REPORT OF EXAMINATION
OF THE

EMPLOYERS COMPENSATION
INSURANCE COMPANY

AS OF
DECEMBER 31, 2014

Filed January 15, 2016

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Los Angeles, California
November 5, 2015

Honorable Dave Jones
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 main administrative office located at 10375 Professional Circle, Reno, Nevada 89521. The Company's statutory home address is located at 500 North Brand Boulevard, Glendale, California 91203.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2010. This examination covered the period from January 1, 2011 through December 31, 2014.

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 the 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 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, 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 examination was conducted concurrently with the examination of affiliates, Employers Preferred Insurance Company and Employers Assurance Company, by the Florida Office of Insurance Regulation and with the examination of the Company's parent, Employers Insurance Company of Nevada, by the Nevada Division of Insurance, with Nevada serving as the lead state.

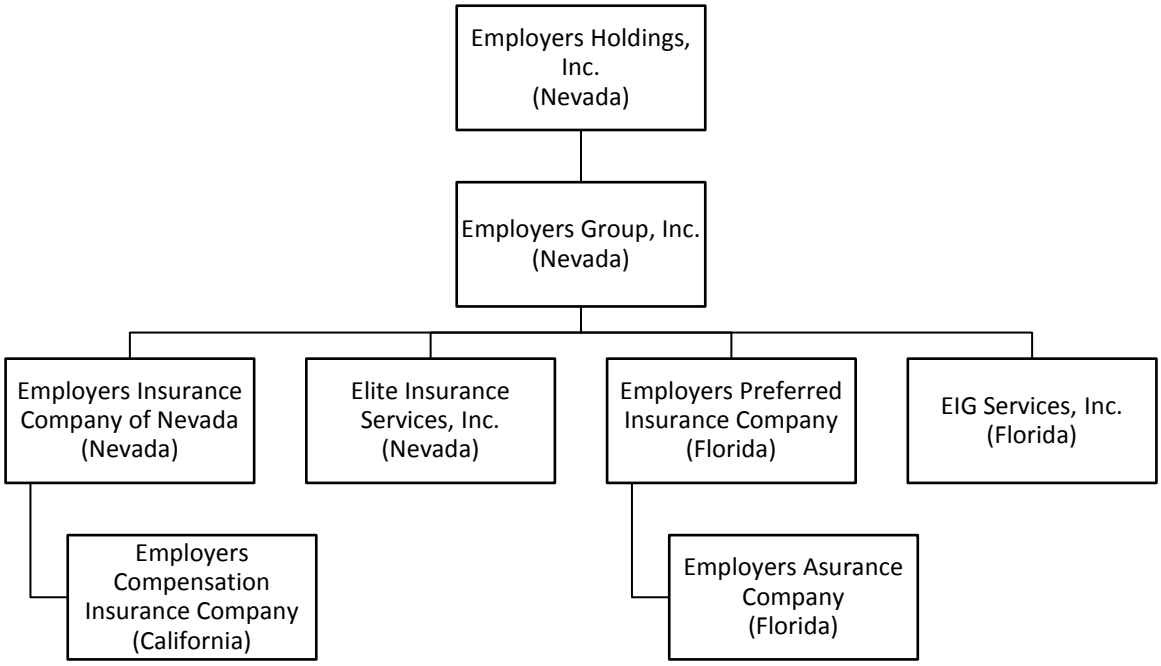
COMPANY HISTORY

Dividends

In 2011, the Company's board of directors approved an ordinary dividend of $29.9 million payable to its sole stockholder, Employers Insurance Company of Nevada (EICN), subject to prior notification of any payment to the California Department of Insurance (CDI). After the notification to the CDI, the Company paid its parent, EICN, cash amounts of $12.9 million, $10 million, and $7 million on the dates of October 6, 2011, November 17, 2011, and December 19, 2011, respectively.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Employers Insurance Company of Nevada, and a member of an insurance holding company system of which Employers Holdings, Inc. (EHI) is the ultimate controlling entity. EHI is a publicly traded insurance holding company and is incorporated in the state of Nevada. Following is an abridged organizational chart. 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, 2014:

Directors

Name and Location	Principal Business Affiliation
Douglas D. Dirks Reno, Nevada	President and Chief Executive Officer Employers Holdings, Inc.
Terry Eleftheriou Reno, Nevada	Executive Vice President, Chief Financial Officer, and Treasurer Employers Holdings, Inc.
Stephen V. Festa Reno, Nevada	Executive Vice President and Chief Operating Officer Employers Holdings, Inc.
Robert J. Kolesar Las Vegas, Nevada	Chairman of the Board Employers Holdings, Inc.
Lenard T. Ormsby Reno, Nevada	Executive Vice President, Chief Legal Officer, General Counsel, and Secretary Employers Holdings, Inc.

Principal Officers

Name	Title
Douglas D. Dirks	President and Chief Executive Officer
Terry Eleftheriou	Treasurer
Stephen V. Festa	Executive Vice President and Chief Operating Officer
Richard P. Hallman	Executive Vice President and Chief Information Officer
Lenard T. Ormsby	Assistant Secretary
Aaron P. Mikulsky	Senior Vice President, Business Process and Policyholder Services
Lawrence S. Rogers	Senior Vice President and Chief Underwriting Officer
Barry J. Vogt	Senior Vice President and Chief Claims Officer
Bryan C. Ware	Senior Vice President and Chief Actuary
Gretchen K. Hofeling	Vice President and Corporate Controller
Lori A. Brown	Vice President, Deputy General Counsel, and Secretary

Name	Title
Russel J. Newman	Senior Vice President and Chief Sales Officer

Management Agreements

Administrative Services Agreement: Effective January 1, 2009, the Company entered into an Administrative Services Agreement with its parent, Employers Insurance Company of Nevada (EICN), and affiliates, Employers Preferred Insurance Company (EPIC) and Employers Assurance Company (EAC), along with other non-insurance affiliates. Under the terms of the agreement, the parties may furnish various services such as: accounting, tax, auditing, functional support, claims, investment, and underwriting to each other. 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 September 17, 2009. During 2012, 2013, and 2014, the allocated expenses paid by the Company were $2,234,823, $3,609,302, and $9,318,435, respectively.

During 2011, the Company did not pay any amounts to EICN under the terms of the Administrative Services Agreement, as expenses were settled through the Intercompany Pooling Agreement, discussed in the “Reinsurance” section of this report.

Tax Sharing Agreement: Since February 25, 2009, the Company, its affiliates, and Employers Holdings, Inc. (EHI), the ultimate controlling entity, have been parties to a tax sharing agreement. Under the terms of the agreement, federal income tax returns are filed on a consolidated basis by EHI on behalf of its subsidiaries. Each company’s tax liability or refund is determined as if each company were filing on a separate basis. During 2011, 2012, 2013, and 2014, federal income taxes paid or (recovered) by the Company totaled $(2,597,373), $(1,460,423), $1,397,931, and $698,901. The agreement was approved by the CDI on December 30, 2009.

Effective October 14, 2014, the Company entered into a General Agency and Underwriting Manager Agreement with its non-insurer affiliates, EIG Services, Inc. (ESI), a Florida corporation, and insurer affiliate, Employers Insurance Company of Nevada (EICN), Employers Preferred Insurance Company (EPIC), and Employers Assurance Company (EAC). 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 agreement was approved by the California Department of Insurance (CDI) on October 10, 2014.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2014, the Company was licensed to transact business in the following states and the District of Columbia*:

Alabama*	Indiana*	Missouri*	South Carolina*
Arizona	Iowa*	Montana	Tennessee*
Arkansas*	Kansas*	Nevada	Texas
California	Kentucky*	New Jersey*	Utah
Colorado	Maryland	New Mexico	Virginia*
Florida	Massachusetts	New York	Wisconsin*
Georgia	Michigan*	Oklahoma*	
Idaho	Minnesota*	Oregon	
Illinois	Mississippi*	Pennsylvania	

* Newly licensed during the examination period.

During the period under review, the Company obtained licenses for an additional sixteen states and the District of Columbia, however, no premium was written in any of these newly licensed states. The focus of the Company's operations is on small businesses engaged in low to medium hazard industries and markets. The Company

sells its products primarily through independent agents and brokers and through its strategic partnerships and alliances, including Automatic Data Processing, Inc., and Anthem Blue Cross of California. During 2014, the Company wrote $241.3 million of direct premiums, and all but $10.1 million (4.2%) were written in California.

In 2014, the Company realigned its operating structure from a regional approach to a centralized approach. The executive management and shared services, including information technology, accounting, and financial reporting functions, are located in Reno, Nevada. Claims, underwriting and sales personnel remain located in various operating locations across the United States, with the largest claim office in Glendale, California.

REINSURANCE

Intercompany Reinsurance Agreement

Effective October 1, 2008, the Company and its parent, Employers Insurance Company of Nevada (EICN), and other affiliates, Employers Preferred Insurance Company (EPIC) and Employers Assurance Company (EAC), entered into an Intercompany Pooling Agreement (Pool), with EICN being the lead company of the Pool. Under the terms of the agreement, all business written by the four companies, net of inuring reinsurance, is pooled. Premiums, losses, and expenses incurred are then reapportioned to EICN, the Company, EPIC, and EAC in the proportions of 53%, 27%, 10%, and 10%, respectively. The agreement was approved by the California Department of Insurance (CDI) on December 1, 2008.

On July 14, 2014, the Company filed an Amended and Restated Reinsurance Pooling Agreement with the CDI, with an effective date of January 1, 2015. Under the Amended and Restated Reinsurance Pooling Agreement (Amended Pool), the lead company of the Amended Pool changed from EICN to EPIC, which results in all participating parties ceding all of their business, net of inuring reinsurance to EPIC. EPIC retains 35% of the total business ceded to the Amended Pool, and then retrocedes to the Company, EICN

and EAC in the proportions of 35%, 18%, and 12%. The Amended and Restated Intercompany Pooling Agreement was approved by the CDI on September 18, 2014.

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 participates in an excess of loss reinsurance agreement with its parent, and other insurer affiliates. Excess of loss reinsurance provides $195 million excess of $5 million coverage with a $2 million annual aggregate deductible for all business classified by the Company as workers' compensation and employers' liability. The reinsurance program includes coverage for terrorism losses excluding nuclear, chemical, biological, or radiological events. The following is a summary of the Company's reinsurance agreements in-force as of December 31, 2014:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
First Excess of Loss	44.5% Catlin Underwriting Inc. for and on behalf Of Lloyd's Syndicate No. 2003 (A) 15.0% Hannover Ruck SE (A) 11.0% Safety National Casualty Corporation (A) 29.5% Various Lloyds Syndicate (A)	$5 million	$5 million with $5 million limit per occurrence and $20 million term limit
Second Excess of Loss	1.19% Alterra Reinsurance USA Inc. (U) 17.00% Catlin Underwriting Inc. for and on behalf of Lloyd's Syndicate No. 2003 (A) 10.00% Hannover Ruck SE (A) 2.00% Munich Reinsurance America, Inc. (A) 10.00% Partner Reinsurance Company of the US (A) 9.31% Safety National Casualty Corporation (A) 7.00% Tokio Millennium Re AG (U) 1.50% Branch of Markel Underwriting Services Ltd. for and on behalf Of Lloyd's Syndicate No. 3000 (A) 32.00% Various Lloyds Syndicate (A) 10.00% Aspen Ins. UK (A)	$10 million	$10 million with $10 million limit per occurrence and $20 million term limit

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Third Excess of Loss	10.00% Alterra Reinsurance USA Inc. (U) 4.00% BGS Services (Bermuda) Limited for and on behalf of Lloyd's Syndicate No. 2987 (A) 18.00% Catlin Underwriting Inc. for and on behalf of Lloyd's Syndicate No. 2003 (A) 6.00% Endurance Specialty Insurance Ltd. (U) 10.00% Hannover Ruck SE (A) 10.00% Munich Reinsurance America, Inc. (A) 5.00% Odyssey Reinsurance Company (A) 7.00% Tokio Millennium Re AG (U) 1.50% Branch of Markel Underwriting Services Ltd. for and on behalf Of Lloyd's Syndicate No. 3000 (A) 23.50% Various Lloyds Syndicate (A) 5.00% Aspen Ins. UK (A)	$20 million	$20 million with $30 million limit per occurrence and $60 million term limit
Fourth Excess of Loss	4.50% Alterra Reinsurance USA Inc. (U) 4.25% Arch Reinsurance Company (A) 2.00% BGS Services (Bermuda) Limited for and on behalf of Lloyd's Syndicate No. 2987 (A) 6.00% Endurance Specialty Insurance Ltd. (U) 2.25% Hannover Re (Bermuda) Ltd. (U) 12.75% Munich Reinsurance America, Inc. (A) 2.50% Odyssey Reinsurance Company (A) 7.00% Tokio Millennium Re AG (Bermuda Branch) (U) 1.50% Branch of Markel Underwriting Services Ltd. for and on behalf Of Lloyd's Syndicate No. 3000 (A) 44.75% Various Lloyds Syndicate (A) 12.50% Aspen Ins. UK (A)	$50 million	$50 million with $50 million limit per occurrence and $100 million term limit
Fifth Excess of Loss	2.50% Alterra Reinsurance USA Inc. (U) 7.875% Arch Reinsurance Company (A) 5.00% BGS Services (Bermuda) Limited for and on behalf of Lloyd's Syndicate No. 2987 (A) 6.00% Endurance Specialty Insurance Ltd. (U) 2.50% Hannover Re (Bermuda) Ltd (U) 15.00% Munich Reinsurance America, Inc. (A) 1.25% Odyssey Reinsurance Company (A) 3.00% Partner Reinsurance Company of the U.S. (A) 14.00% Tokio Millennium Re AG (Bermuda Branch) (U) 1.50% Branch of Markel Underwriting Services Ltd. for and on behalf Of Lloyd's Syndicate No. 3000 (A) 26.375% Various Lloyds Syndicate (A) 15.0% Aspen Ins. UK (A)	$100 million	$100 million with $100 million limit per occurrence and $200 million term limit

(A) – Authorized or Certified Reinsurer
(U) – Unauthorized

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, 2014. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2014

Underwriting and Investment Exhibit for the Year Ended December 31, 2014

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2014

Statement of Financial Condition
as of December 31, 2014

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 1,179,711,247	$ 346,453	$ 1,179,364,794	
Cash and short-term investments	8,020,488		8,020,488	
Investment income due and accrued	11,245,449		11,245,449	
Premiums and agents' balances in course of collection	15,261,524	3,631,512	11,630,012	
Premiums, agents' balances and installments booked but deferred and not yet due (including $13,247,371 earned but unbilled premiums)	68,222,404	3,479,090	64,743,314	
Accrued retrospective premiums	13,660	1,366	12,294	
Amount recoverable from reinsurers	3,117		3,117	
Funds held by or deposited with reinsured companies	493,169,312		493,169,312	
Net deferred tax asset	38,769,841	9,737,664	29,032,177	
Guaranty funds receivable or on deposit	2,915,390		2,915,390	
Receivables from parent, subsidiaries and affiliates	1,144,726		1,144,726	
Furniture and equipment	124,380	124,380		
Aggregate write-ins for other than invested assets	1,571,921	623,057	948,864	
Total assets	$ 1,820,173,459	$ 17,943,522	$ 1,802,229,937	

Liabilities, Surplus and Other Funds			
Losses and loss adjustment expenses		$ 459,049,866	(1)
Commissions payable, contingent commissions and other similar charges		10,915,301	
Other expenses		3,425,557	
Taxes, licenses and fees		6,665,410	
Federal and foreign income taxes		2,419,359	
Unearned premiums		80,013,374	
Advance premiums		5,237,522	
Dividends declared and unpaid: Policyholders		225,017	
Ceded reinsurance premiums payable		(72,626)	
Funds held by company under reinsurance treaties		911,116,239	
Remittances and items not allocated		332,007	
Provision for reinsurance		9,770	
Payable to parent, subsidiaries and affiliates		2,499,195	
Aggregate write-ins for liabilities		1,847,706	
Total liabilities		1,483,683,697	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	214,400,000		
Unassigned funds (surplus)	101,546,240		
Surplus as regards policyholders		318,546,240	
Total liabilities, surplus and other funds		$ 1,802,229,937	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2014

Statement of Income

Underwriting Income		
Premiums earned		$ 184,806,058
Deductions:		
Losses and loss expenses incurred	$ 124,613,218	
Other underwriting expenses incurred	51,211,512	
Total underwriting deductions		175,824,730
Net underwriting loss		8,981,328
Investment Income		
Net investment income earned	$ 34,948,084	
Net realized capital gain	504,700	
Net investment gain		35,452,784
Other Income		
Net loss from agents' or premium balances charged off (amount Recovered $17,559 amount charged off $945,372)	$ (927,813)	
Aggregate write-ins for miscellaneous losses	(24,767,780)	
Total other loss		(25,695,593)
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		18,738,519
Dividends to policyholders		793,001
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		17,945,518
Federal and foreign income taxes incurred		2,264,112
Net income		$ 15,681,406

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2013		$ 298,960,785
Net income	$ 15,681,406	
Change in net unrealized capital gains	75,128	
Change in net deferred income tax	2,172,744	
Change in nonadmitted assets	1,665,947	
Change in provision for reinsurance	(9,770)	
Change in surplus as regards policyholders for the year		19,585,455
Surplus as regards policyholders, December 31, 2014		$ 318,546,240

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2014

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2010			$ 299,410,852
Net income	$ 41,301,228	$	
Net unrealized capital gains	362,476		
Change in net deferred income tax	11,117,321		
Change in nonadmitted assets		3,552,283	
Change in provision for reinsurance		9,770	
Cumulative effect of changes in accounting principles		142,499	
Dividends to stockholders		29,941,085	
Total gains and losses	$ 52,781,025	$ 33,645,637	
Net increase in surplus as regards policyholders			19,135,388
Surplus as regards policyholders, December 31, 2014			$ 318,546,240

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The December 31, 2014 loss and loss adjustment expense reserves were evaluated by a Casualty Actuary from 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.

SUBSEQUENT EVENTS

Effective January 1, 2015, the Company entered into a Network Carrier Agreement with its insurer affiliate, EPIC, for business underwritten in the state of Texas. EPIC is a certified workers' compensation health care network in the state of Texas. Under the terms of the agreement, EPIC 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 23, 2015, the Network Carrier 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 Amendment Network Carrier Agreement was approved by the CDI on May 21, 2015.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

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,

__/S/_____

Vivien Fan, CFE
Examiner-In-Charge
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California

__/S/_____

Ed Aros, CFE
Senior Insurance Examiner (Supervisor)
Department of Insurance
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