

REPORT OF EXAMINATION
OF THE
WCF SELECT INSURANCE COMPANY
AS OF
DECEMBER 31, 2022

A handwritten signature in blue ink, appearing to read "D. DeLoe".

Filed on April 15, 2024

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION	1
COMPANY HISTORY	2
MANAGEMENT AND CONTROL:	3
Management Agreements	5
TERRITORY AND PLAN OF OPERATION.....	6
REINSURANCE:	6
Intercompany	6
Assumed.....	6
Ceded	6
FINANCIAL STATEMENTS:	7
Statement of Financial Condition as of December 31, 2022.....	8
Underwriting and Investment Exhibit for the Year Ended December 31, 2022	9
Reconciliation of Surplus as Regards Policyholders from December 31, 2018 through December 31, 2022	10
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	11
Losses and Loss Adjustment Expenses	11
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	11
Current Report of Examination	11
Previous Report of Examination	11
ACKNOWLEDGMENT	13

Sacramento, California
March 22, 2024

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

WCF SELECT INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office is located at 2998 Douglas Boulevard, Suite 230, Roseville, California 95661.

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. 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 may 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 Utah as the lead and facilitating state of the WCF Mutual Insurance Company Group. It was conducted concurrently with other insurance entities in the holding company group, including WCF Mutual Insurance Company, WCF National Insurance Company, and Univantage Insurance Company.

COMPANY HISTORY

The Company was formerly a subsidiary of Fireman's Fund Insurance Company (FFIC), operating under the name, Associated Indemnity Corporation (AIC). Pursuant to a Stock Purchase Agreement dated September 8, 2021, FFIC agreed to sell 100% of the shares of AIC to WCF National Insurance Company (WNIC). Effective January 1, 2022, the Company became a wholly-owned subsidiary of WNIC. WNIC is a wholly-owned subsidiary of WCF Mutual Insurance Company (WMIC), a Utah domiciled insurer. WMIC, formerly known as Workers' Compensation Fund, is a mutual insurance company owned by its policyholders. The Company's Articles of Incorporation was amended on January 18, 2022 to change its name from AIC to WCF Select Insurance Company. The transactions were approved by the California Department of Insurance (CDI) on November 24, 2021 pursuant to the requirements of California Insurance Code (CIC) Section 1215.2.

Prior to the change of ownership, AIC filed and requested approval from the CDI for a distribution of an extraordinary dividend in an amount up to \$75 million of the unassigned funds to FFIC on September 27, 2021. The CDI approved the transaction on

October 25, 2021, pursuant to CIC Section 1215.5(g). AIC distributed \$71,560,290 extraordinary dividend (securities transfer and cash) as of year-end 2021.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The following organizational table depicts the relationship of the Company within the holding company system as of December 31, 2022 (all ownerships are 100%):

WCF Mutual Insurance Company (Utah)
Univantage Insurance Company (Utah)
WCF National Insurance Company (Utah)
WCF Select Insurance Company (California)

As of December 31, 2022, an eleven-member board of directors, who are elected annually, oversees the business and affairs of the Company. The directors and principal officers serving at December 31, 2022 were as follows:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Dallas H. Bradford Bountiful, Utah	Retired
Kent H. Cannon Salt Lake City, Utah	President and Principal Roy & Associates
Natalie E. Gochnour Murray, Utah	Associate Dean and Director University of Utah
Peggy J. Larsen Riverton, Utah	Retired
Heidi E. Leithead-Villa Jefferson City, Montana	Attorney Parr Brown Gee & Loveless
Matthew B. Lyon Sandy, Utah	President and Chief Executive Officer WCF Insurance Group

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Ray D. Pickup Sandy, Utah	Retired
Randall L. Rigby Farmington, Utah	Owner CAF Ventures LLC
Daniel B. Seitz Avon, Indiana	Retired
Craig L. Smith Bountiful, Utah	Retired
Lane A. Summerhays Salt Lake City, Utah	Retired

Principal Officers

<u>Name</u>	<u>Title</u>
Matthew B. Lyon	President and Chief Executive Officer
Scott E. Westra	Senior Vice President, Chief Financial Officer, and Treasurer
Ryan L. Andrus	Senior Vice President, General Counsel, and Secretary
Kathryn Clark	Senior Vice President and Chief Risk Officer
Matthew C. Goldsberry	Senior Vice President and Chief Information Officer
Kris R. McFarland ⁽¹⁾	Senior Vice President and Chief Human Resources Officer
Glen S. Kuball ⁽²⁾	Senior Vice President, Large Commercial
Janice L. Co ⁽³⁾	Senior Vice President, Small Business
Kevin T. Peterson	Senior Vice President, Middle Market
Charles E. Pugh	Senior Vice President, Claims

The following change in occurred subsequent to the examination date:

(1) Kris R. McFarland announced retirement, effective April 1, 2024 and will be replaced by Jill Christensen.

(2) Glen S. Kuball announced retirement, effective April 1, 2024 and will be replaced by Brian Stuart.

(3) Janice L. Co was promoted to Senior Vice President and Chief Operating Officer, effective April 1, 2024 and will be replaced by Bill Reidley as Senior Vice President, Small Business.

Management Agreements

Administrative Services Agreement: Effective January 1, 2022, the Company entered into an Administrative Services Agreement (Agreement) with WCF Mutual Insurance Company (WMIC) and WCF National Insurance Company (WNIC). Under the Agreement, WMIC and WNIC provides management and administrative personnel, equipment, facilities, and services, including accounting, tax, auditing, actuarial, underwriting, claims, investments, legal, information systems, office services, and other additional services to the Company. The basis of the service fees are based on actual cost without a profit factor being built into the cost and the indirect shared expense are allocated in accordance with a method of cost allocation in conformity with Statements of Statutory Accounting Principles No. 70. The Agreement was not filed with California Department of Insurance (CDI) pursuant to the requirements of California Insurance Code (CIC) Section 1215.5(b)(4). It was recommended that the Company file the Agreement with the CDI for approval in accordance with CIC Section 1215.5(b)(4). As a result, the Company filed the Agreement with CDI on January 12, 2024 and it is currently pending review. The Company did not incur any expenses under this agreement in 2022.

Tax Sharing Agreement: In 2022, the Company filed a consolidated tax return with its affiliates, including WMIC and WNIC. However, the Company did not have a tax sharing agreement with its affiliates. Pursuant to the CIC Section 1215.5(b)(4), transactions involving tax sharing agreements, including amendments or modifications of affiliate agreements previously filed, may be entered into only if the insurer has notified the commissioner in writing of its intention to enter into the transaction at least 30 days prior and the commissioner has not disapproved it within that period. It was recommended that the Company file a tax sharing agreement with CDI for approval, pursuant to CIC Section 1215.5(b)(4). Subsequently on February 20, 2024, the Company filed the Tax Sharing Agreement with the CDI, pursuant to the requirement of CIC Section 1215.5(b)(4) and it is currently pending review.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company is licensed in all 50 states and the District of Columbia. The Company had been winding down insurance operations under its former ownership and did not issue any new policies during 2022. Direct insurance activity included adjustments to previously issued policies and adjusting existing claims.

REINSURANCE

Intercompany Reinsurance

Intercompany Quota Share Reinsurance Pooling Agreement: Effective January 1, 2022, the Company entered into an Intercompany Quota Share Reinsurance Pooling Agreement (Agreement) with its affiliates, WCF Mutual Insurance Company (WMIC) and WCF National Insurance Company (WNIC). Pursuant to the Agreement, the Company and WNIC are the retrocessionaires and cede 100% of its premiums and losses to WMIC, the reinsurer. The Agreement was approved by the California Department of Insurance (CDI) on May 11, 2022.

Assumed

The Company does not assume reinsurance.

Ceded

Indemnity Reinsurance and Assumption Agreement: Effective January 1, 2022, the Company, under its former name, Associated Indemnity Corporation (AIC), entered into the Indemnity Reinsurance and Assumption Agreement (Agreement) with Fireman's Fund Insurance Company (FFIC). Pursuant to the Agreement, the Company cedes 100% of all liabilities related to any insurance policy or contract effected, bound or issued by AIC prior to 2022. CDI approved the Agreement pursuant to the California Insurance Code (CIC) Section 1011(c) on December 14, 2021, as part of the Stock Purchase Agreement between FFIC and WCF National Insurance Company.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2022. 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 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	\$ 26,721,336	\$	\$ 26,721,336	
Cash and cash equivalents	336,468		336,468	
Investment income due and accrued	132,507		132,507	
Net deferred tax asset	<u>2,240,566</u>	<u>1,758,616</u>	<u>481,950</u>	
Total assets	<u>\$ 29,430,876</u>	<u>\$ 1,758,616</u>	<u>\$ 27,672,260</u>	
<u>Liabilities, Surplus, and Other Funds</u>				<u>Notes</u>
Losses			\$ 0	(1)
Loss adjustment expenses			0	(1)
Payable to parent, subsidiaries and affiliates			<u>43,589</u>	
Total liabilities			43,589	
Common capital stock		\$ 3,500,000		
Gross paid-in and contributed surplus		13,005,856		
Unassigned funds (surplus)		<u>11,122,815</u>		
Surplus as regards policyholders			<u>27,628,671</u>	
Total liabilities, surplus, and other funds			<u>\$ 27,672,260</u>	

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

Underwriting Income

Premiums earned	\$	<u>0</u>
Net underwriting gain (loss)		0

Investment Income

Net investment income earned	\$	<u>875,397</u>
Net investment gain		875,397

Other Income

Total other income		<u>0</u>
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		875,398
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		875,398
Federal and foreign income taxes incurred/(recovered)		<u>(5,032)</u>
Net income	\$	<u><u>880,430</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2021	\$	25,902,260
Net income	\$	880,430
Change in net deferred income tax		2,740,472
Change in nonadmitted assets		(1,758,616)
Aggregate write-ins for losses in surplus		<u>(135,875)</u>
Change in surplus as regards policyholders for the year		<u>1,726,411</u>
Surplus as regards policyholders, December 31, 2022	\$	<u><u>27,628,671</u></u>

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

Surplus as regards policyholders, December 31, 2018			\$ 91,872,863	<u>Notes</u>
	Gain in Surplus	Loss in Surplus		
Net income	\$ 6,560,170	\$		
Change in net unrealized capital gains	140,210			
Change in net deferred income tax	2,510,209			
Change in nonadmitted assets		1,758,616		
Dividend to stockholders		71,560,290		
Aggregate write-ins for losses in surplus		135,875		
Total gains and losses in surplus	\$ 9,210,589	\$ 73,454,781		
Net increase in surplus as regards policyholders			(64,244,192)	
Surplus as regards policyholders, December 31, 2022			\$ 27,628,671	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expense

A Casualty Actuary from the California Department of Insurance reviewed the actuarial work prepared by the lead state's consulting actuary, Baker Tilly US, LLP, and concurred that WCF Mutual Insurance Company Group's losses and loss adjustment expense reserves as of December 31, 2022 were reasonable and have been accepted for purpose of this examination. As of December 31, 2022, the Company reported zero net loss and loss adjustment expense reserves (LAE) because one hundred percent of its losses and LAE expenses were ceded to WCF Mutual Insurance Company.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements – Administrative Services Agreement (Page 5): It was recommended that the Company file the Administrative Services Agreement (Agreement) with the California Department of Insurance (CDI) for approval pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). Subsequently, the Company filed the Agreement with the CDI on January 12, 2024 and it is currently pending review.

Management Agreements – Tax Sharing Agreement (Page 5): It was recommended that the Company file the Tax Sharing Agreement (Agreement) with CDI for approval pursuant to CIC Section 1215.5(b)(4). Subsequently, the Company filed the Agreement with the the CDI on February 20, 2024 and it is currently pending review.

Previous Report of Examination

Vehicle Assessment (Page 7): It was recommended that the Company use the method for counting vehicles that was approved by the CDI to comply with the requirements of California Code of Regulations, Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62 (10 CCR § 2698.62). It was also recommended that the Company notify the CDI of any deviation from the method previously granted and to request for approval of any

new method used to produce the number of vehicle count. Starting in 2021, the Company stopped writing automobile insurance and as a result, it no longer is required to file vehicle fraud assessment reports.

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,

Jack Lee, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

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