

REPORT OF EXAMINATION  
OF THE  
COMMERCE WEST INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2013

Filed June 29, 2015

## TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION .....	1
SUMMARY OF SIGNIFICANT FINDINGS .....	2
COMPANY HISTORY .....	3
MANAGEMENT AND CONTROL:.....	3
Company Filings .....	5
Management Agreements.....	6
TERRITORY AND PLAN OF OPERATION.....	6
REINSURANCE: .....	7
Intercompany Reinsurance Pooling Agreement.....	7
Assumed.....	8
Ceded .....	8
FINANCIAL STATEMENTS: .....	8
Statement of Financial Condition as of December 31, 2013.....	9
Operations and Investment Exhibit for the Year Ended December 31, 2013.....	10
Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2013.....	11
Reconciliation of Examination Changes as of December 31, 2013.....	12
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	13
Losses and Loss Adjustment Expenses .....	13
SUMMARY OF COMMENTS AND RECOMMENDATIONS: .....	13
Current Report of Examination .....	13
Previous Report of Examination .....	13
ACKNOWLEDGMENT .....	14

San Francisco, California  
May 27, 2015

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

COMMERCE WEST INSURANCE COMPANY

(hereinafter also referred to as the Company) at its statutory home office located at 2633 Camino Ramon, Suite 300, San Ramon, California 94583.

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, 2008. This examination covers the period from January 1, 2009 through December 31, 2013. 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, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of

the Company were considered in accordance with the risk-focused examination process.

The examination was a coordinated examination with the Massachusetts Division of Insurance as the lead state. The examination was conducted concurrently with the examinations of the Company's affiliates: The Commerce Insurance Company; American Commerce Insurance Company; MAPFRE Insurance Company; MAPFRE Insurance Company of New York; MAPFRE Insurance Company of Florida; and Citation Insurance Company. The following states also participated on the examination: Florida, New Jersey, New York, and Ohio.

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; pensions, stock ownership and insurance plans; growth of company; loss experience; statutory deposits; and accounts and records.

### SUMMARY OF SIGNIFICANT FINDINGS

The Massachusetts Division of Insurance retained a consulting actuary to review the reasonableness of the intercompany pooled loss and loss adjustment expense reserves as of December 31, 2013. Based on the consulting actuary's analysis, the pool's carried reserves were below the consulting actuary's central estimate by \$58.8 million or 7.2%. The amount of deficiency attributed to the Company's share under the intercompany pooling agreement was \$2,704,000 or 4.6%. An examination adjustment was made to account for this deficiency.

A casualty actuary from the California Department of Insurance reviewed the work performed by the consulting actuary and concurred with the conclusion.

During 2014, management took steps to strengthen the pooled loss and loss adjustment expenses reserves. As a result, the Company's reserve position as of December 31, 2014 was relatively stronger than the position that existed at December 31, 2013.

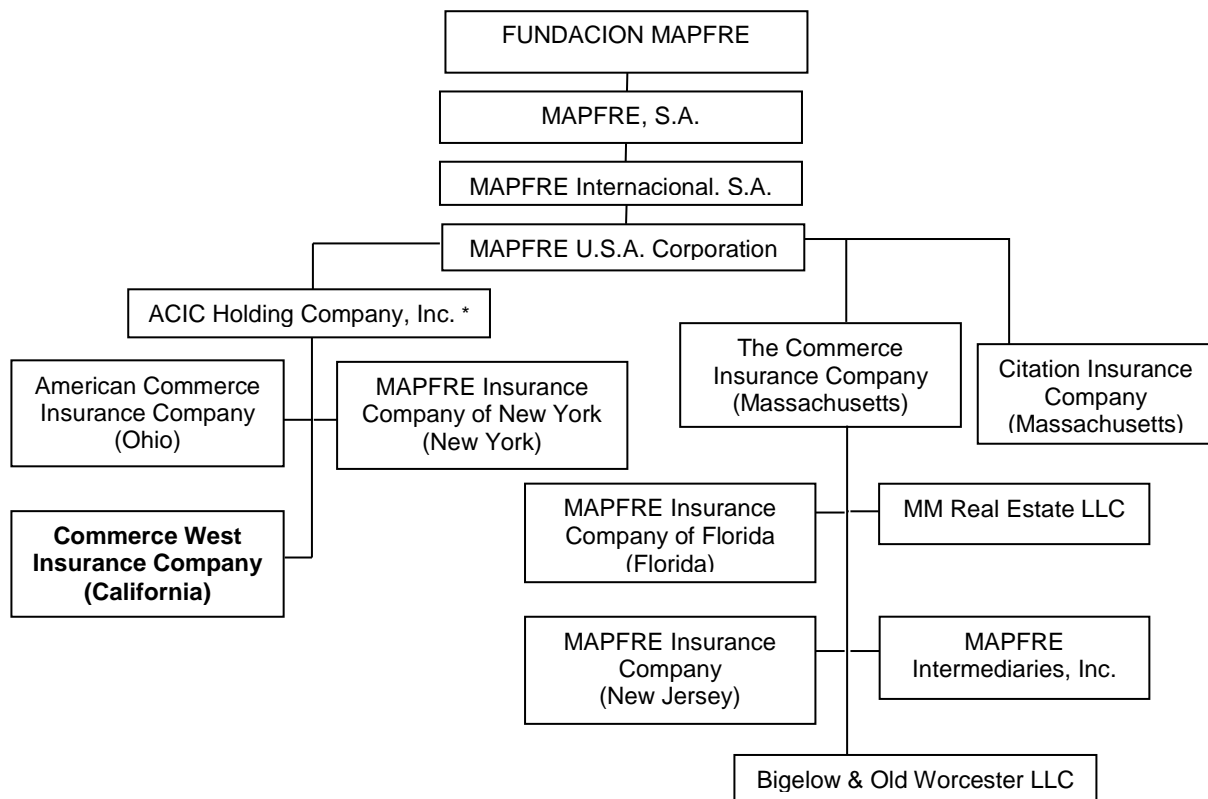
### COMPANY HISTORY

The Company's parent, ACIC Holding Company, Inc. (ACIC Holding), was a wholly-owned subsidiary of the former Commerce Group, Inc., (CGI) a publicly traded Massachusetts Insurance Holding Company. Effective June 2008, MAPFRE S.A. acquired CGI and CGI was renamed MAPFRE U.S.A. Corporation (MAPFRE USA), effective January 1, 2010. Prior to its acquisition by MAPFRE USA, CGI was a publicly traded insurance holding company listed on the New York Stock Exchange. MAPFRE USA is a privately held Insurance Holding Company domiciled in Massachusetts. MAPFRE USA is a member of the MAPFRE international group of insurers, which is headquartered in Spain and operates in over 49 countries.

The Company paid ordinary cash dividends to its parent, ACIC Holding, totaling \$6,313,365, \$6,577,988, \$6,677,856 and \$6,454,183 in 2009, 2010, 2011, and 2012, respectively. In 2013, an extraordinary cash dividend of \$6,048,493 was paid to ACIC Holding. The transaction was approved by the California Department of Insurance on November 5, 2013.

### MANAGEMENT AND CONTROL

The Company is a member of a holding company system of which the ultimate controlling entity is FUNDACION MAPFRE, a Spanish insurance foundation based in Madrid, Spain. The following organizational chart depicts the relationship of the companies within the holding company system:



A three-member board of directors, elected annually, oversees the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2013:

#### Directors

##### Name and Location

Randall V. Becker  
Webster, Massachusetts

Daniel P. Olohan  
Walpole, Massachusetts

##### Principal Business Affiliation

Chief Financial Officer and Executive  
Vice President  
MAPFRE U.S.A. Corporation

Chief Compliance Officer, Secretary,  
and Executive Vice President  
MAPFRE U.S.A. Corporation

Directors (continued)

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Jaime Tamayo Weston, Massachusetts	President and Chief Executive Officer MAPFRE U.S.A. Corporation

Principal Officers

<u>Name</u>	<u>Title</u>
Jaime Tamayo Michael Sher	President and Chief Executive Officer Secretary, Deputy General Counsel, and Vice President
Robert E. McKenna	Treasurer, Chief Administrative Officer, and Senior Vice President
Randall V. Becker	Chief Financial Officer and Executive Vice President

Company Filings

It was noted that the Insurance Holding Company System Annual Registration Statement filed with the California Department of insurance (CDI) on April 30, 2014, did not include statements that the board of directors is responsible for overseeing corporate governance and internal controls and that the insurer's officers or senior management have approved, implemented and continue to maintain and monitor corporate governance and internal control procedures as required by California Insurance Code Section 1215.4(b)(6). It is recommended that the Company include these statements in its Insurance Holding Company System Annual Registration filings. In response to this finding, the Company stated that it would file an amended Insurance Holding Company Annual Statement Registration Statement to include the required statements.

## Management Agreements

Second Amended and Restated Tax Allocation Agreement: The Company is party to a Second Amended and Restated Tax Allocation Agreement between the MAPFRE U.S.A. Corporation and its affiliates, effective November 4, 2009. Under the Agreement, tax liability and credits are to be apportioned on a separate return basis and settlements between the companies are to be settled within thirty days of filing the return. This Agreement was approved by the California Department of Insurance (CDI) on October 19, 2009.

Fourth Amended and Restated Management Cost Allocation Agreement: The Company and its affiliates are participants in a Fourth Amended and Restated Management Cost Allocation Agreement, effective January 1, 2013. Under the agreement, the following services are provided to members of the Group: quarterly review and analysis of company performance, budgeting, tax advice, support, calculation and filing, legal advice and support, insurance consulting, review of corporate contracts, SEC filings, operational services, investment management services and investment recordkeeping services. The Agreement states that non-investment related services shall be reimbursed at the actual cost borne by the party providing the services. Investment related services are reimbursed using an "Investment Services Formula" that is calculated as the product of the number of basis points multiplied by the quarter end balance of investments and cash divided by four. The reimbursement is limited to the actual costs and expenses incurred by the party providing the services. This Agreement was approved by the CDI on December 13, 2012.

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was licensed to transact private passenger automobile liability, commercial automobile liability, automobile physical damage, homeowners multiple peril, and general liability insurance in the states of Arizona, California, Colorado, Nevada, Oregon, Utah and Washington. Of the Company's 2013



direct premiums of \$100 million, 85.7% was written in California, 5.8% was written in Washington, 4.5% was written in Oregon and 4% was written in Arizona. The Company's primary lines of business written during 2013 were private passenger automobile liability at 56.4% and automobile physical damage at 34.7%.

Business is written through approximately 1,200 independent agents and brokers in Arizona, California, Oregon and Washington.

## REINSURANCE

### Intercompany Reinsurance Pooling Agreement

The Company is a party to an intercompany reinsurance pooling agreement whereby The Commerce Insurance Company (Commerce) is the pool leader. Under the terms of the agreement, each participant cedes 100% of their direct business to Commerce. After applying external reinsurance, Commerce retrocedes to each participant their pro-rated share of the pooled business based on the following percentages:

<u>Company</u>	<u>Participation</u>
The Commerce Insurance Company	71.2%
American Commerce Insurance Company	9.1%
Citation Insurance Company	7.4%
Commerce West Insurance Company	4.6%
MAPFRE Insurance Company of New York	3.9%
MAPFRE Insurance Company of Florida	2.1%
MAPFRE Insurance Company	1.7%
Total	<u>100.0%</u>

This agreement was approved by the California Department of Insurance on February 29, 2012.

### Assumed

The Company assumed no reinsurance during the examination period other than from the intercompany pool pursuant to the pooling agreement detailed above.

### Ceded

The Company did not cede any reinsurance during the examination period other than to the intercompany pool pursuant to the pooling agreement detailed above.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2013

Operations and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders from December 31, 2008  
through December 31, 2013

Reconciliation of Examination Changes as of December 31, 2013

Statement of Financial Condition  
as of December 31, 2013

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 105,023,228	\$	\$ 105,023,228	
Stocks: Preferred stocks	351,500		351,500	
Cash and short-term investments	7,399,379		7,399,379	
Investment income due and accrued	909,215		909,215	
Uncollected premiums and agents' balances in course of collection	23,967,882		23,697,882	
Deferred premiums, agents' balances and installments booked but deferred and not due	2,964,663		2,964,663	
Amounts recoverable from reinsurers	6,578,787		6,578,787	
Net deferred tax asset	6,247,916	41,900	6,206,016	
Electronic data processing equipment and software	60,475		60,475	
Furniture and equipment, including health care delivery assets	502,108	502,108	0	
Aggregate write-ins for other than invested assets	<u>436,732</u>	<u>321,277</u>	<u>115,455</u>	
<b>Total assets</b>	<b><u>\$ 154,441,885</u></b>	<b><u>\$ 865,285</u></b>	<b><u>\$ 153,576,600</u></b>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 30,288,166	(1)
Reinsurance payable on paid losses and loss adjustment expenses			4,771,352	
Loss adjustment expenses			7,527,152	(1)
Commissions payable, contingent commissions and other similar charges			1,811,654	
Other expenses			760,188	
Taxes, licenses and fees			150,490	
Current federal and foreign income taxes			2,176,676	
Unearned premiums			42,290,969	
Advance premium			37,952	
Ceded reinsurance premiums payable			5,190,972	
Payable to parent, subsidiaries and affiliates			2,102,107	
Aggregate write-ins for liabilities			<u>543,050</u>	
<b>Total liabilities</b>			<b>97,650,728</b>	
Common capital stock	\$ 3,333,350			
Gross paid-in and contributed surplus		10,480,965		
Unassigned funds (surplus)		<u>42,111,557</u>		
Surplus as regards policyholders			<u>55,925,872</u>	
<b>Total liabilities, surplus and other funds</b>			<b><u>\$ 153,576,600</u></b>	

Operations and Investment Exhibit  
for the Year Ended December 31, 2013

Statement of Income

Operating Income

Premiums earned		\$ 83,094,134
Deductions:		
Losses incurred	\$ 53,924,849	
Loss adjustment expenses incurred	9,854,310	
Other underwriting expenses incurred	23,911,926	
Aggregate write-ins for underwriting deductions	<u>(25,116)</u>	
Total operating expenses		<u>87,665,969</u>
Net underwriting loss		(4,571,835)

Investment Income

Net investment income earned	4,013,942	
Net realized capital gains	<u>803,881</u>	
Net investment gain		4,817,823

Other Income

Finance and service charges not included in premiums	\$ 3,402,241	
Aggregate write-ins for miscellaneous income	<u>(28,117)</u>	
Total other income		<u>3,374,124</u>
Net income, after capital gains tax and before all other federal income taxes		3,620,112
Federal and foreign income taxes incurred		<u>2,358,221</u>
Net income		<u>\$ 1,261,891</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		\$ 60,484,929
Net income	\$ 1,261,891	
Change in net unrealized capital gains	6,828	
Change in net deferred income tax	567,755	
Change in nonadmitted assets	1,948,902	
Dividends to stockholders	(6,048,493)	
Aggregate write-ins for gains and losses in surplus	<u>(2,295,940)</u>	
Change in surplus as regards policyholders for the year		<u>(4,559,057)</u>
Surplus as regards policyholders, December 31, 2013		<u>\$ 55,925,872</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2008 through December 31, 2013

Surplus as regards policyholders, December 31, 2008 per Examination			\$ 63,136,709
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 20,401,378	\$	
Dividends to stockholders		32,071,885	
Change in net deferred income tax		961,559	
Change in nonadmitted assets		1,645,790	
Change in unrealized gain	2,392,004		
Change in nonadmitted assets	<u>4,675,015</u>	<u>                    </u>	
Total gains and losses	<u>\$ 27,468,397</u>	<u>\$ 34,679,234</u>	
Net decrease in surplus as regards policyholders			<u>(7,210,837)</u>
Surplus as regards policyholders, December 31, 2013, per Examination			<u>\$ 55,925,872</u>

Reconciliation of Examination Changes  
as of December 31, 2013

	<u>Per Company</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>	<u>Notes</u>
<u>Liabilities</u>				
Losses	\$ 28,122,166	\$ 30,288,166	\$ (2,166,000)	(1)
Loss adjustment expenses	6,989,152	7,527,152	<u>(538,000)</u>	(1)
Net decrease to surplus			(2,704,000)	
Surplus as regards policyholders, December 31, 2013, per Company			<u>58,629,872</u>	
Surplus as regards policyholders, December 31, 2013, per Examination			<u>\$ 55,925,872</u>	

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

An analysis of the intercompany pooled loss and loss adjustment expense reserves as of December 31, 2013 was performed by a consulting actuary engaged by the Massachusetts Division of Insurance. Based on the analysis, the consulting actuary determined that the Company's carried loss and loss adjustment expense reserves were deficient by \$2,704,000. An examination adjustment was made to account for this deficiency.

A casualty actuary from the California Department of Insurance reviewed the work performed by the consulting actuary and concurred with the conclusion.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Company Filing (Page 5): It is recommended that the Company comply with California Insurance Code Section 1215.4(b)(6).

### Previous Report of Examination

Comments on Financial Statement Items – Taxes, Licenses and Fees (Page 6): It was recommended that the Company add transaction dates to its "Automobile Assessment File". 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,

/S/

Jennifer Whitehurst, CFE  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California