

REPORT OF EXAMINATION
OF THE
WESTERN MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2022

Insurance Commissioner

A handwritten signature in blue ink, appearing to read "P. DeLa", is positioned to the right of the "Insurance Commissioner" text.

Filed on February 22, 2024

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Los Angeles, California
January 31, 2024

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

WESTERN MUTUAL INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's home office and main administrative office is located at 2172 Dupont Drive, Irvine California 92612.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2018. This examination covered the period from January 1, 2019 through December 31, 2022.

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 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 was a coordinated examination with California as the lead state of the Western Mutual Insurance Group. It was conducted concurrently with other insurance entities in the holding company group, including Residence Mutual Insurance Company and Arizona Home Insurance Company. Arizona participated on the examination.

COMPANY HISTORY

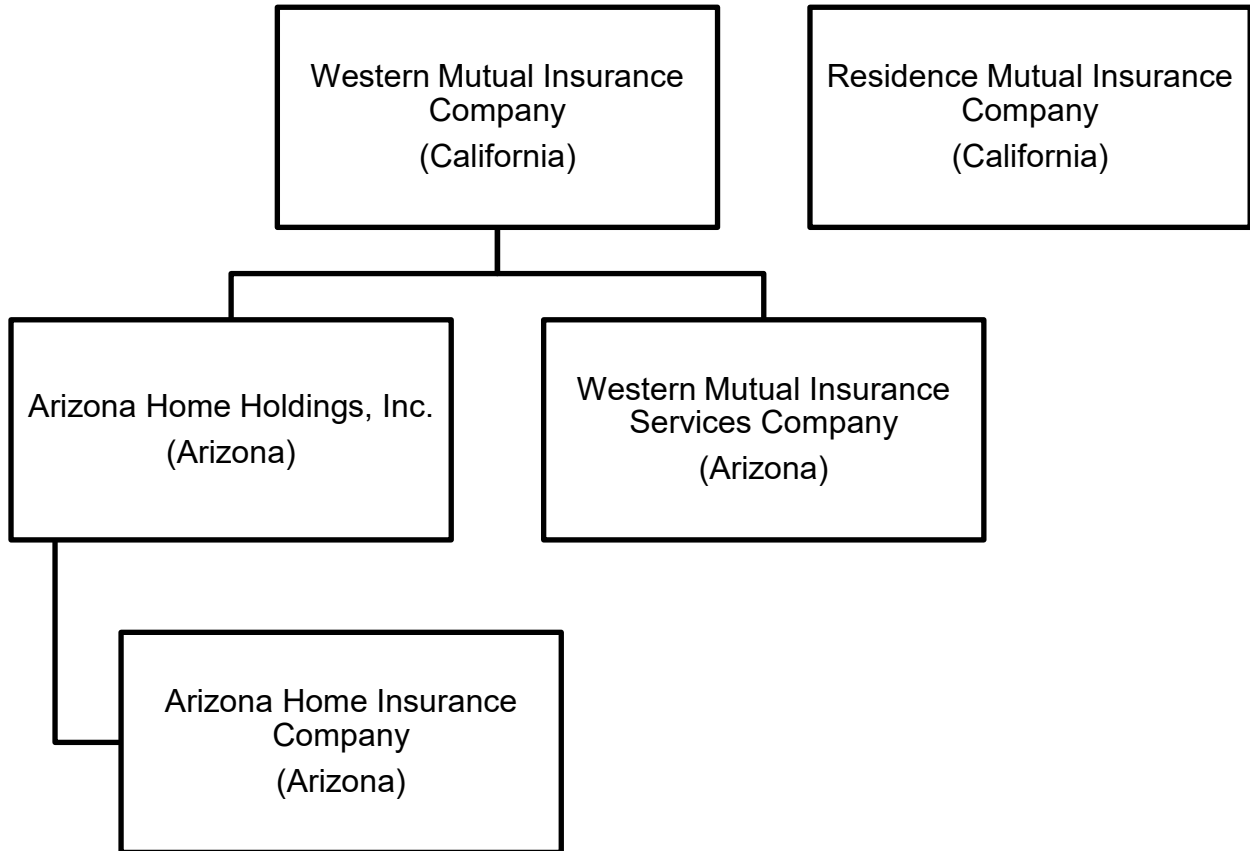
Western Mutual Insurance Group consists of three property and casualty insurance companies: The Company, Residence Mutual Insurance Company (RMIC), and Arizona Home Insurance Company (AHIC), which is 100% owned by Arizona Home Holdings, Inc. (AHH). The Company was incorporated in California on March 7, 1942 and commenced business on April 30, 1942.

Capitalization

The Company is a mutual insurance company and has no shareholders.

MANAGEMENT AND CONTROL

The following organizational chart depicts the Company's relationship with its affiliates as of December 31, 2022. All ownership is 100%.



The six 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, 2022:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
James D. Anderson Newport Beach, California	Certified Public Accountant James D. Anderson, CPA
Michael D. Antonovich Glendale, California	Retired Politician Glendale, California
John J. Barcal La Habra Heights, California	Attorney John J. Barcal, Inc.
Brent A. Braun Santa Clarita, California	Attorney Brent A. Braun, Inc.
Joe Crail Newport Coast, California	Chairman of the Board and President Western Mutual Insurance Group
Kelly Ann Walker Irvine, California	Vice President Marketing and Assistant Secretary Western Mutual Insurance Group

Principal Officers

<u>Name</u>	<u>Title</u>
Joe Crail	Chairman of the Board and President
Carmen Estrada	Senior Vice President and Secretary
Michael G. Hardy ^(a)	Vice President and Chief Financial Officer
Paul E. Calvet ^(b)	Senior Vice President

The following changes in management occurred subsequent to the examination date:

(a) Michael G. Hardy was replaced by Richard Leza, effective July 5, 2023.

(b) Paul E. Calvet retired February 1, 2023.

Management Agreements

Service Agreement: Effective January 1, 2006, the Company, Residence Mutual Insurance Company (RMIC), and Arizona Home Insurance Company (AHIC) entered into the Service Agreement (Agreement) whereby the parties participate in the performance of certain administrative and special services and share in the use of the day to day operations of certain property, equipment, and facilities. The California Department of Insurance approved the Agreement on February 8, 2008.

The shared functions provided by the participants include the following: accounting and auditing, premium collection, underwriting, claims, actuarial, data processing, legal, and payroll. Costs of the services are allocated at cost in accordance with the pooling percentages: 35% to the Company, 53% to RMIC, and 12% to AHIC. The Agreement requires that the charges be settled within 45 days after each quarter. From 2019 through 2022, the Company's allocated shared costs were \$10,411,522, \$11,105,737, \$11,071,939, and \$10,993,114, respectively, under this agreement.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company was licensed to transact multiple lines of property and casualty insurance in the following eight states: Arizona, California, Colorado, Idaho, Nevada, New Mexico, Texas, and Utah.

In 2022, the Company wrote \$19,703,858 of direct premiums, of which \$13,118,646 (67%) was written in Texas, \$4,831,216 (25%) was written in Nevada, \$851,099 (4%) was written in New Mexico. The major line of business written was homeowners' multiple peril (99%).

Policies are issued exclusively on residential properties. Business is produced on a direct basis as well as through agencies and brokers.

REINSURANCE

Intercompany Reinsurance Agreement

Intercompany Quota Share Pooling Agreement: Effective January 1, 2006, the Company, Residence Mutual Insurance Company (RMIC), and Arizona Home Insurance Company (AHIC) participate in the Intercompany Quota Share Pooling Agreement, whereby all business written by the pool participants is pooled and all premium, losses and expenses are reapportioned among the participants. Pool participation percentages are 53% for RMIC, 35% for the Company, and 12% for AHIC.

Assumed

The Company does not assume any business except from the Intercompany Quota Share Pooling Agreement.

Ceded

The following is a summary of the principal ceded reinsurance treaties as of December 31, 2022:

Line of Business and Type of Contract	Reinsurer's Name (All reinsurers are authorized)	Company's Retention	Reinsurer's Limit
<u>Homeowner Property Catastrophe:</u>			
First Layer	14 domestic, foreign and alien companies insure 49.5% of the layer. The top 5 reinsurers by percentage are: R+V Versicherung AG (20%), Hannover Ruck SE (17.5%), Various Lloyds syndicates (16%) American Agricultural Insurance Company (12%), and Mapfre Re (10%)	\$2.5 million plus 50.5% of \$2.5 million	49.5% of \$5 million in excess of \$2.5 million aggregate excess loss for Loss Occurrences during the term of the contract.

Line of Business and Type of Contract	Reinsurer's Name (All reinsurers are authorized)	Company's Retention	Reinsurer's Limit
Second Layer	15 domestic, foreign and alien companies companies insure 83.5% of the layer. The top 5 reinsurers by perecentage are: R+V Versicherung AG (20%), Hannover Ruck SE (20%), Various Lloyds syndicates (16), and Mapfre Re (10%)	\$7.5 million plus 16.5% of \$5 million	83.5% of \$12.5 million excess \$7.5 million aggregate excess loss for Loss Occurrences during the term of the contract.
Third Layer	15 domestic, foreign and alien companies companies insure 80% of the layer. The top 5 reinsurers by perecentage are: R+V Versicherung AG (20%), Various Lloyds syndicates (13.5%), Hannover Ruck Se (12.5%), Mapfre Re (11%), and American Agricultural Insurance Company (9.5%)	\$20 million plus 20% of \$15 million	80% of \$35 million in excess of \$20 million aggregate excess loss for Loss Occurrences during the term of the Contract.
<u>Multiple line Excess of Loss:</u>			
First layer	6 domestic, foreign and alien companies led by Employers Mutual Casualty Company (25%), Hannover Ruck SE (25%), Partner Reinsurance Company of the US (20%), Allied World (5%), Farm Mutual Re (5%), and Swiss Re America (3%)	\$500,000 plus 17% of \$500,000	83% of \$500,000 in excess of \$500,000 for each loss, risk, with a limit of \$1,500,000 each loss occurrence.
Second Layer	6 domestic, foreign and alien companies led by Employers Mutual Casualty Company (25%), Hannover Ruck SE (25%), Partner Reinsurance Company of the US (10%), Allied World (5%), Farm Mutual Re (5%), and Swiss Re America (3%)	\$1 million plus 27% of \$2 million	73% of \$3 million in excess \$1 million for each loss, risk, with a limit of \$6,000,000 each loss occurrence

As of the examination date, and under the terms of its external reinsurance agreements, the Company reported a total net reinsurance recoverable of approximately \$41,000.

ACCOUNTS AND RECORDS

Annual Statement Instructions

A review was made of the Company's Annual Statement. It was noted that the Annual Statement was, in many instances, incorrectly and inadequately prepared. Various schedules were missing information and others were missing information to reconcile between the balance sheet and supporting schedules and exhibits.

Also, pursuant to the Statement of Statutory Accounting Principle (SSAP) No. 55 and the Annual Statement Instructions prescribed by the National Association of Insurance Commissioners (NAIC), Notes to the Financial Statements Number 14D, Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits, the Company shall disclose the dollar amount paid (for the extra contractual and bad faith portion of the total claim amount) for claims related extra contractual obligations and bad faith losses stemming from lawsuits, in the current reporting period on a direct basis. The Company's Annual Statement Note to Financial Statements 14D was not prepared in accordance to the NAIC's Annual Statement Instructions and did not disclose the potential risk and/or uncertainties related to lawsuits in the manner or format required by the NAIC. The Company should compile its bad faith/extra contractual litigation settlements arising from claims and disclose it annually in the Notes to Financial Statements 14D in accordance with the NAIC Annual Statement Instructions. The Company failed to comply with the instructions for all years under examination.

California Insurance Code Section 923 requires every insurer to file an annual or quarterly statement using statement blanks and instructions for the appropriate year adopted by the NAIC. The statements shall be completed in conformity with the statutory accounting principles prescribed in the Accounting Practices and Procedures (AP&P) Manual adopted by the NAIC. As the result of all of the above discrepancies, it is determined that the Annual Statement were not prepared in conformity with the requirement and the examiner was unable to perform a complete review and validation on the reported information. It is recommended that the Company review the NAIC Annual Statement

Instructions and the AP&P Manual and implement procedures to ensure that accurate and adequate information is provided in all future filings, to comply with the CIC Section 923, NAIC Annual Statement Instructions, and the AP&P Manual. Upon notification by the California Department of Insurance during the examination, the Company has acted to remedy the presentation of the 2022 filed annual statement.

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, 2022. There were no adjustments made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2022

Underwriting and Investment Exhibit for the Year Ended December 31, 2022

Reconciliation of Surplus as Regards Policyholders from December 31, 2018 through December 31, 2022

Statement of Financial Condition
as of December 31, 2022

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 61,847,883	\$	\$ 61,847,883	
Preferred stocks				
Common stocks	33,944,603		33,944,603	
Real estate: Properties occupied by the Company	1,742,203		1,742,203	
Cash and short-term investments	375,596		375,596	
Investment income due and accrued	182,208		182,208	
Premiums and agents' balances in course of collection	898,527	11,526	887,001	
Amount recoverable from reinsurers	2,436,868		2,436,868	
Current federal and foreign income tax recoverable and interest there on	618,018		618,018	
Electronic data processing equipment and software	144,164	144,164	0	
Furniture and equipment	71,748	71,748	0	
Receivables from parent, subsidiaries, and affiliates	1,983,170		1,983,170	
Aggregate write-ins for other than invested assets	<u>4,139,555</u>	<u>4,154,391</u>	<u>(14,836)</u>	
Total assets	<u>\$ 108,384,543</u>	<u>\$ 4,381,829</u>	<u>\$ 104,002,714</u>	
 <u>Liabilities, Surplus and Other Funds</u>			<u>Current Year</u>	<u>Notes</u>
Losses and loss adjustment expenses			\$ 7,891,313	(1)
Reinsurance payable on paid loss and loss adjustment expenses			2,406,644	
Commissions payable, contingent commissions and other similar charges			279,683	
Other expenses			250,205	
Taxes, licenses and fees			126,834	
Net deferred tax liability			186,226	
Unearned premiums			15,749,322	
Advance premiums			738,986	
Ceded reinsurance premiums payable			10,528	
Funds held by company under reinsurance treaties			600,000	
Aggregate write-ins for liabilities			<u>86,941</u>	
Total liabilities			28,326,682	
 Unassigned funds (surplus)			 <u>75,676,032</u>	
 Surplus as regards policyholders			 <u>75,676,032</u>	
 Total liabilities, Surplus, and other funds			 <u>\$ 104,002,714</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2022

State of Income

	<u>Underwriting Income</u>	<u>Current Year</u>
Premium earned		\$ 28,499,857
Deduction:		
Losses and loss expenses incurred		\$ 21,877,359
Other underwriting expenses incurred		<u>6,762,349</u>
Total underwriting deductions		<u>28,639,708</u>
Net underwriting loss		(139,851)
	<u>Investment Income</u>	
Net investment income earned		\$ 645,606
Net realized capital gain		<u>3,662,318</u>
Net investment gain		<u>4,307,924</u>
	<u>Other Income</u>	
Finance and service charges not included in premiums		<u>\$ 14,788</u>
Total other income		<u>14,788</u>
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		<u>4,182,861</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		4,182,861
Federal and foreign income taxes incurred		<u>993,523</u>
Net income		<u>\$ 3,189,338</u>
	<u>Capital and Surplus Account</u>	
Surplus as regards policyholders, December 31, 2021		\$ 77,188,877
Net income	\$ 3,189,338	
Change in net unrealized capital gains	(4,607,824)	
Change in net deferred income tax	917,774	
Change in nonadmitted assets	<u>(1,012,133)</u>	
Change in surplus as regards policyholders for the year		<u>(1,512,845)</u>
Surplus as regards policyholders, December 31, 2022		<u>\$ 75,676,032</u>

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2018 through December 31, 2022

Surplus as regards policyholders, December 31, 2018					\$ 66,536,719
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>			
Net income	\$ 10,751,942	\$			
Net unrealized capital gains	1,732,080				
Change in net deferred income tax	219,774				
Change in nonadmitted assets		<u>3,564,483</u>			
Total gains and losses	<u>\$ 12,703,796</u>	<u>\$ 3,564,483</u>			
Net increase in surplus as regards policyholders				<u>9,139,313</u>	
Surplus as regards policyholders, December 31, 2022					<u>\$ 75,676,032</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Since the majority of the business of the Company was pooled, it was necessary to evaluate the losses on a group-wide basis. Based on the analysis by the California actuary, the Company's December 31, 2022 reserves for losses and loss adjustment expenses were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Annual Statement Instructions (Page 7): It is recommended that the Company review the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions and the Accounting Practices and Procedures (AP&P) Manual and implement procedures to ensure that accurate and adequate information is provided in all future filings, to comply with California Insurance Code Section 923, NAIC Annual Statement Instructions, and the AP&P Manual.

Previous Report of Examination

Current Report of Examination Management and Control – Agency Agreement (Page 5): The Agency Agreement between the Company and Western Mutual Insurance Services Company (WMISC) still reflects WMISC's former name, Inland Southern Insurance Services, Inc. The Company amended the agreement to reflect the name change to WMISC. The Company is now in compliance.

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,

Thomas Podsiadlo, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Ralph Oseguera, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California