



State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE
OFFICE OF SOLVENCY REGULATION
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REPORT ON EXAMINATION AS TO THE CONDITION OF

FORTENTIAL INSURANCE COMPANY

MT LAUREL TOWNSHIP, NJ 08054

AS OF DECEMBER 31, 2023

N.A.I.C. GROUP CODE 1278

N.A.I.C. COMPANY CODE 42960

FILED

February 5, 2025

Commissioner

New Jersey Department

Of

Banking and Insurance

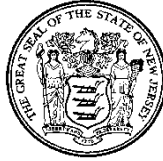
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January 16, 2025

Honorable Justin Zimmerman
Commissioner of Banking and Insurance State of
New Jersey
20 W. State Street
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

FORTENTIAL INSURANCE COMPANY
MT. LAUREL TOWNSHIP NJ 08054
N.A.I.C. GROUP CODE 1278
N.A.I.C. COMPANY CODE 42960

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, Fortential Insurance Company will be referred to in this report as the "Company" or "Fortential".

SCOPE OF EXAMINATION

This risk-focused examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:23-22 of the New Jersey Revised Statutes.

The examination was conducted as of December 31, 2023, and addressed the four-year period from January 1, 2020 to December 31, 2023. During this four-year period under examination, the Company's assets decreased from \$27,674,974 to \$26,623,970. Liabilities decreased from \$ \$3,351,743 to \$332,728 and its surplus as regards policyholders increased from \$24,323,231 to \$26,291,242.

This examination was performed as a coordinated group examination and covers the period January 1, 2020 to December 31, 2023, with a review of such prior and subsequent transactions as deemed necessary. This examination was conducted concurrently with the financial examinations of CSAA Insurance Group (NAIC Group #1278), which includes CSAA Insurance Exchange (NAIC #15539), domiciled in California, and its other insurer subsidiaries. The California Department of Insurance ("CDI") served as the lead state for the coordinated group examination. The New Jersey Department of Banking and Insurance ("NJDOBI") conducted the examination in accordance with the 2024 edition of the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook (the "NAIC Handbook"). The NAIC Handbook requires NJDOBI to plan and perform the examination in order to evaluate the financial condition and identify prospective risks of the Company. To meet these objectives NJDOBI obtained information regarding the Company's corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated the Company's system of internal controls and procedures used to mitigate identified risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

According to the NAIC Handbook, "One of the increased benefits of the enhanced risk focused approach is to include ... consideration of other than financial risks that could impact the insurer's future solvency. By utilizing the enhanced approach, the examiner reviewed the "financial" and "enterprise" risks that existed at the examination "as of" date and will be positioned to assess "financial" and "enterprise" risks that extend or commence during the time the examination was conducted and "prospective" risks which are anticipated to arise or extend past the point of examination completion. Using this approach examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer."

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

HISTORY AND KIND OF BUSINESS

The Company was incorporated as “Keystone Insurance Company of New Jersey” on April 12, 1990 as a stock insurance company under and pursuant to the provisions of Chapter 17 of the Revised Statutes of the State of New Jersey. The Certificate of Incorporation was approved by the New Jersey Attorney General on April 12, 1990 and was filed with the NJDOBI on July 6, 1990. The Certificate of Incorporation authorized the issuance of 20,000 shares of common stock having a par value of \$100 per share for total common capital stock of \$2,000,000.

On March 27, 1991, the Company’s original Stock Certificate No. 1 certified that Keystone Insurance Company (“KIC”) was the owner of all 20,000 shares of the Company with a par value of one hundred dollars (\$100) per share for a total authorized capital of two million dollars (\$2,000,000).

On April 9, 1991, the original Certificate of Authority was issued by the New Jersey Commissioner of Insurance which authorized the Company, being in the Township of Voorhees, County of Camden, to transact the kinds of insurance specified in paragraphs “a”, “b”, “*d”, “**e”, “j”, “k”, “l” and “o-1” of N.J.S.A. 17:17-1 et seq. (* shall not include authority to “write policies of individuals or group health insurance” as defined in the Life and Health Insurance Code N.J.S.A. 17B:17-1 et seq.) and (** specifically excludes writing “workers’ compensation insurance” and “employers’ liability insurance”).

On July 30, 1991, KIC was approved to withdraw from all business in New Jersey, except accident and health, pursuant to N.J.S.A. 17:33B-30, in accordance with the conditions set forth in the Administrative Decision Order No. A91-290, pursuant to which the Company assumed all of KIC’s designated New Jersey business.

The Company commenced business as of December 1, 1991.

On February 21, 1994, the Company’s additional Stock Certificate No. 2 certified that KIC owns an additional 4,000 shares of the Company’s stock. KIC was the owner of all 24,000 outstanding shares of the Company’s stock, with a par value of one hundred dollars (\$100) per share for a total authorized capital of two million four hundred thousand dollars (\$2,400,000).

The Company’s first amendment to its Certificate of Incorporation was approved by the Deputy Attorney General on May 10, 1994 and filed with the NJDOBI on June 10, 1994. This amendment updated article three by adding paragraph “0- 3” “mechanical breakdown / power failure” of N.J.S.A. 17:17-1 et seq. Also the fifth article was amended to read as follows: “The amount of capital stock of the corporation shall be Two Million Four Hundred Thousand Dollars (\$2,400,000) divided into Twenty-four Thousand (24,000) shares of capital stock, each having the par value of One Hundred Dollars (\$100).”

On December 15, 1994, the Company’s additional Stock Certificate No. 3 certified that KIC owns an additional 5,000 shares of the Company’s stock. KIC was the owner of all 29,000 outstanding shares of the Company’s stock, with a par value of one hundred dollars (\$100) per

share for a total authorized capital of two million nine hundred thousand dollars (\$2,900,000).

The Company's second amendment to its Certificate of Incorporation was approved by the Deputy Attorney General on February 9, 1995 and filed with the NJDOBI on March 3, 1995. This amendment updated article three by deleting paragraph "d" "against bodily injury" of N.J.S.A. 17:17-1 et seq. Also the fifth article was amended to read as follows: "The amount of capital stock of the corporation shall be Two Million Nine Hundred Thousand Dollars (\$2,900,000) divided into Twenty-nine Thousand (29,000) shares of capital stock, each having the par value of One Hundred Dollars (\$100) per share."

The Company's third amendment to its Certificate of Incorporation was approved by the Deputy Attorney General on December 12, 1997 and filed with the NJDOBI on December 22, 1997. This amendment updated the first article to read as follows: "The name of the corporation shall be AAA Mid-Atlantic Insurance Company of New Jersey."

On December 22, 1997, the amended Certificate of Authority was issued by the NJDOBI which authorized the Company to transact the kinds of insurance specified in paragraphs "a", "b", "*e", "j", "k", "l" and "o-1" of N.J.S.A. 17:17-1 et seq. (* specifically excludes writing "workers' compensation insurance" and "employers' liability insurance").

On November 15, 2001, the Company amended and restated its Bylaws which were filed with the NJDOBI on December 27, 2001. This amendment reflected the Board of Director's approved change to Article VI: Seal – Section 2, which changed the Company's name from "Keystone Insurance Company of New Jersey" to "AAA Mid-Atlantic Insurance Company of New Jersey".

As of 2004, KIC transferred \$1,000,000 to the Gross Paid-in and Contributed Surplus account of the Company. This was requested by the NJDOBI in order to maintain the Company's gross premiums written to surplus ratio below the Department's benchmark of 6 to 1.

On July 27, 2005, the amended Certificate of Authority was issued by the NJDOBI which authorized the Company to transact the kinds of insurance specified in paragraphs "a", "b", "*e", "j", "k", "l", and "o" of N.J.S.A. 17:17-1 et seq. (* specifically excludes writing "workers' compensation insurance" and "employers' liability insurance").

On September 15, 2005, the Company amended and restated its Bylaws which were filed with the Commissioner of NJDOBI on January 13, 2006. This amendment reflected the Board of Director's approved changes to Article III: Officers – Sections 2, 3, 4 and 5. The changes indicated that the following officers: Chairman of the Board, Vice Chairman of the Board, President and Chief Operating Officer shall be ex-officio members of all committees of the Board except the audit committee, nominating committee and compensation committee.

On August 16, 2006, the NJDOBI approved a filing by Auto Club Partners, Inc. ("Auto Club") to acquire control of the Company in accordance with Order No. A06-118. The Holding Company structure still reflected the Company's direct parent was KIC and KIC's direct parent was AAA Mid-Atlantic Inc., and as of August 18, 2006, Auto Club became the ultimate controlling entity.

On September 20, 2007, the Company amended and restated its Bylaws which were filed with

the NJDOBI on May 12, 2009. This amendment reflected the Board of Director's approved changes to Article VII: Indemnification and Insurance – Section 1. The change clarified that the Company shall indemnify employees in the same manner as officers and directors.

The Company's fourth amendment to its Certificate of Incorporation was approved by the Deputy Attorney General on November 12, 2008 and filed with the NJDOBI on December 18, 2008. This amendment updated the second article to read as follows: "The principal office of the corporation in the State of New Jersey, which shall also be its registered office, is located at 700 Horizon Drive, Township of Hamilton, being in the County of Mercer, State of New Jersey, and the registered agent upon whom process may be served upon the corporation shall be the Corporate Secretary or his designee at said address."

On December 18, 2008, the amended Certificate of Authority was issued by the New Jersey Commissioner of Banking and Insurance which changed the Company's location from the Township of Voorhees, County of Camden to the Township of Hamilton, County of Mercer.

On September 8, 2009, the Company reissued all shares of outstanding Stock Certificates to reflect the Company's name change from "Keystone Insurance Company of New Jersey" to "AAA Mid-Atlantic Insurance Company of New Jersey".

The Company was acquired effective January 1, 2011 by the California State Automobile Association Inter-insurance Bureau, now known as CSAA Insurance Exchange, a California reciprocal insurer (the "Exchange"), when the Exchange purchased all of the issued and outstanding shares of KIC from AAA Mid-Atlantic Inc., a Delaware corporation and then owner of 100% of the stock of KIC, pursuant to a Stock Purchase Agreement dated October 15, 2010. KIC (now known as CSAA Affinity Insurance Company), in turn, owns 100% of the issued and outstanding shares of the stock of the Company.

The Company's Amended and Restated Certificate of Incorporation was approved by the Deputy Attorney General on April 22, 2014 and filed with NJDOBI on June 18, 2014. This amendment integrated the provisions of the Certificate of Incorporation as amended previously and amended the first article to read as follows: "The name of the corporation shall be: CSAA Mid-Atlantic Insurance Company of New Jersey." On June 18, 2014, the Company also filed with the NJDOBI amended and restated Bylaws, and the New Jersey Commissioner of Banking and Insurance issued an Amended Certificate of Authority, each reflecting the Company's new name.

On December 7, 2016 the Company reissued all shares of outstanding stock in a new Certificate No. 4, reflecting the Company's name change from "AAA Mid-Atlantic Insurance Company of New Jersey" to "CSAA Mid-Atlantic Insurance Company of New Jersey".

Following the acquisition of the Company by the Exchange in 2011, the Company's operations were transitioned to the Exchange's main administrative office at 3055 Oak Road, Walnut Creek, California 94598. The Company's registered agent upon whom process may be served upon is The Corporation Trust Company, 820 Bear Tavern Road, West Trenton, New Jersey 08628.

On October 31, 2017, the First Amended and Restated Certificate of Incorporation ("Certificate of Incorporation") noted that the registered agent upon whom process may be served shall be The Corporation Trust Company, and was filed with the Department of Banking and Insurance

on November 13, 2017 and approved on November 23, 2017.

The Company's first amendment to its Certificate of Incorporation, dated March 2, 2022, was approved by the Deputy Attorney General on September 15, 2022, filed with the NJDOBI on October 20, 2022, and approved by NJDOBI on November 16, 2022. This amendment updated the principal office address by updating the second article to read as follows: "The principal office of the corporation in the State of New Jersey is located at 1400 Howard Boulevard, Mt. Laurel Township, being in Burlington County, State of New Jersey, and the registered agent upon whom process may be served upon the corporation shall be The Corporation Trust Company at the registered office address of 820 Bear Tavern Road, West Trenton, New Jersey." The first amendment was duly approved by the Board of Directors of the Company by unanimous written consent on March 24, 2021, and the sole shareholder on April 14, 2021.

The Company's second amendment to its Certificate of Incorporation, dated June 14, 2023, was approved by the Deputy Attorney General on August 22, 2023, filed with the NJDOBI on October 3, 2023, and approved by NJDOBI on November 1, 2023. This amendment updated the Company's name by updating the first article to read as follows: "The name of the corporation shall be Fortential Insurance Company." The second amendment was duly approved by the Board of Directors of the Company by unanimous written consent on May 16, 2023, and the sole shareholder on June 1, 2023.

STATUTORY DEPOSIT

As of December 31, 2023, the Company maintains \$100,000 total par value in US Treasury Notes with the Commissioner of Banking and Insurance of the State of New Jersey for the benefit and security of all of the policyholders of the Company.

TERRITORY AND PLAN OF OPERATION

The Company is a domestic property and casualty stock insurance company licensed to transact business in the State of New Jersey. As of December 31, 2023, the Company reported no direct premiums written.

As of December 31, 2023, the Company is licensed to write the following lines of business: Fire and Allied Lines; Earthquake; Marine; Automobile Liability (Bodily Injury); Automobile Liability (Property Damage); Automobile Physical Damage; Other Liability; Burglary & Theft; Glass; Sprinkler Leakage & Water Damage; Smoke & Smudge; Physical Loss to Buildings; Mechanical Breakdown/Power Failure.

REINSURANCE AND RETENTION

Effective January 1, 2011, via CSAA Affinity Insurance Company ("CAIC"), the Company was acquired by the Exchange in an all-out stock purchase. Coincident with this purchase, the Company terminated its inter-company pooling agreement with its Parent, CAIC, and its affiliate, CSAA Mid-Atlantic Insurance Company, and immediately entered into a new pooling agreement whereby the participating companies cede 100% of their business to the Exchange (as the lead insurer).

Effective January 1, 2019, the Exchange and pooling participants terminated its former pooling agreement and entered into a new pooling agreement whereby each entity cedes 100% of its business to the Exchange with no retrocession by the Exchange back to the pool. The pooling participants included the Exchange, CSAA General Insurance Company “CGIC”, CSAA Fire and Casualty Company Insurance Company “FCIC”, CAIC, Mobilitas General Insurance Company (formerly known as CSAA Mid-Atlantic Insurance Company), Mobilitas Insurance Company “MOBI”, Mobilitas Insurance Company of Arizona “MICA”, and Fortential.

All business written by each of the pool participants is subject to pooling. Reinsurance may be ceded on a facultative and/or treaty basis by any pool participant prior to pooling and each pool participant has a contractual right of direct recovery from its own reinsurers.

Before pooling, the Exchange has a reinsurance program covering property catastrophe excess of loss with non-affiliated reinsurers, which is subject to the pooling arrangement. Coverage is provided in a series of layers up to \$1.55 billion excess of \$200 million per occurrence with one reinstatement available. The program also includes a top and drop coverage of \$100 million excess of \$100 million and provides coverage for either a loss over \$1.55 billion or additional coverage for a second or third catastrophe in the same year.

Effective October 1, 2020, the Exchange amended and restated its pooling agreement to remove Mobilitas General Insurance as a member of the pool. The remaining pool participants will continue to cede 100% of their insurance business to the Exchange.

The pooling participants and each of their percentage participations in the pooled results was as follows:

CSAA Insurance Exchange	100%
CGIC	0%
FCIC	0%
CAIC	0%
FORTENTIAL	0%
MOBI	0%
MICA	<u>0%</u>
Total	100.00%

CORPORATE RECORDS

The Company’s Bylaws, which were amended and restated effective October 3, 2023, stipulates in Article I Section 1 that annual meetings of stockholders shall be held at such date and time as shall be designated from time to time by the Board of Directors of the Company and stated in the notice of the meeting. The meeting shall be held at the Company’s Headquarters unless otherwise designated.

As provided in Article II of the Company’s Bylaws, the Board of Directors governs the business of the Company. The Board of Directors shall consist of such number of Directors as may be provided for by a resolution of the Board.

Each Director shall be elected and shall hold office until the next Annual Meeting, or until their successor is elected and qualified, or until their earlier resignation or removal. Regular meetings of the Board of Directors may be held without notice at such time and place as may be determined from time to time by the Board of Directors. A majority of Directors in office shall constitute a quorum. Special meetings of the Board of Directors may be called by the Chairman of the Board on five days written notice to each Director setting forth the time, place and purpose of such meeting.

Unless otherwise restricted by the Certificate of Incorporation or the Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

Article III Section 1 of the Bylaws stipulates that the officers of the Company shall be chosen by the Board of Directors and shall be a President, a Chief Executive Officer, a Secretary, and a Treasurer. The Board of Directors may also choose a Chairman of the Board and one or more assistant Secretaries and assistant Treasurers. The Board of Directors may also choose one or more Vice Presidents. Any number of offices may be held by the same person, unless the Certificate of Incorporation of the Company or the Bylaws otherwise provide.

A review of the minutes of the Board of Directors meetings noted that they were well attended by the Company's Directors and that the proceedings of the meetings were done in compliance with the Company's state charter and Bylaws. The Board minutes also indicated that the Company's overall transactions and events were adequately supported and approved. The Board also approved the Company's operation reports which were reviewed as part of their parent's report, CAIC. A review of the signed affidavits of each member of the Board indicated that they received and reviewed a copy of the December 31, 2019 financial condition examination report.

MANAGEMENT AND CONTROL

The President and their delegated officers under the guidance of the Board of Directors manage the business, property and affairs of the Company. Board meetings run concurrently with overlapping topics to assure alignment between CAIC and the Company.

Fortential was acquired effective January 1, 2011 by the California State Automobile Association Inter-insurance Bureau, now known as CSAA Insurance Exchange, a California reciprocal insurer, when the Exchange purchased all of the issued and outstanding shares of Keystone Insurance Company (now known as CSAA Affinity Insurance Company) from AAA Mid-Atlantic Inc., a Delaware corporation and then owner of 100% of the stock of Keystone Insurance Company, pursuant to a Stock Purchase Agreement dated October 15, 2010. CAIC, in turn, owns 100% of the issued and outstanding shares of the stock of Fortential.

Directors

Fortential's Bylaws specify that the business and affairs of the Company shall be managed by its Board of Directors, subject to the laws of New Jersey, the Certificate of Incorporation and the Bylaws of the Company. The Board of Directors shall consist of such number of Directors as may be provided by a resolution of the Board, which was three (3) directors on December 31, 2023. Each Director shall be elected and shall hold office until the next Annual Meeting, or until their successor is elected and qualified, or until their earlier resignation or removal.

Regular meetings of the Board of Directors may be held without notice at such time and place as may be determined from time to time by the Board of Directors. A majority of Directors in office shall constitute a quorum.

A listing of the Directors serving the Company as of December 31, 2023 is as follows:

<u>Name</u>	<u>Principal Occupation</u>
Michael Jay Zukerman	Interim President and CEO CSAA Insurance Exchange
Andrea Kay Hecht	Executive Vice President, Chief Financial Officer and Treasurer CSAA Insurance Exchange
Linsay Danice Hohmann	Senior Vice President CSAA Insurance Exchange

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4d(3) which states that, "not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity". The Company is in compliance with N.J.S.A. 17:27A-4d(3) through the ultimate parent, the Exchange.

Committees

The Company did not have any committees in place as of December 31, 2023. All committees are at the Exchange level. A list of the committees includes an audit committee, a finance and investment committee, a nominating and governance committee, and a compensation and human capital committee. All committees are comprised solely of members who are outside directors and who are not affiliated with the Company or any controlling entity thereof.

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4d(4) which states that, "the board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer or any such

entity. The committee shall be responsible for recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation, including bonuses or other special payments, of the principal officers". However, in accordance with N.J.S.A. 17:27A-4d(5), the provisions of paragraph (4) shall not apply to a domestic insurer if the person controlling the insurer is an entity having one or more committees that substantially meet the requirements of this paragraph. The Company is in compliance with N.J.S.A. 17:27A-4d(5), as the controlling entity maintains an audit committee, a nominating and governance committee, and a compensation and human capital committee which have all outside directors who perform the designated responsibilities as indicated in 17:27A-4d(4). This was confirmed in a notice dated May 1, 2013, provided from the Company to the NJDOBI, pursuant to N.J.A.C. 11:26.14(f).

Officers

The officers of the Company shall be chosen by the Board of Directors and shall be a President, a Chief Executive Officer, a Secretary and a Treasurer. The Board of Directors may also choose a Chairman of the Board and one or more Assistant Secretaries and Assistant Treasurers. The Board of Directors may also choose one or more Vice Presidents. Any number of offices may be held by the same person, unless the Certificate of Incorporation of the Company or the Bylaws otherwise provide.

The officers of the Company shall be appointed by the Board of Directors, and each shall serve at the pleasure of the Board of Directors, subject to the rights, if any, of an officer under any contract of employment.

The following officers were elected and serving as of December 31, 2023:

- Michael Jay Zukerman – Interim President and CEO
- Andrea Kay Hecht - Treasurer and Chief Financial Officer
- Michael Jay Zukerman - Secretary
- Carrie Christine Collins - Assistant Secretary
- Katherine Jean Evans - Assistant Secretary
- Ryan Daniel Vigus - Assistant Vice President
- Todd Walker - Assistant Vice President

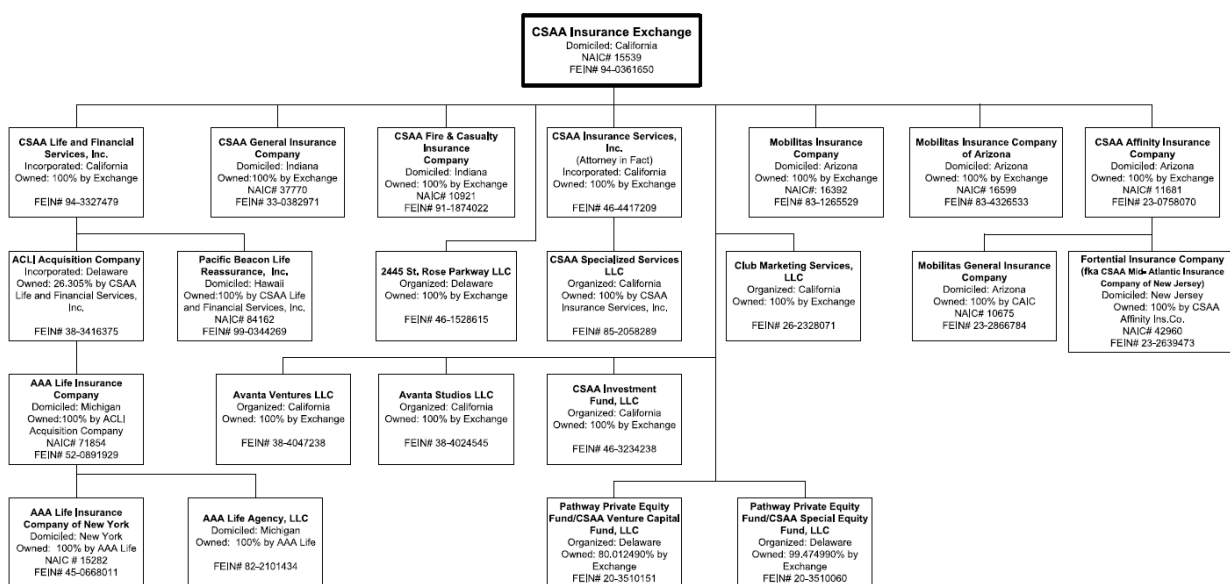
REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

The Company is a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1 and is subject to the registration requirements of N.J.S.A. 17:27A-3.

Fortential became part of the Insurance Holding Company System effective January 1, 2011 upon the acquisition by California State Automobile Association Inter-insurance Bureau, now known the Exchange, a California reciprocal insurer, of all of the issued and outstanding shares of CAIC (formerly known as Keystone Insurance Company) from AAA Mid-

Atlantic Inc., a Delaware corporation and then owner of 100% of the stock of Keystone Insurance Company, pursuant to a Stock Purchase Agreement dated October 15, 2010. CAIC, in turn, now owns 100% of the issued and outstanding shares of the stock of Fortential.

A chart setting forth the identities and relationships between the parent company and its affiliates as of December 31, 2023 is set forth below:



In addition to the 8 insurers included in the current Group examination, the Exchange has the following (wholly-owned, unless otherwise stated) subsidiaries reported as investments and admitted assets:

CSAA Insurance Services, Inc. (“CIS”) is a CA corporation organized under the laws of CA on August 10, 2015. CIS serves as the Exchange’s attorney-in-fact and houses all personnel, operations, and functions including administration, human resources, insurance operations, finance, sales, marketing, and legal for the Exchange. All direct insurance revenue and expenses, including premiums, losses, commissions, and premium taxes, are earned and incurred directly by the Exchange and its insurance subsidiaries. In the normal course of business, the Exchange and its subsidiaries incur a fee for the aforementioned services.

CSAA Investment Fund, LLC (“CIF”) is a CA subsidiary formed in 2013. CIF’s principal purpose is to make private market investments on behalf of the Exchange. The Exchange is the sole member and manager of CIF.

CSAA Life and Financial Services, Inc. (“CLFS”) is a wholly-owned financial services holding company with 2 subsidiaries:

1. ACLI Acquisition Company (“ACLI”) which is owned 26.305% by CLFS and is the holding company for AAA Life Insurance Company (“ALIC”). ACLI owns 100% of ALIC. ALIC is domiciled in Michigan and writes non-variable life insurance products. ALIC owns 100% of AAA Life Insurance Company of New York and AAA Life Agency, LLC.

2. Pacific Beacon Life Reassurance, Inc. is a wholly-owned, Hawaii domiciled company which provides reinsurance coverage on life and annuity products produced for ALIC by select AAA clubs who have agreed to distribute life insurance products underwritten by ALIC on an exclusive basis.

Pathway Private Equity Fund/CSAA Venture Capital Fund, LLC (PPVC) and Pathway Private Equity Fund/CSAA Special Equity Fund, LLC (PPSE) were formed in 2005. Pathway Capital Management, LLC is the managing member for both PPVC and PPSE, and is responsible for day-to-day operations of their business and affairs. PPVC's principal purpose is to invest in venture capital funds. PPVC is 80.01% owned by the Exchange. PPSE's principal purpose is to invest in private equity investment partnerships. PPSE is 99.47% owned by the Exchange.

2445 St. Rose Parkway LLC ("1ROSE") is a Delaware limited liability company which was organized in 2012 and wholly-owned by the Exchange. The Exchange purchased 50% of interest in 1ROSE, each, from CGIC and CFCIC, on October 31, 2023.

The Exchange has the following subsidiaries as non-admitted assets within the financial statements:

- Avanta Venture LLC was formed in July 2017 as a CA limited liability company, to invest in innovation projects. The Exchange is the sole member and manager.
- Avanta Studios LLC was formed in December 2016 as a CA limited liability company, to manage innovation related projects for the Group. The Exchange is the sole member and manager.

Related Party Agreements

As of December 31, 2023, the Company maintained related party agreements as discussed below:

Second Amended Restated Intercompany Tax Allocation Agreement: The Company entered the agreement effective January 1, 2011, with the ultimate controlling party the Exchange and the following subsidiaries and affiliates subject to the agreement as of December 31, 2010; CSAA Life and Financial Services, Inc., FCIC (f/k/a ACA Insurance Company), CGIC (f/k/a Western United Insurance Company), Pacific Beacon Life Reassurance, Inc., CAIC (f/k/a Keystone Insurance Company), Mobilitas General Insurance Company (f/k/a AAA Mid-Atlantic Insurance Company). As reported in the Company's Annual Registration Statements, Ceres Reinsurance, Inc. and ROOM8 Lab (f/k/a Club Insurance Services, Inc.) were terminated from the agreement effective August 2016 and November 2019, respectively. Pursuant to Section 5, CSAA Insurance Services, Inc. was added as a party to the agreement effective August 2015. Through addendums, Mobilitas Insurance Company and Mobilitas Insurance Company of Arizona were added to the agreement effective June 2018 and January 2019, respectively. Taxes are to be calculated and remitted as if filing on a separate return basis.

Consolidated Intercompany Services Agreement: Effective October 1, 2021, the Company and its other insurance affiliates have entered into an Amended and Restated Consolidated Intercompany Services Agreement with CIS, whereby CIS will provide the following services to the Company: accounting, tax and auditing, advertising and marketing, information

technology, insurance production and servicing, policy administration, claims administration, investments and functional support services. Settlements are made within ninety days of each quarter end. Pursuant to the agreement, the Company incurred fees charged by CIS in the amount of \$1,182,572 million for 2023 and \$1,199,250 for 2022.

POLICY ON CONFLICT OF INTEREST

The Code of Conduct addresses the Company policies, rules and procedures in the following areas: ethical conduct, conflicts of interest, legal and regulatory compliance, dealings with suppliers, political activities including anti-bribery, integrity of records and financial reports, fraud, equal employment opportunity, harassment, retaliation, reporting a concern, antitrust and unfair competition, privacy and confidentiality, claims handling, prohibition on discrimination in underwriting and rating insurance, external communications and social media guidance, truth in advertising, cooperation with regulators, and enforcement of standards. All employees of the Exchange acknowledge the Code of Conduct each year.

The Company has a formal policy regarding conflicts of interest and business conduct, which is the same policy as that of the ultimate parent, the Exchange. Each year all officers, directors, executives and employees in internal audit, procurement and sourcing complete a conflicts of interest questionnaire. The policy stipulates the various conditions and actions that are deemed by the Company to be inappropriate, potential conflicts of interest or violations of the policy.

The examination team reviewed all officers and directors executed Conflict of Interest statements for the period under examination, noting that there were no apparent or potential conflicts of interest.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company, along with its parent and any affiliates as part of the Exchange, are named insureds on a Financial Institution Bond underwritten by the Travelers Insurance Company. The bond provides the Exchange with a single loss limit of \$15,000,000 with a single loss deductible of \$250,000 for various risks covered under the policy and an aggregate limit of \$30,000,000. Coverages under the policy include dishonesty of employees, on premises; in transit; forgery or alteration; securities; counterfeit money and money orders; claim expense; and computer systems. The aggregate limit of insurance is \$30,000,000. The amount of fidelity coverage carried on this policy meets the suggested minimum amount of fidelity coverage as measured on a group basis using the NAIC's formula and exposure index.

In addition to the Fidelity Bond Coverage, the principal insurance coverages in which the Company is a named insured or an insured entity as of December 31, 2023 include the following:

- Business automobile
- Commercial general liability
- Pollution legal liability
- Commercial property

- Directors & officers and entity securities liability
- Fiduciary
- Professional liability
- Employment practices liability
- Workers' compensation
- Cyber liability
- Foreign liability
- Umbrella / excess

POLICY FORMS AND UNDERWRITING PRACTICES

The Company filed its rates and forms filings with NJDOBI for its private passenger automobile, personal homeowners, personal fire and personal inland marine lines of business. The Company uses Insurance Services Office Forms for all lines of business. All rates and form filings have been determined to be complete and in accordance with N.J.A.C. 11:3-16 and N.J.A.C. 11:3-35A.

The Company submitted a Tier Rating System for their private passenger automobile line of business that was in accordance with N.J.S.A. 17:29A-1, N.J.S.A. 17:29A-46.1 and N.J.A.C. 11:3-19A. The NJDOBI approved this Tier Rating System on March 28, 2005.

ACCOUNTS AND RECORDS

The Company maintains and/or utilizes several corporate accounting and information systems. These systems are operated directly by employees of affiliated entities with whom the Company has contracted to provide management, investment advisory and other such services. All key company data and processes such as premium, claims, policy processing, cash and others are in the CSAA Insurance Group network in Phoenix, Arizona.

Investment Accounting and Schedule D records are maintained and prepared by a third-party administrator, State Street Kansas City ("SSKC"). SSKC accounts for all investment transactions on their proprietary accounting system, Princeton Asset Management.

The Company utilizes Oracle Fusion Cloud Applications as its General Ledger system. The Oracle Fusion Cloud Applications software is connected to and receives transactional and financial data from a variety of sources including our Policy and Claims Administration Systems, our Workforce System, and user-initiated journal entries. All transactional data is stored in Oracle's cloud-based environment, and additional supporting documentation for manual journal entries is stored on the Company's internal network.

ADVERTISING AND SALES MATERIAL

The Company advertises as "AAA Insurance" or "CSAA Insurance Group". A review of the Company's advertising and sales materials which includes direct mailings, disclosed that the Company is in compliance with N.J.S.A. 17:18-10 and that there were no material inconsistencies between the Company's sales material and the Company's policies.

CONTINUITY OF OPERATIONS

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. The Company's comprehensive Business Continuity Plan was reviewed by INS as part of the CDI Examination and there were no issues noted. Data is protected against corruption or loss through a robust backup system configured to perform full database backups weekly and incremental server backups daily.

The Company has made provisions for the succession of officers in its Bylaws.

TREATMENT OF POLICYHOLDERS

A review of the Company's treatment of policyholders, which includes complaints, disclosed that the Company is in compliance with N.J.S.A. 17:29B-4(10) and that there were no exceptions between the Company's complaint records and N.J.S.A. 17:29B-4(10).

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A Balance Sheet as of December 31, 2023

Exhibit B Summary of Revenue and Expenses for the Four-Year Period Ending
December 31, 2023

Exhibit C Capital and Surplus Account for the Four-Year Period Ending December
31, 2023

**FORTENTIAL INSURANCE COMPANY
BALANCE SHEET AT DECEMBER 31, 2023**

	Current Examination at 12/31/2023	Balance Per Company at 12/31/2023	Examination Change	Note Number
<u>Assets</u>				
Invested Assets:				1
Bonds	\$26,141,054	\$26,141,054	\$0	
Stocks	521	521	0	
Cash, Cash Equivalents and Short-Term Investments	262,033	262,033	0	
Receivables for Securities	8,250	8,250	0	
Investment Income Due and Accrued	140,720	140,720	0	
Amounts Recoverable from Reinsurers	32,263	32,263	0	
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	-	-	0	
Receivable from Parent, Subsidiaries and Affiliates	-	-	0	
Aggregate Write-ins for Other than Investment Assets	39,129	39,129	0	
Total Admitted Assets	<u>\$26,623,970</u>	<u>\$26,623,970</u>	<u>\$0</u>	
<u>Liabilities</u>				
Losses and Loss Adjustment Expenses	\$0	\$0	\$0	2
Commissions Payable, Contingent Commissions and Other Similar Charges			0	
Current federal and foreign income taxes	36,190	36,190	0	
Net deferred tax liability	28,332	28,332	0	
Ceded Reinsurance Premiums Payable	50,035	50,035	0	
Payable to Parent, Subsidiaries and Affiliates	215,671	215,671	0	
Aggregate Write-ins for Liabilities	2,500	2,500	0	
Total Liabilities	<u>\$332,728</u>	<u>\$332,728</u>	<u>\$0</u>	
<u>Surplus and Other Funds</u>				
Common Capital Stock	\$2,900,000	\$2,900,000	\$0	
Gross Paid In and Contributed Surplus	15,300,000	15,300,000	0	
Unassigned Funds (Surplus)	8,091,242	8,091,242	0	
Surplus as Regards Policyholders	<u>\$26,291,242</u>	<u>\$26,291,242</u>	<u>\$0</u>	3

**FORTENTIAL INSURANCE COMPANY
STATEMENT OF INCOME FOR THE
FOUR YEAR PERIOD ENDING DECEMBER 31, 2023**

<u>UNDERWRITING INCOME</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Premiums Earned	\$0	\$0	\$0	\$0
Deductions:				
Losses Incurred	0	0	0	0
Loss Expenses Incurred	0	0	0	0
Other Underwriting Expenses Incurred	0	0	0	0
Total Deductions	\$0	\$0	\$0	\$0
Net Underwriting Gain or (Loss)	\$0	\$0	\$0	\$0
<u>INVESTMENT INCOME</u>				
Net Investment Income Earned	\$624,886	\$514,832	\$542,111	\$611,529
Net Realized Capital Gains or (-) Losses	37,960	(18,397)	(875)	25,301
Net Investment Gain	\$662,846	\$496,435	\$541,236	\$636,830
<u>OTHER INCOME</u>				
Net Gain or Loss (-) From Agnets' Balances				
Charged Off	\$0	\$0	\$0	\$0
Finance or Service Charge not Included in Premiums	0	0	0	0
Aggregate Write-ins for Miscellaneous Income		0	(32)	1,163
Total Other Income	\$0	\$0	(\$32)	\$1,163
Net Income Before Dividends to Policyholders and Before Federal and Foreign Income Taxes	\$662,846	\$496,435	\$541,204	\$637,993
Dividends to Policyholders	0	0	0	0
Net Income Before Federal Income Taxes	\$662,846	\$496,435	\$541,204	\$637,993
Federal and Foreign Income Taxes Incurred	111,142	74,403	76,736	79,283
Net Income	\$551,704	\$422,032	\$464,468	\$558,710

EXHIBIT C

**FORTENTIAL INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT FOR
FOUR PERIOD ENDING DECEMBER 31, 2023**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Net Income	<u>\$551,704</u>	<u>\$422,032</u>	<u>\$464,468</u>	<u>\$558,710</u>
<u>OTHER SURPLUS GAINS OR (-) LOSSES</u>				
Change In Net Unrealized Capital Gains or (-) Losses	158	(801)	67	117
Change in Net Deferred Income Tax	(87,753)	31,115	7,168	(18,020)
Change in Non Admitted Assets	59,463	(31,328)	(7,150)	18,061
Aggregate Write-ins for Gains and Losses in Surplus				
Total Other Surplus Gains or (-) Losses	<u>(\$28,132)</u>	<u>(\$1,014)</u>	<u>\$85</u>	<u>\$158</u>
Increase or (-) Decrease as Regards Policyholders	\$523,572	\$421,018	\$464,553	\$558,868
Surplus as Regards Policyholders				
December 31, Previous Year	<u>\$25,767,670</u>	<u>\$25,346,652</u>	<u>\$24,882,099</u>	<u>\$24,323,231</u>
Surplus as Regards Policyholders				
 December 31, Current Year	<u>\$26,291,242</u>	<u>\$25,767,670</u>	<u>\$25,346,652</u>	<u>\$24,882,099</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: INVESTED ASSETS

As of December 31, 2023, Fortential held 99.0% of its invested assets in bonds in the amount of \$26,141,054, 0.002% in stocks in the amount of \$521 and 1.0% in cash and short-term investments in the amount of \$262,033. All of the bonds, including the short-term bonds, are investment grade at NAIC 1 (97.1%) and NAIC 2 (2.9%). The holdings are in compliance with New Jersey laws and regulations and the SVO Purposes and Procedures Manual.

NOTE 2: LOSSES and LOSS ADJUSTMENT EXPENSES

At December 31, 2023, the Company reported a net liability for Losses and Loss Adjustment Expenses of \$0. The actuarial review of the Loss and Loss Adjustment Expenses Reserves for the CSAA Group was completed by the California Department of Insurance Actuarial Unit (“CDI Actuarial”). This review as performed by the CDI Actuarial reviewing Craig J. Scukas, FCAS, MAAA, Director PricewaterhouseCoopers LLP., actuarial review of the Exchange and its affiliates as of December 31, 2023.

The CDI Actuarial review was examined by the Property and Casualty Actuarial Staff of the NJDOBI – Office of Solvency Regulation. On the basis of this review, the Company’s gross and net reserves were determined to be reasonable, and the balance will be accepted as stated. Net loss reserves as reported by the Company and as determined by this examination, totaled \$0. Net loss adjustment expense reserves, as reported by the Company and as determined by this examination totaled \$0.

NOTE 3: SURPLUS AS REGARDS POLICYHOLDERS

Unassigned Funds (Surplus)

The Company reported surplus as regards to policyholders as of December 31, 2023 of \$26,291,242 which consisted of common stock of \$2,900,000, gross paid in and contributed surplus of \$15,300,000, and unassigned funds of \$8,091,242.

CONCLUSION

The undersigned hereby certifies that an examination has been made of Fortential Insurance Company and the foregoing report is true to the best of my knowledge and belief.

Respectfully Submitted,



Frank Taylor Phillips, CFE
Examiner-In Charge
Representing the State of New Jersey
Risk & Regulatory Consulting, LLC

Under the Supervision of,



Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

FORTENTIAL INSURANCE COMPANY

AFFIDAVIT

I, Frank Taylor Phillips, the undersigned, hereby certify that the foregoing Report of Examination accurately discloses, to the best of my knowledge, all material and relevant information related to the financial condition of Fortential Insurance Company in accordance with the NAIC Financial Condition Examiners Handbook and New Jersey State Regulations.

Respectfully Submitted,

Frank Taylor Phillips

Frank Taylor Phillips,
CFE Examiner-In-
Charge
Representing the State of New Jersey
Risk & Regulatory Consulting, LLC

Under the supervision of,

Nancy Lee Chice

Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Sheila M. Tkacs on this
16th day of January 2025.

Sheila M. Tkacs
Notary Public of New Jersey

My commission expires: July 2025