

REPORT OF EXAMINATION
OF THE
CARE WEST INSURANCE COMPANY
AS OF
DECEMBER 31, 2021

A handwritten signature in blue ink, appearing to read "Peter J. [illegible]".

Filed on May 17, 2023

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Sacramento, California
May 1, 2023

Honorable Ricardo Lara
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). The Company's home office is located at 2521 Warren Drive, Suite B, Rocklin, California 95677.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2017. This examination covered the period of January 1, 2018 through December 31, 2021.

This 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 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 includes 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 an adjustment was identified during the course of the

examination, 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.

COMPANY HISTORY

Dividends

No dividends were declared and paid during the examination period.

Capitalization

The Company is authorized to issue 100,000 shares of common stock with a par value of \$50 per share. As of December 31, 2021, there were 20,000 shares outstanding valued at \$1,000,000.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Golden Legacy, Inc. is the ultimate controlling entity. The following organizational chart depicts the Company's relationship within the holding company system as of December 31, 2021 (all ownership is 100% unless otherwise noted):

Golden Legacy, Inc. (78.876%) (California)
Martin A. Harmon, Trustee of Crosswinds Trust (12.879%)
AllPro, Inc. (7.245%) (California)
Steven E. Goode and Nyla Goode (1.0%)
Care West Holdings, LLC (California)
Care West Insurance Company (California)

The seven members of the board of directors, who are elected annually, oversee the business and affairs of the Company. The following are members of the board and principal officers of the Company serving at December 31, 2021:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Andrew Chick Burbank, California	President and Chief Executive Officer Lawyers Mutual Insurance Company
Steven E. Goode San Francisco, California	President and Chief Executive Officer Care West Insurance Company
John T. Grush Monrovia, California	Retired
Martin A. Harmon ⁽¹⁾ Rocklin, California	President and Chairman of the Board Golden Legacy, Inc.
Martine D. Harmon Rocklin, California	Secretary and Board Member Golden Legacy, Inc.
Rodger D. McDonald Rocklin, California	Controller Western Care Construction Company
Donald T. Trowbridge Loomis, California	Chief Financial Officer and Board Member Golden Legacy, Inc.

⁽¹⁾Martin A. Harmon vacated the Chair on February 21, 2023. In the interim, Donald T. Trowbridge has assumed the duties of the Chair.

Principal Officers

<u>Name</u>	<u>Title</u>
Steven E. Goode Donald T. Trowbridge	President and Chief Executive Officer Secretary, Treasurer, and Chief Financial Officer

TERRITORY AND PLAN OF OPERATION

The Company is authorized to write workers' compensation insurance in the state of California and Nevada. At December 31, 2021, the Company wrote \$32.04 million in direct written premium, of which \$31.97 million was written in California and \$63 thousand written in Nevada. Its largest concentration of business writings are healthcare providers (skilled nursing facilities, assisted living facilities and home health care providers) followed by agricultural risks. Business is generated by about 32 independent brokers and agents. In April 2022, the California Department of Insurance approved the Company's Amended Certificate of Authority application to add Fire, Plate Glass, Sprinkler Leakage, and Miscellaneous classes of insurance.

REINSURANCE

Assumed

The Company did not assume any reinsurance during the examination period.

Ceded

The following is a summary of principal reinsurance agreements in effect as of December 31, 2021 (all reinsurers are authorized):

Line of Business and Type of Contract	Reinsurer's Name and Participation	Company's Retention	Reinsurer's Limit
<u>Property and Casualty:</u>			
Workers Compensation Quota Share	AXA XL Reinsurance America, Inc. (100%)	90% of net liability	10% of \$500,000, in any one loss occurrence.
Workers Compensation Excess of Loss			

Line of Business and Type of Contract	Reinsurer's Name and Participation	Company's Retention	Reinsurer's Limit
Underlying Layer	Hannover Rueck SE (100%)	\$500 thousand any one loss occurrence	\$500 thousand excess of \$500 thousand any one loss occurrence (50% placed)
First Layer	Lloyd's of London (72.5%) BRIT Insurance Services US (10%) Hannover Rueck SE (10%) Convex Insurance UK Ltd. (7.5%)	\$1 million any one loss occurrence	\$1 million excess of \$1 million any one loss occurrence
Second Layer	Lloyd's of London (72.5%) BRIT Insurance Services US (10%) Hannover Rueck SE (10%) Convex Insurance UK Ltd. (7.5%)	\$2 million any one loss occurrence	\$3 million excess of \$2 million any one loss occurrence
Third Layer	Lloyd's of London (72.5%) BRIT Insurance Services US (10%) Hannover Rueck SE (10%) Convex Insurance UK Ltd. (7.5%)	\$5 million any one loss occurrence	\$5 million excess of \$5 million any one loss occurrence
Fourth Layer	Lloyd's of London (72.5%) BRIT Insurance Services US (10%) Hannover Rueck SE (10%) Convex Insurance UK Ltd. (7.5%)	\$10 million any one loss occurrence	\$5 million excess of \$10 million any one loss occurrence
Fifth Layer	Lloyd's of London (82.5%) Brit Insurance Services US (10%) Convex Insurance UK Ltd. (7.5%)	\$15 million any one loss occurrence	\$5 million excess of \$15 million any one loss occurrence

FINANCIAL STATEMENTS

The following 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, 2021. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements reported by the Company.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended
December 31, 2021

Reconciliation of Capital and Surplus from December 31, 2017 through
December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	<u>Notes</u>
Bonds	\$ 97,122,224	\$	\$ 97,122,224	
Common stocks	3,569,220		3,569,220	
Properties occupied by the company	3,184,188		3,184,188	
Properties held for the production of income	6,468,792		6,468,792	
Cash, cash equivalents and short-term investments	10,094,081		10,094,081	
Other invested assets	100,000	100,000	0	
Investment income due and accrued	871,533		871,533	
Uncollected premiums and agents' balances in course of collection	356,479	203,776	152,703	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,248,024		14,248,024	
Amounts recoverable from reinsurers	11,207		11,207	
Funds held by or deposited with reinsured companies	75,000		75,000	
Current federal and foreign income tax recoverable and interest thereon	88,373		88,373	
Net deferred tax asset	525,086		525,086	
Electronic data processing equipment and software	37,796		37,796	
Furniture and equipment	23,224	23,224	0	
 Total assets	 \$ 136,775,227	 \$ 327,000	 \$ 136,448,226	

<u>Liabilities, Surplus and Other Funds</u>	<u>Notes</u>
Losses	\$ 46,872,345 (1)
Reinsurance payable on paid losses and loss adjustment expenses	8,379
Loss adjustment expenses	10,773,618 (1)
Commissions payable, contingent commissions and other similar charges	1,819,754
Other expenses	1,590,952
Taxes, licenses and fees	443,172
Unearned premiums	10,936,764
Ceded reinsurance premiums payable	974,040
Funds held by company under reinsurance treaties	13,100
Provision for reinsurance	7,000
Aggregate write-ins for liabilities	<u>2,523,469</u>
 Total liabilities	 75,952,593
 Common capital stock	 \$ 1,000,000
Gross paid-in and contributed surplus	18,093,134
Unassigned funds (surplus)	<u>41,392,499</u>
 Surplus as regards policyholders	 <u>60,485,633</u>
 Total liabilities, surplus and other funds	 <u>\$ 136,448,226</u>

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned	\$ 24,876,059
Deductions:	
Losses incurred	\$ 10,502,004
Losses adjustment expenses incurred	5,707,441
Other underwriting expenses incurred	8,784,361
Total underwriting deductions	24,993,807
Net underwriting loss	(117,748)

Investment Income

Net investment income earned	\$ 3,361,248
Net realized capital gains	483
Net investment gain	3,361,731
Other income	
Net loss from agents' or premium balances charged off	\$ (83,702)
Aggregate write-ins for miscellaneous income	5,636
Total other income	(78,066)
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,165,918
Federal and foreign income taxes incurred	815,292
Net income	\$ 2,350,626

Capital and Surplus Account

Surplus as regards Policyholders, December 31, 2020	\$ 57,542,264
Net income	\$ 2,350,626
Change in net unrealized capital gains	660,200
Change in net deferred income tax	(145,525)
Change in nonadmitted assets	14,069
Change in provision for reinsurance	64,000
Change in surplus as regards policyholders for the year	<u>2,943,370</u>
Surplus as regards policyholders, December 31, 2021	<u>\$ 60,485,633</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Surplus as regards policyholders, December 31, 2017			\$ 37,855,231
	Gain in Surplus	Loss in Surplus	
Net income	\$ 21,804,328	\$	
Change in net unrealized capital gains (or losses)	1,580,080		
Change in net deferred income tax		780,288	
Change in nonadmitted assets	33,282		
Change in provision in reinsurance		7,000	
<hr/>	<hr/>	<hr/>	
Total gains and losses	\$ 23,417,690	\$ 787,288	
<hr/>	<hr/>	<hr/>	
Net increase in surplus as regards policyholders			<u>22,630,402</u>
Surplus as regards policyholders, December 31, 2021			<u>\$ 60,485,633</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Senior Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2021 prepared by the Company's independent actuary and concurred with the independent actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2021 are reasonable and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Accounts and Records - Unclaimed Property (Page 7): It was recommended that the Company escheat unclaimed properties that are outstanding over three years to the California State Controller's Office and implement procedures to ensure future compliance with California Code of Civil Procedure Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532. 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,

Christian Mitterholzer, AFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

Kyo Chu, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California