



**April 14, 1993**

**BULLETIN #573**

**RE: DOMESTIC INSURANCE COMPANY INCORPORATED (PHILIPPINES)**

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 April 12, 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 documentation for further information.

A.D. Freeman  
Manager

ADF/imb

Enclosure

STATE OF CALIFORNIA  
JOHN GARAMENDI, Insurer,, Commissioner  
DEPARTMENT OF INSURANCE  
45 FREMONT STREET, 24th FLOOR  
SAN FRANCISCO, CA 94105

April 12, 1993

The Surplus Line Association of California  
388 Market Street, suite 1150  
San Francisco, CA 94111

**Subject: Domestic Insurance company Incorporated (Philippines)  
Order Pursuant to California Insurance Code Section 1765.1**

Dear Gentle People:

Please issue a bulletin to your members notifying them that Domestic Insurance Company Incorporated (domiciled in the Philippines) is unacceptable pursuant to CIC S 1765.1 for placement of new or renewal business.

Attached please find a copy of the Department's letter to this company and its representatives.

Very truly yours,  
Carol A. Harmon  
Staff Counsel  
(415) 904-5966

cc: Janice E. Kerr, CDI General Counsel  
Victoria S. Sidbury, CDI Assistant Chief Counsel Domestic Insurance Company  
Monika TOMA  
R. James Williams

DEPARTMENT OF INSURANCE  
45 FREMONT STREET, 24th FLOOR  
SAN FRANCISCO, CA 94105  
JOHN GARAMENDI, Insurance Commissioner

April 12, 1993

Mr. Mar S. Lopez, President  
Domestic Insurance Company of the Philippines  
Domestic Insurance Building, Port Area  
Manila, Philippines

Mr. Surjeet (George) Singh  
Monika Insurance Services  
3960 Wilshire Blvd., Suite 401  
Los Angeles, CA 90010

TOMA Surplus Lines Insurance Brokers, Inc.  
P. O. 12529  
4553 Glencoe Ave., Ste. 305  
Marina Del Rey, CA 90292

R. James Williams & Company Insurance Services  
3748 E. Foothill Blvd.  
Pasadena, CA 91107

**SUBJECT: Domestic Insurance Company Incorporated (Philippines)**  
**ORDER PURSUANT TO CIC Sec. 1765.1**

Dear Gentle People:

Pursuant to California Insurance Code (CIC) Section 1765. 1, the Department has reviewed the submitted financial and other in-formation concerning **Domestic Insurance Company Incorporated (Philippines)** (hereinafter, "**Domestic**"). 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 Domestic. These concerns and the Department's intent to issue an order pursuant to CIC 1765.1 were previously forwarded to Domestic and its sponsoring surplus line brokers, Monika Insurance Services, TOMA Surplus Lines Insurance Brokers, Inc., and R. James Williams company insurance Services, on or about March 18"1993.

No counter argument nor counter evidence was submitted by Domestic or any of its brokers in response to the Department I S Proposed order on or before the due date for such response of April 5, 1993 . Instead, on or about April 9, 1993, the Department received a letter from Domestic, attached hereto as "Exhibit All and incorporated herein by reference.

Since the letter (Exhibit A) in no way contradicts the concerns set forth in the Department's Proposed order, such concerns on the part of the Department are ongoing. Accordingly, the Department hereby orders that Domestic is unacceptable for the placement of further new or renewal business pursuant to CIC Section 1765. 1. The Basis--for the CIC S 1765.1 Order is as follows:

**I. Status in Domicile**

Information from the official records of the Insurance Commissioner of the Philippines, where Domestic is domiciled, indicates that Domestic Insurance Company was issued a cease and desist order by the Philippines regulators on or about August 17, 1990 due to capital impairment and margin of solvency deficiency which it failed to restore. ,-

Domestic had previously requested authority from the Philippines Insurance Commissioner to transact business in the United States, which authority was denied. Despite such denial by the regulatory agency of its domicile, Domestic nonetheless proceeded to conduct business by placing policies with Californians through surplus lines brokers.

Additionally, information from the Philippines insurance commissioner revealed that proofs of U. S. remittances to the Philippines showed these amounts being credited to the personal account of Domestic President Mar S. Lopez.

The forgoing course of conduct casts profound doubts on the reputation, integrity and financial stability

of this company.- Domestic's placement of insurance in California is in direct violation of the Philippine's regulatory order. The allegations of crediting of trust funds to the personal account of the carriers president would indicate a subversion of the fiduciary duties of the corporate management. These charges of domiciliary violations alone would be sufficient to warrant the issuance of an Order pursuant to CIC 5 1765.1.

## **II. LACK OF RESPONSE TO DEPARTMENT'S INQUIRIES**

Pursuant to 1765.1, the commissioner has the authority to "...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...

Accordingly, the Department, after reviewing certain documents obtained from Domestic through its broker Monika Insurance services (hereinafter "Monika"), requested further information and documents from the carrier.

Specifically, on or about March 5, 1992, Mr. Edmund de Guzman, Financial Analysis Division, California Department of Insurance, wrote to Monika, requesting verification and authentication of various assets listed on the company's financial statement.. Further, the Department instructed Monika to provide an independent certified public accountant audit report for Domestic, as well as an independent actuarial opinion on loss and loss adjustment expense reserves.

No response to the Department's legitimate requests for documentation and verification was ever received by the Department and to this day those requests remain unanswered. The information requested is relevant to the company's financial stability in that a proper financial assessment cannot be made on this company absent the credibility and reliability of audited statements, nor can its financial stability be adequately evaluated absent the requested actuarial opinion and the requested verification of assets.

Further, the failure to respond to Departmental inquiries and requests reflects poorly on Domestic's reputation and integrity, pursuant to 1765.1.

## **III. FINANCIAL INSTABILITY -- UNVERIFIED AND NON-ADMISSIBLE ASSETS**

As previously noted, Domestic has failed to respond to Department inquires concerning the verification and authentication of is assets. But moreover, the financial documents as presented by the company show doubtful and unacceptable assets on their face, which, without adequate explanation by this company, would require a CIC 5 1765.1 Order.

(a.) **Unauthenticated and unacceptable shares of stock -- \$5,050,442.** The financial documents submitted on behalf of Domestic show "shares of stock" amounting to \$5,050,442 as of June 1991. Notes to- the financial statement claim that "The Company maintains an investments in shares of stock

with its foreign affiliates and subsidiaries located in the USA, UK, HK and in the Bahamas since 1988."

There is no showing of Domestic's ownership of such shares; there is no showing that such shares are marketable, nor that they possess liquidity, pursuant to CIC S 706.5; and there is no showing that they represent sound investment pursuant to CIC S 1196. There is no showing of the soundness or financial stability of the affiliate companies whose shares of stock are claimed as an asset by Domestic.

Therefore, these shares of stock are non-admitted for purposes of assessing the financial stability of this company. Since this asset makes up over 50% of Domestic's total listed assets of \$9,177,819, the company's fiscal soundness is accordingly severely compromised.

**(b.) Unauthenticated and unacceptable investment in real estate -- \$1,121,193.** Domestic's financial documents also list as an investment "Real estate". valued at \$1,121,193 as of June 1991. This asset is likewise unauthenticated as to ownership. Further, such an investment undoubtedly fails to meet the Department's standards regarding liquidity of investments (CIC S 706.5.) Moreover, there is no showing that this investment is income producing (CIC S 1195.) Accordingly, this asset must also be non-admitted for purposes of assessing the financial stability of this company.

**(c.) Unauthenticated cash and cash equivalents -- \$743,796.** Domestic's financial documents list "cash and cash equivalents" of \$743,796 as of June 1991. Despite Department requests for confirmation and authentication of such cash amounts, no response from the company was ever received., Without such verification, such amount shown on. an unaudited financial report must be non-admitted for purposes of assessing Domestic's financial stability.

While the Department has concerns with other entries in the unaudited financial statement of this company, the above nonadmitted amounts, when subtracted from Domestic's stated assets, result in a negative capital and surplus. Accordingly, this carrier lacks the requisite financial stability to allow the placement of further policies with it.

#### **IV. UNRELIABILITY OF FINANCIAL STATEMENT**

As noted above, despite the Department's explicit requests for an audited financial statement from Domestic, no such audited financial statement has ever been presented to the Department on behalf of this company. The financial statement submitted on behalf of Domestic was not prepared by an independent auditor. Rather, the statement is labeled "Accountant's Report" and the anonymous preparer is denominated only as "The Accountant." There is no signature on the statement; there is no opinion paragraph.

Because unaudited financial statements inherently lack the credibility and- reliability of audited ones, it is impossible for the Department to determine that this company has the requisite financial stability to allow it to continue selling policies through surplus line brokers in this state, even were its status with its domicile one of good standing.

The Department has concerns regarding the assets as listed on the unaudited statement, and those concerns have been previously discussed. In addition, the fact that these assets are presented in this unaudited fashion gives the Department additional, grave concerns regarding the financial stability, reputation, and integrity of Domestic.

**THEREFORE, PLEASE TAKE NOTE AS FOLLOWS:**

DOMESTIC INSURANCE COMPANY INCORPORATED (Philippines) is unacceptable for placement of further new or renewal business pursuant to CIC S 1765.1 for all the foregoing reasons, including

1. its questionable reputation and integrity concerning its status in its domicile-
2. its lack of response to legitimate Department inquiries as described above;
3. its financial instability and lack of verification of assets as described above; and
4. the unreliability of its presented financial statements as above described.

*PLEASE TAKE FURTHER NOTE THAT you may make a written request for a hearing within thirty (30) days of your receipt of this order. Should you so request, the Department will set a hearing within twenty (20) to thirty (30) days of its receipt of your written request.*

Sincerely,  
Carol A Harmon  
Staff Counsel  
(415) 904-5966

cc: Janice E. Kerr, General Counsel  
Victoria Sidbury, Chief, Corporate Affairs Bureau

**DOMESTIC INSURANCE COMPANY OF THE PHILIPPINES**

April 6, 1993

THE CALIFORNIA DEPARTMENT OF INSURANCE  
45 Fremont Street, 24th Floor  
San Francisco, CA 94105

Attn: Ms. Carol A- Harmon

**Re: Domestic Insurance Company Incorporated (Philippines)  
NOTICE OF PROPOSED ORDER PURSUANT TO CIC Sec. 1765.1**

This has reference to your letter of March 18, 1993, received by us on April 1st, anent the above

captioned-subject.

Your letter has prompted us to analyze in depth the California prevailing insurance laws and new regulations with the cad of assessing as to how we can proceed without contravening any regulation or statute. During this process, we have immediately advised all brokers, as well as those others that may be inclined to use our company, to suspend all acceptance of risk and/or, for that matter, any insurance activity relating to or involving Domestic Insurance Company.

It appears that Domestic Insurance is presently facing an underage financial embarrassment resulting into difficulties in accumulating, and, much more, accommodating your request at this time, not to mention the legal processes that we are in concerning the question of legality of the decisions made by the Insurance Commissioner in our Country of domicile.

Therefore, with due regard to, and with no desire to do business in haste, Domestic Insurance hereby decided not to write and accept any new or renewal business effective April 12, 1993. Domestic Insurance will continue to provide amendment to existing policies as required, provided the same does not extend any provision of the policy terms. Claims will be honored & claims service will be continued on a regular basis thru the brokers who represented the company.

Sincerely,

Mar S. Lopez

cc: W. Surjet (George) Singh, Monika Insurance Services  
Toma Surplus Lines Insurance Brokers, Inc.  
R. L Williams & Company Insurance Services

Domestic Insurance -- 1765.1 Order  
April 12,1993