



**December 10, 1992**

**BULLETIN #537**

**BULLETIN TO ALL MEMBERS:**

**RE: ADOPTION OF NEW PERMANENT REGULATION 2174.1-2174.14**

Effective November 25, 1992, the California Department of Insurance has released the revised and permanent version of the California Code of Regulations, Title 10, Chapter 5, Subchapter 1, Article 4, Section 2174.1-2174.14. A copy of the Permanent Regulation is attached for your reference. We urge you to carefully review this document in its entirety.

James S. Pugh  
Assistant Manager

JSP/imb

Enclosure

STATE OF CALIFORNIA  
DEPARTMENT OF INSURANCE  
45 FREMONT STREET, 24TH FLOOR  
SAN FRANCISCO, CA 94105

EFFECTIVE NOVEMBER 25, 1992

CALIFORNIA CODE OF REGULATIONS, TITLE 10  
CHAPTER 5 SUBCHAPTER 1 ARTICLE 4  
ADOPT SECTIONS 2174.1 THROUGH 2174.14, TO READ:

2174.1 Preamble

Sections 2174.2 through 2174.14 are not meant to provide an exhaustive specification of all possible criteria that the Commissioner may consider in determining whether grounds are present to issue an order under Insurance Code section 1765.1. Inasmuch as it is not possible to foresee all contingencies and provide regulations to anticipate them, the duties and discretion of the Commissioner conferred by law regarding the legal and financial evaluation of nonadmitted insurers proposed for use by licensees cannot be, are not intended to be, and shall not be, exhausted by these sections.

NOTE: Authority Cited: Section 1763, Insurance Code.

Reference: Sections 1763 and 1765.1, Insurance Code.

## 2174.2 Definitions

- (a) "Certified" means an originally signed and/or sealed statement, dated not more than 60 days before submission, made by a public official or other person, attached to a copy of a document, which attests that the copy is a true copy of the original, and that the original is in the custody of the person making the statement.
- (b) "Commissioner" means the Insurance Commissioner of California.
- (c) "Department" means the California Department of Insurance.
- (d) "Domiciliary jurisdiction" means the state, nation or subdivision thereof under the laws of which an insurer is incorporated or otherwise organized.
- (e) "Filing" is a submission which the Department has determined is in substantial compliance with the requirements of Section 2174.9, although it may have exemption requests or omissions.
- (f) "Insurer" means (unless the context indicates otherwise) "nonadmitted" insurers which are either "foreign" or "alien" insurers, as those terms are defined in Insurance Code

sections 25, 27, and 1580. The term "insurer" includes all nonadmitted insurers selling insurance to or through purchasing groups as defined in the Liability Risk Retention Act of 1986 (15 U.S.C. section 3901 et seq) and the California Risk Retention Act of 1990 (Insurance Code section 125 et seq.), except insurers which are risk retention groups as defined by those Acts.

- (g) "Licensee" includes both surplus line brokers and special lines' surplus line brokers licensed pursuant to Insurance Code sections 1760.5(b), 1765 and 1765.2-1765.4.
- (h) "NAIC" means the National Association of Insurance Commissioners or its successor organization.
- (i) "NAIIO" means the Nonadmitted Alien Insurer Information Office of the NAIC or its successor office.
- (j) "Placement" means the placing of insurance by a licensee with an insurer pursuant to the provisions of Chapter 6, Part 11 Division 1, of the Insurance Code.
- (k) "State" means any State of the United States; the District of Columbia; a commonwealth and a territory.
- (l) "Submission" means the providing to the Department of documents required under Section 2174.4.
- (m) "Verified" means a document or copy accompanied by an originally signed statement, dated not more than 60 days before submission, from a responsible executive or official who has authority to provide the statement and knowledge whereof he or she speaks, attesting either under oath before a notary public, or under penalty of perjury under California law, that the assertions made in the document are true.

NOTE: Authority Cited: Section 1763, Insurance Code.

Reference: Sections 1763 and 1765.1, Insurance Code.

## 2174..3 Placements

- (a) Minimum Standards

The Commissioner has set forth in Section 2174.9 certain minimum standards of insurer financial stability, reputation and integrity to guide licensees in their selection of insurers for placements. A licensee who makes a placement with an insurer which fails to meet the minimum standards may be subject to disciplinary action pursuant to Section 2174.9(c).

(b) Submit and Use

Except as provided in subsection (c) below, placement may be made immediately after submission, without awaiting a determination of whether the submission was accepted for filing.

(c) Exemptions

Exemptions from certain of the minimum standards may be requested by licensees as set forth in Section 2174.5(g). No placements may be made with an insurer while an exemption request

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is pending for that insurer. Unless within 90 days from the date of submission the submission has been rejected pursuant to Section 2174.7, an order under CIC Section 1765.1 has been issued, or the licensee has waived the 90 day period, the exemption request shall be deemed to have been granted for a period of one year from the date of submission.

NOTE: Authority Cited: Sections 1668, 1763, 1765, Insurance Code. Reference: Sections 1668, 1763, 1765 and 1765.1, Insurance Code.

2174.4 Required submissions

(a) Submissions

Except as provided in Section 2174.4(c), a licensee shall submit all of the following before making a placement:

- (1) Department Form A (Appendix A), as a cover sheet.
- (2) The documents required by Section 2174.5.
- (3) A filing fee of \$1500.00.

(b) Updates

During the twelve months after a licensee makes a filing under Section 2174.4(a), the licensee shall keep the documents current by submitting all of the following:

- (1) More recently-dated versions of documents as soon as such updated documents are available.
- (2) Information to reflect any change in the data contained in documents previously filed which relates to Sections 2174.5(b) through (f) and 2174.9(a)(2) through (8).
- (3) A filing fee of \$250 per document for updates of financial documents; and a filing fee of \$35 per document for all other updates.

(c) Exceptions

Unless the Department specifically directs a licensee otherwise pursuant to Insurance Code Section 1765.1, the submission required by Section 2174.4(a) need not be made in any of the following circumstances:

- (1) Where the licensee has made Section 2174.4(a) and (b) submissions within the preceding twelve months on that same insurer, and all exemption requests, if any, have been granted.
  - (2) Where the licensee has determined that the financial stability, reputation, and integrity of an insurer is sufficient to safeguard the interest of the prospective insured; and that another licensee has made a filing under Section 2174.4(a) on that same insurer within the preceding twelve months and any exemption requests have been granted; and the licensee makes the following submission:
    - (A) Department Form A.
    - (B) A filing fee of \$35.00.
  - (3) Where another licensee has made a filing under Section 2174.4(a) on an insurer within the preceding twelve months, and
- 3-

the licensee has made a submission under 2174. (C)(2) for that same insurer within the preceding twelve months.

(4) Where the licensee's placement covers only liability arising out of the ownership, maintenance, or use of a motor vehicle, aircraft or boat in the Republic of Mexico, and is issued by an insurer domiciled in Mexico.

(d) Additional Requirements

All submissions by the licensee made pursuant to this section shall meet the requirements of Insurance Code Section 8 and shall be forwarded to the Department at the following address:

Surplus Lines Enforcement Unit  
Investigation Bureau  
California Department of Insurance  
45 Fremont  
San Francisco, CA 94105

All submissions shall be made in triplicate, except that submissions shall be made in quadruplicate if one or more exemption requests are made under Section 2174.5(g).

NOTE: Authority Cited: Sections 1763, 1771, and 12921.6, Insurance code. Reference: Sections 1763 and 1765.1, Insurance Code.

2174.5 Documents To Submit

(a) Financial Documents

The financial documents as specified below, each showing the insurer's condition as of a date not more than twelve months prior to submission:

(1) Annual Statement

A copy of an annual statement, prepared in the form prescribed by the NAIC. For an alien insurer, in lieu of an annual statement a licensee may submit Department Form (Appendix B) and Department Form C (Appendix C) as prepared by the insurer, and, if listed by the ISI financial report service, the

NAIIO, or both, a copy of the most recent annual financial data furnished either to ISI or NAIIO shall also be filed.

(2) Audited Financial Report

A copy of an audited financial report on the insurer's condition which meets the standards of subpart (4) for foreign insurers or subpart (5) for alien insurers.

(3) Trusteed Assets

If the insurer is an alien:

(A) A certified copy of the trust agreement referenced in Section 2174.9(a)(4).

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(B) A verified copy of the most recent quarterly statement or list of the assets in the trust.

(4) Reporting standards for Foreign Insurers

(A) Financial documents must be certified.

(B) An audited financial report shall constitute a supplement to the insurer's annual statement, as required by the annual statement instructions issued by the NAIC.

(C) An audited financial report shall be prepared by an independent certified public accountant or accounting firm in good standing with the American Institute of Certified Public Accountants and in all states where licensed to practice; and be prepared in conformity with statutory accounting practices prescribed, or otherwise permitted, by the insurance regulator of the insurer's domiciliary jurisdiction.

(D) An audited financial report shall include information on the insurer's financial position as of the end of the most recent calendar year, and the results of its operations, cash flows and changes in capital and surplus for the year then ended.

(E) An audited financial report shall be prepared in a form and using language and groupings substantially the same as the relevant sections of the insurer's annual statement filed with its domiciliary jurisdiction, and presenting comparatively the amounts as of December 31 of the most recent calendar year and the amounts as of December 31 of the preceding year.

(5) Reporting Standards for Alien Insurers

(A) Except as provided in Section 2174.5(a)(3)(B), financial documents should be certified; if certification of a document is not available, the document must be verified.

(B) Financial documents should be expressed in United States dollars, however may be expressed in another currency, if the exchange rate for the other currency as of the date of the document is also provided.

(C) The responses provided in Department Form C should follow the Insurance Solvency International ("ISI") Guide to Alien Reporting Format, "Standard Definitions of Accounting Items," (August, 1987). Responses that do not agree with a standard definition must be fully explained in the form.

(D) An audited financial report shall be prepared by an independent auditor licensed as such in the insurer's domiciliary jurisdiction or in any state.

(E) An audited financial report shall be prepared in accord with either (i) Generally Accepted Auditing Standards that prescribe Generally Accepted Accounting Principles, or (ii) International Accounting Standards as published and revised from time to time by the International Accounting Standards Committee and the International Auditing Guidelines published by the International Auditing Practice

Committee of the International Federation of Accountants; and shall include financial statement notes and a summary of significant accounting practices.

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(6) Substitutions

The Commissioner may accept, in lieu of a document described above, any certified or verified financial or regulatory document, statement or report if the Commissioner finds that it possesses reliability and financial detail substantially equal to or greater than the document for which it is proposed to be a substitute.

(7) Supplements

If one of the financial documents required to be submitted under Section 2174.5(a)(1) and (2) is dated within twelve months of submission, but the other document is not so dated, the licensee may use the outdated document if it is accompanied by a supplement. The supplement must meet the same requirements which apply to the supplemented document, and must update the outdated document to a date within the prescribed time period, preferably to the same date as the non-supplemented document.

(b) License

A certified copy of the insurer's license issued by its domiciliary jurisdiction, plus a certificate of good standing, certificate of compliance or other equivalent certificate, from either that jurisdiction or, if the jurisdiction issues no such certificates, from any state where it is licensed.

(c) Agent for Service of Process

Information on the insurer's agent in California for service of process, including the agent's full name and address. The agent's address must include a street address where the agent can be reached during normal business hours.

(d) Principal Place of Business

The complete street address, mailing address and telephone number of the insurer's principal place of business..

(e) Market Conduct Information

A certified or verified explanation, report or other statement, from the insurance regulatory office or official of the insurer's domiciliary jurisdiction, concerning the insurer's record regarding market conduct and consumer complaints; or, if such information cannot be obtained from that jurisdiction, then such other information as the licensee can procure to demonstrate a good reputation for payment of claims and treatment of policyholders.

(f) Regulatory Disclosure

A verified statement, from the insurer or licensee, on whether the insurer or any affiliated entity is currently known to be the subject of any order(s) or proceeding(s) regarding conservation, liquidation or other receivership; or regarding revocation or suspension of a license to transact insurance in any jurisdiction; or otherwise seeking to stop the insurer from transacting insurance in any jurisdiction. The

statement shall identify any such proceeding(s) by date, jurisdiction, and relief or sanction sought; and shall attach a copy of any such order(s).

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(g) Request for Exemption

If the licensee requests any of the exemptions authorized by Subsections 2174.9(a)(3),(6) or (7), a letter that sets forth the request(s) and all of the reasons why the licensee contends that the insurer satisfies the standards for each exemption requested. The licensee must indicate where provided on the Department Form A cover letter accompanying the submission that an exemption is requested. Failure to make such an indication is a waiver of the 90 day limitation period of Section 2174.3(b). The licensee shall make no placements with an insurer unless and until all requested exemptions are granted.

(h) Additional Information

If requested by the Department, such additional information concerning the insurer that the Department finds necessary for its review; and, if offered by a licensee, any additional information which the licensee would like the Department to consider in its review.

NOTE: Authority Cited: Section 1763, Insurance Code.

Reference: Sections 1763 and 1765.1, Insurance Code.

2174.6 Filing

(a) Time of Filing

Submissions are not considered filed until a determination is made that the submission is in substantial compliance with the requirements of Section 2174.9. Submissions determined to be in substantial compliance will be accepted for filing and recorded as filed as of the date of determination.

(b) Effect of Filing

Acceptance of a submission for filing is not a determination that the submission meets with all requirements. After due examination of the filing, the Commissioner may determine that an order under CIC Section 1765.1 is necessary to protect the public interest.

NOTE: Authority Cited: Section 1763, Insurance Code.

Reference: Sections 1763 and 1765.1, Insurance Code.

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2174.7 Rejection of Documents

Submissions which are not in substantial compliance with the requirements of Section 2174.9 may be rejected. When a submission is rejected, the licensee will be provided with the reasons for the rejection and may be issued an order under CIC Section 1765.1 pursuant to the provisions of Section 2174.9(c). Filing fees are non-refundable.

NOTE: Authority Cited: Sections 1763 and 12977, Insurance Code.

Reference: Sections 1763 and 1765.1, Insurance Code.

### 2174.8 List of Filings

(a) The Department shall maintain a list of filings for public inspection at the filing office in San Francisco and the Insurance Commissioner's office in Los Angeles.

(b) For each filing, the list shall contain the names of the insurer and the licensee, and the date of filing. A filing which contains one or more exemption requests shall be noted on the list as "Exemption Requested -- Not For Use Under 2174.4(c)." The notation of an exemption request shall be removed when no exemption request is pending.

(c) The filing may remain on the list for a period not to exceed one year unless removed pursuant to an order issued under Insurance Code Section 1765.1.

NOTE: Authority Cited: Section 1763, Insurance Code.

Reference: Sections 1763 and 1765.1, Insurance Code.

### 2174.9 Standards For Evaluation Of Insurers

#### (a) Review of Filings

The Department may issue an order under Insurance Code Section 1765.1 with respect to a filing made under Section 2174.4(a), if the filing does not meet all of the following conditions:

##### (1) Completeness of Filing

All documents required by Section 2174.4 have been filed and any exemption request has been granted. Each of the documents appear after review to be complete, clear, comprehensible, unambiguous, accurate and consistent.

##### (2) Regulatory Action

The documents affirm that the insurer is not subject in any jurisdiction to an order or proceeding which:

- (A) Seeks to stop it from transacting insurance.
- (B) Relates to conservation, liquidation or other receivership.
- (C) Relates to revocation or suspension of its license.

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##### (3) Capital and Surplus

The documents demonstrate that the insurer's capital and surplus is at least \$15 million, unless:

- (A) The insurer is excepted as provided in subpart (4) below; or
- (B) An exemption from this minimum requirement is granted. The Commissioner may grant an exemption if the licensee has applied for same pursuant to the provisions of Section 2174.5(g), and demonstrates that the exemption is warranted because the insurer provides only unique or specialized coverages and/or serves unique, specialized or limited markets, and the insurer's capital and surplus is sufficient for its risks and markets.

##### (4) Trust Account



If the insurer is an alien, the documents should confirm that a trust account for the protection of United States' policyholders and claimants is maintained in the United States, in a Federal Reserve System member bank, under a trust agreement in a form acceptable to the Commissioner. If the trust agreement is in the form of the NAIC Standard Form Trust Agreement For Alien Surplus Lines Insurers, and if the insurer will write life, accident and health, disability or credit insurance, the agreement shall include an amendment to make the trust funds available for all risks, including life, accident and health, disability and credit insurance. The trust amount should be not less than \$5.4 million, except that if the alien insurer is an association or syndicate (with individuals or unincorporated insurers as members), the trust amount should be not less than \$100 million. An alien insurer which maintains a \$100 million trust account pursuant to this subpart is excepted from the capital and surplus requirements of subpart (3) above.

#### (5) Quality of Assets

The documents confirm that the assets which meet the financial requirements of subparts (3) and (4) above are in the form of cash, or securities of the same character and quality as specified in Insurance Code sections 1170 through 1182, or in readily-marketable securities listed on regulated United States' national or principal regional security exchanges securities specifically valued by the NAIC Securities Valuation office shall be presumed readily-marketable absent evidence to the contrary. Letters of credit in the form of the Compromise Letter of Credit Form (Appendix D) may fund the trust required under subpart (4) above, but will not qualify as assets under subpart (3).

#### (6) Seasoning

The documents affirm that the insurer has actively transacted insurance for the three years immediately preceding the filing made under Section 2174.4(a) unless an exemption is granted. The Commissioner may grant an exemption if the licensee has applied for same pursuant to Section 2174.5(g) and demonstrates that:

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(A) The insurer meets the condition for any exception set forth in Insurance Code Section 716(a), (b), or (c); or

(B) If the insurer has been actively transacting insurance for at least twelve months, and the licensee demonstrates that the exemption is warranted because the insurers current financial strength, operating history, business plan, ownership and control, management experience and ability, together with any other pertinent factors, make three years of active insurance transaction unnecessary to establish sufficient reputation.

#### (7) License

The documents confirm that the insurer holds a license to issue insurance policies (other than reinsurance) to residents of the jurisdiction that granted the license unless an exemption is granted. The Commissioner may grant an exemption if the licensee has applied for same pursuant to the provisions of Section 2174.5(g), and demonstrates that the exemption is warranted because the insurer proposes to issue in California only commercial coverage, and is wholly owned and actually controlled by substantial and knowledgeable business enterprises, which are its policyholders and which effectively

govern the insurer's destiny in furtherance of their own business objectives.

(8) Market Conduct

The information filed pursuant to Section 2174.5(e) or otherwise filed with or available to the Commissioner, including reports received from California policyholders, shall indicate that the insurer makes reasonably prompt payment of claims in this state or elsewhere.

(9) Code Violations

The information available to the Commissioner shall not indicate that the insurer offers in California through a licensee products or rates that violate any provision of the Insurance Code.

(b) Consideration of Public Interest

Notwithstanding that all of the conditions set forth in Section 2174.9(a) have been met, the Commissioner may determine that facts or circumstances are present in such a degree that an order issued under Insurance Code Section 1765.1 is necessary to protect the public interest.

(c) Failure to Make Submission or Filing

The Department may issue an order under Insurance Code Section 1765.1 where a licensee fails to comply with the provisions of Section 2174.4(a) and (b), or where a licensee uses an insurer which fails to meet the standards set forth in Section 2174.9(a). When such conduct by the licensee constitutes a failure to safeguard the interests of the licensee's insured, such failure is a violation of license qualifications under Insurance Code Section 1765(b) and may result in denial, suspension or revocation of the license under Insurance Code Section 1765(f).

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NOTE: Authority Cited: Section 1763, Insurance Code.

Reference: Sections 1763, 1765 and 1765.1, Insurance Code.

2174.10 Procedures For Orders under section 1765.1

(a) Content

Any order issued by the Department pursuant to Insurance Code section 1765.1 shall identify both the licensee and the insurer to which it pertains, and shall state the basis for the Commissioner's belief that the order serves the public interest. The order shall remain in effect until rescinded by the Commissioner, set aside by a court of competent jurisdiction, or as provided in subsection (c) below.

(b) Service

The Department shall serve copies of the order on both the licensee and the insurer by certified first-class mail with postage prepaid. The licensee shall be served at his or her last-known address as indicated on the Department's license records. The insurer shall be served by means of the agent for service of process filed pursuant to Section 2174.5(c) or, in the Commissioner's discretion, at any other address reasonably calculated to afford prompt actual notice to the insurer.

(c) Hearing

Any licensee or insurer served with an order under Insurance Code Section 1765.1 may, within 30

calendar days after service of the order, request in writing a public hearing on receiving that request, the Commissioner shall set the hearing for not less than 20 nor more than 30 calendar days after the request was received, and shall notify the licensee and insurer of the hearing date. Within 60 days after conclusion of the hearing, the commissioner shall affirm the order or it shall be deemed rescinded.

NOTE: Authority Cited: Section 1763, Insurance Code.

Reference: Sections 1763 and 1765.1, Insurance Code.

#### 2174.11 Public Availability Of Documents

(a) All documents filed with the Commissioner under Sections 2174.4 and 2174.5, all periodic filings required under the Section 2174.9(a)(4) trust agreement, all orders issued under Insurance Code Section 1765.1, and all evidence, pleadings and documents relating to hearings held under Section 2174.10(c), shall be available for public review. Nothing herein shall make any memorandum, study or other document prepared by or for the Department staff in its official capacity, for internal Department use, a public document.

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(b) The Commissioner may prepare and distribute to the public a list of licensees to whom section 1765.1 orders have been issued and of insurers named in the orders.

NOTE: Authority Cited: Section 1763, Insurance Code.

Reference: Sections 856(a), 1763 and 1765.1, Insurance Code.

#### 2174.12 Status of Nonadmitted Insurers

Neither these regulations nor the exercise of the Commissioner's power hereunder are intended to confer on any nonadmitted insurer any status approximating in any respect that of an admitted insurer for any purpose, including, but not limited to, the discharge of a licensee's duty under Insurance Code section 1765 to transact their an insurance brokerage business in a manner that safeguards the interests of their the licensee's insureds.

NOTE: Authority Cited: Section 1763, Insurance Code.

Reference: Sections 1763, 1765, 1765.1 and 1776, Insurance Code.

#### 2174.13 Transition

The following provisions apply to licensees who make placements with an insurers which has been used by any licensee for California surplus line business at any time prior to the effective date of Sections 2174.1 through 2174.13:

(a) The documents required by Section 2174.3(a) must be submitted by the licensee not later than 180 calendar days after the effective date.

(b) At the time of such submission, the licensee must demonstrate that the insurer meets all the requirements of Section 2174.9(a), except that the insurer will meet the standards set forth in Section 2174.9(a)(7) not later than one year from the date of filing.

NOTE: Authority Cited: Section 1763, Insurance Code.  
Reference: Sections 1763 and 1765.1, Insurance Code.

#### 2174.14 Notice to Licensees

The Commissioner shall mail a copy of Sections 2174.1 through 2174.14 to each licensee upon the effective date of said Sections, and thereafter, to each new licensee.

NOTE: Authority Cited: Section 1763 and 1765.1, Insurance Code.  
Reference: Section 1765.1, Insurance Code.

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#### APPENDIX A

#### APPENDIX A

### CALIFORNIA DEPARTMENT OF INSURANCE SURPLUS LINE BROKER'S STATEMENT OF PLACEMENT OF

(California Insurance Code Section 1765.1)

The undersigned surplus line broker has placed (or proposes to place) insurance with the following nonadmitted insurer:

The documents required to be filed by Regulation 2174 of Title 10 of the California Code of Regulations ("CCR") (check all applicable):

are submitted herewith. The documents include an:

OMISSION: The reason for the omission of any required document is explained in an attached statement.

#### EXEMPTION

REQUEST: The documents include one or more exemption requests [failure to indicate an exemption request is a waiver of time pursuant to CCR Section 2174.5(g)].

were reported filed with the California Department of Insurance as follows:

Filed on (date)

Filed by (broker)

I AM INFORMED AND BELIEVE THAT THE ABOVE NAMED NONADMITTED INSURER HAS

SUFFICIENT FINANCIAL STABILITY, REPUTATION AND INTEGRITY TO RECEIVE PLACEMENTS AND SAFEGUARD THE INTERESTS OF ITS INSUREDS.

DATE: SURPLUS LINE BROKER:

(Signature)

LICENSE NUMBER:

Department Form A (6/92)

APPENDIX B

APPENDIX B

CALIFORNIA DEPARTMENT OF INSURANCE

COMPANY INFORMATION

1. The insurer shall provide a narrative of its plan of operation including the following information:

a) Date of incorporation, or if unincorporated, date of organization. Date of commencement of business. if incorporated, capital stock authorized, issued and outstanding shares.

b) An explanation of the ownership and control of the insurer, its principal management, and its subsidiaries and affiliates.

c) Territories of operation.

d) Lines of business transacted showing gross premiums, reinsurance assumed, reinsurance ceded and net premiums.

e) An explanation of the largest gross premium amount written on one risk and type of insurance.

f) An explanation of the method used for asset valuation.

g) Does the company have legal title and/or similar ownership rights to all assets reported in the balance sheet?

h) If any assets are encumbered, pledged or restricted in any manner, a detailed explanation should be provided for each such asset.

i) A schedule for each asset equal to 10% or more of the total assets or 5% of insurer's adjusted shareholder funds, whichever is the lesser as of the financial statement date. The schedule should describe the asset, list its cost, amortized value, market value in U.S. currency, and/or any other method of valuation.

- j) If the insurer has its loss reserves reviewed by an actuary for adequacy and reasonableness, a copy of any loss reserve certification issued shall be filed. If no such review is done, the insurer shall provide a complete explanation of its reserving methodology.
- k) A schedule of reinsurance per attached Form B-2 (NAIC Schedule R).
- l) Provide the total for the largest amount written on any one risk and type of insurance.

Department Form B (3/92)

## CALIFORNIA DEPARTMENT OF INSURANCE

### COMPANY INFORMATION

- 2. Provide the name and address of United States Counsel (or representative).
- 3. Provide name and address of supervisory official at the insurance regulatory agency of the domiciliary jurisdiction.
- 4. Describe any legal or regulatory action taken against the insurer and/or any of its officers or directors. Submit copies of underlying documents when appropriate.
- 5. Describe any major and/or material transaction which is pending or has occurred during the past year that affects the operation of the company. Submit copies of underlying documents when appropriate.
- 6. Provide information regarding U.S. trust account.

Department Form B (3/92)

### SCHEDULE R

(See Instructions Attached)

---

Name of Company Report Year Ended

1.

NAIC COMPANY ID NO.

2.

NAME OF REINSURER

3.

ADDRESS, INCLUDING COUNTRY OF DOMICILE

4.

5.

REINSURANCE RECOVERABLE ON PAID LOSSES AND ALAE\*\*

6.

REINSURANCE RECOVERABLE ON UNPAID LOSSES INCL., IBNR\* AND ALAE\*\*

7.

CURRENT YEAR PREMIUM CEDED

8.

UNEARNED PREMIUMS (EST.)

9.

DEPOSITS OF FUNDS WITHHLD FROM REINSURERS AFFILIATES

SUB- TOTALS

NON AFFI- LIATES

SUB- TOTALS

ALL OTHERS \*\*\*

\* Incurred But Not Reported

\*\* Allocated Loss Adjustment Expenses

\*\*\* See de minimis provision in Instructions

Department Form B-2 (4/92)

#### INSTRUCTIONS FOR COMPLETING NAIC SCHEDULE R COLUMN

1 Please provide NAIC Identification Numbers, alien/domestic.

2 Self-explanatory (see instruction for column #3)

3 List in alphabetical order by country; then list in alphabetical order by company.

4 Insert in this column, if applicable, the following letter designation:

(J) Reinsurer is subject to delinquency proceeding (i.e., conservation, rehabilitation, receivership, liquidation, or equivalent proceeding.

(W) A dispute exists with the company which may affect the recoverability of all or part of the balance shown. A dispute exists, for the purposes of this disclosure, when the reinsurer has contested the validity of coverage, or the ceding or assuming insurer has initiated arbitration or otherwise instituted legal actions concerning any amount claimed to be recoverable.

(N) All or part of the balances recoverable are past due. A past due balance is defined for the purposes of this disclosure, as a reinsurance claim which remains unpaid for a period of 180 days after payment is due under the terms and conditions of the reinsurance agreement.

5 If applicable.

6 If applicable.

7 Self -explanatory.

8 If applicable.

9 If covered by letters of credit, please identify by appending "L".

De Minimis Provision

(a) Facultative business -- individual recoverables amounting to less than 2% of capital and surplus may be combined.

(b) Treaty business -- all amounts (by reinsurer) less than 2% of gross premium income on proportional (quota share) reinsurance and all amounts (by reinsurer) less than 5% of premium ceded on nonproportional and/or excess of loss reinsurance may be combined. Department Form B-3 (3/92)

APPENDIX C

California Department of Insurance

(FINANCIAL REPORTING FORMAT)

JURAT

\_\_\_\_\_  
(Name of Insurer)

COUNTRY OF DOMICILE:

Insurance Solvency International (ISI) Number: \_\_\_\_\_

OFFICERS OR DIRECTORS\*

(Names and Titles)

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
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_____	_____
_____	_____

_____	_____	President	_____	Secretary
_____	Treasurer			

The undersigned being duly sworn, state that they are the above described officers of said insurer, and that as or the last day of the fiscal/calendar year just ended, all of the herein described assets were the absolute property of said insurer, free and clear from any liens or claims thereon, except as herein stated, and that this financial statement, together with schedules and explanations therein contained, annexed or referred interrogatories hereto are a full and true statement of all the assets and liabilities and of the condition and affairs of said insurer as of the last day of the fiscal/calendar year just ended, and of its



income and deductions therefrom for the year ended on that date, according to the best of their information, knowledge and belief, respectively.

Subscribed and sworn to before

me this \_\_\_\_\_ day of \_\_\_\_\_ President  
\_\_\_\_\_ 1991 \_\_\_\_\_ Secretary  
\_\_\_\_\_ Treasurer

\*Please place an asterisk beside any directors added within the previous twelve months.

California Department of Insurance  
Standard Financial Report  
(Name of Company)

United States Trust Account Information

1. Name and address of United States contact:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Name and address of United States Trust Account, Trustee:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. U.S. Trust Account-Terms and conditions of enforceability as specified in the NAIC Standard Trust Agreement:

Terms and Conditions of enforceability

\_\_\_ (1) Judgement Obtained \_\_\_ (5) Open Ended with 5-yr.  
cancellation clause

\_\_\_ (2) Judgement Final \_\_\_ (6) Expiration Date:

\_\_\_ (3) Judgement Filed with \_\_\_ (7) Valuation of trust:

Trustee as of:

\$

\_\_\_ (4) Expiration of 30 days

Major Lines of Coverage:

Section 3

Summary of financial Data Current Year Prior Year

Total Assets-----	\$
Total Liabilities-----	\$
Total Capital and Surplus Funds-----	\$
Cash and Invested Assets-----	\$
Policyholder Reserves-----	\$
Gross Written Premiums-----	\$

California Department of Insurance

(Name of Insurer)

Balance Sheet

For Period Ended

Assets Current Year Prior Year

- 1. Bonds \$ -----
- 2. Stocks, Shares -----
- 3. Real Estate -----
- 4. Affiliates -----
- 5. Insurance Debts -----
- 6. Cash Deposits -----
- 7. Other Assets -----
- 8. Total Assets -----

-----  
----- Liabilities

- 9. Technical Reserves \$ -----
- 10. Loss Reserves (Unpaid Losses) -----
- 11. Unearned Premium Reserve -----
- 12. Funded Reserve -----
- 13. Other Technical Reserves -----
- 14. Other Liabilities -----
- 15. Total Liabilities -----

-----  
Shareholder Funds

- 16. Capital \$ -----
- 17. Extra Reserves (Shs.Fds.) -----
- 18. Other Surplus -----
- 19. Shareholders Funds -----
- 20. Adj. & Add'l. Asset Value -----

21. Adj. Shareholder's Funds -----

22. Currency Exchange Rate -----

-----

----- (per unit of U.S. Currency)

California Department of Insurance

(Name of Insurer)

Income Statement

Report for Period Ended

Underwriting Profit/Loss Current Year Prior Year

1. Gross Premiums Written \$ -----

2. Premiums Ceded \$ -----

3. Net Premium Written \$ -----

--- 4. Increase in Premium Reserves \$ -----

--- 5. Net Premium Earned \$ -----

--- 6. -Net Losses Incurred(1) \$ -----

--- 7. -Management Expenses \$ -----

8. -Net Commission Expenses \$ -----

--- 9. +Other Underwriting Income \$ -----

---

10. Underwriting Profit/Loss \$ -----

Investment and Miscellaneous Profit/Loss

11. +Net Investment Income(2) \$ -----

--- 12. +Asset Valuation adjustment \$ -----

--- 13. +Other Income (Interest on Investments) \$ -----

--- 14. Overall Pre-Tax Earnings \$ -----

15. Currency Exchange Rate \$ -----

(per unit of currency)

-----

California Department of Insurance

(Name of Insurer)

Income Statement

Report for Period Ended

(See Income Statement Definitions)

(1) Net Losses

+Change in Unpaid Losses \$ -----

---

(2) Gross Investment Income \$ -----

Net of Investment Expenses

California Department of Insurance

Name of Insurer

Ratio Report

Current Year Ending ,Ratios expressed as percentages

Original/

Domiciliary/

Solvency and Reserves U.S. \$

Currency

- 1. Net Premium/Shareholder Funds -----
- 2. Technical Reserve+Shareholder Fund/Net Premium -----
- 3. Technical Reserves/Net Premium -----
- 4. Technical Reserves/Shareholder Fund -----
- 5. \*% Growth, Shareholder Funds -----
- 6. \*% Growth, Net Premiums -----
- Profitability 7. Underwriting Profit/Inv Inc -----
- 8. Underwriting Profit/Net Premium -----
- 10. \*% Growth, Pre-Tax Profit -----
- 11. Combined Ratio (1-Yr) -----

Liquidity

- 12. Insurance Debts/Assets -----
- 13. Insurance Debts/Shareholder Funds -----
- 14. Technical Reserve/Liquid Assets -----

Reinsurance Leverage

- 15. Net Premium Written/Gross Premium Written -----
- 16. Retention Ratio -----

Investments

- 17. Investment Yield -----
- 18. \*%Growth, Investment Income -----

\* Must be reported in both currencies - U.S. and original/domicillary

APPENDIX D

APPENDIX D

## COMPROMISE LETTER OF CREDIT FORM

(Name of Bank)

(Address)

### FOR INTERNAL IDENTIFICATION PURPOSES ONLY

Does Not Affect Terms of Letter of Credit or Bank's Obligation. Thereunder

Our No. \_\_\_\_\_ Other \_\_\_\_\_

Accountholder/Applicant \_\_\_\_\_

Reinsurer)

Beneficiary's State Of Domicile \_\_\_\_\_

Issue Date:

\_\_\_\_\_

Irrevocable Clean Letter Of Credit No. \_\_\_\_\_

To Beneficiary: (Name + Address)

We have established this clean, irrevocable, and unconditional Letter of Credit in your favor as beneficiary for drawings up to U.S. , effective immediately. This Letter Of Credit is issued, presentable and payable at our office at (issuing bank address) and expires with our close of business on . Except when the amount of this Letter of Credit is increased, this Credit cannot be modified or revoked without your consent.

The term "Beneficiary" includes any successor by operation of law of the named Beneficiary including without limitation any such liquidator, rehabilitator, receiver or conservator. Drawings by any liquidator, rehabilitator, receiver or conservator shall be for the benefit of all of the Beneficiary's policyholders. (Insurers Incorporated under the laws of California must use the language in Note 1 below in lieu of this paragraph)

We hereby undertake to promptly honor your sight draft(s) drawn on us, indicating our Credit No. , for all or any part of this Credit upon presentation of your draft drawn on us at our office specified in paragraph one on or before the expiration, date-hereof or any automatically extended expiry date.

Except as expressly stated herein, this undertaking is not subject to any agreement, requirement or qualification. The obligation of (issuing bank) under this Credit is the individual obligation of (issuing bank) and is in no way contingent upon reimbursement with respect thereto, or upon our ability to perfect any lien, security interest or any other reimbursement.

This Letter of Credit is deemed to be automatically extended without amendment for one year from the expiration date or any future expiration date, unless thirty days prior to such expiration date, we notify you by Registered Mail that this letter of credit will not be renewed for any such additional period.

Continued

This Letter of Credit is subject to and governed by the Laws of the State of (see note 2 below) and the 1983 Revision of the Uniform Customs and Practice for Documentary Credits of the International

Chamber of Commerce (Publication No. 400) and in the event of any conflict the Laws of (see note 2 below) will control. If this credit expires during an interruption of business as described in Article 19 of said Publication 400, the bank hereby specifically agrees to effect payment if this Credit is drawn against within 30 days after the resumption of business.

Very truly yours,

Notes:

1. In lieu of paragraph two above, insurers incorporated under the laws of California must use the following paragraph:

The term "Beneficiary" includes any successor by operation of law of the named Beneficiary. If a court of law appoints a successor in interest to the named Beneficiary, then the named Beneficiary includes and is limited to the court appointed domiciliary receiver (including conservator, rehabilitator or liquidator).

2. Insurers incorporated under the laws of California insert California, insurers incorporated under the laws of New York, insert New York, other insurers insert state of incorporation or New York. United States branches of alien insurers insert state of entry or New York.