REPORT OF EXAMINATION
OF THE

CARE WEST INSURANCE COMPANY

AS OF
DECEMBER 31, 2010

Filed: June 12, 2012

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San Francisco, California
May 22, 2012

Honorable Dave Jones
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 single-state examination of the Company. The last examination was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2010. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; statutory deposits; accounts and records; and sales and advertising.

SUMMARY OF SIGNIFICANT FINDINGS

As a result of this examination, an examination adjustment in the amount of $2,755,787 was made to the Company's surplus as regards policyholders as of December 31, 2010, reducing it to $5,871,720. A loss and loss adjustment expense (LAE) analysis was performed by a Casualty Actuary from the California Department of Insurance (CDI) who determined that the Company's loss and LAE reserves were deficient by $2,510,044 and its premium deficiency reserve was understated by $245,743.

The above reserve analysis also included a review of the Company's reported reserves for loss and LAE as of December 31, 2011. The CDI Casualty Actuary determined the reserves to be deficient by $3,845,000 for the 2011 and prior accident years.

After the examination adjustments, the Company's Risk-Based Capital level triggered the Regulatory Action Level Event per California Insurance Code Section (CICS) Section 739.4(b)(2).

During the examination period and subsequent years (2011 and 2012), the Company initiated several courses of action in an attempt to improve its deteriorating operating results. These corrective actions included the following:

- As part of the Company's anticipated underwriting loss for the year, it implemented a 23.1% rate increase, effective November 1, 2008.
- In early 2009, the Company recruited an experienced Director of Underwriting to oversee and make changes to the Company's underwriting and pricing guidelines/procedures. The

Company also initiated a review of its book of business to ensure that underwriting guidelines are being followed in order to improve underwriting results.

- Effective August 1, 2009, the Company implemented a further rate increase of 6.0% to address continued underwriting losses. As a result of these initiatives and management's decision to reduce its annual written premium in order to maintain underwriting selectivity and prudent financial leverage, the Company's 2009 written premium was $31.4 million, compared to $44.6 million in 2008, a reduction of 30%.
- During the first quarter of 2010, the Company, through the work of a consulting claims executive, identified deficiencies in the performance of its third-party administrator's (TPA) claims handling practices. Subsequently, the Company initiated a complete claims review on every open indemnity claim and an evaluation for reserve accuracy. This claims review was completed in the first week of July 2010. In order to achieve the most accurate estimate of loss value for prior accident years, significant reserve increases were posted in the first and second quarters of 2010. In addition, the Company implemented a number of significant changes to the procedures and oversight of its TPA.
- On June 30, 2010 and September 30, 2010, the Company's parent, Golden Legacy, Inc. (Golden Legacy), made a cash contribution to the Company in the amount of $1.5 million and $1.0 million, respectively. On December 31, 2010, Golden Legacy made an additional $500,000 cash contribution to the Company.
- Effective October 1, 2010, the Company filed and received approval for a 12% rate increase.
- Golden Legacy made additional capital infusions of $1.5 million on June 30, 2011 and $2 million on September 30, 2011.
- Effective January 1, 2012, the Company filed for approval with the CDI an additional 11% rate increase.
- As a result of a meeting with the CDI on March 13, 2012, the Company and the Board of Golden Legacy have decided on additional actions. These actions, combined with the capital gain of $550,000 realized by the sale of the Company's Lehman Brothers holdings in the second quarter of 2012, are projected to add more than $4.5 million to the Company's statutory surplus. Specifically, Golden Legacy will contribute $2 million in cash to the Company by the end of the second quarter of 2012. In addition, Golden

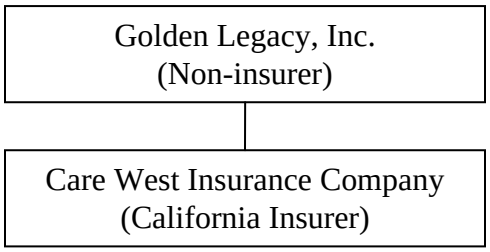
Legacy will contribute a real property, appraised at more than $2 million, with annual lease revenue of over $200,000 to the Company by the third quarter of 2012.

COMPANY HISTORY

In 2010, the Company received capital contributions from its parent, Golden Legacy, Inc., totaling $3 million. In 2011, the Company received an additional $3.5 million in capital contributions. In 2012, Golden Legacy plans to make contributions totaling $4.0 million in cash and real estate property as discussed above.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Golden Legacy, Inc. (formerly known as Horizon West, Inc.), and a member of an insurance holding company system. The following organizational chart depicts the Company's relationship within this holding company system as of December 31, 2010 (all ownership is 100%):



Management of the Company is vested in a six-member board of directors elected annually. As of December 31, 2010, the directors and principal officers were as follows:

Directors

Name and Residence	Primary Business Affiliation
Steven E. Goode San Francisco, California	Managing Director Aon Re Global

Directors (continued)

John T. Grush Sierra Madre, California	President and Chief Executive Officer Care West Insurance Company
Martin A. Harmon Rocklin, California	President and Chairman of the Board of Directors Golden Legacy, Inc.
Martine D. Harmon Rocklin, California	Vice President and Director of the Board of Directors Golden Legacy, Inc.
Rodger D. McDonald Rocklin, California	Controller Western Care Construction Company, Inc.
Donald T. Trowbridge Loomis, California	Secretary, Treasurer, and Chief Financial Officer Care West Insurance Company

Principal Officers

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

Service Contracts

On January 1, 1997, the Company entered into a service contract with Western Care Construction Company, Inc. (WCCCI). Under the terms of this contract, WCCCI provided the Company with administrative, clerical, computer and accounting support services. In 2008, the Company paid a fee of $4,800 to WCCCI for services under this agreement. The contract was terminated effective January 1, 2009.

Effective October 1, 2006, the Company entered into a service contract with Horizon West Healthcare, Inc., (Horizon), a subsidiary of Golden Legacy, Inc. for Information Technology (IT)

services and support. Fees for the services are based on the hourly rate of the IT staff performing the service calculated at the employee's current month's base salary rate plus employee benefits and administrative overhead of 25%. This agreement was filed with the California Department of Insurance pursuant to California Insurance Code Section 1215.5(b)(4) and was approved on January 12, 2007. No fees were incurred under this agreement during the examination period. The agreement was terminated with the sale of Horizon on June 7, 2011.

Workers' Compensation Claims Administration Agreement

Effective January 1, 2006, the Company entered into a Workers' Compensation Claims Administration Agreement with Pegasus Risk Management, Inc. (Pegasus) and Status, Inc. (Status). Under the terms of the agreement, the following services are provided by Pegasus and Status: claims administration, managed care, special investigations, bill review, a Preferred Provider network, and managed information services. For these services, the Company pays a fixed rate of $1,450 per indemnity claim, $540 per medical-only claim, and $210 per first aid claim (effective January 1, 2009 through December 31, 2012).

TERRITORY AND PLAN OF OPERATION

The Company is licensed and operates exclusively in the State of California. It is authorized to write workers' compensation insurance only. Direct premiums written during 2010 were $25 million.

From its inception in 1996, the Company focused its writings primarily on policies for companies affiliated with its parent, Golden Legacy, Inc., a senior healthcare management organization. In 2004, the Company expanded its writings beyond its previous book of affiliated business by becoming a specialty writer of healthcare facilities. In 2007, the Company began writing exposures outside the healthcare field, but maintained its major focus on healthcare accounts. In 2008, the Company added Agricultural accounts to its areas of specialization. Healthcare and Agriculture continued to be the two largest industries in the Company's book of business in 2010. Business is acquired through 14 independent insurance agencies.

LOSS EXPERIENCE

The following is a summary of the Company's loss and loss adjustment expense experience for the last four years:

Description	Year/Amounts (000 omitted)			
	2011	**2010**	**2009**	**2008**
Net (loss) from underwriting	(7,128)	(10,880)	(13,004)	(4,515)
Net investment gain	3,545	2,902	3,395	1,767
Net (loss)	(3,201)	(6,552)	(6,636)	(4,068)
Loss Ratio	104.1%	116.7%	110.9%	81.8%
Expense Ratio	24.6%	25.5%	24.0%	30.5%
Combined Ratio	128.7%	142.2%	134.9%	112.3%

REINSURANCE

Assumed

Effective January 1, 2002, the Company entered into a quota share reinsurance agreement with First Dakota Indemnity Company whereby the Company assumed various percentages of the gross retained liability and direct retained premium on workers' compensation and employers' liability business written in Minnesota and South Dakota. This agreement was terminated on a run-off basis, effective July 1, 2003.

As a former captive insurance company in the State of Vermont, the Company reinsured risks related to workers' compensation policies issued to convalescent hospitals and retirement facilities related to its parent, Golden Legacy, Inc. Under the terms of the agreements, the Company reinsured all losses to a limit of $350,000 per occurrence for policy years 1990-1991 and 1993-1995, $250,000 for 1992, and $500,000 for 1996. The ceding carriers were National Union Fire Insurance Company (1989 – 1991), Transamerica Insurance Company (1991 – 1994),

Fireman's Fund Insurance Company (1994 – 1995), and Transamerica Insurance Company (1995 – 1996). These agreements have been in run-off since 1996.

Ceded

The following table is an outline of the Company's ceded reinsurance program as of December 31, 2010:

Type of Contract	Reinsurer	Company's Retention	Reinsurer's Maximum Limit
Excess of Loss	Safety National Casualty Corporation – 100%	$500,000 ultimate net loss each occurrence	$500,000 excess of $500,000 ultimate net loss each occurrence subject to an annual aggregate deductible of $500,000
First Layer	Hannover Re – 5% Paris Re – 10% Safety National Casualty Corporation – 10% Aspen UK Limited – 7.5% Underwriters at Lloyd's of London – 67.5%	$1 million ultimate net loss each occurrence	$1 million excess of $1 million ultimate net loss each occurrence
Second Layer	Hannover Re – 5% Paris Re – 10% Safety National Casualty Corporation – 10% Aspen UK Limited – 7.5% Underwriters at Lloyd's of London – 67.5%	$2 million ultimate net loss each occurrence	$3 million excess of $2 million ultimate net loss each occurrence
Third Layer	Hannover Re – 5% Paris Re – 10% Safety National Casualty Corporation – 10% Aspen UK Limited – 7.5% Underwriters at Lloyd's of London – 67.5%	$5 million ultimate net loss each occurrence	$5 million excess of $5 million ultimate net loss each occurrence
Fourth Layer	Hannover Re – 5% Paris Re – 10% Safety National Casualty Corporation – 15% Aspen UK Limited – 7.5% Underwriters at Lloyd's of London – 62.5%	$10 million ultimate net loss each occurrence	$10 million excess of $10 million ultimate net loss each occurrence

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Conditions as of December 31, 2010

Underwriting and Investment Exhibit for the Year Ended December 31, 2010

Reconciliation of Surplus as Regards Policyholders from December 31, 2007 through December 31, 2010

Reconciliation of Examination Changes as of December 31, 2010

Statement of Financial Condition
as of December 31, 2010

	Ledger and Non-ledger Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Assets				
Bonds	$ 58,088,434	$	$ 58,088,434	
Real estate occupied by the company	1,723,202		1,723,202	
Cash and short-term investments	26,521,070		26,521,070	(1)
Investment income due and accrued	706,045		706,045	
Premiums and agents' balances in course of collection	701,996	529,007	172,989	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	7,600,092		7,600,092	
Funds held by or deposited with reinsured companies	141,000		141,000	
Other amounts receivable under reinsurance contracts	234,304		234,304	
Current federal and foreign income tax recoverable and interest thereon	397,753		397,753	
Net deferred tax asset	6,898,529	6,096,685	801,844	
Guaranty funds receivable or on deposit	1,254,086		1,254,086	
Electronic data processing equipment and software	146,143		146,143	
Furniture and equipment	217,698	217,698		
Aggregate write-ins for other than invested assets	398,010	7,442	390,568	
Total assets	$ 105,028,362	$ 6,850,832	$ 98,177,530	
Liabilities, Surplus and Other Funds				
Losses			$ 71,334,365	(2)
Reinsurance payable on paid losses and loss adjustment expenses			277,975	
Loss adjustment expenses			10,400,635	(2)
Commissions payable, contingent commissions and other similar charges			819,654	
Other expenses			611,013	
Taxes, licenses and fees			175,773	
Unearned premiums			5,981,653	
Aggregate write-ins for liabilities			2,704,742	(3)
Total liabilities			$ 92,305,765	
Common capital stock		$ 1,000,000		
Gross paid in and contributed surplus		3,000,000		
Unassigned funds		1,871,720		
Surplus as regards policyholders			5,871,720	
Total liabilities, surplus and other funds			$ 98,177,530	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2010

Statement of Income

			Notes
Underwriting Income			
Premiums earned		$ 24,581,862	
Deductions:			
Losses incurred	$ 26,029,506		(2)
Loss adjustment expenses incurred	5,174,289		(2)
Other underwriting expenses incurred	6,278,864		
Aggregate write-ins for underwriting deductions	735,743		(3)
Total underwriting deductions		38,218,402	
Net underwriting loss		(13,636,540)	
Investment Income			
Net investment income earned	$ 2,877,302		
Net realized capital gain	24,729		
Net investment gain		2,902,031	
Other Income			
Net loss from agents' or premium balances charge off	$ (152,262)		
Aggregate write-ins for miscellaneous income	49,075		
Total other income		103,187	
Net income before federal income taxes		(10,837,696)	
Federal income taxes incurred		(1,530,038)	
Net loss		$ (9,307,658)	

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2009		$ 12,476,337
Net loss	$ (9,307,658)	
Change in deferred income tax	1,145,824	
Change in nonadmitted assets	(1,442,783)	
Surplus adjustments: Paid-in	3,000,000	
Change in surplus as regards policyholders for the year		(6,604,617)
Surplus as regards policyholders, December 31, 2010		$ 5,871,720

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2010

Surplus as regards policyholders, December 31, 2007, per Examination			$ 23,249,371
	Gain in Surplus	Loss in Surplus	
Net income	$	$ 20,011,332	
Change in net deferred income tax	3,497,115		
Change in nonadmitted assets		3,863,434	
Surplus adjustments: Paid-in	3,000,000		
Totals	$ 6,497,115	$ 23,874,766	
Net decrease in surplus as regards policyholders			(17,377,651)
Surplus as regards policyholders, December 31, 2010, per Examination			$ 5,871,720

Reconciliation of Examination Changes
as of December 31, 2010

Liabilities	Per Company	Per Examination	Surplus Per (Decrease)	Note
Losses and loss adjustment expenses	$79,224,956	$81,735,000	$(2,510,044)	(2)
Aggregate write-ins for liabilities	2,458,999	2,704,742	(245,743)	(3)
Net decrease to unassigned funds			$(2,755,787)	
Surplus as regards policyholders, December 31, 2010, per Company			8,627,507	
Surplus as regards policyholders, December 31, 2010, per Examination			$ 5,871,720	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash and Short-term Investments

Certain cash and short-term investments are held in accordance with assumed reinsurance agreements for future payment of losses and loss adjustment expenses. Trust accounts were set up for each ceding carrier that the Company assumed business from during the periods of 1989 to 1996 and 2002 to 2003. All of these agreements are currently in run-off. Total invested assets that were held in these reinsurance trust accounts were $720,251 at December 31, 2010.

(2) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance (CDI) reviewed the loss and loss adjustment expense reserves and concluded that the reserves were deficient by $2,510,044 as of December 31, 2010. An examination adjustment was made for this deficiency.

(3) Aggregate Write-ins for Liabilities: Premium Deficiency Reserve

Based on our review of the premium deficiency reserve, the Company's reserve of $490,000 as of December 31, 2010 was determined to be deficient by $245,743. An examination adjustment was made for this deficiency. It is recommended that the Company properly report premium deficiency reserve in accordance with the Statement of Statutory Accounting Principles No. 53.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comments on Financial Statement Items – Aggregate Write-ins for Liabilities: Premium Deficiency Reserve (Page 14): It is recommended that the Company properly report premium deficiency reserve in accordance with the Statement of Statutory Accounting Principles No. 53.

Prior Report of Examination

Subsequent Events (Page 2): It was recommended that the Company take measures to strengthen its information systems controls. The Company has addressed some of the recommendations.

Management and Control – Management Agreements (Page 4): It was recommended that the Company submit the Client, Underwriting and Policy Service Agreement and the Safety and Loss Control Service Agreement with CWIC Insurance Services, Inc. to the California Department of Insurance (CDI) for review pursuant to California Insurance Code Section (CICS) 1215.5(b)(4). The Company filed the above contracts with the CDI on October 2, 2006; however, prior to the CDI's completion of its review, the Company terminated the Client, Underwriting and Policy Service agreement on April 1, 2006 and terminated the Safety and Loss Control Service Agreement on November 1, 2006.

ACKNOWLEDGEMENT

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

Respectfully submitted,

/S/

Kyo Chu, CFE
Examiner-in-Charge
Senior Insurance Examiner (Specialist)
Department of Insurance
State of California