

REPORT OF EXAMINATION
OF THE
WAWANESA GENERAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2020

Insurance Commissioner

A handwritten signature in blue ink, appearing to be "P. DeFina", written over a faint horizontal line.

FILED on March 3, 2022

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Los Angeles, California
February 9, 2022

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

WAWANESA GENERAL INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's main administrative office and primary location of its books and records is located at 7650 Mission Valley Road, San Diego, California 92108.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2016. This examination covered the period from January 1, 2017 through December 31, 2020.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by

management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

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

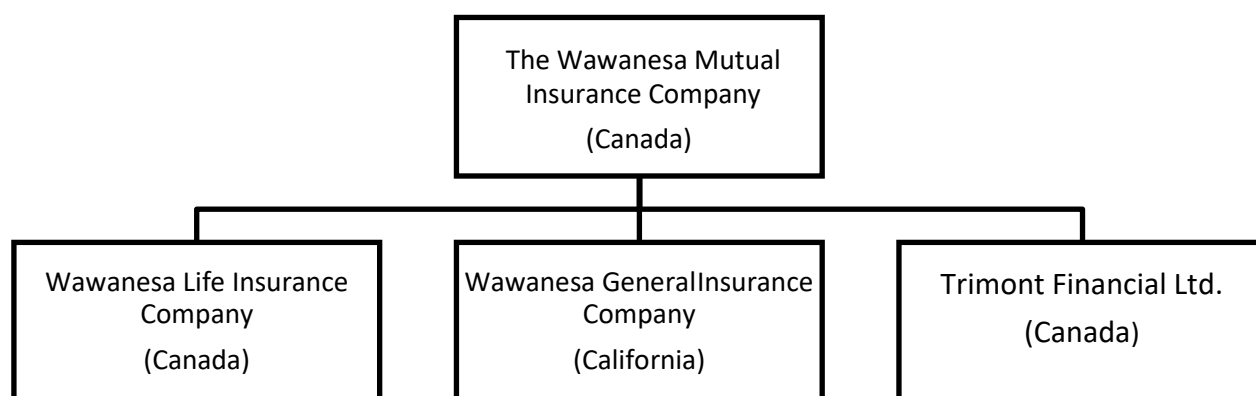
COMPANY HISTORY

Capitalization

The Company is authorized to issue ten thousand shares of common stock with a par value of \$1,000 per share. As of December 31, 2020, there were 2,600 shares outstanding.

MANAGEMENT AND CONTROL

The Company is wholly owned by The Wawanesa Mutual Insurance Company (TWMIC). The following abridged organizational chart depicts the Company relationship within the holding company system as of December 31, 2020. All ownership is 100%.



The eleven 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, 2020:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Katherine Anne Bardswicki Burlington, Ontario	Retired
Elizabeth Jane Beale Halifax, Nova Scotia	Retired
Caterine May Best Calgary, Alberta	Retired
Nancy Ashleigh Everett Winnipeg, Manitoba	President and Corporate Secretary Royal Canadian Securities Limited
Shannon Jeffery Goy Winnipeg, Manitoba,	President and Chief Executive Officer The Wawanesa Group of Companies
Bruce W.J. Jack Winnipeg, Manitoba	Retired
Robert Orville Landry Mississauga, Ontario	Retired
Nicholas Robert Logan Winnipeg, Manitoba	President and Chief Executive Officer National Leasing

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Alexander Scott Penman Winnipeg Manitoba	Retired
Paul Marie Soubry Winnipeg, Manitoba	President and Chief Executive Officer NFI Group
Marcella May Szel Vancouver, British Columbia	Retired

Principal Officers

<u>Name</u>	<u>Title</u>
Shannon Jeffery Goy	President and Chief Executive Officer
Christopher Michael Henn	President, U.S. Operations
Mary Katherine Nemeth	Treasurer
Evan Todd Johnston	Secretary
Patrick Joseph Persse	Chief Financial Officer, U.S. Operations

Management Agreements

Services and Cost Allocation Agreement: The Company is party to a Services and Cost Allocation Agreement, effective June 30, 2011, with its parent, TWMIC. TWMIC provides the following services to the Company: actuarial and related service, information technology, computer and communication service, and additional services. The California Department of Insurance (CDI) approved this agreement on June 30, 2011. TWMIC is reimbursed based on actual cost paid and accrued based on appropriate time allocations, activity count expense sharing, or other appropriate methods of allocation. For 2017, 2018, 2019, and 2020 the Company paid \$15,707,867, \$18,894,170, \$23,284,058, and \$26,587,828, respectively in fees to TWMIC under the terms of this agreement.

Office Lease Agreement: The Company was party to an Office Lease Agreement (Lease Agreement), effective July 1, 2011, with Wawanesa Holdings U.S. Inc., (Wawanesa Holdings), an affiliate. The CDI approved the Lease Agreement on June 30, 2011. The Lease Agreement was renewed for a 3-year period beginning July 1, 2014 through June 30, 2017 and again for a 5-year period beginning August 1, 2017 through

July 31, 2022. The CDI approved the renewal on July 31, 2017. Monthly rent is calculated by basic monthly rent of \$1.94 per rentable square foot (August 1, 2017 to July 31, 2018), \$1.99 per rentable square foot (August 1, 2018 to July 31, 2019), and \$2.05 per rentable square feet (August 1, 2019 to December 31, 2019). The Company paid \$2,379,217, \$2,639,760, \$2,605,668 for 2017, 2018, and 2019 respectively in fees to Wawanesa Holdings under this Lease Agreement. The Company terminated the Office Lease Agreement on December 11, 2019 and Wawanesa Holdings was dissolved on March 9, 2020.

Services and Cost Sharing Agreement: The Company was party to a Services and Cost Sharing Agreement with Wawanesa Holdings, an affiliate, effective May 15, 2017. The agreement was approved by the CDI on May 10, 2017. The Company provided the following services to Wawanesa Holdings: legal services, financial and accounting services, information technology services and support, property and facilities management services, and other additional services as needed from time to time. The Company was reimbursed based on actual cost paid and accrued based on appropriate time studies, activity count expense sharing, or other appropriate method of allocation. For 2017, 2018, and 2019 the Company received \$104,028, \$107,365, and \$155,247 respectively from Wawanesa Holdings under the terms of this agreement. The agreement was terminated December 11, 2019 and Wawanesa Holdings was dissolved on March 9, 2020.

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

TERRITORY AND PLAN OF OPERATION

As of December 31, 2020, the Company transacts multiple lines of property and casualty insurance in California and Oregon. The Company is also licensed to transact property and casualty insurance in Nevada but has not yet done so. The Company is a direct writer of private passenger automobile liability and physical damage coverage, insuring preferred risks. The Company also offers preferred homeowners, condominium, and renters insurance, including earthquake coverage.

In 2020, direct premiums written were \$534,373,238 million of which 98.64% were written in California and 1.36% in Oregon. The lines of business written were private passenger automobile liability (53.12%), automobile physical damage (37.43%), homeowners multiple peril (8.65%), earthquake (0.7%) and the remainder (less than 1%) in fire and allied lines.

The Company temporarily suspended writing new business for both California condominiums effective October 15, 2019 and California homeowners effective December 1, 2019 due to the adverse loss development on homeowners multiple peril line of business. The net Loss and Loss Expense Percentage (Incurred/Premiums Earned) for Homeowners multiple peril line of business has improved since temporarily suspension from 117.8% in 2019 to 96.3% in 2020, respectively.

REINSURANCE

Assumed

The Company does not assume any reinsurance.

Ceded

The Company is a reinsured party under The Wawanesa Mutual Insurance Company's (its parent) reinsurance program. This reinsurance program consists of a catastrophe

excess of loss contract, aggregate excess of loss contract, and a casualty excess of loss contract. The business covered under the parent's program includes personal, commercial property, and automobile physical damage. The following is a summary of the reinsurance program in-force as of December 31, 2020. All amounts are in Canadian Dollars except for the agreement with The Hartford Steam Boiler Inspection and Insurance Company which is in U.S. Dollars.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property:			
Home Systems Protection and Service Line Coverage	The Hartford Steam Boiler Inspection and Insurance Company Authorized	\$0	Accepts 100% liability not to exceed \$50,000 for any one Home System Breakdown for any one policy and not to exceed \$10,000 for any one Service Line Failure for any one policy
<u>Catastrophe Excess of Loss First Layer</u>	Multiple domestic, foreign and alien companies. Top 3 Lloyds London 22.86% Unauthorized Hannover Ruck SE 11.87% Unauthorized Swiss Re 10% Unauthorized	\$50 million ultimate net loss in respect of each and every loss occurrence.	\$50 million Ultimate Net Loss in respect of each and every Loss Occurrence and \$100 million Net Loss in respect of all loss occurrences during the term of the Contract
Second Layer	Multiple domestic, foreign and alien companies. Top 3 Lloyds London 32.45% Unauthorized Hannover Ruck SE 18.6% Unauthorized Swiss Re 10% Unauthorized	\$100 million ultimate net loss in respect of each and every loss occurrence.	\$50 million Ultimate Net Loss in respect of each and every Loss Occurrence and \$100 million Net Loss in respect of all loss occurrences during the term of the Contract
Third Layer	Multiple domestic, foreign and alien companies. Top 3: Lloyds London 32.5% Unauthorized Hannover Ruck SE 19.0% Unauthorized Swiss Re 10% Unauthorized	\$150 million ultimate net loss in respect of each and every loss occurrence.	\$150 million Ultimate Net Loss in respect of each and every Loss Occurrence and \$300 million Net Loss in respect of all loss occurrences during the term of the Contract
<u>Aggregate Property Catastrophe Excess of Loss</u>	Multiple domestic, foreign, and alien companies. Top 3: Swiss Re 20% Unauthorized Lloyds Syndicates 19.55% Unauthorized Ariel Re 11% Unauthorized	\$5 million of catastrophe loss occurrences commencing during the term of this Contract having an Ultimate Net Loss greater than \$5,000,000.	The annual aggregate of 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$137,500,000 in the aggregate, subject to a limit of liability to the Reinsurer of \$125,000,000 in the aggregate.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
<u>Property per risk Excess of Loss Excluding Catastrophe</u> First layer	Multiple domestic, foreign, and alien companies. Top 3: Hannover Ruck SE 25% Unauthorized Scor Canada Re 12% Unauthorized Munich Re 10% Unauthorized	\$3 million of Ultimate Net Loss in respect of each loss, each Risk	\$2 million in Ultimate Net Loss in respect of each loss, each Risk; \$6 million Ultimate Net Loss in respect of each Loss Occurrence; and \$20 million in Ultimate Net Loss in respect of all losses during the term of this Contract.
Second Layer	Multiple domestic, foreign, and alien companies. Top 3: Hannover Ruck SE 25% Unauthorized Scor Canada Re 12% Unauthorized Munich Re 10% Unauthorized	\$5 million of Ultimate Net Loss in respect of each loss, each Risk	\$5 million in Ultimate Net Loss in respect of each loss, each Risk; \$10 million Ultimate Net Loss in respect of each Loss Occurrence; and \$30 million in Ultimate Net Loss in respect of all losses during the term of this Contract.
Third Layer	Multiple domestic, foreign, and alien companies. Top 3: Hannover Ruck SE 25% Unauthorized Scor Canada Re 12% Unauthorized Munich Re 10% Unauthorized	\$10 million of Ultimate Net Loss in respect of each loss, each Risk	\$15 million in Ultimate Net Loss in respect of each loss, each Risk; \$15 million Ultimate Net Loss in respect of each Loss Occurrence; and \$45 million in Ultimate Net Loss in respect of all losses during the term of this Contract.
Fourth Layer	Multiple domestic, foreign, and alien companies. Top 3: Hannover Ruck SE 25% Unauthorized Scor Canada Re 12% Unauthorized Munich Re 10% Unauthorized	\$25 million of Ultimate Net Loss in respect of each loss, each Risk	\$25 million in Ultimate Net Loss in respect of each loss, each Risk; \$25 million Ultimate Net Loss in respect of each loss occurrence; and \$50 million in Ultimate Net Loss in respect of all losses during the term of this Contract.
<u>Automobile and Casualty</u>			
<u>Automobile & Casualty Excess of Loss</u> First layer	Multiple domestic, foreign and alien companies Top 3 Lloyds Syndicates 17.5% Unauthorized Swiss RE 17.5% Unauthorized Scor Canada Re 15% Unauthorized	\$3 million of Ultimate Net Loss in respect of each loss occurrence	\$2 million in Ultimate net Loss in respect of each loss occurrence. \$22 million in Ultimate Net Loss in regards of all loss occurrences during the term of the Contract

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Second layer	Multiple domestic, foreign and alien companies Top 6 Lloyds Syndicates 20% Unauthorized Scor Canada Re 15% Unauthorized Everest Re 10% Unauthorized Munich Re 10% Unauthorized Odyssey Re 10% Unauthorized Swiss Re 10% Unauthorized	\$5 million of Ultimate Net Loss in respect of each loss occurrence	\$15 million in Ultimate net Loss in respect of each Loss Occurrence. \$60 million in Ultimate Net Loss in regards of all loss occurrences during the term of the Contract

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, 2020. The accompanying comments on financial statements should be considered an integral part of the financial statements. There were no adjustments made as a result of the examination.

Statement of Financial Condition as of December 31, 2020

Underwriting and Investment Exhibit for the Year Ended December 31, 2020

Reconciliation of Surplus as Regards Policyholders from December 31, 2016 through December 31, 2020

Statement of Financial Condition
as of December 31, 2020

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 510,739,617	\$	\$ 510,739,617	
Common stocks	123,452,406		123,452,406	
Cash, cash equivalents, and short-term investments	58,386,811		58,386,811	
Derivatives	12,845		12,845	
Other invested assets	309,595		309,595	
Receivables for securities	192,923		192,923	
Investments income due and accrued	4,232,947		4,232,947	
Uncollected premiums and agents' balances in the course of collection	6,958,918	319,345	6,639,573	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	64,853,336		64,853,336	
Amounts recoverable from reinsurers	14,231		1,4231	
Net deferred tax asset	7,819,712		7,819,712	
Electronic data processing equipment and software	2,146,000		2,146,000	
Furniture and equipment	5,698,481	5,698,481	0	
Aggregate write-ins for other than invested assets	<u>2,547,499</u>	<u>2,155,284</u>	<u>392,215</u>	
Total assets	<u>\$ 779,192,211</u>	<u>\$ 8,173,110</u>	<u>\$ 779,192,211</u>	
 <u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses			\$ 176,496,502	(1)
Loss adjustment expenses			39,463,590	
Other expenses			27,966,813	(1)
Taxes, licenses and fees			129	
Current federal and foreign income taxes			1,188,934	
Unearned premiums			150,493,153	
Advance premiums			5,899,623	
Ceded reinsurance premiums payable			2,302,521	
Drafts outstanding			20,670,697	
Payable for parent, subsidiaries and affiliates			2,013,796	
Payable for securities			3,356,655	
Aggregate write-ins for liabilities			<u>90,565</u>	
Total liabilities			429,942,978	
Common capital stock		\$ 2,600,000		
Gross paid in and contributed surplus		268,366,173		
Unassigned funds (surplus)		<u>78,283,060</u>		
Surplus as regards policyholders			<u>349,249,233</u>	
Total liabilities, surplus, and other funds			<u>\$ 779,192,211</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2020

State of Income

Underwriting Income

Premium earned		\$ 529,408,283
Deductions:		
Losses incurred	\$ 355,047,786	
Loss adjustment expenses incurred	82,195,594	
Other underwriting expenses incurred	<u>77,930,735</u>	
Total underwriting deductions		<u>515,174,115</u>
Net underwriting gain		14,234,168

Investment Income

Net investment income earned	\$ 17,447,674	
Net realized capital losses	<u>4,231,711</u>	
Net investment gain		21,679,385

Other Income

Net loss from agents' or premium balances charged off	\$	
Finance and service charges not included in premiums	2,148,987	
Aggregate write-ins for miscellaneous income	<u>635,950</u>	
Total other income		<u>2,784,937</u>
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		38,698,490
Federal and foreign income taxes incurred		<u>8,433,233</u>
Net income		<u>\$ 30,265,257</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2019		\$ 302,295,136
Net income	\$ 30,265,257	
Change in net unrealized capital gains	18,993,821	
Change in net unrealized foreign exchange capital loss	(205,977)	
Change in non deferred income tax	2,112,178	
Change in nonadmitted assets	<u>(4,211,182)</u>	
Change in surplus as regards policyholders for the year		<u>46,954,097</u>
Surplus as regards policyholders, December 31, 2020		<u>\$ 349,249,233</u>

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2016 through December 31, 2020

Surplus as regards policyholders, December 31, 2016			\$ 237,403,043
	Gain in Surplus	Loss in Surplus	
Net income	\$ 80,800,355	\$	
Change in net unrealized capital gains	22,168,978		
Change in net unrealized foreign exchange capital gains	290,858		
Change in deferred income tax	13,705,276		
Change in nonadmitted assets	<u> </u>	<u>5,119,276</u>	
Total gains and losses	<u>\$ 116,956,467</u>	<u>\$ 5,119,276</u>	
Net increase in surplus as regards policyholders			<u>111,846,191</u>
Surplus as regards policyholders, December 31, 2020			<u>\$ 349,249,234</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2020 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

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

Respectfully submitted,

Thomas Podsiadlo, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

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