REPORT OF EXAMINATION
OF THE

EMPLOYERS COMPENSATION
INSURANCE COMPANY

AS OF
DECEMBER 31, 2010

Filed March 19, 2012

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Los Angeles, California
December 31, 2011

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

EMPLOYERS COMPENSATION INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 10375 Professional Circle, Reno, Nevada, 89521. The Company's statutory home office and main administrative office is located at 500 North Brand Boulevard, Glendale, California 91203.

SCOPE OF EXAMINATION

We have performed a multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2010. 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, 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.

This examination was conducted concurrently with the examinations of affiliates, Employers Preferred Insurance Company and Employers Assurance Company by the Florida Office of Insurance Regulation and the examination of the Company's parent, Employers Insurance Company of Nevada, by the Nevada Division of Insurance, with the State of Nevada serving as the lead state.

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 sales and advertising.

COMPANY HISTORY

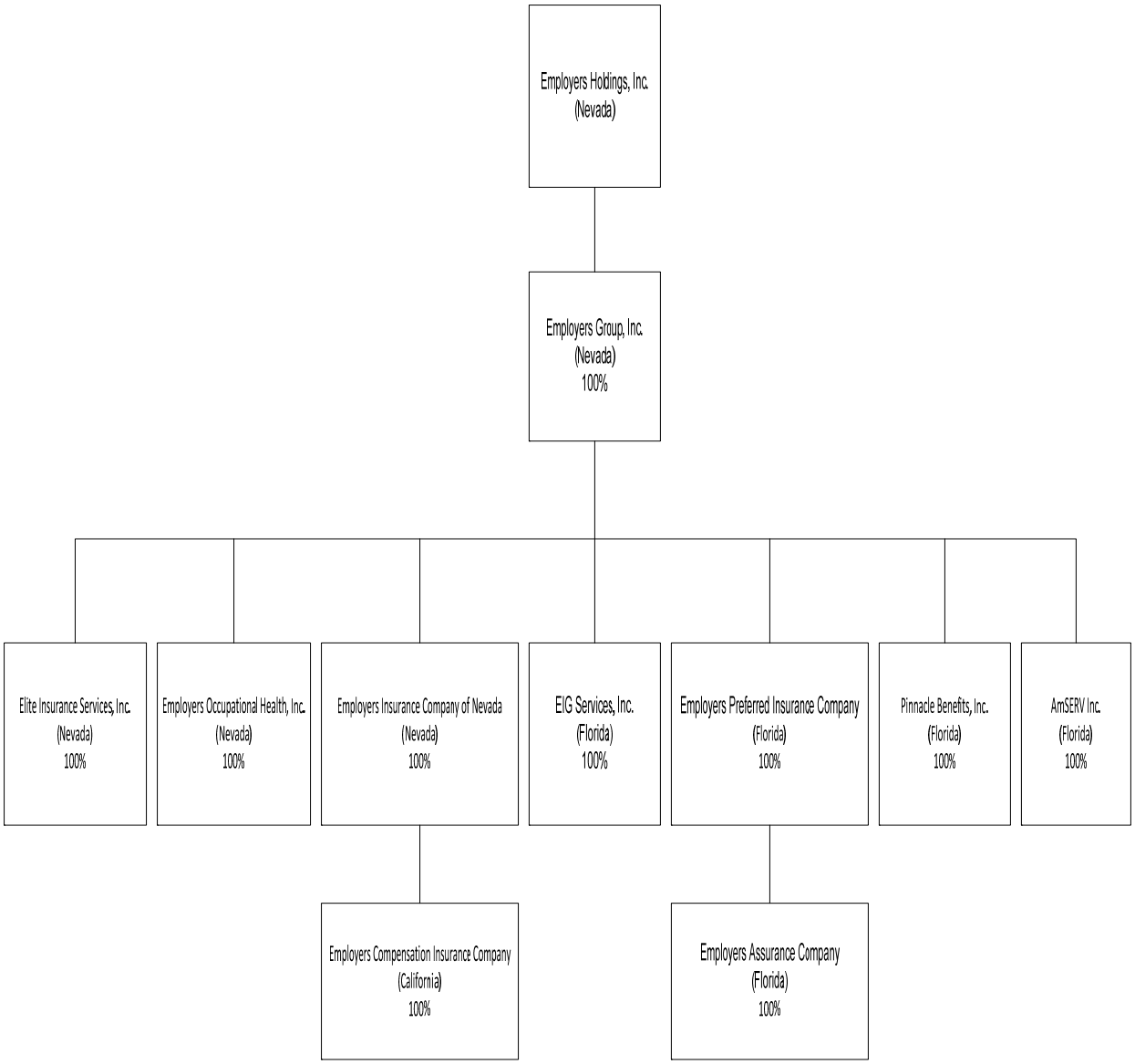
On October 31, 2008, the Company's ultimate parent, Employers Holding, Inc., acquired 100 per cent of the outstanding stock of AmCOMP Incorporated. The acquired insurance subsidiaries, Employers Preferred Insurance Company (formerly AmCOMP Preferred Insurance Company) and Employers Assurance Company (formerly AmCOMP Assurance Corporation) are monoline workers' compensation carriers.

During the years 2008, 2009, and 2010, cash dividend distributions to the Company's sole stockholder, Employers Insurance Company of Nevada, totaled $49.2 million, $52.5 million, and $31.7 million, respectively. Prior approval for a $49.2 million extraordinary dividend distribution (2008) was granted by the California Department of Insurance on May 14, 2008.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Employers Insurance Company of Nevada. Ultimate control of the Company is maintained by Employers Holdings, Inc., a publicly traded

insurance holding company. The following organizational chart depicts the Company's relationship within the holding company system:



Management of the Company is vested in a five-member board of directors, elected annually. Following are members of the board and principal officers of the Company serving at December 31, 2010:

Directors

Name and Residence	Principal Business Affiliation
Douglas D. Dirks Reno, Nevada	Chief Executive Officer Employers Holdings, Inc.
Robert J. Kolesar Las Vegas, Nevada	Chairman of the Board Employers Holdings, Inc. Partner Kolesar and Leatham Law Firm
Lenard T. Ormby Reno, Nevada	Executive Vice President Employers Holdings, Inc.
Martin J. Welch* Reno, Nevada	President and Chief Operating Officer Employers Compensation Insurance Company
William E. Yocke Reno, Nevada	Chief Financial Officer Employers Holdings, Inc.

Principal Officers

Name	Title
Douglas D. Dirks	Chief Executive Officer
Martin J. Welch*	President and Chief Operating Officer
William E. Yocke	Treasurer
Donald C. Smith*	General Counsel and Secretary
Lori A. Brown	Assistant Secretary
Lenard T. Ormsby	Assistant Secretary
Stephen V. Festa*	Senior Vice President and Chief Claims Officer
Cynthia M. Morrison*	Senior Vice President, Corporate Controller, and Chief Accountant
Richard P. Hallman	Senior Vice President, and Chief Information Officer
Doug A. Zearfoss	Vice President, and Chief Actuary

*Effective February 1, 2011, Martin J. Welch resigned his position as the Company's President, Chief Operating Officer and board member; Douglas Dirks was appointed President, effective February 1, 2011; Stephen V. Festa was appointed as the replacement for Martin J. Welch on the board. As of the date of this examination report, the position of Chief Operating Officer remains vacant; Mr. Smith and Ms. Morrison left the Company after the close of reporting period ending December 31, 2010.

Management Agreements

Administrative Services Agreement: The Company and its parent, Employers Insurance Company of Nevada (EICN) were parties to an Amended and Restated Administrative Services Agreement, effective since 2002, and approved by the California Department of Insurance (CDI) on March 7, 2003. Under the terms of the agreement, and on an actual cost basis, the parties furnished various services to each other, and for the 2008 year, the Company paid EICN $23,160,861 for the services it provided. Effective January 1, 2009, the parties terminated the Amended and Restated Administrative Services Agreement, and the Company entered into a new Administrative Services Agreement together with EICN, Employers Preferred Insurance Company and Employers Assurance Company. Under the terms of the new agreement, the parties may furnish various services, such as, accounting, tax, auditing, functional support, claims, investment and underwriting to each other. As stipulated in the agreement, the compensation for providing such services is based on actual cost. The agreement was approved by the CDI on September 17, 2009. In 2010, the Company paid EICN $4,232,057 under the terms of the Administrative Services Agreement. There were no other services provided to/from the other parties in 2010.

With respect to the 2009 year, the Company did not pay any amounts to EICN under the terms of the Administrative Services Agreement, as expenses were settled through the Intercompany Pooling Agreement, discussed in the "Reinsurance" section of this report.

Tax Sharing Agreement: Since January 1, 2005, the Company, its affiliates, and Employers Holdings, Inc. (EHI) have been parties to a tax sharing agreement. For the purpose of including Employers Preferred Insurance Company and Employers Assurance Company into the agreement, a new tax sharing agreement was made and entered into as of February 25, 2009. Under the terms of the agreement, federal income tax returns are filed on a consolidated basis on behalf of EHI and its subsidiaries. The Company's tax liability or refund is determined as if the Company was filing on a separate basis. Federal income taxes paid or (recovered) by the Company totaled $14,286,038, ($8,937,598), and $1,700,181 for the years 2008, 2009, and 2010,

respectively. Approval of the new tax sharing agreement was granted by the CDI on December 30, 2009.

Investment Management Agreement: Since March 5, 2005, the Company and its affiliates have been subject to an investment management agreement with Conning Asset Management Company (Conning). Within the confines of the Company's guidelines, Conning has authority to execute transactions without prior consultation with the Company's management. Quarterly management fees are predicated upon the application of .0875% to the market valuation of the portfolio. Fees paid to Conning totaled $525,677, $519,366, and $519,451, for the years 2008, 2009, and 2010, respectively.

Service Agreement: Since September 1, 2002, and as amended effective January 1, 2009, the Company has been a party to a service agreement with Elite Insurance Services, Inc. (Elite), an affiliated agency. Under the agreement, the Company provides Elite with policy administration, actuarial, marketing, financial reporting, tax, treasury, computer and other services on a direct cost reimbursement basis. Fees paid by Elite to the Company totaled $51,176, $40,226, and $37,193, for the years 2008, 2009, and 2010, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company was licensed to transact business in the following states:

Arizona	Idaho	Nevada	Texas
California	Illinois	New Mexico	Utah
Colorado	Maryland	New York	
Florida	Massachusetts	Oregon	
Georgia	Montana	Pennsylvania	

During the period under review, writings were limited to workers' compensation coverages. The focus of the Company's operations is on small businesses engaged in low to medium hazard industries. During 2010, the Company wrote $202,614,685 of direct premiums. Of the total direct premiums written, all but $22,770,356 (11.2%) were written in California.

The Company markets and sells its products primarily through independent agents and brokers and through its strategic partnerships and alliances, including Automatic Data Processing, Inc., and Anthem Blue Cross of California. Branch offices are maintained in Boise, Idaho; Indianapolis, Indiana; Maitland, Florida; Henderson and Reno, Nevada; Nashville, Tennessee; Austin, Texas; and Fresno, Glendale, and San Francisco, California.

REINSURANCE

Intercompany Pooling Agreement

Since July 1, 2003 the Company and its parent, Employers Insurance Company of Nevada (EICN), have been parties to an intercompany pooling agreement. For the purpose of including Employers Preferred Insurance Company (EPI) and Employers Assurance Company (EAC), which were acquired by Employers Holdings, Inc. on October 31, 2008, a new intercompany pooling agreement was made and entered into as of October 1, 2008. Under the terms of the agreement, all business written by the four companies, net of inuring reinsurance, is pooled. Premiums, losses, and expenses incurred are then reapportioned and shared by the Company, EICN, EPI, and EAC in the proportions of 27%, 53%, 10%, and 10%, respectively. The agreement was approved by the California Department of Insurance on December 1, 2008.

Assumed

Effective July 1, 2002, the Company's parent, Employers Insurance Company of Nevada (EICN) entered into a quota share reinsurance agreement with Harbor Specialty Insurance Company and Clarendon National Insurance Company (hereinafter referred to collectively as Clarendon) which pertained to policies produced by the Company's affiliate, Elite Service, Inc. (Elite) and Fremont General Agency (Fremont). Under the terms of this agreement, EICN's per occurrence liability limit was 90 per cent quota share of Clarendon's net retained liability of $1,000,000 for the Elite policies, but for any losses under the Fremont policies, EICN's per occurrence liability limit was 100 per cent quota share of Clarendon's net retained liability of $250,000.

On July 1, 2002, a reinsurance assignment and assumption agreement was made and entered into by and among Clarendon, EICN, and Fremont Employers Insurance Company (FEIC)*. In accordance with the terms of the agreement, EICN assigned, transferred, and conveyed without recourse all of EICN's rights, duties, liabilities, and risks to FEIC, with the result that FEIC succeeded EICN as the reinsurer under the terms and provisions of the above referenced reinsurance agreement. Under the terms of the underlying reinsurance agreement, the reinsurer's obligations were secured with assets retained by Clarendon for its exclusive use and possession under a funds withheld arrangement.

In consideration of a one-time $1,500,000 fronting fee payable to Clarendon, an amendment to the reinsurance agreement was entered into on June 30, 2010 which provided for the partial transfer of collateral assets from the aforementioned funds withheld to a trust account. Upon implementation of the amendment, the Company's obligation to Clarendon became secured by the combination of funds withheld and the trust.

Following the initial establishment of the trust account, Clarendon is committed annually to deliver to the Company its calculation of: (1) the obligation for the year at issue, and (2) the estimated losses to be paid during the year. The Company is required to withdraw funds from the trust in an amount necessary to cause the funds withheld to equal the amount of Clarendon's estimated payments for the year at issue. Any excess in the combined market valuation of the assets maintained in the funds withheld and the trust accounts over 110 per cent of Clarendon's obligation calculation is to be released to the Company from the trust. In the event of a shortage, the Company is committed to deliver eligible assets in an amount equal to such shortfall for deposit to the trust.

In conjunction with a trust agreement (dated November 29, 2010) that facilitated the initial funding of the trust account, Clarendon transferred $47,117,746 to the trust account and released

*In July, 2002, EICN acquired the workers' compensation policy production organization and renewal rights from Fremont General Corporation to operate as a wholly-owned subsidiary to be known as Fremont Employers Insurance Company. On September 23, 2003, the name of the insurer was changed to Employers Compensation Insurance Company.

$27,451,134 to the Company, leaving a balance of $4,836,896 in the funds withheld account. Accordingly, the sum of the $47,117,746 (initial funding of the trust) and $4,836,896 (funds withheld) constitutes 110 per cent of Clarendon's calculation of ECIC's reinsurance obligation.

During November 2003, the Company entered into a quota share reinsurance agreement with Virginia Surety Company whereby the Company assumed 100 per cent of workers' compensation and employers' liability insurance risks associated with business produced by its affiliate, Elite Insurance Services, Inc. The agreement has been in run-off since December 2003.

Ceded

Excess of loss reinsurance provides $195 million excess of $5 million coverage with a $2 million annual aggregate deductible for all business classified by the Company as workers' compensation and employers' liability. The reinsurance program includes coverage for terrorism losses excluding nuclear, chemical, biological, or radiological events. The following is a summary of the Company's reinsurance agreements in-force as of December 31, 2010:

Type of Contract	Reinsurer's Name*	Company's Retention	Reinsurer's Per Occurrence Limit
First Excess of Loss	44.50% Catlin Insurance Company, Ltd. (U) 7.50% Aspen Insurance Ltd. (U) 25.00% Hanover Re Ltd. (U) 23.00% Various Lloyd's Syndicates (A)	$5 million	$5 million
Second Excess of Loss	17.00% Catlin Insurance Company, Ltd. (U) 5.00% Odyssey America Reinsurance Corp (A) 5.00% Partner Re Ltd. (A) 1.00% Alterra Insurance Ltd. (U) 5.00% Endurance Specialty Insurance (U) 16.00% Tokio Millenium Re Ltd. (U) 13.20% Aspen Insurance Ltd. (U) 15.00% Hanover Re Ltd. (U) 22.80% Various Lloyds Syndicates (A)	$10 million	$10 million
Third Excess of Loss	5.00% Arch Reinsurance Company (A) 18.00% Catlin Insurance Company, Ltd. (U) 8.00% Munich Reinsurance America, Inc. (A) 5.00% Odyssey America Reinsurance Corp (A) 2.00% Partner Re Ltd. (A) 2.00% Alterra Insurance Ltd. (U) 7.00% Endurance Specialty Insurance (U) 6.00% Tokio Millenium Re Ltd. (U) 15.00% Aspen Insurance Ltd. (U) 15.00% Hanover Re Ltd. (U) 17.00% Various Lloyds Syndicates (A)	$20 million	$30 million

Fourth Excess of Loss	7.00% Arch Reinsurance Company (A) 12.75% Munich Reinsurance America, Inc. (A) 2.50% Odyssey America Reinsurance Corp (A) 2.00% Partner Re Ltd. (A) 2.50% Safety National Casualty (A) 3.00% Alterra Insurance Ltd. (U) 7.00% Endurance Specialty Insurance (U) 2.25% Hanover Re Ltd. (U) 6.00% Tokio Millenium Re Ltd. (U) 15.00% Aspen Insurance Ltd. (U) 40.00% Various Lloyds Syndicates (A)	$50 million	$50 million
Fifth Excess of Loss	5.00% Arch Reinsurance Company (A) 11.00% Munich Reinsurance America, Inc. (A) 1.25% Odyssey America Reinsurance Corp (A) 2.00% Partner Re Ltd. (A) 8.75% Safety National Casualty (A) 5.00% AXIS Specialty Limited (U) 10.00% Endurance Specialty Insurance (U) 2.50% Hanover Re Ltd. (U) 14.00% Tokio Millenium Re Ltd. (U) 12.00% Aspen Insurance Ltd. (U) 28.50% Various Lloyds Syndicates (A)	$100 million	$100 million

*(A) – authorized reinsurer
(U) – unauthorized reinsurer

ACCOUNTS AND RECORDS

Cumulative Effect of Changes in Accounting Principles

The Company apprised the California Department of Insurance on October 9, 2009 that during September 2009 it changed its method of reporting written premiums from the billed to the annual method for the purpose of conforming to the methodology employed by its affiliates. In accordance with the disclosure requirements reflected in Statement of Statutory Accounting Principles Number 2, the Company reported in its 2009 Annual Statement that the implementation of the revised practice resulted in a $3,419,965 reduction of surplus.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2010

Underwriting and Investment Exhibit for the Year Ended December 31, 2010

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2010

Statement of Financial Condition
as of December 31, 2010

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 734,552,776	$ 1,253,615	$ 733,299,161	
Cash and short-term investments	40,032,564		40,032,564	
Investment income due and accrued	8,979,618		8,979,618	
Premiums and agents' balances in course of collection	4,242,588	1,792,840	2,449,748	
Premiums, agents' balances and installments booked but deferred and not yet due	25,914,754	1,235,063	24,679,691	
Accrued retrospective premiums	2,119	196	1,923	
Funds held by or deposited with reinsured companies	380,712,798		380,712,798	
Current federal and foreign income tax recoverable and interest thereon	2,359,867		2,359,867	
Net deferred tax asset	27,558,547	7,839,301	19,719,246	
Guaranty funds receivable or on deposit	1,828,187		1,828,187	
Electronic data processing equipment and software	935,197	935,197		
Furniture and equipment, including health care delivery assets	585,335	585,335		
Receivable from parent, subsidiaries and affiliates	66,060		66,060	
Aggregate write-ins for other than invested assets	2,740,279	749,692	1,990,587	
Total assets	$ 1,230,510,689	$ 14,391,239	$ 1,216,119,450	

Liabilities, Surplus and Other Funds				
Losses and loss adjustment expenses			$ 357,395,297	(1)
Commissions payable, contingent commissions and other similar charges			3,675,587	
Other expenses			3,378,865	
Taxes, licenses and fees			2,580,174	
Unearned premiums			38,406,391	
Advance premiums			380,991	
Dividends declared and unpaid: policyholders			195,100	
Ceded reinsurance premiums payable			301,919	
Funds held by company under reinsurance treaties			503,243,093	
Remittances and items not allocated			575,171	
Payable to parent, subsidiaries and affiliates			3,767,320	
Payable for securities			1,025,894	
Aggregate write-ins for liabilities			1,782,794	
Total liabilities			916,708,596	
Aggregate write-ins for special surplus funds		$ 5,915,386		
Common capital stock		2,600,000		
Gross paid in and contributed surplus		214,400,000		
Unassigned funds (surplus)		76,495,468		
Surplus as regards policyholders			299,410,854	
Total liabilities, surplus and other funds			$ 1,216,119,450	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2010

Statement of Income

Underwriting Income		
Premiums earned		$ 86,882,087
Deductions:		
Losses and loss expenses incurred	$ 57,526,959	
Other underwriting expenses incurred	35,354,359	
Total underwriting deductions		92,881,318
Net underwriting loss		(5,999,231)
Investment Income		
Net investment income earned	$ 28,924,666	
Net realized capital gain	24,066	
Net investment gain		28,948,732
Other Income		
Net loss from agents' or premium balances charged off (amount recovered $8,836 amount charged off $883,550)	$ (874,714)	
Aggregate write-ins for miscellaneous loss	(4,634,603)	
Total other loss		(5,509,317)
Net income before dividends to policyholders, and before federal income taxes		17,440,184
Dividends to policyholders		1,793,123
Net income after dividends to policyholders, and before federal income taxes		15,647,061
Federal income taxes incurred		(709,426)
Net income		$ 16,356,487

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2009		$ 317,062,975
Net income	$ 16,356,487	
Change in net unrealized capital gains	23,556	
Change in net deferred income tax	(780,923)	
Change in nonadmitted assets	565,612	
Dividends to stockholders	(31,706,297)	
Aggregate write-ins for gains in surplus	(2,110,556)	
Change in surplus as regards policyholders for the year		(17,652,121)
Surplus as regards policyholders, December 31, 2010		$ 299,410,854

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2010

Surplus as regards policyholders, December 31, 2007 per Examination			$ 335,330,126
	Gain in Surplus	Loss in Surplus	
Net income	$ 92,664,628	$	
Change in net unrealized capital gains	27,607		
Change in net deferred income tax		15,209,079	
Change in nonadmitted assets	17,548,510		
Cumulative effect of changes in accounting principles		3,419,965	
Dividends to stockholders		133,446,360	
Aggregate write-ins for gains in surplus	5,915,387		
Total gains and losses	$ 116,156,132	$ 152,075,404	
Net decrease in surplus as regards policyholders			(35,919,272)
Surplus as regards policyholders, December 31, 2010, per Examination			$ 299,410,854

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based upon a review conducted by a Casualty Actuary from the California Department of Insurance, the Company's reserves for losses and loss adjustment expenses as of December 31, 2010 were found to be reasonably stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Reinsurance Assumed (Page 9): It was recommended that the Company continue to request the release of the excess funds held or deposited with reinsured companies from Clarendon. The Company is in compliance with the recommendation.

Bonds and Cash and Short-Term Investments (Page 16): It was recommended that the Company regularly monitor its workers' compensation deposit to insure that it complies with the required minimum deposit requirements pursuant to California Insurance Code Section 11691. The Company is in compliance with the recommendation.

Other Expenses (Page 17): It was recommended that the Company report its liabilities for unclaimed property as part of "Aggregate Write-ins for Liabilities" in accordance with the Annual Statement instructions. The Company is in compliance with the recommendation.

It was also recommended that the Company report its liabilities for cash received awaiting application under “Remittances and Items not allocated” to comply with Statements of Statutory Accounting Principles No. 67. The Company is in compliance with the recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/S/_____
David A. Fischman, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California