Deductions:		
Losses incurred	\$ 12,592,123	
Loss expenses incurred	2,162,804	
Other underwriting expenses incurred	<u>6,753,055</u>	
Total underwriting deductions		<u>21,507,982</u>
Net underwriting loss		(2,603,640)

Investment Income

Net investment income earned	<u>\$ 394,842</u>	
Net investment gain		<u>394,842</u>

Other Income

Net loss from agents' or premium balances charged off	\$ (128,810)	
Aggregate write-ins for miscellaneous income	<u>2,090</u>	
Total Other Loss		<u>(126,720)</u>
Net Loss		<u>\$ (2,335,518)</u>

Capital and Surplus Account

Surplus as regards policyholder, December 31, 2021		\$ 11,562,297
Net Loss	\$ (2,335,518)	
Change in net unrealized capital losses	(46,700)	
Change in net deferred income tax	518,712	
Change in non-admitted assets	<u>(41,830)</u>	
Change in surplus as regards policyholders for the year		<u>(1,905,336)</u>
Surplus as regards policyholders, December 31, 2022		<u>\$ 9,656,961</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2018 through December 31, 2022

Surplus as regards policyholders, December 31, 2018			\$ 11,949,966
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net loss	\$	\$ 2,025,213	
Change in net unrealized capital losses		46,700	
Change in net deferred income tax	478,348		
Change in non-admitted assets	560	103,803	
Dividends to stockholders		<u>700,000</u>	
Total gains and losses	<u>\$ 478,908</u>	<u>\$ 2,771,913</u>	
Net decrease in surplus as regards policyholders			<u>\$ (2,293,005)</u>
Surplus as regards policyholders, December 31, 2022			<u>\$ 9,656,961</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

A Senior Casualty Actuary of California Department of Insurance reviewed the Actuarial Report as of December 31, 2022 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, 2022 were reasonable and have been accepted for purposes of this examination.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Accounts and Records (Page 8): It is recommended that the Company institute procedures to ensure compliance with California Insurance Code (CIC) Section 735.

Accounts and Records (Page 8): It is recommended that the Actuarial Opinion and Report be presented to the Board and noted in the Board Meeting Minutes in accordance with the National Association of Insurance Commissioners Annual Statement Instructions.

### 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,

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Vicky Au-Yeung  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California

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Kyo Chu, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California