

REPORT OF EXAMINATION
OF THE
CARE WEST INSURANCE COMPANY
AS OF
DECEMBER 31, 2017

Filed on May 21, 2019

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San Francisco, California
May 7, 2019

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CARE WEST INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 2521 Warren Drive, Suite B, Rocklin, California 95677.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2014. This examination covered the period from January 1, 2015 through December 31, 2017.

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 may 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.

COMPANY HISTORY

On June 30, 2013, Care West Holdings, LLC (CWH) was formed as a new holding company and became the immediate parent of the Company. 100% of the Company's shares from Golden Legacy, Inc. were contributed to Care West Holdings, as well as additional capital in the form of real estate from Allpro, Inc. and Martin A. Harmon, Trustee of Crosswinds Trust.

On December 31, 2015, Golden Legacy, Inc. sold a 1.0% interest in Care West Holdings to Steven E. Goode and Nyla Goode, as joint tenants. As a result of the sale, the ownership percentages of Care West Holdings changed to the following: Golden Legacy, Inc. (78.9%), Allpro, Inc. (7.2%), Martin A. Harmon, Trustee of Crosswinds Trust (12.9%), and Steven E. Goode and Nyla Goode (1.0%).

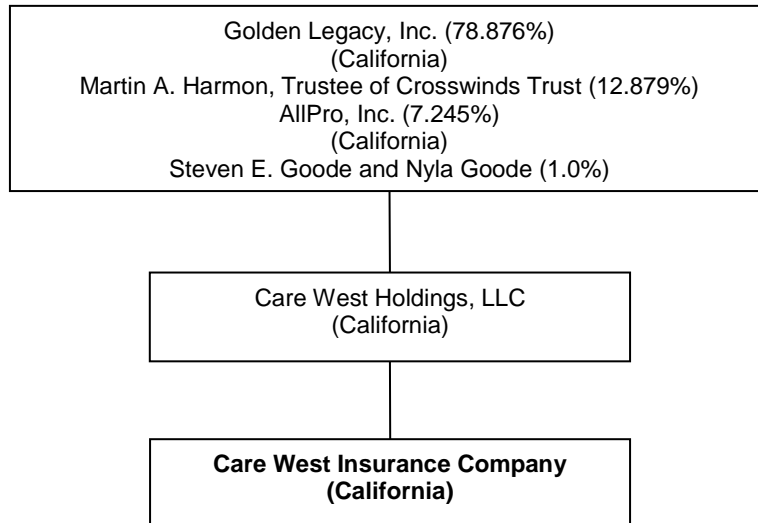
Capitalization

The Company is authorized to issue 100,000 shares of common stock with a par value of \$50 per share. As of December 31, 2017, there were 20,000 shares outstanding valued at \$1,000,000.

No dividends were declared and paid during the examination period.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Golden Legacy, Inc. is the ultimate controlling entity. The following organizational chart depicts the Company's relationship within the holding company system as of December 31, 2017 (all ownership is 100% unless otherwise noted):



The six members of the board of directors, who are elected annually, oversee the business and affairs of the Company. The following are members of the board and principal officers of the Company serving at December 31, 2017:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Steven E. Goode San Francisco, California	Executive Managing Director Aon Benfield
John T. Grush Monrovia, California	President and Chief Executive Officer Care West Insurance Company
Martin A. Harmon Rocklin, California	President and Chairman of the Board Golden Legacy, Inc.
Martine D. Harmon Rocklin, California	Secretary and Board Member Golden Legacy, Inc.
Rodger D. McDonald Rocklin, California	Controller Western Care Construction Company
Donald T. Trowbridge Loomis, California	Chief Financial Officer and Board Member Golden Legacy, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
John T. Grush	President and Chief Executive Officer
Donald T. Trowbridge	Secretary, Treasurer, and Chief Financial Officer

TERRITORY AND PLAN OF OPERATION

The Company is authorized to write workers' compensation insurance in the state of California and Nevada. At December 31, 2017, the Company wrote \$37.4 million in direct written premium, all of which was from California. The Company received a license to write in Nevada on January 12, 2017 but did not write any premium in that state in 2017.

Since inception, the Company focused its writings primarily on policies for entities affiliated with its parent, Golden Legacy, Inc., a senior healthcare management organization. Over time, the Company expanded its writings beyond its previous book of affiliated business by becoming a specialty writer of healthcare facilities and adding exposures outside the healthcare field such as agriculture to its areas of specialization. Healthcare and agriculture continues to be the two largest industries within the Company's book of business in 2017.

The Company's business is distributed through a network of approximately 19 independent agents or brokers. The Company's top five agents or brokers produced over 70% of the Company's business in 2017.

REINSURANCE

Assumed

The Company did not assume any reinsurance in 2017. All of the Company's assumed reinsurance agreements previously in place have been terminated and are in run-off.

Ceded

The following is a summary of principal reinsurance agreements in force as of December 31, 2017:

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
Workers Compensation Quota Share	Workers Compensation and Employers Liability	<u>Authorized:</u> XL Reinsurance America Inc. (88.89%) Chubb Tempest Re USA LLC (11.11%)	77.5% of net liability	22.5% of \$500 thousand, in any one loss occurrence.
Workers Compensation Excess of Loss				
Underlying Layer	Workers Compensation and Employers Liability	<u>Authorized:</u> Safety National Casualty Corporation (100%)	\$500 thousand, each loss occurrence	\$500 thousand excess of \$500 thousand, each loss occurrence \$3 million contract year limit
First Layer	Workers Compensation and Employers Liability	<u>Authorized:</u> Hannover Ruck SE (5%) Lloyd's of London – Various (95%)	\$1 million, each loss occurrence	\$1 million excess of \$1 million, each loss occurrence \$3 million contract year limit*
Second Layer	Workers Compensation and Employers Liability	<u>Authorized:</u> Hannover Ruck SE (5%) Lloyd's of London – Various (95%)	\$2 million, each loss occurrence	\$3 million excess of \$2 million, each loss occurrence \$6 million contract year limit*
Third Layer	Workers Compensation and Employers Liability	<u>Authorized:</u> Hannover Ruck SE (5%) Lloyd's of London – Various (95%)	\$5 million, each loss occurrence	\$5 million excess of \$5 million, each loss occurrence \$10 million contract year limit*
Fourth Layer	Workers Compensation and Employers Liability	<u>Authorized:</u> Arch Reinsurance Company (5%) Lloyd's of London – Various (95%)	\$10 million, each loss occurrence	\$10 million excess of \$10 million, each loss occurrence \$20 million contract year limit*

**Reinsurers will indemnify the Company for 100% of the loss attributed to the First Layer, Second Layer, Third Layer and Fourth Layer Workers Compensation Excess of Loss Reinsurance Contracts. In the event of a loss, each layer is subject to reinstatement premiums.*

ACCOUNTS AND RECORDS

During the course of the examination, a review was made of the Company's unclaimed property filings with the California State Controller's Office (SCO). California Code of Civil Procedure (CCP) Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532 - Unclaimed Property Law requires that all tangible personal property located in the state of California, that is held or owing in the ordinary course of business and has remained unclaimed by the owner for more than three years after it became payable or distributable, be escheated to the SCO.

During a review of the Company's outstanding checks list as of December 31, 2017, it was noted that several checks were outstanding for more than three years and should have been escheated to the SCO. It is recommended that the Company escheat unclaimed properties that are outstanding over three years to the California State Controller's Office and implement procedures to ensure future compliance with CCP Sections 1530 and 1532.

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, 2017. No adjustments made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders from December 31, 2014
through December 31, 2017

Statement of Financial Condition
as of December 31, 2017

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 94,220,873	\$	\$ 94,220,873	
Properties occupied by the company	3,278,332		3,278,332	
Properties held for the production of income	6,972,125		6,972,125	
Cash, cash equivalents and short-term investments	7,340,809		7,340,809	
Other invested assets	100,000	100,000		
Investment income due and accrued	809,464		809,464	
Uncollected premium and agents' balances in course of collection	305,853	150,997	154,855	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,803,106		14,803,106	
Amounts recoverable from reinsurers	4,770		4,770	
Funds held by or deposited with reinsured companies	75,000		75,000	
Net deferred tax asset	1,305,374		1,305,374	
Guaranty funds receivable or on deposit	865,452		865,452	
Electronic data processing equipment and software	60,936		60,936	
Furniture and equipment	95,777	95,777	0	
Aggregate write-ins for other than invested assets	<u>13,508</u>	<u>13,508</u>	<u>0</u>	
 Total assets	 <u>\$ 130,251,379</u>	 <u>\$ 360,282</u>	 <u>\$ 129,891,096</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 58,557,792	(1)
Reinsurance payable on paid losses and loss adjustment expenses			3,728	
Loss adjustment expenses			13,648,173	(1)
Commissions payable, contingent commissions and other similar charges			1,737,866	
Other expenses			832,045	
Taxes, licenses and fees			207,690	
Current federal and foreign income taxes			957,557	
Unearned premiums			9,719,667	
Ceded reinsurance premiums payable			3,172,856	
Funds held by company under reinsurance treaties			20,600	
Aggregate write-ins for liabilities			<u>3,177,891</u>	
 Total liabilities			 92,035,865	
Common capital stock		\$ 1,000,000		
Gross paid-in and contributed surplus		18,093,134		
Unassigned funds (surplus)		<u>18,762,097</u>		
 Surplus as regards policyholders			 <u>37,855,231</u>	
 Total liabilities, surplus and other funds			 <u>\$ 129,891,096</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income

Premiums earned		\$ 27,576,643
Deductions:		
Losses incurred	\$ 11,123,017	
Loss adjustment expenses incurred	4,878,491	
Other underwriting expenses incurred	<u>6,209,779</u>	
Total underwriting deductions		<u>22,211,286</u>
Net underwriting gain		5,365,357
<u>Investment Income</u>		
Net investment income earned	\$ 2,782,736	
Net realized capital gain	<u>4,090</u>	
Net investment gain		2,786,826
<u>Other Income</u>		
Net loss from agents' or premium balances charged off	\$ (18,950)	
Aggregate write-ins for miscellaneous income	<u>19,689</u>	
Total other income		<u>740</u>
Net income before federal and foreign income taxes		8,152,922
Federal and foreign income taxes incurred		<u>2,244,121</u>
Net income		<u>\$ 5,908,801</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		\$ 33,245,185
Net income	\$ 5,908,801	
Change in net deferred income tax	(1,347,572)	
Change in nonadmitted assets	<u>48,817</u>	
Change in surplus as regards policyholders for the year		<u>4,610,046</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 37,855,231</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2014 through December 31, 2017

Surplus as regards policyholders, December 31, 2014			\$ 18,118,010
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net gain	\$ 20,839,613	\$ 5,892,778	
Change in net deferred income tax		5,892,778	
Change in nonadmitted assets	<u>4,790,386</u>		
Total gains and losses	<u>\$ 25,629,999</u>	<u>\$ 5,892,778</u>	
Net increase in surplus as regards policyholders			<u>19,737,221</u>
Surplus as regards policyholders, December 31, 2017			<u>\$ 37,855,231</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Senior Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2017 prepared by the Company's independent actuary and concurred with the actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2017 were reasonable and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records - Unclaimed Property (Page 7): It is recommended that the Company escheat unclaimed properties that are outstanding over three years to the California State Controller's Office and implement procedures to ensure future compliance with California Code of Civil Procedure Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532.

Previous Report of Examination

Accounts and Records (Page 12): It was recommended that the Company evaluate and make appropriate changes to strengthen its controls over information systems. The Company indicated that it would continue to make the appropriate changes to strengthen its information systems controls.

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/_____

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_____/s/_____

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