REPORT OF EXAMINATION

OF THE

INSURANCE COMPANY OF THE WEST

AS OF

DECEMBER 31, 2020

Filed on May 11, 2022

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Los Angeles, California
March 11, 2022

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

INSURANCE COMPANY OF THE WEST

(hereinafter also referred to as the Company). Its home office is located at 15025 Innovation Drive, San Diego, California 92128.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2016. This examination covers the period from January 1, 2017 through December 31, 2020.

This 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. The examination also included identifying and evaluating significant risks that could cause the Company'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 includes 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 an adjustment was identified during the course of the examination, the impact of such adjustment would 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.

The examination was a coordinated examination and was conducted concurrently with the examinations of other insurance entities in the holding company group, including Explorer Insurance Company (California), ICW National Insurance Company (California), ICW Premier Insurance Company (Nevada), ICW Casualty Insurance Company (Nevada) and VerTerra Insurance Company (Texas). California served as the lead state.

COMPANY HISTORY

The Company was incorporated on March 1, 1972 under the laws of California and commenced transacting property and casualty business on May 17, 1972. All outstanding shares of the Company are owned by the ICW Group Holding, Inc., an insurance holding company domiciled in the State of California.

The Company wholly-owns five insurance subsidiaries, Explorer Insurance Company, and ICW National Insurance Company, both California domestic insurers, VerTerra Insurance Company a Texas domestic insurer but non-admitted in California, and ICW Casualty Insurance Company and ICW Premier Insurance Company, both Nevada domestic but non-admitted in California.

Capitalization

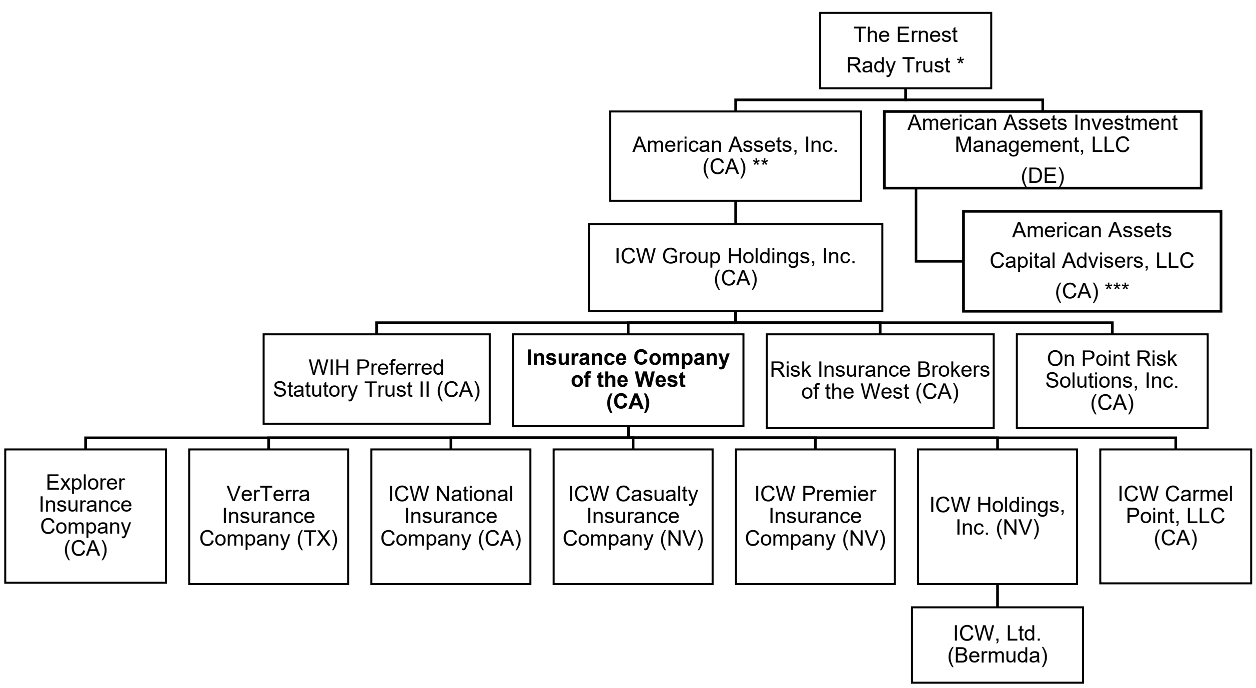
The Company is authorized to issue 250,000 shares of Class A voting common stock with a par value of $20 per share. As of December 31, 2020, there were 210,000 shares issued and outstanding.

Dividends

The Company paid ordinary cash dividends to its parent, ICW Group Holdings, Inc. (ICW Holdings), in the amount of $12 million, $18 million, $12 million, and $26 million for the years 2017, 2018, 2019, and 2020, respectively. Subsequent to the examination date, and on January 24, 2021, the Company paid $20 million ordinary cash dividends to ICW Holdings.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which ultimate control is held by The Ernest Rady Trust. The Company's ultimate parent is American Assets, Inc. (dba ICW Group Assets, Inc.). The following abridged organizational chart is limited to depicting the entities the Company had interrelationships with as of December 31, 2020 (all ownership is 100% unless otherwise indicated):



* The Ernest Rady Trust, owns 75.9% of American Assets, Inc.;10.6% is owned by Donald

Rady Trust #2; 13.5% is owned by other individuals with less than 10% controlled by one individual.

** American Assets, Inc. owns 81.9% of the ICW Group Holdings, Inc.; 14.8% is owned by Ernest Rady Trust; 3.3% is owned by other individuals with less than 10% controlled by one individual.

*** American Assets Capital Advisers, LLC is 50% controlled by American Assets Investment Management, LLC and 50% controlled by a non-affiliate, Soledad Realty, Capital, Inc.

The six members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal offices of the Company serving at December 31, 2020:

Directors

Name and Location	Principal Business Affiliation
Bernard M. Feldman Del Mar, California	Vice Chairman Insurance Company of the West
Kevin M. Prior San Diego, California	President and Chief Executive Officer Insurance Company of the West
Ernest S. Rady La Jolla, California	Chairman of the Board Insurance Company of the West
Nicole M. Rathsam San Diego, California	Senior Vice President, Treasurer, and Chief Financial Officer Insurance Company of the West
Michael P. Warnick San Diego, California	Vice President, Secretary, and General Counsel Insurance Company of the West
Paul F. Zamora San Marcos, California	Senior Vice President Insurance Company of the West

Principal Officers

Name	Title
Kevin M. Prior	President and Chief Executive Officer
Shawn Adams *	Senior Vice President
Nicole Rathsam	Senior Vice President, Treasurer, and Chief Financial Officer
Paul F. Zamora	Senior Vice President
Susan L. Karlan	Senior Vice President
Amanda J. Granger	Senior Vice President
Michael P. Warnick	Vice President, Secretary, and General Counsel
Richard S. Fineman	Vice President
Mirek Wieczorek	Vice President

The following changes in the principal officers occurred subsequent to the examination date:

*Shawn Adams resigned on May 21, 2021.

Intercompany Agreements

Second Amended and Restated Federal Tax Allocation Agreement – Effective January 1, 2018, the Company, its affiliates and its ultimate parent, American Assets, Inc., entered into a Second Amended and Restated Federal Tax Allocation Agreement (Second Tax Allocation Agreement). Pursuant to the terms of the Second Tax Allocation Agreement, the consolidated federal tax liability is allocated among the participants in the ratio that each subsidiary's separate tax return liability bears to the total consolidated federal tax liabilities of all subsidiaries that are members of the consolidated group. The Second Tax Allocation Agreement supersedes the Amended and Restated Federal Tax Allocation Agreement that was effective January 1, 2015, and was approved by the California Department of Insurance (CDI) on April 2, 2015.

The purpose of the Second Tax Allocation Agreement is; 1) reflect an update in the name of the ICW National Insurance Company formerly known as Explorer American Insurance Company (National); 2) add ICW Casualty Insurance Company (Casualty), and ICW Premier Insurance Company (Premier); and 3) remove Pacific Encino Assets, Inc. which was dissolved on December 18, 2014. The following entities remain participants to the Second Tax Allocation Agreement; AAI Aviation, Inc., ICW Group Holdings, Inc., Explorer Insurance Company (Explorer), VerTerra Insurance Company (VerTerra), Explorer Holdings, Inc., ICW Holdings, Inc., ICW, Ltd., On Point Risk Solutions, Inc., and Risk Insurance Brokers of the West.

The CDI approved the Second Tax Allocation Agreement on December 8, 2017. Taxes paid by the Company under this agreement for the years, 2017, 2018, 2019, and 2020 were $42,031,849, $12,857,395, $36,125,658, and $18,325,850, respectively.

Amended and Restated Intercompany Affiliated Management Agreement – Effective January 1, 2018, the Company, and its subsidiaries, Explorer, National, VerTerra, Casualty, and Premier, collectively known as the Companies, entered into an Amended and Restated Intercompany Affiliated Management Agreement (Agreement) with its parent ICW Group Holdings, Inc. (ICW Holdings). Under the terms of the Agreement, ICW Holdings will provide administrative and special services to the Companies. In addition, the Company will provide certain underwriting and claims services to the Companies and share in the use of the day to day operations of certain property, equipment, and facilities. Each service recipient agrees to reimburse the performing entity for the actual cost of services provided. This Agreement supersedes and updates the Intercompany Affiliated Management Agreement that was effective, January 1, 2015 and approved by the CDI on December 19, 2014.

The CDI approved the Amended and Restated Intercompany Affiliated Management Agreement on July 18, 2018. The amounts paid by Company under the Agreement for the years 2017, 2018, 2019, and 2020 were $49,774,891, $65,222,732, $67,605,445, and $76,863,081, respectively. The amounts paid by the affiliates for the certain underwriting and claims services performed by the Company for the years 2017, 2018, 2019, and 2020 were $2,797,949, $1,554,350, $2,705,257, and $4,535,412, respectively.

Intercompany Affiliated Management Agreement – Effective January 1, 2016, the Company entered into an Intercompany Affiliated Management Agreement (Agreement) with its affiliate, Risk Insurance Brokers of the West, (RIBW). Under the terms of the Agreement, RIBW will provide underwriting, premium billing, and collection services to the Company relating to its Difference in Conditions (DIC) insurance coverage. The DIC insurance coverage includes various lines of business such as earthquakes, floods, and other catastrophes. In return and as compensation, RIBW charges the Company for the actual cost of services. This Agreement was approved by the CDI on December 29, 2015. The amounts paid by the Company for these services for 2017, 2018, 2019, and 2020 were $4,327,566, $4,519,006, $5,388,865, and $7,003,607, respectively.

A review of the terms and provisions of the Agreement disclosed a deficiency and non-compliance to the provisions of California Insurance Code (CIC) Section 1734(b). The premiums received (net of return premiums and commissions) under this agreement are fiduciary funds that are incorrectly deposited in RIBW's operating account, and not in a premium trust account in the Company's name. This practice does not comply with the provision of CIC Section 1734(b), which states in part that "fiduciary funds received by the producer shall be maintained at all times in a trust account in a bank or savings and loan association, within any state of the United States, which account is insured by the Federal Deposit Insurance Corporation (FDIC)." It is recommended that the Company comply with the provisions of California Insurance Code Section 1734(b).

During the course of the examination, a premium trust account in the Company's name was opened, and the Company's fiduciary funds were transferred into it. Therefore, on a going-forward basis, RIBW will no longer deposit the Company's fiduciary funds into their operating account, but will now deposit them into the new premium trust account, in accordance with CIC Section 1734(b).

Intercompany Affiliated Service Agreement: Effective October 25, 2011, the Company entered into an Intercompany Affiliated Service Agreement (Agreement) with its affiliate, On Point Risk Solutions, Inc. (OPRS). Under the terms of the Agreement, the Company provides OPRS certain administrative support functions, and OPRS utilizes certain facilities of the Company. The basis for determining fees for these services is based on actual cost incurred by the Company that are determined to be attributable to OPRS. This

Agreement was approved by the California Department of Insurance (CDI) on May 5, 2011. The amounts received by the Company for these services for 2017, 2018, 2019, and 2020, were $165,360, $195,972, $187,924, and $221,923, respectively. In addition under the terms of the Agreement, OPRS performs claim adjustment, risk management, and other claim related services with respect to claims arising under certain insurance contracts written by the Company. As compensation, the Company pays OPRS fee based on the allocation of direct cost, approximately 8.4% per year, plus 5.2% of the OPRS overall overhead. The fees paid by the Company for the services rendered by OPRS for 2017, 2018, 2019, and 2020, were $210,106, $155,720, $197,524, and $216,313, respectively.

Amended and Restated Investment Management Agreement – Since July 1, 2012, the Company and its affiliates, Explorer, VerTerra, National, ICW, Ltd. together with its parent, ICW Group Holdings, Inc., collectively known as ICW Group Entities, have been parties to an Investment Management Agreement (Agreement) provided by American Assets Investment Management, LLC, (AAIM), a Delaware limited liability company, and an affiliated entity. Under the terms of the Agreement, AAIM has provided investment advisory services to the ICW Group Entities. As compensation, a management fee based on the ICW Group Entities' Portfolios is paid to AAIM. Effective March 20, 2015, the ICW Group Entities and AAIM, entered into the Amended and Restated Investment Management Agreement (Amended Agreement) to include prior amendments that were not previously approved by the CDI. The Amended Agreement was approved by the CDI on March 20, 2015.

Effective January 1, 2018 the ICW Group Entities and AAIM entered into a Second Amended and Restated Investment Management Agreement (Second Amended Agreement) to add Casualty and Premier as service recipients, to update the name change of the Company and to update the investment guidelines. The current management fees for the Second Amended Agreement, which is based on the ICW Group Entities' Portfolios are; a) fixed income is 13.5 basis points per year; b) active equities is 38.5 basis points per year; and c) private equity is 1.5 basis points per year. The CDI approved the Second Amended Agreement on August 3, 2018. The amounts paid by the Company for these services for 2017, 2018, 2019 and 2020 were $3,366,258, $3,782,153, $3,899,760, and $3,41,677, respectively.

Investment Management Agreement – Effective December 11, 2020 the Company entered into an Investment Management Agreement (Agreement) with American Assets Capital Advisers, LLC (AACA). Under the terms of the Agreement, AACA provides certain investment advisory services to the Company. As compensation, the Company pays AACA a management fee of thirty basis points of the fair market value of the assets at the last day of the quarter. In addition, the Company pays AACA an incentive fee on an annual basis, based on 20% of net outperformance as defined in the Agreement. The Company did not incur any fee for this service in 2020. The CDI approved this Agreement on December 11, 2020.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2020, the Company was licensed and authorized to write various property and casualty lines of insurance in all 50 states and the District of Columbia.

During 2020, the Company wrote $1.016 billion in direct premiums; 94.8% pertained to its workers' compensation business, and the remainder consisted primarily of earthquake coverage and inland marine. Of the total direct premiums written, 82% was written in the following three states: $747.6 million (73.5%) was written in California; $51.2 million (5%) in Florida; and $33.4 million (3.2%) in New Jersey. Business is generated through a combination of independent agents, wholesale brokers, and Company-owned branch offices.

Branch offices are maintained in Sacramento, Pleasanton, and Woodland Hills, California; Las Vegas, Nevada; King of Prussia (Philadelphia), Pennsylvania; and Orlando, Florida. The Company has a local Insurance Company of the West Team members who underwrite and service the business in the core state where they do not have physical branch offices.

The Company plans to expand its workers' compensation business into New York over the next year, whereby they plan to put forth additional underwriting and servicing capabilities to write risks with major operations in that state.

GROWTH OF COMPANY

The Company has experienced growth during and subsequent to this examination period as shown in the following table:

Year	Admitted Assets	Surplus as Regards Policyholders	Gross Premiums Written	Net Premiums Written	Net Underwriting Gain/(Loss)	Net Income (Loss)
			$ (in thousand)			
2017	2,570,217	1,034,207	1,018,409	807,683	90,042	91,103
2018	2,788,143	1,109,346	1,055,667	829,920	92,372	114,899
2019	3,301,794	1,300,781	1,193,876	786,801	62,228	91,489
2020	3,613,078	1,289,958	1,302,397	961,594	19,445	37,718
2021*	4,118,675	1,493,621	1,464,948	1,086,168	37,055	63,351

* Subsequent to the examination period.

The Company's premium growth is primarily from workers' compensation insurance and the increase in assumed reinsurance business through a brokerage agreement with Waypoint Underwriting Management LLC. The Company has also commenced marketing and increased their workers' compensation writings in other states.

The significant decline in net underwriting gain and consequently to the net income from 2019 to 2020 is primarily due to reduced payroll in the workers' compensation line of business, in part due to Covid-19 and declining rates. However, a steady growth in premiums written resulted in a favorable underwriting gain and net income as of December 31, 2021.

REINSURANCE

Intercompany Pooling Agreement

Effective January 1, 2019, the Company is the lead insurer in the Second Amended and Restated Standard Intercompany Quota Share Reinsurance Pooling Agreement (Second Amended Pooling Agreement) with its subsidiaries, Explorer Insurance Company (Explorer), VerTerra Insurance Company (VerTerra), ICW Casualty Insurance Company (Casualty), ICW National Insurance Company (National), and ICW Premier Insurance Company (Premier), hereinafter also referred to as the Participants. Under the terms of the Second Amended Pooling Agreement, the Participants cede and the Company assumes 100% of the Participants' business generated from underwriting operations. The cessions from the Participants are combined with the Company's business, resulting in the pooled balance to be allocated to each company in the pool. The Second Amended Pooling Agreement was approved by the California Department of Insurance on September 24, 2018.

The Second Amended Pooling Agreement supersedes the Amended and Restated Pooling Agreement that was effective, January 1, 2015. The following table illustrates each Participant's pooled share as of December 31, 2020.

Company Name	NAIC #	State of Domicile	Pool Participation
Insurance Company of the West	27847	CA	77.8%
Explorer Insurance Company	40029	CA	14.5%
VerTerra Insurance Company	10024	TX	5.6%
ICW National Insurance Company	24635	CA	1.6%
ICW Casualty Insurance Company	16386	NV	0.25%
ICW Premier Insurance Company	16387	NV	0.25%
Pool Total			100.0%

The Second Amended Pooling Agreement provides that receivable and payable balances are to be settled within 30 days of the receipt of the monthly report.

Other Intercompany Reinsurance

Effective January 1, 2020, the Company entered into Workers' Compensation Excess of Loss Reinsurance Agreement (Agreement) with its wholly-owned subsidiary, ICW, Ltd., a Bermuda corporation. Under the terms of the contract, the Company reinsures its workers' compensation portfolio via a single $9 million excess of $1 million per occurrence reinsurance treaty. This Agreement is renewed every year and the aggregate annual limit is $36 million. As of December 31, 2020, the Company reported $144.5 million as funds held under this Agreement, and reinsurance recoverable of $121.6 million.

Assumed

As of December 31, 2020, the Company assumed a significant book of business on both a proportional and non-proportional basis. The assumed book of business also contributed in the significant premium growth since the prior examination.

Business assumed through the brokerage agreement with Waypoint Underwriting Management, LLC, (Waypoint) represented the majority of the Company's 2020 assumed book. The lines of business assumed through Waypoint include property lines, inland marine, equipment breakdown, section II homeowners, and private passenger automobile. The Company anticipates continued growth in its assumed book of business into 2021 and 2022.

Ceded

The Company has designed its reinsurance program to limit its retention to $1 million for workers' compensation, $5 million for difference in condition that covers various lines of business such as earthquake, floods, and other catastrophes, and $50 million for catastrophe coverage. The Company had the following ceded reinsurance programs in effect as of December 31, 2020 and is summarized in the chart below:

Line of Business and Type of Contract	Reinsurer’s Name	Company’s Retention	Reinsurer’s Limit
Workers’ Compensation			
Excess of Loss	Unauthorized: ICW, Ltd. (100%)	$1 million	$9 million with an aggregate limit of $36 million.
1st Excess of Loss (Section A -Earthquake)	Authorized: Lloyd’s London (26%); Arch Re Co (11%); IOA Re/The Cincinnati Ins. Co. (10%); Munich Re America (7%); Partner Re-US (7%); Markel Global Re (5%); Renaissance Re (5%); and BGS Service, Bermuda (2%) Unauthorized: Allied World Assurance Co. Ltd (2.5%) and Brit Re-Bermuda (2.0%) Certified: Hannover Rueck SE (15%); Endurance Specialty Ins. Ltd (5%) and Hamilton Re Ltd. (2.5%)	$10 million	$25 million with an aggregate limit of $50 million. $25 million limit for Acts of Terrorism.
1st Excess of Loss (Section B – All other Perils)	Authorized: Lloyd’s London (26%); Arch Re Co (11%); IOA Re/The Cincinnati Ins. Co. (10%); Munich Re America (7%); Partner Re-US (7%); Markel Global Re (5%); Renaissance Re (5%); and BGS Service, Bermuda (2%) Unauthorized: Allied World Assurance Co. Ltd (2.5%) and Brit Re-Bermuda (2.0%) Certified: Hannover Rueck SE (15%); Endurance Specialty Ins. Ltd (5%) and Hamilton Re Ltd. (2.5%)	$10 million	$25 million with an aggregate limit of $50 million. $25 million limit for Acts of Terrorism.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
2nd Excess of Loss	Authorized: Lloyd's London (21.5%); Arch Re Co (5%); IOA Re/The Cincinnati Ins. Co. (10%); Munich Re America (7%); Partner Re Co. Ltd. (7%); Markel Global Re (8%); Renaissance Re (5%); and BGS Service, Bermuda (4%) Unauthorized: Validus Re Ltd (10%); Allied World Assurance Co. Ltd (6%); Third Point Re Co. Ltd (6.5%); and Brit Re-Bermuda (2.0%) Certified: Hannover Rueck SE (5%); and Hamilton Re Ltd. (3%)	$35 million	$40 million with an aggregate limit of $80 million. $40 million limit for Acts of Terrorism. $15 million NBCR Terrorism annual sublimit.
3rd Excess of Loss	Authorized: Lloyd's London (29.25%); Arch Re Co (9%); IOA Re/The Cincinnati Ins. Co. (10%); Munich Re America (7%); Partner Re-US (7%); Markel Global Re (8%); Renaissance Re (5%); XL Re of America, Ltd. (3.5%) and BGS Service, Bermuda (2%) Unauthorized: Allied World Assurance Co. Ltd (2.5%) Hannover Re Bermuda, Ltd. (5%) and Brit Re-Bermuda (1.75%) Certified: Endurance Specialty Ins. Ltd (7%) and Hamilton Re Ltd. (3%)	$75 million	$85 million with an aggregate limit of $170 million. $80 million limit for Acts of Terrorism.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
4th Excess of Loss	Authorized: Lloyd's London (21.5%); Arch Re Co (11%); IOA Re/The Cincinnati Ins. Co. (8.5%); Munich Re America (15%); Partner Re-US (7%); Markel Global Re (5%); Renaissance Re (5%); XL Re of America Inc. (6%) and BGS Service, Bermuda (5%) Unauthorized: Allied World Assurance Co. Ltd (7%) and Brit Re-Bermuda (2.0%) Certified: Endurance Specialty Ins. Ltd (5%) and Hamilton Re Ltd. (2%)	$160 million	$20 million with an aggregate limit of $40 million. $20 million limit for Acts of Terrorism.
Alternative Difference in Condition – (Property Catastrophe)			
First Layer	Authorized: Lloyd's London (67%); Allianz Global Risk (7.5%); Scor Re (5%); Partner Re (3.75%); Swiss Re (2.5%) and Devk Rueck (2%) Unauthorized Lancashire Ins. Co (5%); Converx Re, Ltd. (4.25%) and American Agriculture Ins. Co (3%)	$5 million	$5 million with an aggregate limit of $10 million.
Second Layer	Authorized: Lloyd's London (67.5%); Allianz Global Risk (3.75%); Scor Re (5%); Partner Re (4%); Everest Re (3%); Swiss Re (2.5%) and Devk Rueck (2%) Unauthorized Lancashire Ins. Co (5%); Converx Re, Ltd. (4.25%) and American Agriculture Ins. Co (3%)	$10 million	$22.5 million with an aggregate limit of $45 million.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Third Layer	Authorized: Lloyd's London (28%); Everest Re (2.5%); and Devk Rueck (1.25%) Unauthorized Vermeer Re, Ltd (28%); Lancashire Ins. Co (20%); Fidelis Ins. Bermuda, Ltd (7%) and American Agriculture Ins. Co (1.25%) Certified: Davinci Re, Ltd. (6%); Renaissance Re, Ltd. (6%)	$32.5 million	$10 million, ($2.5 million for Waypoint).
Property Catastrophe			
First Layer *	85% Placement Authorized: Lloyd's London (54.5%); Score Re (6%); Partner Re Ltd (5%); QBE Re Corp (4.5%); Devkk Rueck (2%) Everest Re (1.75%); and Employers Mutual (1%) Unauthorized: American Agriculture Ins Co (2%); R+V Versicherung AG (4%); Lancashire Ins. Co Ltd (2%); New India Assurance Co. Ltd (1.5%) and Lansforsakringar (0.75%)	$50 million	85% of $25 million with an aggregate limit of $50 million.
Second Layer *	Authorized: Lloyd's London (65%); Score Re (6%); Partner Re Ltd (5%); QBE Re Corp (4.5%); Mapfre Re (3%); Devkk Rueck (2%) Everest Re (1.75%); and Employers Mutual (1%) Unauthorized: American Agriculture Ins. Co (1.5%); R+V Versicherung AG (6%); Lancashire Ins. Co Ltd (2%); New India Assurance Co. Ltd (1.5%) and Lansforsakringar (0.75%)	$75 million	$25 million with an aggregate limit of $50 million.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Third Layer (a) *	93.75% Placement Authorized: Lloyd's London (40.17%); Partner Re Ltd (5%); Scor Re (4%); BGS Services Bermuda Ltd (2.7%); Mapfre Re (1.5%); Ariel Re Bermuda Ltd (1.5%); Arch Re Ltd (1.5%); and Employers Mutual (0.4%) Unauthorized: MS Amlin AG (5.25%); Fidelis Ins Bermuda (5%); Axis Specialty Ltd (5%); R+V Versicherung AG (3%); Markel Bermuda Ltd (2.25%); Lancashire Ins Co Ltd (2%); American Agriculture Ins. Co (1.5%); Convex Re Ltd (0.8%); Allied World Assurance Co Ltd (0.75%); and Lansforsakringar (0.68%) Certified: Hamilton Re Ltd (8%); Davinci Re Ltd (1.375%) and Renaissance Re Ltd (1.375%)	$100 million and 6.25% of the 50% of $200 million.	Effective 1/1/20 – 50% of $200 million with an aggregate limit of 50% of $400 million.
Third Layer (b) *	Authorized: Lloyd's London (42.2%); Partner Re Ltd (7.5%); Mapfre Re (3%); Devk Rueck (2%); Odyssey Re (1.25%) and Employers Mutual (0.5%) Unauthorized: Scor Global -Zurich (7%); MS Amlin AG (5.25%); R+V Versicherung AG (3%); Axis Specialty Ltd (5.05%); Markel Bermuda Ltd (2.25%); Allied World (2%); and American Agriculture (1.5%) Certified: Hamilton Re Ltd (6%); Hannover Ruck SE (4.3%); Davinci Re Ltd (2.85%); Renaissance Re Ltd (2.85%) and Tokio Millennium Re (1.5%)	$100 million	Effective 1/1/19 – 50% of $200 million with an aggregate limit of 50% of $400 million.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Fourth Layer	Authorized: Lloyd's London (48.75%); Score Re (4%); Partner Re Ltd (5%); Mapfre Re (3%); Ariel Re Bermuda Ltd (2.5%); Devkk Rueck (2%) Everest Re (2%); Liberty Specialty Markets Europe (1.5%) and Employers Mutual (0.5%) Unauthorized: American Agriculture Ins. Co (3%); Fidelis Ins Bermuda Ltd (8%); MS Amlin AG Bermuda (4%); R+V Versicherung AG (4%); Fidelis Und. Ltd (4.5%); Lancashire Ins. Co Ltd (5%); New India Assurance Co. Ltd (1.5%) and Lansforsakringar (0.75%)	$300 million	$120 million with an aggregate limit of $240 million.
Fifth Layer	Authorized: Lloyd's London (34.5%); Houston Casualty Co (12.5%); American Standard Ins. Co (10.1%); Devk Rueck (2%); and Employers Mutual (0.5%) Unauthorized: Vermeer Re Ltd (8.65%); Lancashire Ins Co. Ltd (7.5%); Fidelis Und. Ltd (6.25%); Fidelis Ins Bermuda Ltd (6.25%); Kelvin Re Ltd (6.0%); Convex Re Ltd (2%); American Agriculture (1%); and Lansforsakringar (0.75%) Certified: Davinci Re Ltd (1%) and Renaissance Re Ltd (1%)	$420 million	$40 million with an aggregate limit of $40 million.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Sixth Layer	Authorized: Lloyd's London (36%); and Houston Casualty (30%) Unauthorized: Axis Specialty Ltd (15%); Lancashire Ins Co. Ltd (5%); and Fidelis Und. Ltd (10%); Certified: Hamilton Re Ltd (4%)	$460 million	$50 million with an aggregate limit of $50 million.
Seventh Layer	74% Placement Authorized: Lloyd's London (15%); Houston Casualty (30%); American Standard Ins Co (6%); and Devk Rueck (2%) Unauthorized: Axis Specialty Ltd (5%); Lancashire Ins Co. Ltd (15%); and American Agriculture Ins Co (1%);	$510 million	74% of $50 million with an aggregate limit of $50 million.
Property Per Risk Excess of Loss	Authorized: Devk Rueck (7.5%); Employers Mutual (10%), Lloyds London (29%), Scor Re (10%) & TOA Re (6.5) Unauthorized: Ascot Bermuda Ltd (10%), Lancashire Ins.Co (7.5%), R+V Versicherung AG (20%); Certified: Hannover Rueck (5%)	$15 million	$15 million with an aggregate limit of $30 million.
All Other Perils Excess Per Risk	77.5% Participation Authorized: (Lloyd's London (57.5%); Unauthorized: Lancashire Ins. Co. Ltd. (20%)	$3 million	77.5% of $7 million with an aggregate limit of $7 million.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Flood Quota Share	Authorized: Lloyd's London (65%); and Munich Re (35%)	30% of all business covered in this agreement.	70% of all business covered in this agreement with an aggregate limit of $30 million.
Catastrophe Excess of Loss (Earthquake)	Authorized: (Lloyd's Syndicate 4472 (25%); Everest Re (25.0%) and Dual Comm. LLC (10%) Unauthorized: Lancashire Ins. Co (15%); Certified: XL Bermuda, Ltd. (25%)	$2.5 million	$10 million with an aggregate limit of $10 million.

*The ICW Group maintained Reinstatement Premium Protection (RPP) reinsurance for its property catastrophe excess of loss agreements for layers 1, 2, 3a, and 3b. Under the RPP agreements, participating reinsurers agree to reimburse the ICW Group for the first limit reinstatement premium which may become payable to the ICW Group under the reinstatement provisions of the original contracts with a 50% placement and participation.

ACCOUNTS AND RECORDS

Accounting Changes

The Company has changed its premium revenue recognition for its direct business from Western Method to Eastern Method for the new and renewal policies, effective October 1, 2019 and after. The premium for the in-force policies with effective date of September 30, 2019 and prior continue to be recognized on the Western Method. As of October 1, 2020, all policies are now on the Eastern Method of accounting. Under the Western Method of accounting, premiums are earned as billed, with the deposit premium being earned evenly over the life of the policy. Under the Eastern Method of accounting, the estimated annual premium is written at the start of the policy along with an unearned premium reserve. The premium is then earned evenly over the life of the policy.

This change was necessary because the Company is in the process of migrating from the current legacy system (main frame) to a more advanced system that is able to support all of its technological initiatives. The new technology solutions do not support the western method of accounting, and this change has enabled the Company to implement more advanced and digital technology in order to be more competitive, and provide a better customer service to their policyholders.

Annual Statement Instructions

Pursuant to the Annual Statement Instructions prescribed by the National Association of Insurance Commissioners (NAIC), Notes to the Financial Statements Number 14, Contingencies, which states in part that “when the disclosure for a particular illustration is not applicable or the reporting entity has nothing to report, the reporting entity is not required to present the disclosure in the illustrated format with zero amounts except for the reconciliation table illustrated in Note 1A, which must be provided regardless of whether the reporting entity has any state prescribed or permitted practices. It will still be acceptable to indicate “none” or “not applicable” for the whole disclosure”. The Company failed to comply with the instructions. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

Pursuant to the Annual Statement Instructions prescribed by the NAIC Notes to the Financial Statements Number 33, Asbestos/Environmental Reserves, the Company failed to break out and disclose the expense reserves for both asbestos and environmental claims. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

Pursuant to the Annual Statement Instructions prescribed by the NAIC, on the Underwriting and Investment Exhibit, Part 3 – Expenses, the Company failed to disclose the method(s) of allocation of the management and service fees incurred attributable to affiliates and non-affiliates. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

FINANCIAL STATEMENTS

The following 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, 2020. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements reported by the Company.

Statement of Financial Condition as of December 31, 2020

Underwriting and Investment Exhibit for the Year Ended December 31, 2020

Reconciliation of Surplus as Regards Policyholders from December 31, 2016 through December 31, 2020

Statement of Financial Condition
as of December 31, 2020

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 1,972,021,911	$ 2,686,275	$ 1,969,335,636	
Preferred stocks	22,378,109	14,000,000	8,378,109	
Common stocks	861,057,762		861,057,762	
Mortgage loans on real estate: first liens	9,529,164		9,529,164	
Real estate: properties held for the production of income	32,054,528		32,054,528	
Cash and short-term investments	127,609,502		127,609,502	
Other invested assets	22,659,950		22,659,950	
Receivable for securities	1,212,546		1,212,546	
Investment income due and accrued	21,772,363	3,993,220	17,779,143	
Premiums and agents' balances in course of collection	127,062,903	7,295,918	119,766,985	
Premiums, agents' balances and installments booked but deferred and not yet due (including $455,058 earned but unbilled premiums)	327,858,251		327,858,251	
Amount recoverable from reinsurers	11,839,931		11,839,931	
Funds held by or deposited with reinsured companies	5,786,690		5,786,690	
Other amounts receivable under reinsurance contracts	9,857,755		9,857,755	
Current federal and foreign income tax recoverable and interest thereon	6,968,976		6,968,976	
Net deferred tax asset	41,325,186		41,325,186	
Guaranty funds receivable or on deposit	20,993,669		20,993,669	
Electronic data processing equipment and software	9,351,826	8,357,562	994,264	
Furniture and equipment	4,963,636	4,963,636	0	
Receivable from parent, subsidiaries and affiliates	7,110,638		7,110,638	
Aggregate write-ins for other than invested assets	16,991,657	6,032,165	10,959,492	
Total assets	$ 3,660,406,952	$ 47,328,776	$ 3,613,078,175	

Liabilities, Surplus and Other Funds		Notes
Losses	$ 1,097,322,143	(1)
Reinsurance payable on paid losses and loss adjustment expenses	1,302,260	
Loss adjustment expenses	325,658,539	(1)
Commissions payable, contingent commissions and other similar charges	54,964,641	
Other expenses	36,398,069	
Taxes, licenses and fees	1,072,400	
Borrowed money	758,816	
Unearned premiums	436,352,918	
Advance premium	1,015,456	
Dividends declared and unpaid: Stockholders	4,660,426	
Ceded reinsurance premiums payable	99,719,584	
Funds held by company under reinsurance treaties	246,774,906	
Amounts withheld or retained by company for account of others	1,897,879	
Remittances and items not allocated	941,194	
Provision for reinsurance	3,606,446	
Drafts outstanding	427,778	
Payable to parent, subsidiaries and affiliates	7,340,697	
Derivatives	3,777	
Payable for securities	1,817	

Liabilities, Surplus and Other Funds			Notes
Aggregate write-ins for liabilities		2,900,139	

Liabilities, Surplus and Other Funds (continued)			Notes
Total liabilities		2,323,119,884	
Common capital stock	$ 4,200,000		
Gross paid-in and contributed surplus	140,481,658		
Unassigned funds (surplus)	1,145,276,632		
Surplus as regards policyholders		$ 1,289,958,290	
Total liabilities, surplus and other funds		$ 3,613,078,175	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2020

Underwriting Income		
Premiums earned		$ 745,292,820
Deductions:		
Losses incurred	$ 331,923,558	
Loss adjustment expenses incurred	112,826,154	
Other underwriting expenses incurred	281,097,679	
Total underwriting deductions		725,847,391
Net underwriting gain		19,445,430
Investment Income		
Net investment income earned	$ 52,340,508	
Net realized capital losses	(5,298,322)	
Net investment gain		47,042,186
Other Income (losses)		
Net loss from agent's or premium balances charged off (amount recovered $363,482 amount charged off $5,523,869)	$ (5,160,386)	
Finance and service charges not included in premiums	673,386	
Aggregate write-ins for miscellaneous income	991,076	
Total other losses		(3,495,924)
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		62,991,692
Dividends to policyholders		3,524,479
Federal and foreign income taxes incurred		21,748,484
Net income		$ 37,718,729

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2019		$ 1,300,781,437
Net income	$ 37,718,484	
Change in net unrealized capital losses	(31,774,901)	
Change in net deferred income tax	13,869,647	
Change in nonadmitted assets	(6,247,180)	
Change in provision for reinsurance	1,516,330	
Dividends to stockholders	(26,000,000)	
Aggregate write-ins for gains in surplus	94,230	
Change in surplus as regards policyholders for the year		(10,823,146)
Surplus as regards policyholders, December 31, 2020		$ 1,289,958,290

Reconciliation of Surplus as Regards Policyholders
from December 31, 2016 through December 31, 2020

Surplus as regards policyholders, December 31, 2016			$ 901,952,475
	Gain in Surplus	Loss in Surplus	
Net income	$ 335,210,832	$	
Change in unrealized capital gains	128,184,753		
Change in net deferred income tax		3,480,144	
Change in nonadmitted assets		3,586,365	
Change in provision for reinsurance		127,835	
Dividends to stockholders		68,000,000	
Change in treasury stock			
Aggregate write-ins for loss in surplus		195,426	
Total gains and losses	$ 463,395,585	$ 75,389,770	
Net increase in surplus as regards policyholders			388,005,815
Surplus as regards policyholders, December 31, 2020			$ 1,289,958,290

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2020 were found to be reasonably stated and have been accepted for the purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Intercompany Agreements - Intercompany Affiliated Management Agreement (Page 6): It is recommended that the Company comply with the provisions of California Insurance Code (CIC) Section 1734(b). During the course of the examination, the Company opened and transferred all fiduciary funds to a Premium Trust Account to correct the noted deficiency.

Accounts and Records – Annual Statement Instructions (Page 21): It is recommended that the Company implement procedures to ensure compliance with the National Association of Insurance Commissioner (NAIC) Annual Statement Instructions, Notes to Financial Statements Numbers 14 and 33, and to the Underwriting and Investment Exhibit, Part 3 - Expenses.

Previous Report of Examination

Accounts and Records - (Page 13): It was recommended that the Company disclose all material related party transactions in its Notes to the Financial Statements in accordance with Statement of Statutory Accounting Principles No. 25, Paragraph 19. The Company complied.

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,

Ison, Ferdinand Digitally signed by Ison, Ferdinand
Date: 2022.05.11 16:00:27 -07'00'

Ferdinand Ison
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

Dillon, Sayaka Digitally signed by Dillon, Sayaka
Date: 2022.05.11 16:16:39 -07'00'

Sayaka Dillon, CFE, CISA, CPA
Supervising Insurance Examiner
Department of Insurance
State of California