REPORT OF EXAMINATION

OF THE

PACIFIC COMPENSATION INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

Insurance Commissioner

Filed on May 19, 2021

TABLE OF CONTENTS

Los Angeles, California
April 26, 2021

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

PACIFIC COMPENSATION INSURANCE COMPANY

(hereinafter also referred to as the Company). Its home office and primary location of its books and records is located at 1 Baxter Way, Suite 170, Thousand Oaks, California 91362.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2016. This examination covers the period from January 1, 2017 through December 31, 2019.

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. The 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 Arizona as the lead state, and was conducted concurrently in conjunction with the examinations of the CopperPoint Group, which consists of the following Arizona domestic companies: CopperPoint Insurance Company, CopperPoint American Insurance Company, CopperPoint Casualty Insurance Company, CopperPoint General Insurance Company, CopperPoint Indemnity Insurance Company, CopperPoint National Insurance Company, CopperPoint Premier Insurance Company, CopperPoint Western Insurance Company, MountainPoint Insurance Company, and Alaska National Insurance Company. Three states participated on the examination: Arizona, Alaska, and California.

COMPANY HISTORY

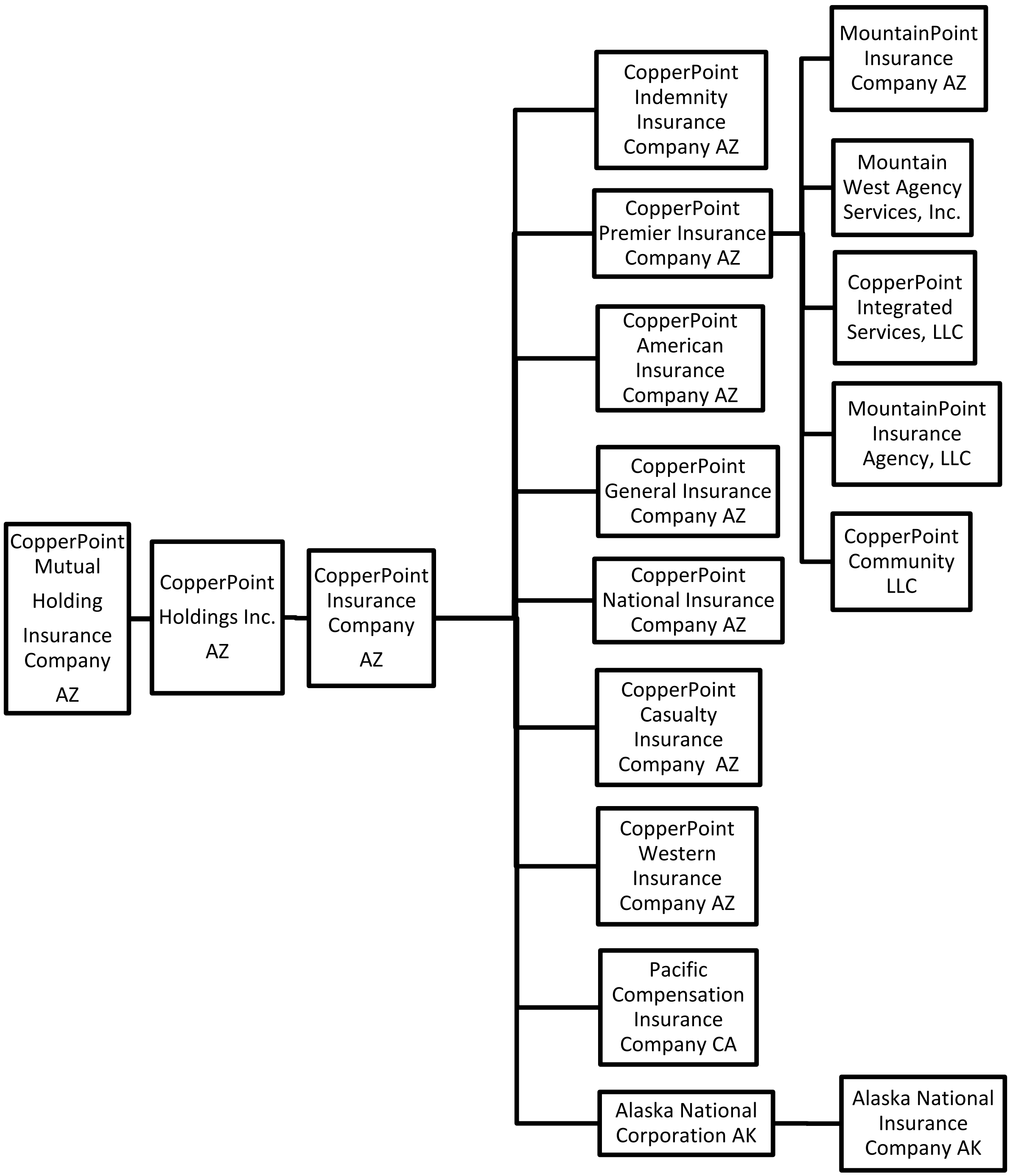
Pacific Compensation Insurance Company (The Company) was wholly-owned by Pacific Compensation Corporation (PCC) prior to June 20, 2018. Alleghany Corporation was the ultimate parent of PCC. On December 31, 2017, CopperPoint Mutual Insurance Company (CPMIC) acquired PCC from its parent company, Alleghany Holdings LLC. On June 20, 2018, PCC was dissolved and all outstanding shares of the Company were transferred to CPMIC. Effective January 1, 2019, CPMIC converted to a stock insurer and changed its name to CopperPoint Insurance Company (CPIC), pursuant to the Plan of Conversion approved by the Arizona Department of Insurance and by its members.

Capitalization

The Company received a $23,900,000 capital contribution from Alleghany Corporation on December 1, 2016 to increase the surplus to above $100 million. In addition, the Company received a $100,176,586 capital contribution over a two-day period on March 27 and March 28, 2018, and an additional $118,281 in June 2018 from its parent, CopperPoint Mutual Insurance Company, to improve its leverage position.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which CopperPoint Mutual Insurance Holding Company is the ultimate controlling entity. The following organizational chart depicts the Company's relationship within the holding company system at December 31, 2019. All ownership is 100.0%.


CopperPoint Mutual Holding Insurance Company AZ
CopperPoint Holdings Inc. AZ
CopperPoint Insurance Company AZ
CopperPoint Indemnity Insurance Company AZ
CopperPoint Premier Insurance Company AZ
CopperPoint American Insurance Company AZ
CopperPoint General Insurance Company AZ
CopperPoint National Insurance Company AZ
CopperPoint Casualty Insurance Company AZ
CopperPoint Western Insurance Company AZ
Pacific Compensation Insurance Company CA
Alaska National Corporation AK
MountainPoint Insurance Company AZ
Mountain West Agency Services, Inc.
CopperPoint Integrated Services, LLC
MountainPoint Insurance Agency, LLC
CopperPoint Community LLC
Alaska National Insurance Company AK

The six members of the Board of Directors are elected annually and oversee the business and affairs of the Company. Following are members of the Board and principal officers of the Company serving at December 31, 2019:

Directors

Name and Location	Principal Business Affiliation
Sara Morrissey Begley Phoenix, Arizona	Executive Vice President, General Counsel, Chief Compliance Officer, and Secretary CopperPoint Insurance Company
Virginia Arnett Caro Phoenix, Arizona	Senior Vice President and Chief Claims Officer CopperPoint Insurance Company
Mark Lynn Joos Phoenix, Arizona	Chief Financial Officer and Treasurer CopperPoint Insurance Company
David Allen Kuhn Thousand Oaks, California	Regional President and Executive Vice President of Enterprise Distribution Pacific Compensation Insurance Company
Marc Edward Schmittlein Phoenix, Arizona	Chairman of the Board, President, and Chief Executive Officer CopperPoint Insurance Company
Scott Lee Shader Phoenix, Arizona	Executive Vice President and Chief Operating Officer CopperPoint Insurance Company

Principal Officers

Name	Title
Marc Edward Schmittlein	President and Chief Executive Officer
Mark Lynn Joos	Chief Financial Officer and Treasurer
Sara Morrissey Begley	Executive Vice President, General Counsel, Chief Compliance Officer, and Secretary
David Allen Kuhn	Regional President and Executive Vice President of Enterprise Distribution

Management Agreements

Tax Sharing Agreement: The Company entered into a Tax Sharing Agreement (2003 Tax Sharing Agreement) with Pacific Compensation Corporation (PCC), its former parent, on January 1, 2003. Under the terms of the 2003 Tax Sharing Agreement, allocation of taxes is based on separate return calculations with current credit for net losses to the extent utilized by the consolidating entities. Intercompany tax balances are settled no later than thirty days following the filing of the consolidated tax return. The Company did not pay any federal income taxes but incurred federal income tax recoverable of $725,452 during the year of 2017. The 2003 Tax Sharing Agreement was terminated on December 31, 2017, due to the Company being acquired by CopperPoint Mutual Insurance Company (CPMIC).

Effective January 1, 2018, the Company and PCC were added to a Tax Sharing Agreement, effective January 1, 2013, between CPMIC and its subsidiaries (the 2018 Tax Sharing Agreement). Under the terms of the 2018 Tax Sharing Agreement, consolidated federal, state, and local income tax returns will be filed jointly with the parent and other affiliated companies under the group. The Company will pay CPMIC the tax liability not exceeding the amount that the Company would pay if it filed a separate income tax returen. The Company will remit payment to the CPMIC no earlier than ten days prior to the filing date and no later than thirty days after the filing date of the consolidated income tax return. The California Department of Insurance (CDI) approved the 2018 Tax Sharing Agreement on May 7, 2018. The Company paid in the amounts of $4.7 million in federal income taxes in 2018.

Due to the conversion of CPMIC to CopperPoint Insurance Company (CPIC), a new Tax Sharing Agreement was entered into by CPIC, the Company, and its affiliates, effective January 1, 2019 (2019 Tax Sharing Agreement), to replace the 2018 Tax Sharing Agreement. All the terms and conditions of 2019 Tax Sharing Agreement remains the same as the above-mentioned 2018 Tax Sharing Agreement with CPMIC. The 2019 Tax Sharing Agreement was approved by the CDI on September 17, 2019. The Company paid in the amounts of $2.6 million in federal income taxes in 2019.

Investment Management Agreement: The Company contracted with Roundwood Asset Management (Roundwood), to provide asset management and investment accounting services, effective January 1, 2008, and an amended Agreement was approved, effective July 1, 2014, to reflect the name change of the Company. During the examination period, the Company accrued fees in the amount of $17,651 to Roundwood in 2017. The Agreement with Roundwood was terminated on December 31, 2017.

On January 1, 2018, the Company entered into an Investment Management Agreement (NEAM IM Agreement) with New England Asset Management, Inc. (NEAM). The Company appointed NEAM to provide management, accounting services, or assist in preparing statutory Schedule D reporting. The assets in the account to be managed included California Workers' Compensation Deposits and a general custody account in the custody of Bank of New York. Management fees for services provided under the NEAM IM Agreement are calculated as follows: annual fee of 0.12% on the first $500.0 million of market value of assets managed; 0.10% on next $1.0 billion of market value of assets managed; and 0.05% on market value of remaining assets under management. The Company paid fees of $228,763 to NEAM in 2018. The NEAM IM Agreement was terminated on May 1, 2018.

Effective May 1, 2018, the Company entered into an Investment Management Agreement (CPIC IM Agreement) with its parent company, CPIC. CPIC will provide investment management services either directly or indirectly through its duly appointed advisor(s) to the Company; including trading, sales, and maintenance of securities for the account of all invested assets. Investment accounting services and securities valuations are provided by Clearwater Analytics, LLC (Clearwater). The Company will pay an asset management fee of 0.10% per annum on the account. The CPIC IM Agreement was approved by the CDI on May 16, 2018. The Company paid asset management fees to Clearwater for its services in the amount of $308,249 and $576,649 for the years of 2018 and 2019, respectively.

Renewable Term Loan Line of Credit Agreement: On March 23, 2007, the Company entered into a renewable term loan line of credit with PCC, its former parent, providing for loans in an aggregate amount up to $5.0 million. Effective August 26, 2009, the borrowing limit was increased to $6 million. This Agreement was terminated on June 20, 2018, due to the dissolution of PCC.

Intercompany Affiliated Service Agreement: Effective January 1, 2018, the Company and CPIC entered into an Intercompany Affiliated Service Agreement (IAS Agreement). CPIC agrees to perform services deemed reasonably necessary in the conduct of its operations, including executive, corporate strategy, business development, legal, corporate governance, product management and development, underwriting, marketing, billing, claims, reserving, etc. The IAS Agreement was approved by the CDI on November 29, 2018. Under the terms of the IAS Agreement, the Company paid fees in the amount of $0 and $14,044,349 to CPIC for the years of 2018 and 2019, respectively.

Related Party Transactions

On November 12, 2019, the Company purchased three Vanguard mutual fund investments from CPIC at a market value of $60.0 million to aid in providing liquidity for CPIC to purchase the Alaska National Corporation stock. California Insurance Code Section 1215.5(b)(1) requires that prior notification be provided to the Commissioner for investment transactions involving affiliates that equal or exceed: the lesser of 3 percent of the insurer's admitted assets or 25 percent of the policyholder's surplus as of the preceding December 31,. In accordance with CIC Section 1215.5(b)(1), the Company filed a Form D with the CDI to notify the Commissioner of its intent to purchase the above mentioned securities from CPIC. The Form D was approved on October 18, 2019.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write liability and workers' compensation business in Arizona, California, Idaho, Nevada, Oregon, and Utah. The Company predominantly writes workers' compensation business in California with minimal business in Arizona and

Nevada. The Company offers guaranteed cost workers' compensation coverage in California with incidental coverage for business in Arizona and Nevada. At December 31, 2019, the Company wrote $183.4 million (99.84%) of direct business in the state of California.

REINSURANCE

Stop Loss Reinsurance Agreement

Effective January 1, 2013, the Company entered into a Stop Loss Reinsurance Agreement with AIHL Re, LLC (AIHL Re), a Vermont captive insurer and former affiliate. Under the terms of the Agreement, AIHL Re provides the Company with non-cancelable reinsurance coverage with the following features: (1) coverage for adverse development on net losses and allocated loss adjustment expenses (ALAE) in excess of the Company's carried reserves at December 31, 2012, and (2) accident year stop-loss coverage for any net loss and ALAE in excess of 75.0% of net earned premium for accident years 2013, 2014, and 2015. An amendment was made in 2015 to extend the stop-loss coverage to include accident years 2016 and 2017. On December 31, 2017, the Agreement was commuted for $10,526,263, which was the amount of ceded reserves carried by the Company as of December 31, 2017. The settlement amount of $10,526,263 was received by the Company on January 29, 2018.

Concurrently, the Company entered into a new Stop Loss Reinsurance Agreement with AIHL Re. Under the terms of the Agreement, AIHL Re will provide the following reinsurance coverage for accident years 2017 and prior: (1) 100.0% coverage for the amount the Company's net losses exceed the Company's carried reserves as of December 31, 2017, up to $15.0 million, and (2) 90.0% coverage of the Company's net losses amount in excess of $15.0 million up to an aggregate limit of $150.0 million. Alleghany Corporation, the ultimate parent of AIHL Re, will guarantee that AIHL Re has at least $10.0 million of surplus at all times. This reinsurance contract will be accounted for as retroactive reinsurance as it involves protection against adverse loss development on existing reserves. No losses have been ceded under this agreement as of

December 31, 2019.

Assumed

With the exception of the Company’s minor participation in the National Council on Workers’ Compensation Insurance Pool, the Company did not assume reinsurance during the examination period.

Ceded

Effective December 31, 2017, the Company entered into a 15.0% Quota Share Reinsurance Contract with Transatlantic Reinsurance Insurance Company (Trans Re). Under this Agreement, the Company cedes 15.0% of the the net losses and allocated loss adjustment expenses for the accident year 2018. In return, the Company will receive a 30.0% ceding commission on all earned premium and gross earned premium ceded to Trans Re. On December 31, 2018, the Company elected to have the Agreement expire on a run-off basis.

As of December 31, 2019, the Company maintained the following reinsurance agreements:

Line of Business and Type of Contract	Reinsurer’s Name (authorized unless noted)	Company’s Retention	Reinsurer’s Limit
Workers’ Compensation/ Employers’ Liability Excess of Loss First Layer	30.00% - Hanover Ruck Se 15.00% - Certain Underwriting Members of Lloyd's, London 15.00% - Partner Reinsurance Company of the U.S. 10.00% - Lloyd's Underwriter Syndicate No. 2987 BRT 9.50% - Safety National Casualty Corporation 8.00% - Munich Reinsurance America, Inc. 7.50% - Markel Global Reinsurance Company 5.00% - Third Point Reinsurance Company LTD.(Unauthorized)	$5 million	$5 million excess $5 million per occurrence; not to exceed $15 million aggregate
Second Layer	15.00% - Partner Reinsurance Company of the U.S. 13.50% - Arch Reinsurance Company 13.00% - Munich Reinsurance America, Inc. 12.83% - Certain Underwriting Members of	$10 million	$20 million excess $10 million each loss occurrence; not to exceed $40 million aggregate

Line of Business and Type of Contract	Reinsurer's Name (authorized unless noted)	Company's Retention	Reinsurer's Limit
	Lloyd's, London 12.50% - Markel Global Reinsurance Company 10.00% - Lloyd's Underwriter Syndicate No. 2987 BRT 8.50% - IOA Re o.b.o. The Cincinnati Insurance Company 8.00% - Renaissance Reinsurance US. Inc. 5.00% - Third Point Reinsurance Company LTD.(Unauthorized) 1.67% - Houston Casualty Company, London Branch		
Third Layer	21.52% - Certain Underwriting Members of Lloyd's, London 13.00% - Munich Reinsurance America, Inc. 10.00% - Lloyd's Underwriter Syndicate No. 2987 BRT 10.00% - Markel Global Reinsurance Company 8.00% - Hanover Re (Bermuda) Limited (Unauthorized) 8.00% - Renaissance Reinsurance US. Inc. 7.00% - Arch Reinsurance Company 6.00% - Allied World Assurance Company Limited (Unauthorized) 5.00% - IOA Re o.b.o. The Cincinnati Insurance Company 5.00% - Partner Reinsurance Company of the U.S. 5.00% - Third Point Reinsurance Company LTD.(Unauthorized) 1.48% - Houston Casualty Company, London Branch	$30 million	$70 million excess $30 million per occurrence; not to exceed $140 million aggregate

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, 2019. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. There were no adjustments made to the statutory financial statements filed by the Company.

Statement of Financial Condition as of December 31, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2016 through December 31, 2019

Statement of Financial Condition
as of December 31, 2019

Assets	Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 470,949,367	$	$ 470,949,367	
Common Stocks	62,330,806		62,330,806	
Cash and short-term investments	69,201,368		69,201,368	
Investment income due and accrued	4,005,541		4,005,541	
Receivables for securities	2,399,049		2,399,049	
Uncollected premiums and agents' balances in the course of collection	8,778,825	139,946	8,638,879	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,648,512	448,447	5,200,065	
Accrued retrospective premiums	29,619	6,694	22,925	
Amounts recoverable from reinsurers	1,037,987		1,037,987	
Net deferred tax asset	10,041,135	2,723,674	7,317,461	
Electronic data processing equipment and software	42,996	42,996	0	
Furniture and equipment	285,978	285,978	0	
Aggregate write-ins for other than invested assets	1,443,459	81,802	1,361,657	
Total assets	$ 636,194,642	$ 3,729,537	$ 632,465,105	

Liabilities, Surplus, and Other Funds			Notes
Losses		$ 274,859,140	(1)
Loss adjustment expenses		70,173,992	(1)
Commissions payable, contingent commissions and other similar charges		6,312,066	
Other expenses (excluding taxes, licenses and fees)		7,764,381	
Taxes, licenses and fees (excluding federal and foreign income taxes)		1,849,106	
Current federal and foreign income taxes		2,552,385	
Unearned premiums		20,047,866	
Ceded reinsurance premiums payable (net of ceding commissions)		465,106	
Advance premiums		271,734	
Ceded reinsurance premiums payable		550,420	
Amounts withheld or retained by company for account of others		769,348	
Remittances and items not allocated		70,451	
Provisions for reinsurance		31,506	
Payable for parent, subsidiaries and affiliates		500,516	
Payable for securities		2,399,049	
Aggregate write-ins for liabilities		1,050,157	
Total liabilities		389,202,117	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	271,782,367		
Unassigned funds (surplus)	(31,119,379)		
Surplus as regards policyholders		243,262,988	
Total liabilities, surplus, and other funds		$ 632,465,105	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2019

Statement of Income

Underwriting Income		
Premium earned		$ 180,554,601
Deductions:		
Losses incurred	$ 108,267,183	
Loss adjustment expenses incurred	25,783,643	
Other underwriting expenses incurred	58,645,655	
Total underwriting deductions		192,696,481
Net underwriting loss		(12,141,880)
Investment Income		
Net investment income earned	$ 15,969,905	
Net realized capital gains	2,148,665	
Net investment gain		18,118,570
Other Income		
Net income (loss) from agents' premium balances charged off	$ (731,259)	
Finance and service charges not included in premiums	31,145	
Aggregate write-ins for miscellaneous income	532	
Total other income (loss)		(699,582)
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		5,277,108
Federal and foreign income taxes incurred		1,790,943
Net income		$ 3,486,163

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		$ 236,406,055
Net income	$ 3,486,165	
Change in net unrealized capital gains or (losses)	367,037	
Change in net deferred income tax	1,722,364	
Change in nonadmitted assets	1,232,991	
Change in provision for reinsurance	48,376	
Change in surplus as regards policyholders for the year		6,856,937
Surplus as regards policyholders, December 31, 2019		$ 243,262,988

Reconciliation of Surplus as Regards Policyholders
from December 31, 2016 through December 31, 2019

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2016			$ 87,066,971
Net income	$ 21,744,177	$	
Change in net unrealized capital gains	1,416,628		
Change in foreign exchange	206,153		
Change in net deferred income tax	9,790,548		
Change in nonadmitted assets		1,133,781	
Change in provision for reinsurance		22,575	
Surplus adjustment: Paid-in	124,194,867		
Total gains and losses	$ 157,352,373	$ 1,156,356	
Net increase in surplus as regards policyholders			156,196,017
Surplus as regards policyholders, December 31, 2019			$ 243,262,988

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The December 31, 2019 reserves and related actuarial loss and loss adjustment expense reserves were evaluated by an INS Regulatory Insurance Services, Inc., Actuary contracted by the Arizona Department of Insurance and Financial Institutions. Based on the analysis performed, the Company's loss and loss adjustment expense reserves were found to be reasonably stated, and have been accepted for purposes of this examination. The assigned California Department of Insurance (CDI) actuary reviewed the work performed by the lead state, and recommended that CDI adopt the review and conclusion of the lead state regarding loss and loss adjustment expense reserves.

SUBSEQUENT EVENTS

Change in Accounting Principle

On January 1, 2020, the Company made a change in its accounting principle for recognizing premiums written from the installment method to annualized written premiums, to align its recognition of premiums written with all other insurance subsidiaries of CopperPoint Insurance Company. According to the Statement of Statutory Accounting Principle (SSAP) No.53 Property Casualty Contracts – Premiums, the installment method records written premium, commission expense, and premium taxes incurred when the insured is billed, and the annualized method records written premium for the full policy term at policy inception.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. The pandemic has triggered unprecedented government mandates and health and safety measures which have significantly impacted the U.S. and global financial markets, in particular, U.S. publicly traded equity securities, and impacts on yields and interest rates in the U.S. bond market. During the exam we reviewed COVID-19's impact on the company's business operations with no immediate solvency concerns noted; as of the date of this report, significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy, and the Company at large. The California Department of Insurance continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Comments on Financial Statement Items – Worker's Compensation Deposit (Page 15): It was recommended that the Company considered the $10.8 million gross reserve deficiency when calculating its workers' compensation deposit requirements for carried gross reserves as of December 31, 2017. The Company complied with the previous examination recommendation.

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,

Tzuwen Meyer Digitally signed by Tzuwen Meyer
Date: 2021.05.19 09:03:35 -07'00'

Tzuwen Meyer, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

Briggs, Anjanette Digitally signed by Briggs, Anjanette
Date: 2021.05.19 09:06:07 -07'00'

Anjanette Briggs, CFE
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