

REPORT OF EXAMINATION
OF THE
EXPLORER AMERICAN INSURANCE COMPANY
AS OF
DECEMBER 31, 2016

Filed On June 28, 2018

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Los Angeles, California
May 31, 2018

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

EXPLORER AMERICAN INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 15025 Innovation Drive, San Diego, CA 92128.

SCOPE OF EXAMINATION

We have performed our examination of the Company. The previous examination of the Company was made as of December 31, 2012. This examination covers the period from January 1, 2013 through December 31, 2016.

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, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause the Company'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 did not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment would 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.

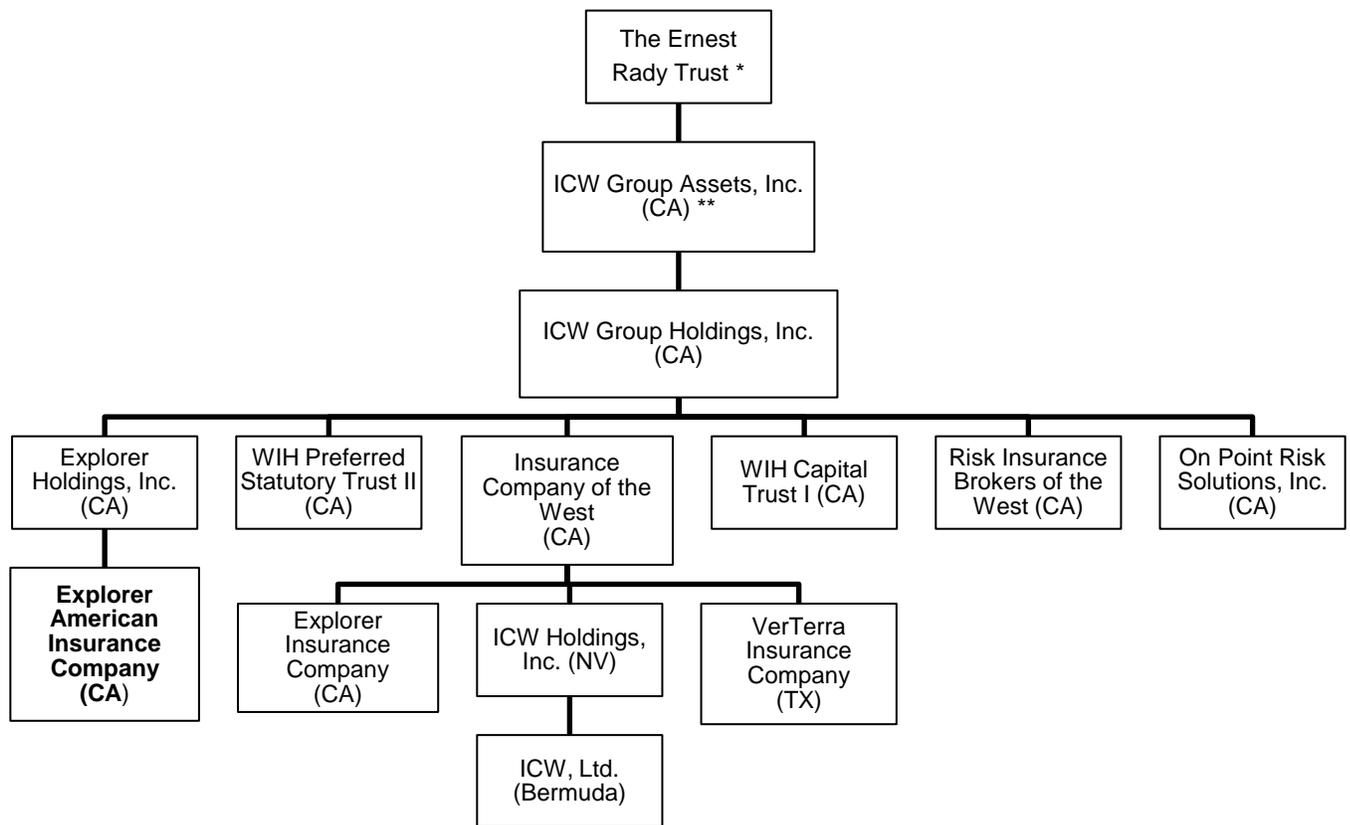
The examination was a coordinated examination and was conducted concurrently with the examinations of other insurance entities in the holding company group, including Insurance Company of the West (California), Explorer Insurance Company (California), and VerTerra Insurance Company (Texas). California served as the lead state.

COMPANY HISTORY

The Company was incorporated in California on October 17, 1962 under the laws of California and commenced business on March 8, 1963. The Company is authorized to issue 50,000 shares of common capital stock with a par value of \$50 per share. As of December 31, 2016, there were 20,000 shares outstanding. All of the Company's outstanding shares are owned by Explorer Holdings, Inc.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which ultimate control is held by The Ernest Rady Trust. The Company's ultimate parent is the ICW Group Holdings, Inc., a California holding company which is 82.65% owned by American Assets, Inc. (dba ICW Group Assets, Inc.). The following abridged organizational chart is limited to the entities the Company had interrelationships as of December 31, 2016 (all ownership is 100% unless otherwise indicated):



* The Ernest Rady Trust, owns 75.88% of ICW Group Assets, Inc.; 10.6% is owned by Donald Rady Trust #2; 13.52% owned by other individuals with less than 10% controlled by one individual.

** ICW Group Assets, Inc. owns 82.65% of ICW Group Holdings, Inc.; 14.8% is owned by Ernest Rady Trust; 2.55% owned by other individuals with less than 10% controlled by one individual.

The four 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, 2016:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Bernard M. Feldman Del Mar, California	Vice Chairman Insurance Company of the West
Kevin M. Prior San Diego, California	President and Chief Executive Officer Insurance Company of the West
Ernest S. Rady La Jolla, California	Chairman of Board Insurance Company of the West
Fariborz Rostamian San Diego, California	Senior Vice President, Treasurer, and Chief Financial Officer Insurance Company of the West

Principal Officers

<u>Name</u>	<u>Title</u>
Kevin M. Prior	President and Chief Executive Officer
Fariborz Rostamian	Senior Vice President, Treasurer, and Chief Financial Officer
Teresa R.T. Leon	Vice President, Secretary, and General Counsel

Intercompany Agreements

Federal Tax Allocation Agreement - Since 1996, the Company and its affiliates have been filing their federal income taxes in a consolidated return with its ultimate parent American Assets, Inc. The consolidated federal tax liability is allocated among the subsidiaries in the ratio that each subsidiary's separate tax return liability bears to the total consolidated federal tax liabilities of all subsidiaries that are members of the consolidated group. Taxes paid under this agreement for 2013 and 2014 were \$20,588

and \$17,527, respectively. As noted in the prior exam, the Company was not included as a legal entity in this Federal Tax Allocation Agreement (Agreement).

Effective January 1, 2015, Agreement was amended to include the Company as a legal entity and to rename some of the participants. The California Department of Insurance (CDI) approved this agreement on April 2, 2015. Taxes paid/(received) under this agreement for 2015 and 2016 were \$71,123 and \$(36,032), respectively.

Intercompany Affiliated Management Agreement – Effective January 1, 2015, the Company, and its affiliates, West, Explorer and VerTerra, collectively known as ICW Group, entered into an Intercompany Affiliated Management Agreement (Agreement) with its ultimate parent ICW Group Holdings, Inc. (ICW Holdings). Under the terms of the Agreement, ICW Holdings will provide general administrative services to the ICW Group. In addition, the Company will provide insurance services to Explorer for their personal-lines automobile business. Each service recipient agrees to reimburse the performing entity for the actual cost of services provided. The CDI approved the Agreement on December 19, 2014. The amounts paid/(received) by the Company for these services for 2015 and 2016 were \$(4,202,090) and \$486,729, respectively.

Amended and Restated Investment Management Agreement – Since July 1, 2012, the Company, and its affiliates, West, Explorer, VerTerra, ICW, Ltd. together with its ultimate parent, ICW Group Holdings, Inc., collectively known as ICW Group Entities, have been parties to an Investment Management Agreement (Agreement) provided by American Assets Investment Management, LLC, (AAIM), a Delaware limited liability company, and an affiliated entity. Under the terms of the Agreement, AAIM has provided investment advisory services to the ICW Group Entities. As compensation, the ICW Group Entities have paid AAIM, a fee based on the actual cost incurred in managing its investment. Effective October 7, 2013 and March 3, 2014, First and Second amendments, respectively, were made to the Agreement. The amounts paid by the Company for these services for the years 2013 and 2014, were \$4,000 for each respective year.

To consolidate the First and Second amendments to the Agreement that were not previously approved by the CDI, effective March 20, 2015, the ICW Group Entities and AAIM, entered into the Amended and Restated Investment Management Agreement (Amended Agreement). The CDI approved the Amended Agreement on March 20, 2015. The amounts paid by the Company for these services for the years 2015 and 2016, were \$3,673 and \$3,581, respectively.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in California to write automobile insurance. The Company was inactive during the examination period, and there are no open claim reserves.

REINSURANCE

The Company had no reinsurance during the period under examination.

ACCOUNTS AND RECORDS

The Company did not disclose all material related party transactions, including a description of all material management or service contracts and cost-sharing agreements in Note 10 to the Financial Statements. It is recommended that the Company disclose all material related party transactions in its Notes to the Financial Statements in accordance with Statement of Statutory Accounting Principles No.25, Paragraph 19.

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, 2016. The accompanying comments on financial statements should be considered an integral part of the financial statements. There is no examination adjustments to the amounts reported in the annual statements.

Statement of Financial Condition as of December 31, 2016

Underwriting and Investment Exhibit for the Year Ended December 31, 2016

Reconciliation of Surplus as Regards Policyholders from December 31, 2012
through December 31, 2016

Statement of Financial Condition
as of December 31, 2016

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 1,703,320	\$	\$ 1,703,320	
Cash and short-term investments	539,181		539,181	
Investment income due and accrued	23,281		23,281	
Current federal and foreign income tax recoverable and interest thereon	<u>360,819</u>		<u>360,819</u>	
Total assets	<u>\$ 2,626,601</u>	<u>\$</u>	<u>\$ 2,626,601</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 0	(1)
Reinsurance payable on paid loss and loss adjustment expenses			0	
Loss adjustment expenses			0	(1)
Other expenses			891	
Taxes, licenses and fees			425	
Payable to parent, subsidiaries and affiliates			<u>580</u>	
Total liabilities			1,896	
Common capital stock	\$ 1,000,000			
Gross paid-in and contributed surplus	1,200,000			
Unassigned funds (surplus)	<u>424,705</u>			
Surplus as regards policyholders			<u>2,624,705</u>	
Total liabilities, surplus and other funds			<u>\$ 2,626,601</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2016

Statement of Income

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses incurred	\$	0	
Loss adjustment expenses incurred		0	
Other underwriting expenses incurred		<u>68,648</u>	
Total underwriting deductions			<u>68,648</u>
Net underwriting loss			(68,648)

Investment Income

Net investment income earned	\$	53,893	
Net realized capital gain		<u>0</u>	
Net investment gain			53,893

Other Income

Net gain from agents' or premium balances charged off	\$	0	
Aggregate write-ins for miscellaneous loss		<u>(1,139)</u>	
Total other income			<u>(1,139)</u>
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes			(15,894)
Federal and foreign income taxes incurred			<u>(36,032)</u>
Net income			<u>\$ 20,138</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2015		\$	2,655,441
Net income	\$	20,138	
Change in net deferred income tax		<u>(50,874)</u>	
Change in surplus as regards policyholders for the year			<u>(30,736)</u>
Surplus as regards policyholders, December 31, 2016			<u>\$ 2,624,705</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2012 through December 31, 2016

Surplus as regards policyholders, December 31, 2012				\$ 2,552,790
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 73,267	\$		
Net unrealized capital gains			1,352	
Change in provision for reinsurance	<u>0</u>			
Total gains and losses	<u>\$ 73,267</u>	<u>\$</u>	<u>1,352</u>	
Net increase in surplus as regards policyholders				<u>71,915</u>
Surplus as regards policyholders, December 31, 2016				<u>\$ 2,624,705</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company was inactive during the examination period and did not report a reserve liability for loss and loss adjustment expenses.

SUBSEQUENT EVENTS

Effective January 1, 2017, Insurance Company of the West (West) purchased all outstanding shares of stock of the Company from Explorer Holdings, Inc., making the Company a wholly-owned subsidiary of West.

Effective May 15, 2017, the Company's name was changed to ICW National Insurance Company. The name change was approved by the California Department of Insurance (CDI) on May 15, 2017.

On July 25, 2017, West made a capital contribution of \$13,000,000 to the Company.

On December 7, 2017 the CDI approved the Second Amended and Restated Federal Tax Allocation Agreement to be effective January 1, 2018. The Second Amended Agreement reflects an update in the Company's name to ICW National Insurance Company, plus the addition of the two new affiliated companies, ICW Casualty Insurance Company, and ICW Premier Insurance Company, and the removal of Pacific Encino Assets, Inc., an entity that was dissolved on December 8, 2014.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 6): It is recommended that the Company disclose all material related party transactions in its Notes to the Financial Statements in accordance with Statement of Statutory Accounting Principles No. 25, Paragraph 19.

Previous Report of Examination

Management Agreement – Tax Allocation Agreement (Page 5): It was recommended that a formal amendment be executed to include the Company as a legal party to the Tax Allocation Agreement. Furthermore, it was recommended that the Company submit the agreement to the California Department of Insurance (CDI) for approval in accordance with California Insurance Code Section (CICS) 1215.5(b)(4). The Company complied with this recommendation.

Management Agreements – Investment Management Agreement (Page 5): It was recommended that the Company report said agreement in its Annual Holding Company Registration Statement Form B in accordance with CICS 1215.4(b), and submit the agreement to the CDI for approval in accordance with CICS 1215.5(b)(4). The Company complied with this recommendation.

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/_____

Ferdinand Ison
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

_____/S/_____

Edward Aros, CFE
Examiner-In-Charge
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California