



March 19, 1993

BULLETIN #567

**RE: CALIFORNIA PACIFIC BANKERS & INSURANCE, LTD. (DOM)
AKA (New Name) CALIFORNIA PACIFIC CASUALTY INSURANCE (AVV)**

We have been requested by the California Insurance Department, acting in accordance with and pursuant to Section 1765.1 of the Insurance Code, to advise all Surplus Line brokers and Special Lines Surplus Line brokers that effective March 19, 1993, unless and until notified by the Department to the contrary, the above insurer should not be employed for placements of California business. No further new or renewal business may be placed with the company.

Please see attached documents for further information.

James S. Pugh
Assistant Manager

JSP/imb
Attachments

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

March 19, 1993

The Surplus Line Association of California
388 Market Street
San Francisco, CA 94111

**Subject: California Pacific Bankers & Insurance, Ltd-(DOM)
AKA (New Name) California Pacific Casualty Insurance (AVV)
Order Pursuant to California Insurance Code Section 1765.1**

Dear Gentle People:

Please issue a bulletin to your members notifying them that California Pacific Bankers & Insurance, Ltd.

(DOM) also known by its new name California Pacific Casualty Insurance (AVV) is unacceptable pursuant to CIC 1765.1 for placement of new or renewal business.

Attached please find the Department's Order sent to California Pacific Bankers & Insurance (AKA California Pacific Casualty Ins.) and its surplus lines broker.

Yours very truly,
Nancy A. Ayooob
Sr. Staff Counsel
(415) 904-5666

cc: Janice E. Kerr Victoria S. Sidbury

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

March 19, 1993

Jeff H. Reynolds, Chairman & CEO
California Pacific Bankers & Insurance, Ltd.
18333 Preston Rd., Ste. 460
Dallas, Texas 75252

Saed Najafzadeh
United Business Insurance (UBI)
13333 Ventura Boulevard, Ste. 100
Sherman Oaks, CA .91423

Subject: California Pacific Bankers & Insurance, Ltd.(DOM)
New Name: California Pacific Casualty Insurance (AVV)
Order Pursuant to CIC 1765.1

Dear Gentle People,

Pursuant to California Insurance Code (CIC) Section 1765.1, the Department has reviewed the submitted financial information concerning California Pacific Bankers & Ins., Ltd.(CPBI) now California Pacific Casualty Insurance, A.V.V.(CPCI). The Department's review is guided by legal and accounting standards as set forth in our California Insurance Code and other California laws. The Department has a number of concerns which require the issuance of an order and bulletin pursuant to CIC 1765.1 ordering that no further business be placed with California Pacific Bankers & Insurance, Ltd.

These concerns and the Department's intent to issue an order pursuant to CIC 1765.1 were previously forwarded to CPCI and its sponsoring broker, United Business Insurance (UBI) on February 22, 1993. CPCI's answered by letter with documents on March 11, 1993. Having reviewed CPCI's answer, the Department still has the following concerns.

QUESTIONABLE LEGAL STATUS AND LICENSING

It appears to this Department that despite CPCI's claims, CPCI is not licensed as an insurer by any recognized government.

CPCI claimed to be incorporated in and "licensed" by Melchizedek. The United States State Department does not recognize Melchizedek as a country. Furthermore, the country of Columbia is the true and recognized owner of the island that Melchizedek purports to occupy. Columbia does not recognize Melchizedek.

CPCI's answer also submitted documents claiming that it was acquired by Grasselli A.V.V. and that "the insurance operations and other affairs of the Company are now that of an Aruba based organization." The Department has determined that Grasselli A.V.V. only has a license as an offshore company to have an office in Aruba. It is permitted only to do business from but not in Aruba. Furthermore, the Department has been informed that Aruba only licenses life insurance companies and that it has not and will not issue such a license to Grasselli A.V.V. and/or CPCI.

CPCI's misrepresentations that it was "licensed" by Melchizedek and later that it is an "Aruba based organization" evidences a lack of integrity and warrants the issuance of an order pursuant to CIC 1765.1.

Finally, the Department is concerned that California Pacific Casualty Insurance, A.V.V. continues to use "California" in its name. The company is not located in California, and has no recognition from any California state office. The Department is concerned that the use of "California" in an alien company's name is misleading to the public not only about the company's location but its legal status.

QUESTIONABLE FINANCIAL STATEMENTS

Unreliable Reports-The

Department also questions the validity of the financial statements. The Johnson Accountancy Group in Lake Forrest, California purportedly issued the statements for the years ending December 31, 1990 and 1991 "in accordance with standards established by the American Institute of Certified Public Accountants." However, the Johnson Accountancy Group is not licensed by the California Board of Accountancy and is not authorized to use references to Certified Public Accountants in reports.

Moreover, the information in the Johnson reports including the notes is exactly the same as the reports done for the same period by International Auditors, Ltd. Chartered Accountants. International Auditors

is another company incorporated in the Dominion of Melchizedek.

Therefore, the Department questions the reliability of all the financial reports since they are not done by licensed CPA's and stem from "companies" in the non-existent government of Melchizedek.

Unacceptable Valuations--As of 12/31/91 CPCI lists investments that total \$430,395,705. The notes to the financial reports explain that these investments are "stated either at cost or at Directors'" evaluation. Under generally accepted accounting principles, these investments should be valued at the lower of cost or market value.(see also CIC 1251 & 1253) Allowing the Directors to value the assets is totally inappropriate and a conflict of interest.

Unacceptable Assets--Prepaid Items

CPCI lists \$2,090,359 as a prepaid item as of 12/31/91. Since prepaid items are actually an expense, this amount does not represent money available to pay policy holders's claims and therefore, is not recognized as an asset for statutory accounting purposes.

Insufficient Documentation

The above are some of the specific concerns that the Department has concerning the veracity and accounting practices of the financial reports. In general, without a qualified independent certified accountants report, the Department is unable to determine that CPCI is financially stable. Regarding the "cash equivalents," the Department would need the name and address and license information of each depository, a verification of the deposit including the nature of the deposit (interest & maturity) and its market value. Additionally, as to investments, the Department would need a list of the investments, copies of the bond or stock certificates, the name and address of the transfer agent, and verification from a US licensed broker or US recognized investment rating agency as to the investment grade of each such investment.

The Department is also concerned that the financial statements do not reflect that CPCI is engaged in the business of insurance. No premium revenue is reported in the usual insurance accounts of "earned" or "unearned" premiums. Therefore, the Department questions how much insurance has been sold and whether there are adequate reserves to cover losses.

NON-RESPONSIVE REPORTING & ANSWERS

The above concerns and requests for verification were forwarded to CPCI and its broker on 2/22/93 pursuant to CIC 1765.1 which provides that, "the commissioner may also address to any licensee a written request for full and complete information respecting the financial stability, reputation and integrity of any nonadmitted insurer with whom such licensee has dealt or proposes to deal."

Absolutely no documentary evidence was submitted in response to the Department's request to

substantiate any accounting item of CPCI's. Not even a bank deposit slip nor even a copy of a stock certificate on an investment was submitted. CPCI's claim that "The soon to be released auditor's report will most certainly address the Department's concerns regarding the financial condition of CPCI" is simply unacceptable and does nothing to alleviate the existing complete lack of substantiation. CPCI has failed to prove that it has a single dollar to its name much less its claimed 450 million dollars in assets.

Finally, the Department has questions on the identity, competency, and integrity of the of CPCI. The formation and accounting practices of CPCI raise serious concerns about the legality of CPCI and the individuals involved in running it.

Therefore, pursuant to CIC 1765.1 California Pacific Bankers & Ins. Ltd. is unacceptable for placement of further new or renewal business. This order is based on 1. the lack of CPCI's reputation and integrity as described above due to its misrepresentations concerning its legal status, licensing, and financial reports and 2. financial instability as described above due to unsubstantiated and unreliable financial reports.

You may make a written request for a hearing within thirty (30) days of your receipt of this order. The Department will set a hearing within twenty(20) to thirty (30) days of its receipt of your written request.

Yours very truly,

Nancy A. Ayooob
Sr. Staff Counsel
(415) 904-5666

cc: Janice E. Kerr, General Counsel
Victoria S. Sidbury, Bureau chief of Corporate Affairs
Patricia K. Staggs, Bureau Chief of Compliance
Surplus Lines Association
NAIC c/o Maximiliane Moody, NAIIO