

REPORT OF EXAMINATION
OF THE
EMPLOYERS COMPENSATION
INSURANCE COMPANY

AS OF
DECEMBER 31, 2007

Participating State
and Zone:

California

Filed June 25, 2009

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Los Angeles, California
March 13, 2009

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, Zone IV-Western
Superintendent of Insurance
New Mexico Department of Insurance
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

EMPLOYERS COMPENSATION INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 500 North Brand Boulevard, Glendale, California 91203.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007. The examination was made pursuant to the National Association of Insurance Commissioners' (NAIC) plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2007, as deemed necessary under the circumstances.

This examination was conducted concurrently with the Nevada Division of Insurance's examination of the Company's parent, Employers Insurance Company of Nevada.

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; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

COMPANY HISTORY

The Company was incorporated in the State of California on May 16, 2002. On July 1, 2002, the Company acquired the policy production and renewal rights and certain other assets relating to the Fremont Compensation Insurance Group's workers' compensation business and commenced business on September 25, 2002.

All outstanding shares of the Company are owned by its parent, Employers Insurance Company of Nevada (EICN), a Nevada stock insurance company. All outstanding shares of EICN are owned by Employers Group, Inc. (EGI), a Nevada holding company, which is, in turn, 100% owned by the ultimate parent, Employers Holdings, Inc. (EHI), a Nevada holding company.

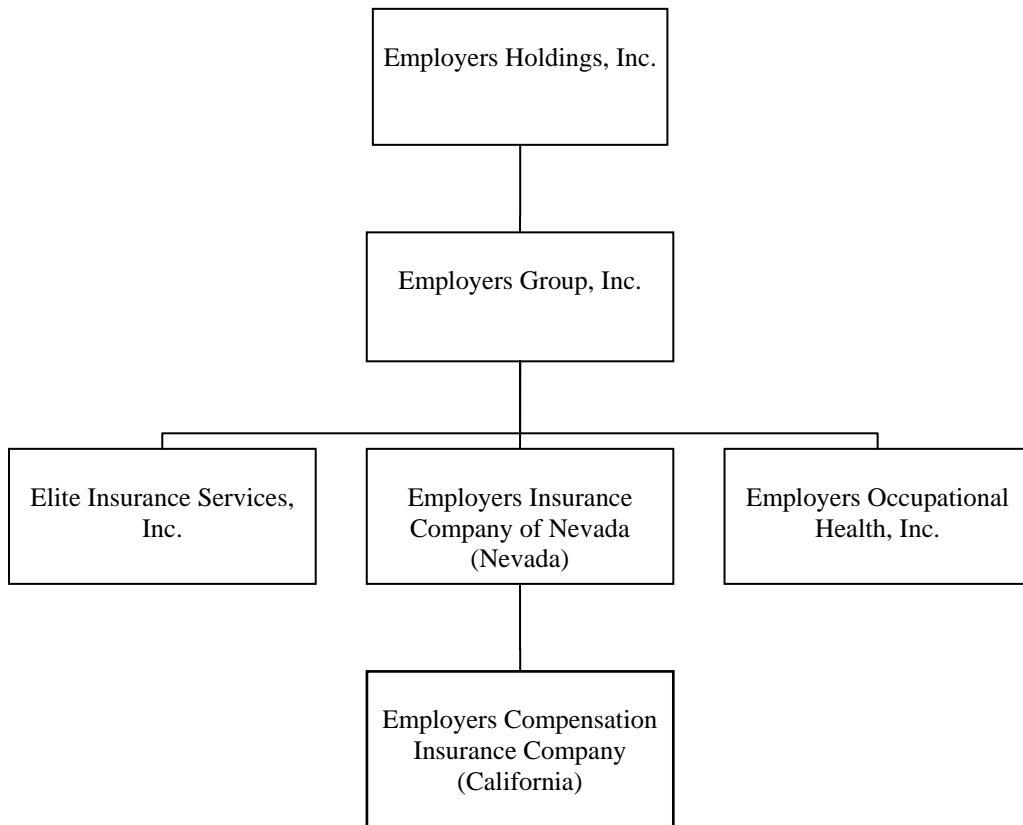
In June 2005, the Company received a capital cash contribution of \$40 million from EICN. On December 14, 2007, the Company paid ordinary dividends of \$60.9 million to EICN.

Subsequent to the examination date, and after receiving prior approval from the California Department of Insurance (CDI) on May 14, 2008, the Company paid an extraordinary dividend of \$49.2 million to EICN.

In October 2008, EHI completed its acquisition-purchase of AmCOMP, Inc., a Florida domiciled mono-line workers' compensation insurer.

MANAGEMENT AND CONTROL

The following organizational chart depicts the Company's relationship within the holding company system as of December 31, 2007:



(All ownership is 100%)

Management of the Company is vested in a five-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2007 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Douglas D. Dirks Reno, Nevada	Chief Executive Officer Employers Holdings, Inc.
Robert J. Kolesar Las Vegas, Nevada	EHI Chairman, and Partner Kolesar & Leatham Law Firm
Lenard T. Ormsby Reno, Nevada	Executive Vice President Employers Holdings, Inc.
Martin J. Welch Reno, Nevada	President & Chief Operating Officer Employers Compensation Insurance Company
William E. Yocke Reno, Nevada	Chief Financial Officer Employers Holdings, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Douglas D. Dirks	Chief Executive Officer
Martin J. Welch	President – Chief Operating Officer
Lenard T. Ormsby	Executive Vice President and General Counsel
William E. Yocke	Treasurer
Jeff J. Gans	Senior Vice President – Chief Underwriting
Paul I. Ayoub	Senior Vice President – CIO
Stephen V. Festa	Senior Vice President – Claims
Doug A. Zearfoss	Vice President, Chief Actuary
George F. Tway	President, Western Region
Cynthia M. Morrison	Senior Vice President and Corporate Controller
Michael T. Stock (*)	Senior Vice President, General Counsel and Secretary

(*) Employment terminated, effective January 23, 2009

Management Agreements

Amended and Restated Administrative Services Agreement: Effective August 30, 2002, the Company and its parent, Employers Insurance Company of Nevada (EICN), entered into an Amended and Restated Administrative Services Agreement. The agreement provides for each party to perform certain services and to reimburse the party providing the service for all direct and directly allocable expenses. Pursuant to the agreement, the Company provides the following services to EICN: accounting, collections, premium audit, loss control, administrative management, human resources, underwriting, information technology (IT), and fraud investigations. EICN will provide the following services to the Company: actuarial, payroll, budget and financial planning, internal audit, marketing, corporate communications, and IT.

Under the terms of the agreement, the Company made net payments to EICN in the amounts of \$3,155,838, \$11,961,280, and \$21,245,548 for the 2005, 2006, and 2007 years, respectively. The California Department of Insurance (CDI) approved this agreement on March 7, 2003.

In March 2009, the Company filed a Form D with the California Department of Insurance for approval of a new Administrative Services Agreement. The filing was made in order to include the newly acquired AmCOMP Inc. companies as part of the Administrative Services Agreement. Upon approval, this new agreement will replace the prior Amended and Restated Administration Services Agreement. As of the date of this examination report, the agreement has not been approved.

Services Agreement: Effective September 1, 2002, the Company entered into a Services Agreement with Elite Insurance Service, Inc. (Elite), an affiliated agency. Under the agreement, the Company provides policy administration, actuarial services, marketing, financial reporting, tax, treasury, computer and other services on a direct cost reimbursement basis. Elite paid the Company \$72,153, \$16,851, and \$7,980 for the 2005, 2006, and 2007 years, respectively. The CDI approved this agreement on July 1, 2002.

Investment Management Agreement: Effective March 5, 2005, the Company and its affiliates entered into an investment management agreement with Conning Asset Management Company (Conning). Under the terms of this agreement, Conning provides investment advisory and portfolio management services in accordance with the Company's investment guidelines. Fees of .0875% of the market value of assets are paid quarterly for services provided. Under the terms of the agreement, the Company paid Conning \$341,328; \$504,509; and \$543,508 for the 2005, 2006, and 2007 years, respectively.

Consolidated Tax Allocation Agreement: Under the terms of a Consolidated Tax Allocation Agreement effective January 1, 2005, the Company, its affiliates, and its ultimate parent file a consolidated federal income tax return. Pursuant to the agreement, the Company's tax liability is the same as it would have been had it filed on a separate, stand-alone basis. The CDI approved this agreement on April 15, 2005. The Company paid the following taxes during the examination period:

<u>Year</u>	<u>Amount</u>
2005	\$ 9,426,441
2006	27,831,323
2007	<u>14,793,819</u>
Total	<u>\$ 52,051,583</u>

TERRITORY AND PLAN OF OPERATION

As of December 31, 2007, the Company was licensed to transact business in the following states:

Arizona	Illinois	New York
California	Maryland	Oregon
Colorado	Massachusetts	Pennsylvania
Florida	Montana	Texas
Georgia	Nevada	Utah
Idaho	New Mexico	

The Company's business is written through independent agents and strategic distribution partners, including their principal partners Automatic Data Processing, Inc. and Anthem Blue Cross. The only line of business written is workers' compensation insurance. In 2007, the Company wrote direct premiums totaling \$286,017,088, and the direct premium written by states was as follows:

State	Direct Premium Written	Percentage of Total
California	\$ 248,211,226	86.78%
Colorado	12,639,285	4.42%
Utah	7,911,517	2.77%
Idaho	6,754,697	2.36%
Montana	4,901,654	1.71%
Arizona	2,637,275	0.92%
Texas	1,375,681	0.48%
Illinois	1,275,846	0.45%
Oregon	175,429	0.06%
Florida	134,478	0.05%
Total	\$ 286,017,088	100.00%

In October 2008, the Company's ultimate parent, EHI, acquired AmCOMP, Inc., a Florida domiciled workers' compensation insurer, in a transaction valued at \$223.5 million. The acquisition was financed through a combination of cash and debt. The acquisition of AmCOMP, Inc. expanded the insurance operations of the entire insurance group of companies to 29 states. As elaborated upon in the "Reinsurance" section of this report, after the acquisition of AmCOMP Inc., the previous pooling agreement was amended, and the Company's participation percentage was reduced from 47% to 27% of the net pooled business.

The Company's home office is located in Glendale, California. The Company's accounting and finance functions are performed primarily in Glendale, except for certain investment, tax and treasury functions, which are performed in Reno, Nevada. The Company currently maintains branch offices in the California cities of Fresno, Glendale, and San Francisco. In addition, there are branch offices

in Boise, Idaho and Denver, Colorado. All of the Company's underwriting files are located in the producing office; claims files are located in the office currently handling the claim.

In January 2009, the ultimate parent, Employers Holdings, Inc. (EHI), scheduled the elimination of approximately 14% of its work force, and expects to fully complete the layoffs by December 31, 2009. The layoffs were in response to the economic downturn and due to a restructuring plan following EHI's acquisition of AmCOMP, Inc. The restructuring also includes the consolidation of corporate activities into EHI's Reno, Nevada headquarters.

REINSURANCE

Inter-company Pooling Agreement

On July 1, 2003, the Company entered into a reinsurance pooling agreement with its parent, Employers Insurance Company of Nevada (EICN). Under the terms of this agreement, 100% of the Company's business written, net of external reinsurance, is ceded to and pooled with business written by EICN. 47% of the combined premiums are ceded back to the Company. Losses, loss adjustment expenses and underwriting expenses are also combined and pooled in the same percentages.

Effective October 1, 2008, the Company commuted this reinsurance pooling agreement, and entered into a new reinsurance pooling agreement with its parent, EICN, and affiliates, Employers Preferred Insurance Company (EPIC), formerly known as AmCOMP Preferred Insurance Company, and Employers Assurance Company (EAC), formerly known as AmCOMP Assurance Corporation. Under the terms of the agreement, 100% of the Company's business written, net of external reinsurance, is ceded to and pooled with business written by EICN, EPIC, and EAC. EICN then cedes 27% of the combined premiums, losses, loss adjustment expenses, and underwriting expenses back to the Company. The California Department of Insurance (CDI) approved the agreement on December 1, 2008, and the new pooling percentages are as follows:

Company	Participation Percentage
EICN	53%
Company (ECIC)	27%
EPIC	10%
EAC	10%

Assumed

In July 2002, the Company entered into a reinsurance assignment and assumption agreement with Harbor Specialty Insurance Company and Clarendon National Insurance Company (collectively, referred to as Clarendon), and the Company's parent, Employers Insurance Company of Nevada (EICN). Under this agreement, the Company assumed all of EICN's rights, duties, obligations, liabilities and risks under a reinsurance quota-share agreement in which EICN and Clarendon were parties. In addition, the Company assumed 90% of losses on business produced by Elite Insurance Services, Inc. (Elite), which are less than or equal to \$1 million and also assumed 100% of Elite's losses in excess of \$1 million, less actual recoveries received by Clarendon from all other reinsurance.

The Company also assumed 100% of losses on business produced by Fremont General Insurance Agency, Inc., less actual recoveries received by Clarendon from all other reinsurance. In December 2003, and under the terms of an agreement, the Company and Elite stopped issuing new or renewal policies under the fronting agreement. As of December 31, 2007, this assumed reinsurance agreement remains in run-off.

As of December 31, 2007, the Company reported an asset for funds held or deposited with reinsured companies in the amount of \$95.8 million, which serves as the secured obligation requirement under this assignment and assumption agreement. The Company informed the CDI that, as of December 31, 2007, and December 31, 2008, its accumulated funds held exceeded the liabilities under the agreement by approximately \$33.4 million and \$36.2 million, respectively.

The Company requested the release of these funds from Clarendon, but thus far the excess funds remain with Clarendon. It is recommended that the Company continue to request the release of the excess funds held by Clarendon.

In November 2003, the Company entered into a 100% quota share reinsurance agreement with Virginia Surety Company, Inc. (VSC), domiciled in Illinois, where the Company assumed 100% of VSC's workers' compensation and employers' liability business produced through Elite. This assumed reinsurance agreement has been in run-off since December 2003, with no material financial obligations related to the agreement as of December 31, 2007.

Ceded

During the examination period, the Company's reinsurance program consisted of multi-layer excess of loss and catastrophic coverages with various reinsurers. Prior to 2005, the Company retained the first \$1.5 million of losses per occurrence with excess reinsurance coverage up to \$100 million. In 2005, 2006, and 2007 the Company increased its retention limit to the first \$2.5 million, \$4 million and \$5 million of losses per occurrence, respectively. The following is a summary of the Company's principal ceded reinsurance contracts in force as of December 31, 2007:

Type of Contract	Reinsurer(s) Name	Company's Retention	Reinsurer's Maximum Limits
<u>Excess of Loss</u>			
First Layer	60.10% Various Lloyd's of London Syndicates 25.00% Hannover Re - Germany 7.50% Munich RE America 7.40% Aspen Insurance U.K. Limited	\$5 million	\$5 million Excess of \$5 million
<u>Catastrophe Excess of Loss</u>			
First Layer	49.10% Various Lloyd's of London Syndicates 15.00% Hannover Re - Germany 10.00% Tokio Millennium Re Ltd. 8.40% Aspen Insurance U.K. Limited 7.50% Axis Specialty Limited	\$10 million	\$10 million Excess of \$10 million

Type of Contract	Reinsurer(s) Name	Company's Retention	Reinsurer's Maximum Limits
	5.00% Odyssey Re 5.00% Endurance Specialty Insurance Ltd.		
Second Layer	44.50% Various Lloyd's of London Syndicates 15.00% Hannover Re – Germany 8.50% Aspen Insurance U.K. Limited 7.50% Axis Specialty Limited 5.00% Ace Tempest Re USA 5.00% Odyssey Re 5.00% Endurance Specialty Insurance Ltd. 5.00% Tokio Millennium Re Ltd. 2.50% Validus Re Ltd. - Bermuda 2.00% Harbor Point/Federal Insurance Co.	\$20 million	\$30 million Excess of \$20 million
Third Layer	41.00% Various Lloyd's of London Syndicates 12.50% Endurance Specialty Insurance Ltd. 8.50% Aspen Insurance U.K. Limited 8.00% Arch Reinsurance Company 7.50% Axis Specialty Limited 5.00% Hannover Re (Bermuda) Ltd. 5.00% Tokio Millennium Re Ltd. 5.00% Ace Tempest Re USA 5.00% Harbor Point/Federal Insurance Co. 2.50% Validus Re Ltd. – Bermuda	\$50 million	\$50 million Excess of \$50 million
Fourth Layer	28.75% Various Lloyd's of London Syndicates 15.00% Swiss Re America Corp 15.00% Allied World Assurance 10.00% Endurance Specialty Insurance Ltd. 8.75% Aspen Insurance U.K. Limited 7.50% Axis Specialty Limited 7.50% Hannover Re (Bermuda) Ltd. 5.00% Arch Reinsurance Company 2.50% Validus Re Ltd. – Bermuda	\$100 million	\$50 million Excess of \$100 million
Fifth Layer	37.50% Various Lloyd's of London Syndicates 15.00% Swiss Re America Corp 12.50% Aspen Insurance U.K. Limited 10.00% Endurance Specialty Insurance Ltd. 7.50% Axis Specialty Limited 7.50% Hannover Re (Bermuda) Ltd. 5.00% Arch Reinsurance Company 5.00% Validus Re Ltd. – Bermuda	\$150 million	\$50 million Excess of \$150 million

As of December 31, 2007 the Company is reporting reinsurance recoverables under the terms of all its ceded reinsurance agreements totaling \$518.9 million, or 152% of its surplus of \$335.3 million. The majority of the reinsurance recoverable, approximately \$490 million representing 94% of the total balance, is due from the Company's parent, Employers Insurance Company of Nevada (EICN). Since EICN is not an admitted carrier in California, cessions by the Company to EICN under the

reinsurance pooling agreement are collateralized. Funds held by the Company collateralizing the pooling agreement with EICN totaled \$608 million as of year-end 2007.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2007

Underwriting and Investment Exhibit for the Year Ended December 31, 2007

Reconciliation of Surplus as Regards Policyholders
from December 31, 2004 through December 31, 2007

Statement of Financial Condition
As of December 31, 2007

<u>Assets</u>	Ledger and Nonledger <u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 688,032,769	\$	\$ 688,032,769	(1)
Cash and short-term investments	32,595,741		32,595,741	(1)
Investment income due and accrued	8,108,878		8,108,878	
Premiums and agents' balances in course of collection	3,742,921	767,627	2,975,294	
Premiums, agents' balances and installments booked but deferred and not yet due	16,105,566	705,818	15,399,748	
Accrued retrospective premium	204,181		204,181	
Reinsurance:				
Funds held by or deposited with reinsured companies	704,349,718		704,349,718	(2)
Net deferred tax asset	42,397,052	30,648,765	11,748,287	
Guaranty funds receivable or on deposit	4,256,824		4,256,824	
Electronic data processing equipment	4,843,065	4,009,450	833,615	
Furniture and equipment, including health care assets	228,593	228,593	0	
Aggregate write-ins for other than invested assets	<u>1,037,873</u>	<u>339,857</u>	<u>638,016</u>	
 Total assets	 <u>\$ 1,505,903,181</u>	 <u>\$ 36,760,110</u>	 <u>\$ 1,469,143,071</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 465,226,689	(3)
Loss adjustment expenses			106,795,330	(3)
Commissions payable, contingent commissions and other similar charges			3,475,419	
Other expenses			6,074,109	(4)
Taxes, licenses, and fees			1,723,259	
Current federal and foreign income taxes			4,309,915	
Unearned premiums			29,325,948	
Advance premium			718,425	
Dividends declared and unpaid: Policyholders			95,658	
Ceded reinsurance premiums payable			(294,815)	
Funds held by company under reinsurance treaties			511,078,798	(2)
Payable to parent, subsidiaries and affiliates			5,111,332	
Aggregate write-ins for liabilities			<u>172,878</u>	(5)
 Total liabilities			 1,133,812,945	
 Common capital stock		 \$ 2,600,000		
Gross paid-in and contributed surplus		214,400,000		
Unassigned funds (surplus)		<u>118,330,126</u>		
Surplus as regards policyholders			<u>335,330,126</u>	
 Total liabilities, surplus and other funds			 <u>\$ 1,469,143,071</u>	

Underwriting and Investment Exhibit
For the Year Ended December 31, 2007

Statement of Income

<u>Underwriting Income</u>		
Premiums earned		\$ 163,035,393
Deductions:		
Losses incurred	\$ 56,977,015	
Loss expense incurred	18,814,800	
Other underwriting expenses incurred	<u>60,114,747</u>	
Total underwriting deductions		<u>135,906,562</u>
Net underwriting gain		27,128,831
<u>Investment Income</u>		
Net investment income earned	\$ 31,760,978	
Net realized capital gains	<u>108,594</u>	
Net investment gain		31,869,572
<u>Other Income</u>		
Net loss from agents' balances charged off	\$ (362,210)	
Aggregate write-ins for miscellaneous income	<u>7,157,969</u>	
Total other income		<u>6,795,759</u>
Net income before dividends to policyholders and federal income taxes		65,794,162
Dividends to policyholders		105,319
Federal income taxes incurred		<u>16,448,780</u>
Net income		<u>\$ 49,240,063</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006		\$ 314,094,628
Net income	\$ 49,240,063	
Change in net deferred income tax	(3,023,042)	
Change in nonadmitted assets	2,043,184	
Dividends to stockholders	(60,974,707)	
Aggregate write-ins for gains and losses in surplus	<u>33,950,000</u>	
Change in surplus as regards policyholders		<u>21,235,498</u>
Surplus as regards policyholders, December 31, 2007		<u>\$ 335,330,126</u>

Reconciliation of Surplus as Regards Policyholders
From December 31, 2004 through December 31, 2007

Surplus as regards policyholders, December 31, 2004, per Examination		\$ 205,230,636
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net income	\$ 154,845,913	\$
Change in net deferred income taxes		5,548,542
Change in nonadmitted assets	3,565,697	
Surplus adjustments: Paid-in	40,000,000	
Dividends to stockholders		60,974,707
Aggregate write-ins for losses in surplus	<u> </u>	<u>1,788,871</u>
Totals	<u>\$ 198,411,610</u>	<u>\$ 68,312,120</u>
Net increase in surplus as regards policyholders		<u>130,099,490</u>
Surplus as regards policyholders, December 31, 2007, per Examination		<u>\$ 335,330,126</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds and Cash and Short-Term Investments

Based on a review of the Company's 2007 Special California Schedule P, it was determined that the Company properly filed its schedule with the California Department of Insurance, however, the required workers' compensation deposit was deficient by \$1.8 million, directly due to declining market values. The deposit deficiency was a violation of California Insurance Code (CIC) Section 11691. In October 2008, the Company increased its workers' compensation deposit by \$21.2 million to correct the deficiency, which included an additional 4% provision. It is recommended that Company regularly monitor its workers' compensation deposit to insure that it complies with the required minimum deposit requirements.

(2) Funds Held By or Deposited With Reinsured Companies Funds Held By Company Under Reinsurance Treaties

At December 31, 2007, the Company reported an asset amount of \$704 million for "Funds held or deposited with reinsured companies." In addition, the Company reported a liability amount of \$511 million for "Funds held by company under reinsurance treaties." As previously noted in this Examination Report, the majority of the asset (approximately \$608 million), and the entire liability were recorded as a result of the reinsurance pooling agreement with the Company's parent.

(3) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance analyzed the Company's loss and loss adjustment expense reserves. Based on the analysis, the Company's loss and loss adjustment expense reserves as of December 31, 2007 were found to be reasonably stated and have been accepted for purposes of this examination.

(4) Other Expenses

The Company included its liabilities for unclaimed property as part of the above captioned account. Based on Annual Statement instructions, liabilities for unclaimed property should be reflected in the Annual Statement as part of “Aggregate Write-ins for Liabilities.” It is recommended that the Company report its liabilities for unclaimed property as part of “Aggregate Write-ins for Liabilities” in accordance with the Annual Statement instructions. The Company indicated that it would reclassify this liability in all future financial statements.

The Company also included suspense account items as part of the above captioned liability account. Statements of Statutory Accounting Principles (SSAP) No. 67 requires companies to report cash received awaiting application to be reported as “Remittances and Items not Allocated” in the Annual Statement. It is recommended that the Company report its liabilities for cash received awaiting application under “Remittances and Items not allocated” to comply with Statements of Statutory Accounting Principles No. 67. The Company indicated that it would reclassify this liability in all future financial statements.

(5) Aggregate Write-ins for Liabilities

As a result of the passage of California Senate Bill 316 (SB 316), effective January 1, 2008, the workers’ compensation minimum reserve requirement of California Insurance Code (CIC) Section 11558 was eliminated. Prior to the filing of its 2007 Annual Statement, the Company notified the California Department of Insurance (CDI) of its intention to not record the required minimum reserves. Although the Company was required to comply with CIC Section 11558 as of year-end 2007, the CDI had no objection to the Company not booking this additional reserve, but required the Company to disclose this in its 2007 Annual Statement. The Company complied with this requirement and included a note in its financial statements indicating that it did not book the additional \$30.5 million CIC Section 11558 workers’ compensation required reserves as of December 31, 2007. The \$30.5 million is also included in the Company’s capital and surplus account

as part of the aggregate write-in for gains and losses in surplus (\$33.9 million).

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Reinsurance Assumed – (Page 9): It is recommended that the Company continue to request the release of the excess funds held or deposited with reinsured companies from Clarendon.

Bonds and Cash and Short-Term Investments (Page 16): It is recommended that Company regularly monitor its workers' compensation deposit to insure that it complies with the required minimum deposit requirements pursuant to CIC Section 11691.

Other Expenses – (Page 17): It is recommended that the Company report its liabilities for unclaimed property as part of "Aggregate Write-ins for Liabilities" in accordance with the Annual Statement instructions. The Company indicated that it would reclassify this liability in all future financial statements.

It is also recommended that the Company report its liabilities for cash received awaiting application under "Remittances and Items not allocated" to comply with Statements of Statutory Accounting Principles No. 67. The Company indicated that it would reclassify this liability in all future financial statements.

Previous Report of Examination

Corporate Records (Page 6): It was recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code (CIC) Sections 735, 1200 and 1201. The Company complied with this recommendation.

Bonds (Page 15): It was recommended that the Company continue to make all efforts necessary to negotiate the release of the trust assets required under the Clarendon reinsurance agreement. This recommendation was complied with, as trust account assets of \$51.4 million were released to the Company during 2006. However, in addition to the released trust assets, the Company has a “funds held or deposited with reinsured companies” asset which also serves as a secured obligations requirement under the Clarendon reinsurance agreement. The Company informed the CDI that, as of December 31, 2007 and December 31, 2008, its accumulated funds held exceeded the liabilities under the agreement by approximately \$33.4 million and \$36.2 million, respectively. As of the date of this Examination Report, the Company has not been able to obtain the release of the excess funds from Clarendon.

Bonds (Page 15): It was recommended that the Company properly report all assets which are not for the benefit of all policyholders’ claimants and creditors on Schedule E of the Annual Statement. The Company complied with this recommendation.

Bonds (Page 15): The Company did not comply with CIC Section 1153.5 for the period covered by the examination. CIC Section 1153.5 is no longer applicable as the Company has been in business for more than three years.

