

REPORT OF EXAMINATION
OF THE
PACIFIC COMPENSATION INSURANCE COMPANY
AS OF
DECEMBER 31, 2022

Insurance Commissioner

A handwritten signature in blue ink, appearing to read "D. DeLoe", is positioned to the right of the "Insurance Commissioner" text.

Filed on March 5, 2024

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Los Angeles, California
January 17, 2024

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

PACIFIC COMPENSATION INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 3011 Townsgate Road, Suite 120, Thousand Oaks, California 91361.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2019. This examination covers the period from January 1, 2020 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 Arizona as the lead state, and was conducted concurrently in conjunction with the examinations of the CopperPoint Group, which consists of the following companies: CopperPoint Insurance Company, CopperPoint American Insurance Company, CopperPoint Casualty Insurance Company, CopperPoint General Insurance Company, CopperPoint Indemnity Insurance Company, CopperPoint National Insurance Company, CopperPoint Premier Insurance Company, CopperPoint Western Insurance Company, MountainPoint Insurance Company, and Alaska National Insurance Company. Three states participated on the examination: Arizona, Alaska, and California.

COMPANY HISTORY

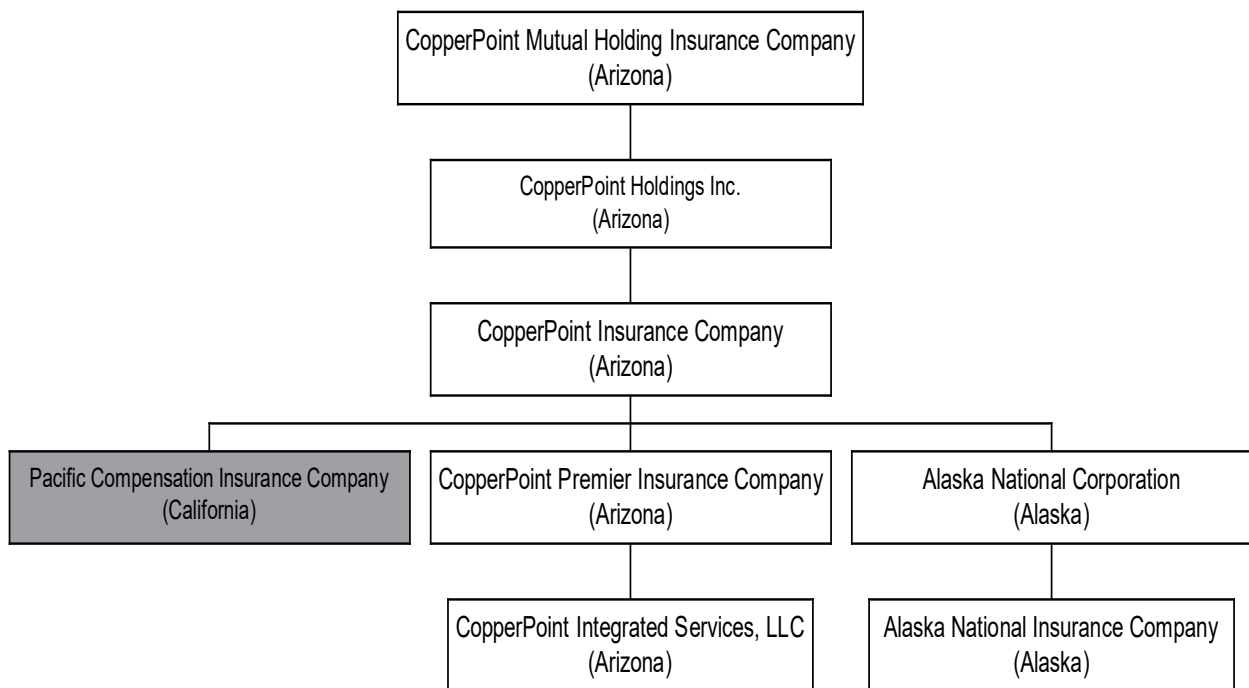
On December 31, 2017, CopperPoint Mutual Insurance Company (CPMIC) acquired Pacific Compensation Corporation (PCC) from its previous parent company, Alleghany Holdings LLC. On June 20, 2018, PCC was dissolved and all outstanding shares of the Company were transferred to CPMIC. Effective January 1, 2019, CPMIC converted to a stock insurer and changed its name to CopperPoint Insurance Company (CPIC), pursuant to the Plan of Conversion approved by the Arizona Department of Insurance and Financial Institutions, and by its members.

Capitalization

The Company is authorized to issue 100,000 shares of common stock with a par value of \$260 per share. As of December 31, 2021, there were 10,000 shares outstanding.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which CopperPoint Mutual Holding Insurance Company is the ultimate controlling entity. The following organizational chart depicts the Company's relationship within the holding company system at December 31, 2022. Following is an abridged organizational chart. All ownership is 100%.



The six 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

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
John Joseph Carey Scottsdale, Arizona	Senior Vice President and Chief Underwriting Officer CopperPoint Insurance Company
Kevin Michael Kinross Westerville, Ohio	Executive Vice President General Counsel, Chief Compliance Officer, and Secretary CopperPoint Insurance Company
David Allen Kuhn Newport Beach, California	Executive Vice President Distribution and Regional President of Enterprise CopperPoint Insurance Company
Robert Dean Roland New Hartford, Connecticut	Chief Administrative Officer and Chief Operating Officer CopperPoint Insurance Company
Kelly Renee Ruud Scottsdale, Arizona	Senior Vice President, Chief Financial Officer, and Treasurer CopperPoint Insurance Company
Marc Edward Schmittlein Paradise Valley, Arizona	President and Chief Executive Officer CopperPoint Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Marc Edward Schmittlein	President and Chief Executive Officer
Kelly Renee Ruud	Treasurer
David Allen Kuhn	Regional President and Executive Vice President of Enterprise
Kevin Michael Kinross	Secretary

Management Agreements

Tax Sharing Agreement: Effective January 1, 2019, the Company entered into a Tax Sharing Agreement (Agreement) with CopperPoint Insurance Company (CPIC) and its affiliates. Under the terms of the Agreement, the Company's federal, state, and local income tax returns will be filed jointly with the parent and other affiliated companies in the group. The Company will pay CPIC the tax liability not exceeding the amount that the Company would pay if it filed a separate income tax return. The Company will remit payment to the CPIC no earlier than ten days prior to the filing date and no later than thirty days after the filing date of the consolidated income tax return. The Agreement was approved by the California Department of Insurance (CDI) on September 17, 2019. Effective November 29, 2019, Endorsement No. 1 was added to the Agreement which adds the following companies as parties to the Agreement: Alaska National Corporation, Alaska National Insurance Company (ANIC) and CopperPoint Integrated Services, LLC. The CDI approved the endorsement on January 13, 2020. The Company paid in the amount of \$2,917,791 in 2020 to CPIC and received \$1,611,559 and \$6,955,226 for the years of 2021 and 2022, respectively.

Investment Management Agreement: Effective May 1, 2018, the Company entered into an Investment Management Agreement (Agreement) with its parent company, CPIC. CPIC will provide investment management services either directly or indirectly through its duly appointed advisor(s) to the Company; including trading, sales, and maintenance of securities for the account of all invested assets. Investment accounting services and securities valuations are provided by Clearwater Analytics, LLC. The Company will pay an asset management fee of 0.10% per annum on the account. The Agreement was approved by the CDI on May 16, 2018. Asset management fees paid by the Company under the Agreement were \$556,499, \$556,593, and \$502,186 for the years of 2020, 2021, and 2022, respectively.

Intercompany Affiliated Service Agreement: Effective January 1, 2019, the Company and CPIC entered into an Intercompany Affiliated Service Agreement (Agreement). CPIC agrees to perform services deemed reasonably necessary in the conduct of its

operations, including executive, corporate strategy, business development, legal, corporate governance, product management and development, underwriting, marketing, billing, claims, reserving, etc. On November 29, 2018, the Agreement was approved by the CDI. The Company filed a First Amendment to the Agreement with the CDI which adds ANIC as a party to the Agreement, effective January 1, 2021. This First Amendment was approved by the CDI on November 23, 2020. Under the terms of the Agreement, the Company paid fees in the amount of \$38,867,370, \$54,510,562, and \$49,631,952 to CPIC for the years of 2020, 2021, and 2022, respectively.

TERRITORY AND PLAN OF OPERATION

The Company is a California domestic insurer licensed to write liability and workers' compensation business. It is also licensed in Alaska, Arizona, Colorado, Idaho, Nevada, New Mexico, Oregon, and Utah. The Company writes workers' compensation business, predominantly in California (97.5%) with a minor amount of policies written in Arizona, Nevada, Utah, and Colorado as of December 31, 2022. At December 31, 2022, the Company wrote \$171.3 million of direct business in the state of California.

The Company offers guaranteed cost worker's compensation coverage written in the state of California with incidental coverage offerings throughout the United States. Policy premium ranges from \$500 to approximately \$2,000,000. The policies are sold through CopperPoint group appointed agencies that have offices throughout California as well as other states.

LOSSES EXPERIENCE

The Company incurred net underwriting losses and net losses in all three years under the examination, as follows:

<u>Year</u>	<u>Surplus</u>	<u>Net Underwriting Loss</u>	<u>Net Loss</u>
2020	238,921,410	(24,151,577)	(6,835,375)
2021	225,840,629	(45,249,696)	(22,184,042)
2022	196,873,964	(20,814,579)	(4,180,508)

The Company's underwriting performance resulted in a net underwriting loss each year during the examination period. In 2021, the Company's underwriting performance was significantly impacted by return audit premiums due to the Covid-19 pandemic and government-mandated social distances requirements. As businesses resumed operations in 2022 the Company's underwriting performance improved, although still reporting at a loss. Improvement in the underwriting results can be attributed to the Company broadening its appetite and slowly diversifying from its highly competitive classes of small restaurants, hotels, and automotive dealers. The decrease in surplus from year to year was attributed to the net losses during the examination period.

ACCOUNTS AND RECORDS

Insurance Holding Company System Annual Registration Statement (Form B)

A review of the Company's Form B for the calendar year ending December 31, 2022, noted that Item 5.e (Transactions and Agreements – All management agreements, service contracts and all cost-sharing expenses) did not include amounts paid to and received from affiliates under each listed agreement. The instructions for the completion of the Form B Registration Statement require transactions and agreements listed in Item 5 to be described "in a manner to permit the proper evaluation thereof by the Director, and shall include at least the following: the nature and purpose of the transaction, *the nature and amounts of any payments or transfers of assets between the parties*, the identity of all parties to the transaction, and relationship of the affiliated parties to the Registrant". The Company did not disclose the amounts paid to and from affiliates in its annual Form B filing pursuant to California Insurance Code (CIC) Section 1215.4. It is recommended that the Company ensure all information is completely and properly presented in its Form B filing to adhere to CIC Section 1215.4.

REINSURANCE

Assumed

The Company did not assume reinsurance during the examination period except for the Company's minor participation in the National Council on Workers' Compensation Insurance Pool.

Ceded

The following table is a summary of the ceded reinsurance agreement in place as of December 31, 2022:

Line of Business and Type of Contract	Reinsurer's Name (authorized unless noted)	Company's Retention	Reinsurer's Limit
<u>Workers' Compensation/ Employers' Liability Excess of Loss First Layer</u> First Layer	30% -Munich Reinsurance America, Inc. 23% -Certain Underwriting Members of Lloyd's, London 21% - Arch Reinsurance Company 10% -IOA Re 7% -Markel Bermuda Ltd. 5% -Ambridge Partners 4%-Allied World Assurance Company Limited (Unauthorized)	\$10 million	\$10 million excess \$10 million, each and every occurrence, not to exceed \$20 million each and every occurrence, each and every risk
Second Layer	30% -Munich Reinsurance America, Inc. 23% -Certain Underwriting Members of Lloyd's, London 21% - Arch Reinsurance Company 10% -IOA Re 7% -Markel Bermuda Ltd. 5% -Ambridge Partners 4%-Allied World Assurance Company Limited (Unauthorized)	\$20 million per occurrence, each and every risk	\$20 million excess \$30 million, each and every occurrence, each and every risk, not to exceed \$30 million each and every occurrence, each and every risk. \$60 million in aggregate
Third Layer	30% - Munich Re 21.5% - London Reinsurers 19.5% - Arch Reinsurance Company 7.5% IOA Re (Cincinnati Insurance) 7% Markel Bermuda Ltd 5% Ambridge Partners 5% Hannover Re (Bermuda) Limited (Unauthorized) 4.5% Allied World Assurance Co. Ltd (Unauthorized)	\$50 million each and every loss/risk	\$50 million excess \$50 million, each and every loss/risk, not to exceed \$50 million terrorism.
Fourth Layer	30% - Munich Re 19.5% Arch Reinsurance Company 16% London Reinsurers 10% Hannover Re (Bermuda) Limited (Unauthorized) 10% IOA Re (Cincinnati Insurance) 7.5% Allied World Assurance Company Limited (Unauthorized) 7% Markel Bermuda Ltd	\$100 million each and every loss/risk	\$50 million excess \$100 million, each and every loss/risk, not to exceed \$50 million terrorism

Line of Business and Type of Contract	Reinsurer's Name (authorized unless noted)	Company's Retention	Reinsurer's Limit
<u>Aggregate Stop Loss</u>	50% - Hannover Reinsurance (Unauthorized) 50% - Arch Reinsurance, Ltd	72% of Gross Net Earned Premium Income	72-82.2% of Gross Net Earned Premium Income

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 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, 2019
through December 31, 2022

Statement of Financial Condition
as of December 31, 2022

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 515,099,792	\$	\$ 515,099,792	
Common stocks	69,570,316		69,570,316	
Cash and short-term investments	50,866,063		50,866,063	
Investment income due and accrued	4,122,642		4,122,642	
Uncollected premiums and agents' balances in course of collection	10,366,781	1,382,098	8,984,683	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	66,098,860	247,412	65,851,448	
Amount recoverable from reinsurers	189,875		189,875	
Funds held by or deposited with reinsured companies				
Current federal and foreign income tax recoverable and interest there on	1,528,598		1,528,598	
Electronic data processing equipment and software	411	411	0	
Furniture and equipment	46,544	46,544	0	
Aggregate write-ins for other than invested assets	<u>22,483,683</u>	<u>1,139,952</u>	<u>21,343,731</u>	
 Total assets	 <u>\$ 740,373,565</u>	 <u>\$ 2,816,417</u>	 <u>\$ 737,557,148</u>	

<u>Liabilities, Surplus and Other Funds</u>	<u>Current Year</u>	<u>Notes</u>
Losses	\$ 340,510,250	(1)
Loss adjustment expenses	78,002,915	(1)
Commissions payable, contingent commissions and other similar charges	10,010,305	
Other expenses	61,822	
Taxes, licenses and fees	3,091,590	
Unearned premiums	73,344,892	
Advance premiums	1,576,172	
Ceded reinsurance premiums payable	643,174	
Funds held by company under reinsurance treaties	10,214,207	
Amounts withheld or retained by company for account of others	1,928,633	
Remittances and items not allocated	321,897	
Provision for reinsurance	2,245,124	
Payable for parent, subsidiaries and affiliates	17,536,173	
Aggregate write-ins for liabilities	<u>1,196,030</u>	
 Total liabilities	 540,683,183	
 Common capital stock	 2,600,000	
Gross paid-in and contributed surplus	271,782,367	
Unassigned funds (surplus)	(77,508,403)	
 Surplus as regards policyholders	 <u>196,873,964</u>	
 Total liabilities, surplus, and other funds	 <u>\$ 737,557,148</u>	

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

State of Income

<u>Underwriting Income</u>	<u>Current Year</u>
Premium earned	\$ 175,961,080
Deduction:	
Losses incurred	\$ 112,699,124
Loss adjustment expenses incurred	\$ 24,198,124
Other underwriting expenses incurred	<u>59,878,412</u>
Total underwriting deductions	<u>196,775,660</u>
Net underwriting loss	(20,814,579)
 <u>Investment Income</u>	
Net investment income earned	\$ 14,801,902
Net realized capital gain	<u>511,606</u>
Net investment gain	15,313,508
 <u>Other Income</u>	
Net loss from agents' or premium balances charged off (amount recovered \$ amount charged off \$385,555)	\$ (385,555)
Finance and service charges not included in premiums	19,308
Aggregate write-ins for miscellaneous income	<u>(78,307)</u>
Total other income	<u>(444,554)</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes	(5,945,626)
Federal and foreign income taxes incurred	<u>(1,765,118)</u>
Net loss	<u>\$ (4,180,508)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2019	\$ 225,840,629
Net loss	\$ (4,180,508)
Change in net unrealized capital losses	(15,435,916)
Change in net deferred income tax	(12,555,790)
Change in nonadmitted assets	5,423,947
Change in provision for reinsurance	<u>(2,218,398)</u>
Change in surplus as regards policyholders for the year	<u>(28,966,665)</u>
Surplus as regards policyholders, December 31, 2022	<u>\$ 196,873,964</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2019 through December 31, 2022

Surplus as regards policyholders, December 31, 2019				\$ 243,262,988
	Gain in Surplus	Loss in Surplus		
Net Loss	\$	\$		33,199,925
Change in net unrealized capital gains or (losses)	3,714,003			
Change in net deferred income tax			9,053,869	
Change in nonadmitted assets	913,120			
Change in provision for reinsurance			2,213,618	
Cumulative effect of changes in accounting principles			6,548,735	
Total gains and losses	<u>\$ 4,627,123</u>	<u>\$ 51,016,147</u>		
Net decrease in surplus as regards policyholders				<u>(46,389,024)</u>
Surplus as regards policyholders, December 31, 2022				<u>\$ 196,873,964</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company's loss and loss adjustment expense (LAE) reserve as of December 31, 2022 were evaluated by an actuary from INS Regulatory Insurance Services, Inc., under contract with the Arizona Department of Insurance and Financial Institutions. Based on the analysis performed, the Company's loss and LAE reserves were found to be reasonably stated, and have been accepted for purposes of this examination. An Actuary from the California Department of Insurance (CDI) reviewed the analysis prepared by the lead state's contract actuary, and concluded that the loss and LAE reserves carried by the Company are reasonably stated as of December 31, 2022.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Insurance Holding Company System Annual Registration Statement (Form B) (Page 6): It is recommended that the Company ensure all information is completely and properly presented in its Form B filings to adhere to California Insurance Code Section 1215.4.

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,

Amy Voong, CFE,
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

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