

REPORT OF EXAMINATION
OF THE
COMPWEST INSURANCE COMPANY
AS OF
DECEMBER 31, 2023

A handwritten signature in blue ink, appearing to read "D. DeFina", is positioned above the filing date.

Filed on January 7, 2025

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Sacramento, California
December 5, 2024

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

COMPWEST INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office is located at 100 Pringle Avenue, Suite 515, Walnut Creek, California 94596.

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, 2018. This examination covered the period from January 1, 2019 through December 31, 2023.

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 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 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 the Company.

This was a coordinated examination with Michigan as the lead state of the Accident Fund Holdings Group. It was conducted concurrently with other insurance entities in the holding company group, including Accident Fund General Insurance Company, Accident Fund Insurance Company of America, Accident Fund National Insurance Company, Ameritrust Insurance Corporation, Century Surety Company, ProCentury Insurance Company, Star Insurance Company, Third Coast Insurance Company, United Wisconsin Insurance Company, and Williamsburg National insurance Company. The following states participated on the examination: California, Ohio, and Wisconsin.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company group owned by Accident Fund Holdings, Inc. (AFHI). The insurers within the AFHI group primarily write workers' compensation insurance. AFHI is ultimately owned by Blue Cross Blue Shield of Michigan Mutual Insurance Company (BCBSMMIC). The following is an abridged organizational chart reflecting the ownership structure at December 31, 2023 (all ownership is 100%):

Blue Cross Blue Shield of Michigan Mutual Insurance Company (Michigan)
 Emergent Holdings, Inc. (Michigan)
 Accident Fund Holdings, Inc. (Michigan)
 Accident Fund Insurance Company of America (Michigan)
 Accident Fund General Insurance Company (Michigan)
 Accident Fund National Insurance Company (Michigan)
CompWest Insurance Company (California)
 Miracle Nova I (US) LLC (Delaware)
 Miracle Nova II (US) LLC (Delaware)
 AmeriTrust Group, Inc. (Michigan)
 Star Insurance Company (Michigan)
 Ameritrust Insurance Corporation (Michigan)
 Century Surety Company (Ohio)
 ProCentury Insurance Company (Michigan)
 Williamsburg National Insurance Company (Michigan)
 Third Coast Insurance Company (Wisconsin)
 United Wisconsin Insurance Company (Wisconsin)
 Financial Services Holding Company, LLC (Michigan)
 Bricktown Capital, LLC (Michigan)

The five members of the board of directors, who are appointed annually, oversee the business and affairs of the Company. The following are members of the board and principal officers of the Company at December 31, 2023:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Lisa M. Corless Okemos, Michigan	President and Chief Executive Officer Accident Fund Holdings, Inc.
Rebecca S. Erfurt South Lyon, Michigan	Vice President and Chief of Staff Blue Cross Blue Shield of Michigan Mutual Insurance Company
Kelly A. Fusner New Buffalo, Michigan	President Accident Fund Holdings, Inc.

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Tricia A. Keith Birmingham, Michigan	President and Chief Executive Officer - Elect Blue Cross Blue Shield of Michigan Mutal Insurance Company
Jason A. Pisarik Northville, Michigan	Senior Vice President and Controller COBX, Co.

Principal Officers

<u>Name</u>	<u>Title</u>
Stephan J. Cooper ^(a)	President
Bobbi J. Elliott	Secretary
Anthony G. Phillips	Treasurer

(a) Subsequent to the examination date, Stephan J. Cooper retired on April 26, 2024. The position is currently vacant.

Management Agreements

Second Amendment to Inter-Company Services Agreement: Effective February 15, 2010, the Company entered into an Inter-Company Services Agreement with its parent, BCBSMMIC, which was approved by the California Department of Insurance (CDI) on February 12, 2010. The agreement allows the Company to receive and/or provide various administrative services. Services include but are not limited to: financial accounting, underwriting, communications, marketing, claims administration, information systems, and general and administrative services. Under the terms of the Agreement, compensation for services, facilities, supplies, and other resources furnished pursuant to the Agreement shall be based on appropriate methods of measurement based on the actual cost. A First Amendment to the Inter-Company Services Agreement was effective February 15, 2018, and approved by the CDI on February 15, 2018. This Amendment provides for the addition/removal of Group members, prohibiting the advancement of funds to Group members and adding an insolvency clause. A Second Amendment to the Inter-Company Services Agreement was effective December 31, 2022, and approved by the CDI on December 22, 2022. This Amendment added multiple new party-subsidaries

of Accident Fund Insurance Company of America (AFICA) following AFICA's December 31, 2022 acquisition of the Ameritrust Group. The amounts paid by the Company under the Agreement in 2019, 2020, 2021, 2022, and 2023 were \$2,981,899, \$3,248,834, \$3,418,202, \$5,797,231, and \$4,204,968, respectively.

Intercompany Tax Sharing Agreement: Effective October 3, 2017, the Company entered into an Intercompany Tax Sharing Agreement with its parent, BCBSMMIC, which was approved by the CDI on October 3, 2017. The Agreement provides for BCBSMMIC and its subsidiaries to participate in the consolidated tax return. Income tax liability is settled between the parties based on the difference between each party's consolidated and separate return calculations, with payments due or receivable within 30 days of calculation. A Subsidiary Acknowledgment Addendum to the Agreement was effective January 1, 2023, and approved by the CDI on December 22, 2022. Taxes payable/(receivable) by the Company under the Agreement for 2019, 2020, 2021, 2022, and 2023 were \$1,325,063, (\$807,402), (\$654,268), \$804,391, and \$188,466, respectively.

Master Intercompany Investment Advisory Services Agreement: Effective September 1, 2022, the Company entered into a Master Intercompany Investment Advisory Services Agreement with Bricktown Capital, LLC to provide investment management and advisory services, which was approved by the CDI on August 22, 2022. Services performed under the Agreement is reimbursed using a fee formula that is intended to cover the direct and indirect cost in connection with the services. The amounts paid by the Company under the Agreement in 2022 and 2023 were \$21,244 and \$264,147, respectively.

TERRITORY AND PLAN OF OPERATION

The Company writes workers' compensation insurance with a focus on the western states. As of December 31, 2023, the Company was licensed in the following states: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Michigan, Montana, Nevada, Oregon, Utah, and Washington. Direct premiums written in 2023 were \$134 million with 88.6% being concentrated in California. The Company targets small to medium-sized

companies in the following industries: health care, hospitality, manufacturing, professional services, and retail and wholesale services. Business is generated through a network of independent brokers.

REINSURANCE

Intercompany Pooling Agreement

Effective January 1, 2020, the Company entered into an Intercompany Pooling Agreement with its parent and affiliates. Accident Fund Insurance Company of America (AFICA) is the lead company in the pool. The Agreement changed the Company's pool participation from 1.0% retrocession under the previous intercompany pooling agreement to zero participation. The Agreement was approved by the California Department of Insurance on June 12, 2020 pursuant to California Insurance Code Section 1215.5(b)(3).

The following table illustrates each participant's pooled share as of December 31, 2023:

<u>Company</u>	<u>Pooling %</u>
Accident Fund Insurance Company of America	100%
United Wisconsin Insurance Company	0%
Accident Fund National Insurance Company	0%
Accident Fund General Insurance Company	0%
CompWest Insurance Company	0%
Third Coast Insurance Company	0%
	<hr/>
Total	100%

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, 2023. 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, 2023

Underwriting and Investment Exhibit for the Year Ended December 31, 2023

Reconciliation of Surplus as Regards Policyholders from December 31, 2018
through December 31, 2023

Statement of Financial Condition
as of December 31, 2023

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 160,068,659	\$	\$ 160,068,659	
Common stocks	45,188		45,188	
Cash, cash equivalents, and short-term investments	396,642		396,642	
Other invested assets	1,347,000		1,347,000	
Investment income due and accrued	1,233,386		1,233,386	
Uncollected premiums and agents' balances in the course of collection	12,580,256	1,106,957	11,473,299	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	52,618,494	1,145,204	51,473,290	
Amounts recoverable from reinsurers	102,629		102,629	
Current federal and foreign income tax recoverable and interest thereon	225,000		225,000	
Net deferred tax asset	1,796,727	244,981	1,551,746	
Receivables from parent, subsidiaries and affiliates	1,174		1,174	
Aggregate write-ins for other than invested assets	<u>122,492</u>		<u>122,492</u>	
Total assets	<u>\$ 230,537,647</u>	<u>\$ 2,497,142</u>	<u>\$ 228,040,505</u>	

Liabilities, Surplus, and Other Funds

			<u>Notes</u>
Losses		\$ 0	(1)
Loss adjustment expenses		0	(1)
Reinsurance payable on paid losses and loss adjustment expenses		102,629	
Other expenses		6,000	
Ceded reinsurance premiums payable		72,399,001	
Payable to parent, subsidiaries and affiliates		<u>493,427</u>	
Total liabilities		73,001,057	
Common capital stock	\$ 3,000,000		
Gross paid in and contributed surplus	47,000,000		
Unassigned funds (surplus)	<u>105,039,448</u>		
Surplus as regards policyholders		<u>155,039,448</u>	
Total liabilities, surplus, and other funds		<u>\$ 228,040,505</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2023

Underwriting Income

Premiums earned	\$	0
Total underwriting deductions		<u>0</u>
Net underwriting		0

Investment Income

Net investment income earned	\$	5,109,471
Net realized capital losses		<u>(4,461,598)</u>
Net investment gain		647,873

Other Income

Total other income		<u>0</u>
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		647,873
Federal and foreign income taxes incurred		<u>1,148,586</u>
Net loss	\$	<u>(500,713)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2022		\$	155,839,482
Net income	\$		(500,713)
Change in net unrealized capital gains			6,608
Change in net deferred income tax			87,319
Change in nonadmitted assets			117,232
Aggregate write-ins for losses in surplus			<u>(510,480)</u>
Change in surplus as regards policyholders for the year			<u>(800,034)</u>
Surplus as regards policyholders, December 31, 2023		\$	<u>155,039,448</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2018 through December 31, 2023

Surplus as regards policyholders, December 31, 2018			\$ 142,487,052	<u>Notes</u>
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 12,585,972	\$		
Change in net unrealized capital losses		65		
Change in net deferred income tax		456,723		
Change in nonadmitted assets	570,817			
Change in provision in reinsurance	270,000			
Aggregate write-ins for losses in surplus		<u>417,605</u>		
Total gains and losses in surplus	<u>\$ 13,426,789</u>	<u>\$ 874,393</u>		
Net increase in surplus as regards policyholders			<u>12,552,396</u>	
Surplus as regards policyholders, December 31, 2023			<u>\$ 155,039,448</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expense

The December 31, 2023 loss and loss adjustment expense reserves were evaluated by a consulting actuary from the Michigan Department of Insurance and Financial Services. Based on the analysis performed, the Company's loss and loss adjustment expense reserves were found to be reasonably stated. A Senior Casualty Actuary from the California Department of Insurance (CDI) reviewed the work performed by Michigan's actuary, and concurred with the conclusion.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

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,

Allen Lau, CFE
Examiner-In-Charge
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State of California

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