REPORT OF EXAMINATION

OF THE

EMPLOYERS COMPENSATION INSURANCE COMPANY

AS OF

DECEMBER 31, 2022

Commissioners Signature

Filed on January 8, 2024

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Los Angeles, California
November 17, 2023

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

EMPLOYERS COMPENSATION INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 10375 Professional Circle, Reno Nevada 89521. In April 2023 the Company changed the location of its home office to 2340 Corporate Circle, Henderson, Nevada 89074.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2018. This examination covered the period from January 1, 2019 through December 31, 2022.

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

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

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

This was a coordinated examination with California as the lead state of the Employers Holdings Group. It was conducted concurrently with other insurance entities in the holding company group, including Employers Preferred Insurance Company (EPIC), Employers Assurance Company (EAC), Cerity Insurance Company (CIC), and Employers Insurance Company of Nevada (EICN). The following states participated on the examination: Florida, Nevada, and New York.

COMPANY HISTORY

The Company was incorporated under the laws of the state of California on May 16, 2002, under the name Amyniles Insurance Company, Inc. The name of the Company was changed to Fremont Employers Insurance Company on July 15, 2002. The Company changed its name again to its current name, Employers Compensation Insurance Company, on September 22, 2003. On June 3, 2016, Employers Group, Inc. (EGI) informed California Department of Insurance of the intention to "de-stack" its insurance subsidiaries. Whereas prior to the de-stacking, the Company was a subsidiary of Employers Insurance Company of Nevada, and Employers Assurance Company (EAC) was a subsidiary of Employers Preferred Insurance Company. After the de-stacking, the Company and EAC became direct wholly-owned subsidiaries of EGI, which in turn is 100% owned by Employers Holdings, Inc. (EHI). The Company focuses on writing workers' compensation insurance business particularly in the state of California and targets select small businesses engaged in low to medium hazard industries.

Capitalization

The Company is authorized to issue one million shares of common stock with a par value of $50 per share, in which 60,000 are issued and outstanding. All outstanding shares of the Company are owned by EGI.

The Company is a member of the Federal Home Loan Bank of San Francisco (FHLB). On March 9, 2018, the Company entered into a standby Letter of Credit Reimbursement Agreement (LCRA) with the FHLB in the amount of $50,000,000. On March 1, 2019, the LCRA was amended to increase the credit amount to $90,000,000. During 2020, the FHLB announced a Zero Interest Recovery Advance Program (Advance Program). The FHLB Advance Program was a zero percent interest, six-month or one-year credit product that members can use to provide immediate relief to property owners, businesses, and other customers from the COVID-19 pandemic. The Company amended its LCRA to lower the credit amount to $70,000,000 on May 5, 2020. On May 11, 2020, the Company borrowed $10,000,000 from the FHLB under the Advance Program. The terms of the advances included $5,000,000 for a six-month term at zero interest, and an additional $5,000,000 for a one-year term at zero interest. The advances were secured by collateral previously pledged to the FHLB. The Company repaid these advances on November 4, 2020 and March 31, 2021. The LCRA was amended by the Company to lower the credit amount to $35,000,000 on August 13, 2021. The LCRA may only be used to satisfy, in whole or in part, insurance deposit requirements with the state of California, and are fully secured with eligible collateral at all times.

During 2022, the Company received advances of about $18,000,000 under the FHLB Standard Credit Program that remained outstanding at December 31, 2022. As of December 31, 2022, the weighted average annual interest rate on the advances was 2.65% and the Company had incurred and paid about $300,000. The proceeds from the advances were used to purchase an equivalent amount of high-quality collateralized loan obligations securities. Through September 30, 2023, the Company has paid down all advances.

Dividends

The Company paid ordinary cash dividends to EGI in the amount of $57,200,000 in September 2019. A review of the Company's corporate records noted the Board of Directors approved the ordinary dividend on August 15, 2019 but failed to notify the California Department of Insurance (CDI) within five business days of the declaration of the dividend in accordance to California Insurance Code (CIC) Section 1215.4(f).

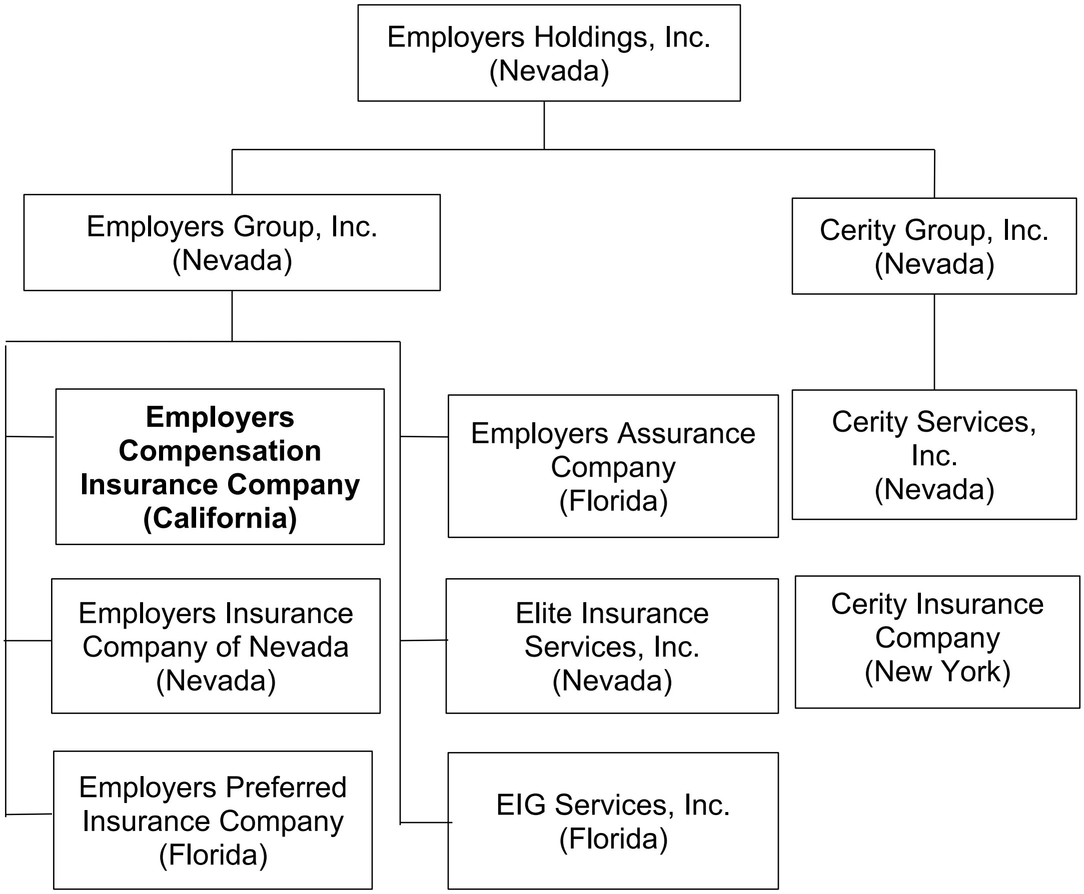
Ordinary cash dividends were paid to EGI in the amount of $32,100,000, and $32,100,000 in September 2020 and September 2021, respectively. The CDI received notification of the dividends in accordance to CIC Section 1215.4(f).

In accordance to CIC Section 1215.5(g), an Application for Prior Approval for Extraordinary Distribution was submitted on December 17, 2021 and approved by the CDI on January 14, 2022. In February 2022, the Company paid $120,000,000 extraordinary dividend, in the form of a return of capital, to EGI.

On February 15, 2023, the Company declared a $21,000,000 ordinary cash dividend which was paid on March 14, 2023. The CDI received notification of the dividend on February 28, 2023. Again, the Company failed to notify the CDI within five business days, pursuant to CIC Section 1215.4(f). It is recommended that the Company implement procedures to ensure compliance with CIC Section 1215.4(f).

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Employers Group, Inc., a Nevada corporation, and a member of an insurance holding company system of which Employers Holdings, Inc. is the ultimate controlling entity. Following is an abridged organizational chart as of December 31, 2022. All ownership is 100%.



The five members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2022:

Directors

Name and Location	Principal Business Affiliation
Katherine H. Antonello Reno, Nevada	President and Chief Executive Officer Employers Holdings, Inc.
Lori A. Brown Reno, Nevada	Executive Vice President, Chief Legal Officer, and General Counsel Employers Holdings, Inc.
Christopher W. Laws Reno, Nevada	Executive Vice President and Chief Actuary Employers Holdings, Inc.
Michael J. McSally Portsmouth, New Hampshire	Retired/Private Investor
Michael S. Paquette Reno, Nevada	Executive Vice President and Chief Financial Officer Employers Holdings, Inc.

Principal Officers

Name	Title
Katherine H. Antonello	President and Chief Executive Officer
Michael S. Paquette	Treasurer
Lori A. Brown	Secretary
Christopher W. Laws	Executive Vice President and Chief Actuary
Ann Marie Smith	Senior Vice President and Chief Underwriting Officer
Christina M. Ozuna	Senior Vice President and Chief Claims Officer
George (Chip) A. Carbonar	Vice President and Corporate Controller

Management Agreements

Amended and Restated Administrative Services Agreement: Effective January 1, 2022, the ultimate parent, Employers Holdings, Inc. (EHI), and its subsidiaries entered into an Amended and Restated Administrative Services Agreement (Agreement) that superseded the previous agreements that were effective January 2016 and August 2019. The amendments to the Agreement modify how the parties process premium collections and add premium collection services as a service that may be performed by Employers Preferred Insurance Company (EPIC), if its insurance affiliates designate EPIC to collect premiums on their behalf. Under the terms of the Agreement, the parties may furnish to each other various services such as: accounting, actuarial, tax, auditing, functional support services, claims, investment, underwriting, premium, reinsurance, information technology, legal and other services. As stipulated in the Agreement, the compensation for providing such services is based on actual cost. The Agreement was approved by the California Department of Insurance (CDI) on December 2, 2021. During the years 2019, 2020, 2021, and 2022, the expenses paid by the Company under the terms of the Agreements were $32,840,778, $32,333,851, $30,350,637, and $22,186,465, respectively.

Amended and Restated Tax Allocation Agreement: Effective September 30, 2019, the Company entered into an Amended and Restated Tax Allocation Agreement (Agreement) with its ultimate parent, EHI and affiliates (Group) where EHI would file a consolidated federal income tax return on behalf of the Group. The Agreement replaced the previous agreement that was effective January 1, 2016. Under the terms of the Agreement, the consolidated federal tax liability is allocated to consolidating companies based on separate return calculations with credit given for any net operating losses or other items utilized in the consolidated tax return. Pursuant to this Agreement, the Group has the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses which they may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. The Agreement was approved by the CDI on September 30, 2019. During the years 2019, 2020, 2021, and 2022, federal income taxes paid by the Company totaled $2,392,831, $4,622,637, $8,460,219, and $5,349,516, respectively.

Network Carrier Agreement: Effective January 1, 2015, the Company entered into a Network Carrier Agreement (Agreement) with Employers Preferred Insurance Company (EPIC) for business underwritten in the state of Texas. Under the terms of the Agreement, EPIC, a certified workers' compensation health care network in the state of Texas, will provide the Company access to its workers' compensation health care network and furnish various services, such as: contracting with providers, credentialing, quality improvement program, case management program and reporting, out-of-network referrals, and provide data required for reporting compliance, etc. The compensation for providing the services shall be based on actual cost without a profit factor built into the cost. The Agreement was approved by the CDI on March 25, 2015. On April 22, 2015, the Agreement was amended to include sections concerning the Company's ownership and control of the books and records of the Company in possession of EPIC. The Amended Network Carrier Agreement was approved by the CDI on May 21, 2015. The expenses associated with the Agreement are imbedded in the administrative services expenses. Refer to the Amended and Restated Administrative Service Agreement paragraph above for total expenses paid for each year of the examination.

General Agency and Underwriting Manager Agreement: Effective October 14, 2014, the Company entered into a General Agency and Underwriting Manager Agreement (Agreement) with its non-insurer affiliate, EIG Services, Inc (ESI), and its insurer affiliates. Under the terms of the Agreement, ESI may furnish various services, such as: claims payment or adjusting, underwriting, preparation of financial reports, reserving for claims and expenses, etc., to the insurer affiliates. The compensation to ESI for providing the services shall be based on actual cost without a profit factor built into the cost. Each party agrees that ESI shall not receive any commissions or profit sharing for any business transacted under the Agreement. The expenses associated with the Agreement are imbedded in the administrative services expenses. Refer to the Amended and Restated Administrative Service Agreement paragraph above for total expenses paid for each year of the examination. The CDI approved the Agreement on October 10, 2014.

TERRITORY AND PLAN OF OPERATION

The Company's operations are conducted jointly with its affiliates at its home office in Henderson, Nevada. As of December 31, 2022, the Company was licensed to transact the business of workers' compensation in 46 states and the District of Columbia. During the examination period, the Company expanded into Alaska and Hawaii. During 2022, the Company wrote $42.4 million in direct premiums. More than 50% of the total direct premium written were from the states of California, New York, and Virginia at 26.52%, 16.25%, and 8.29%, respectively.

Through independent agents, brokers, and its strategic partnerships, the Company focuses on workers' compensation business principally in the state of California, targeting select small businesses engaged in low to medium hazard industries. In 2022, about 10% of the Company's business was generated by one specialty agent. The Company and its affiliates' top ten types of insureds were restaurants, automobile service or repair shops, hotels, motels and clubs, dentists, optometrists, and physicians, gasoline stations, wholesale stores, real estate management, apparel manufacturing, groceries and provisions, schools, colleges, and religious organizations.

REINSURANCE

Intercompany Reinsurance Agreement

Since October 1, 2008, the Company has been party to an intercompany reinsurance pooling agreement with its affiliates, Employers Preferred Insurance Company (EPIC), Employers Insurance Company of Nevada (EICN) and Employers Assurance Company (EAC).

On September 14, 2017, the Company filed an Amended and Restated Reinsurance Pooling Agreement (Amended Pool) with the California Department of Insurance (CDI) with an effective date of January 1, 2018. Under the Amended Pool, all business written by the four companies, net of inuring reinsurance, is pooled with EPIC. EPIC retains 40% of the total business ceded to the Amended Pool and then retroceded to the Company, EICN, and EAC in the proportions of 20%, 10%, and 30%, respectively.

On March 29, 2019 and October 14, 2021, the Company filed an Amended and Restated Reinsurance Pooling Agreement and the First Amendment to the Amended and Restated Reinsurance Pooling Agreement with CDI with an effective date of August 1, 2019 and January 1, 2022. The CDI approved the agreements on May 2, 2021 and November 9, 2021. The Pooling Agreement was amended and restated primarily to include Cerity Insurance Company (CIC). EPIC remained the lead company. The following table illustrates each participant's pooled share as of December 31, 2022:

Company	State of Domicile	Pooling Share
Employers Preferred Insurance Company	FL	40.0%
Employers Assurance Company	FL	30.0%
Employers Compensation Insurance Company	CA	20.0%
Employers Insurance Company of Nevada	NV	5.0%
Cerity Insurance Company	NY	5.0%
Pool Total		100.0%

Assumed

The Company did not assume any business during the examination period and does not currently assume any business other than the involuntary pools.

Ceded

The Company and its affiliates, EICN, EPIC, EAC, and CIC, participate jointly in a Workers Compensation Excess of Loss Reinsurance Contracts with various unaffiliated reinsurers. Excess of loss reinsurance provides $200 million excess of $10 million coverage for all businesses classified by the Company and its affiliates as workers' compensation and employers' liability. The reinsurance program includes coverage for earthquake and terrorism losses excluding nuclear, chemical, biological, or radiological events. The following is a summary of the reinsurance agreements in-force as of December 31, 2022:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
First Layer	4 domestic, foreign and alien companies lead by Hannover Ruck SE (unauthorized) and Partner Reinsurance Company of U.S.(authorized)	$10 million	$10 million excess $10 million $20 million maximum any one life One reinstatement excluding Terrorism
Second Layer	5 domestic, foreign and alien companies (authorized and unauthorized)	$30 million	$30 million excess $20 million $20 million maximum any one life One reinstatement excluding Terrorism

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Third Layer	6 domestic, foreign and alien companies (authorized and unauthorized)	$50 million	$50 million excess $50 million $20 million maximum any one life One reinstatement excluding Terrorism
Fourth Layer	6 domestic, foreign and alien companies (authorized and unauthorized)	$100 million	$100 million excess $100 million $20 million maximum any one life One reinstatement excluding Terrorism

ACCOUNTS AND RECORDS

Annual Statement Instructions

The Company was not in compliance with the National Association of Insurance Commissioners (NAIC) 2022 Property and Casualty Annual Statement Instructions as the following areas were incomplete or had missing information:

- Notes to the Financial Statements, 10(E) disclosed that the affiliates within the EHI Holding Company system entered into an Amended and Restated Administrative Services Agreement, effective August 1, 2019. However, this agreement was replaced by the Amended and Restated Administrative Services Agreement effective, January 1, 2022. This amendment was not disclosed in Note 10(E) of the 2022 Annual Statements.

- The Annual Statement Instructions require that Company disclose the dollar amount paid (for the extra contractual and bad faith portion of the total claim amount) for claims related extra contractual obligations and bad faith losses stemming from lawsuits, in the current reporting period on a direct basis in the Notes to the Financial Statements, Note 14D. The Company did not disclose the potential risk and/or uncertainties related to lawsuits in the manner or format required by the Annual Statement Instructions.

- The Annual Statement Instructions require in the General Interrogatories Part 2, 6.2 and 6.3 that the Company disclose the method to determine the reporting entity's probable maximum insurance loss, type of insured exposures comprising the probable maximum loss, the location of concentration of those exposures, any external resources utilized to determine amount and the provision in place to mitigate or protect itself from excessive loss arising from the probable maximum loss exposures. The Company's 2022 Annual Statement General Interrogatories Part 2, 6.2 and 6.3 was not prepared in accordance to the NAIC's Annual Statement Instructions and did not disclose the information required as answers were "Not Applicable".

- The Company listed MUFG Union Bank as a custodian or safekeeping agreement that complies with the requirements of the NAIC Financial Condition Examiners Handbook (FCEH) in the General Interrogatories, Item 29.01. A review of the agreement noted that it did not comply with the NAIC FCEH requirements and should have been listed in the General Interrogatories, Item 29.02 in accordance with the NAIC's Annual Statement Instructions.

- The Company failed to disclose, in accordance with the Annual Statement Instructions, Employer Holding Group (NAIC Group # 3363) in column 6 and the ownership percentage in column 7 on Part 3 of the Schedule Y.

It is recommended the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

Custodian Agreement

A review of the MUFG Union Bank custodian agreement noted that it had not been submitted to the California Department of Insurance (CDI) pursuant to the California Insurance Code (CIC) Section 1104.9(c). It is recommended that the Company submit its custodian agreement for review and approval by the CDI to ensure compliance with CIC Section 1104.9(c).

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2022. The accompanying comments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements filed by the Company.

Statement of Financial Condition as of December 31, 2022

Underwriting and Investment Exhibit for the Year Ended December 31, 2022

Reconciliation of Surplus as Regards Policyholders from December 31, 2018 through December 31, 2022

Statement of Financial Condition
as of December 31, 2022

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 474,952,187	$	$ 474,952,187	
Common stocks	28,547,810		28,547,810	
Cash, cash equivalents and short-term investments	36,217,086		36,217,086	
Other invested assets	16,258,365		16,258,365	
Receivable for securities	435,821		435,821	
Investment income due and accrued	4,181,623		4,181,623	
Premiums and agents' balances in course of collection	26,200,850	1,777,559	24,423,291	
Premiums, agents' balances and installments booked but deferred and not yet due (including $2,523,803 earned but unbilled premiums)	14,959,985	1,034,576	13,925,409	
Amount recoverable from reinsurers	134,192		134,192	
Net deferred tax asset	8,173,544	414,091	7,759,453	
Guaranty funds receivable or on deposit	3,440		3,440	
Receivables from parent, subsidiaries and affiliates	1,765,226		1,765,226	
Aggregate write-ins for other than invested assets	7,528,289	107,879	7,420,410	
Total assets	$ 619,358,418	$ 3,334,105	$ 616,024,313	

Liabilities, Surplus and Other Funds	Current Year	Notes
Losses and loss adjustment expenses	$ 303,047,701	(1)
Reinsurance payable on paid loss and loss adjustment expenses	10,794,134	
Commissions payable, contingent commissions and other similar charges	3,127,568	
Other expenses	395,048	
Taxes, licenses and fees	1,331,509	
Current federal and foreign income taxes	740,111	
Borrowed money	18,000,000	
Unearned premiums	61,978,703	
Advance premiums	2,243,806	
Remittances and items not allocated	146,241	
Payable for parent, subsidiaries and affiliates	1,532,916	
Payable for securities	1,381,281	
Aggregate write-ins for liabilities	557,703	
Total liabilities	405,276,721	
Common capital stock	3,000,000	
Gross paid-in and contributed surplus	94,000,000	
Unassigned funds (surplus)	113,747,592	
Surplus as regards policyholders	210,747,592	
Total liabilities, Surplus, and other funds	$ 616,024,313	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2022

State of Income

Underwriting Income		Current Year
Premium earned		$ 135,046,260
Deductions:		
Losses and loss expenses incurred		$ 79,871,824
Other underwriting expenses incurred		45,709,017
Total underwriting deductions		125,580,841
Net underwriting gain		9,465,419
Investment Income		
Net investment income earned		$ 18,110,305
Net realized capital losses		(921,514)
Net investment gain		17,188,791
Other Income		
Net gain from agents' or premium balances charged off (amount recovered $561,857 amount charged off $487,144)		$ 74,713
Finance and service charges not included in premiums		$ 22,804
Aggregate write-ins for miscellaneous income		64,943
Total other income		162,460
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		26,816,670
Dividends to policyholders		192
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		26,816,478
Federal and foreign income taxes incurred		5,708,850
Net income		$ 21,107,628

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2021		$ 314,685,732
Net income	$ 21,107,628	
Change in net unrealized capital losses	(4,929,409)	
Change in net deferred income tax	870,445	
Change in nonadmitted assets	(986,805)	
Surplus adjustments:		
Paid-in	(120,000,000)	
Change in surplus as regards policyholders for the year		(103,938,141)
Surplus as regards policyholders, December 31, 2022		$ 210,747,592

Reconciliation of Surplus as Regards Policyholders from December 31, 2018 through December 31, 2022

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2018			$ 342,564,950
Net income	$ 105,832,377	$	
Net unrealized capital gains	2,367,982		
Change in net deferred income tax	2,779,927		
Change in nonadmitted assets		1,401,201	
Change in provision for reinsurance	3,557		
Surplus adjustment: Paid-in		120,000,000	
Dividends to stockholders		121,400,000	
Total gains and losses	$ 110,983,843	$ 242,801,201	
Net decrease in surplus as regards policyholders			(131,817,358)
Surplus as regards policyholders, December 31, 2022			$ 210,747,592

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The December 31, 2022 loss and loss adjustment expense reserves were evaluated by a Senior Casualty Actuary for the California Department of Insurance. Based on the analysis performed, the Company's reserves for losses and loss adjustment expenses were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Company History – Dividends (Page 4): It is recommended that the Company implement procedures to ensure compliance with CIC Section 1215.4(f).

Accounts and Records - Annual Statement Instructions (Page 11): It is recommended the Company implement procedures to ensure compliance with the National Association of Insurance Commissioners Annual Statement Instructions.

Accounts and Records – Custodian Agreement (Page 12): It is recommended that the Company submit its custodian agreement for review and approval by the CDI to ensure compliance with CIC Section 1104.9(c).

Previous Report of Examination

None

ACKNOWLEDGMENT

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

Respectfully submitted,

Sara Jean Schumacher

Sara Jean Schumacher, CFE
Examiner-In-Charge
Contract Examiner
Risk & Regulatory Consulting
Department of Insurance
State of California

Briggs, Anjanette

Digitally signed by Briggs, Anjanette
Date: 2024.01.08 15:21:11 -08'00'

Anjanette Briggs, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California