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EXEMPT FROM FILING FEES PURSUANT TO GOVERNMENT CODE SECTION 6103

SUPERIOR COURT OF THE STATE OF CALIFORNIA

FOR THE COUNTY OF SAN MATEO – UNLIMITED JURISDICTION

INSURANCE COMMISSIONER OF THE STATE OF CALIFORNIA,

Applicant,

v.

CALIFORNIA INSURANCE COMPANY, a California corporation,

Respondent.

Case No. 19-CIV-06531

DECLARATION OF JOSEPH HOLLOWAY IN SUPPORT OF CONSERVATOR'S APPLICATION FOR APPROVAL OF REHABILITATION PLAN

DATE: March 4, 2021
TIME: 2:00 p.m.
JUDGE: George A. Miram
PLACE: Dept. 28

DECLARATION OF JOSEPH HOLLOWAY

I, JOSEPH HOLLOWAY, declare:

1. I make this declaration in support of the Conservator's Application for Approval of Rehabilitation Plan of California Insurance Company ("Application"). The following facts are known by me to be true and correct based on my personal knowledge. If called as a witness to testify thereon, I could and would competently testify thereto.

2. I am currently the Chief Executive Officer of the California Insurance Commissioner's ("Commissioner's") Conservation & Liquidation Office ("CLO") and Conservation Manager for California Insurance Company ("CIC") in Conservation. I was appointed Conservation Manager of CIC by the Court in its November 4, 2019 Order Appointing Insurance Commissioner as Conservator and Restraining Orders ("Conservation Order"), and have served in this role continuously from the date of the Conservation Order. I was appointed CEO of the CLO and Deputy Conservator of CIC in March 2020, upon the retirement of David Wilson, who formerly held those positions.

3. I have a Bachelor of Arts degree in Accounting from North Carolina State University and hold the designation of Certified Financial Examiner from the Society of Financial Examiners. From 1985 to 2005, I worked as an examiner, regulatory specialist, and chief forensic accountant for the North Carolina Department of Insurance. I have worked at the CLO since 2005. I have over 35 years of experience working with insurance companies under supervision, conservation, rehabilitation, and liquidation. I have served as Conservation Manager and/or Liquidation Manager in several previous conservation and liquidation proceedings on behalf of the Insurance Commissioner.

4. I am empowered under paragraphs 3 through 5 of the Conservation Order to carry out all the duties of and exercise the authority of the Insurance Commissioner, in his statutory capacity as Conservator of CIC ("Conservator"), as he may delegate to me. In my roles as Deputy Conservator and Conservation Manager, I have been delegated responsibility for the supervision and management of all matters relating to the conservation of CIC. Based on my background and experience described above, my supervision and management of the conservation of CIC, my knowledge of the events leading to the conservation of CIC as well as the conduct of the conservation itself, my knowledge of

the rehabilitation plan of CIC and my role in its development, and my review of the Application and documents to be filed by the Conservator in support thereof, I further declare as follows:

The CIC Conservation

5. CIC is a property and casualty insurance company incorporated under the laws of California and holds a Certificate of Authority issued by the Commissioner authorizing it to transact workers' compensation business in California. It has been authorized to sell insurance in California since 1980. CIC has identified an address in Foster City, California as its principal office. It is a wholly owned subsidiary of North American Casualty Company ("NACC"), which is a wholly owned subsidiary of AU Holding Company, Inc. Pursuant to its Certificate of Authority, CIC is authorized to transact various types of property and casualty insurance, but primarily sells workers' compensation insurance in California. Steven M. Menzies is the Founder, President, and sole shareholder of AU Holding Company, and sole indirect shareholder of CIC.

6. On November 4, 2019, the Commissioner applied to the Court pursuant to Insurance Code section 1011 for the Conservation Order citing regulatory violations of Mr. Menzies, including his attempt to merge into and with California Insurance Company II ("CIC II"), a New Mexico domiciled insurance company, without first obtaining the Commissioner's consent in violation of California Insurance Code Section 1215.2(a). The Conservation Order appointed the Conservator, vested in him the title to all assets of CIC, and authorized and/or directed the Conservator to perform the activities set forth in the Conservation Order. In addition, the Conservation Order authorized the Conservator "to act in all ways and exercise all powers necessary or appropriate for the purpose of carrying out [the Conservation Order]." In carrying out his responsibilities, the Conservator exercises the police power of the State and also acts as a trustee for all persons with interests in the conserved estate.

7. During the period of the conservation, the Conservator has permitted CIC personnel to continue to perform day-to-day operations, subject to the oversight of the Conservator and his representatives. I and Court-appointed Conservation Supervisor Scott Pearce have been physically present at CIC's office in Omaha, Nebraska for such periods of time as necessary to carry out the

Conservator's responsibilities with respect to CIC. While under the oversight of the Conservator, CIC has continued to renew business, write new policies, and adjust and pay claims. In June 2020, I became aware that on March 31, 2020, CIC made a $20 million non-collateralized loan to AUI without prior notice to and authorization from the CDI or the Conservator. This transaction violated paragraph 15 of the Conservation Order, which enjoins all CIC personnel and management from transacting any business outside the ordinary course of business without the express written consent of the Conservator. I informed CIC's General Counsel and Secretary Jeffrey Silver of the violation in writing on June 10, 2020, and instructed him to remedy the violation and that any such transactions in the future should be submitted to the Conservator for approval prior to execution.

8. Since the commencement of the conservation, it has been the Conservator's objective to develop a rehabilitation plan with associated rehabilitation agreement(s) for CIC ("Rehabilitation Plan") pursuant to Insurance Code sections 1037 and 1043, and related provisions of the Code, with terms that correct the deficiencies that led to the imposition of the conservation and resolve ongoing disputes between the Commissioner and CIC, while protecting the interests of policyholders, creditors, other beneficiaries of CIC, or the public. The Conservator has now finalized his Rehabilitation Plan, discussed in detail below, and is presenting it to the Court for consideration and approval, after notice to interested parties and an opportunity for them to be heard.

9. A true and correct copy of the Conservator's Rehabilitation Plan is attached to this declaration as **Exhibit A.**

10. While developing a rehabilitation plan for CIC, the Conservator and his representatives have taken appropriate measures to preserve the stability of the company. Prior to the conservation, A.M. Best had downgraded its ratings of CIC, its parent company, and its affiliates, and placed their ratings "under review with negative implications," citing the impending sale of the CIC and its affiliated insurance companies by Berkshire Hathaway Inc. to Steven Menzies (http://news.ambest.com/presscontent.aspx?refnum=28660&altsrc=9). However, CIC's credit rating has remained stable during the conservation and, in June 2020, A.M. Best affirmed CIC's and its affiliated insurance companies' Financial Strength Rating of "A" (Excellent) and Long-Term Issuer

Credit Ratings of "a" and removed its "under review with negative implications" status (http://news.ambest.com/newscontent.aspx?AltSrc=23&RefNum=225827). I have continued to be in contact with A.M. Best to report on the condition of CIC and the status of the conservation together with pre-conservation management.

CIC's Corporate Structure and Affiliate Connections

11. As part of our duties, I and other representatives of the Conservator possess an understanding of the corporate structure and relationships of CIC and its affiliated companies. There is substantial overlap between CIC and its affiliated companies' Boards of Directors and they also share common addresses, registered agents, and executives. For example, CIC, Applied Underwriters Captive Risk Assurance Company, Inc. ("AUCRA"), Applied Underwriters, Inc. ("AUI"), Applied Risk Services ("ARS"), and North American Casualty Company ("NACC") all have the same mailing address, registered agent,[1] and principal office in California. These companies also share management, with Mr. Menzies serving as President or CEO and Mr. Silver serving as Secretary. As of the date of this declaration, the Nebraska Secretary of State's website reflects that Messrs. Menzies and Silver are the sole directors of AUI, ARS, and NACC. They are also directors of CIC and AUCRA.

12. CIC's operations largely depend on a system of intertwined agreements between itself and its parent and affiliate entities. Through its Management Services Agreement ("MSA"), a true and correct copy of which is attached as **Exhibit B** of this declaration,[2] AUI provides actuarial and claims services on CIC's policies; provides underwriting services; pays CIC's bills and collects its receivables; manages CIC's investments; performs accounting services, including the filing of CIC's statutory financial statements and tax returns; and owns the computer equipment and software used for these functions. Under the MSA, AUI also provides CIC "necessary and appropriate personnel, administrative, office and building services." Finally, in the performance of its duties under the MSA, AUI is subject to the direction and supervision of CIC. Though AUI provides all claims-handling

[1] Following imposition of the conservation, I became CIC's registered agent for service of process in California.

[2] Attached as **Exhibit C** to this declaration is a true and correct copy of an addendum to the MSA that makes it operative through the present day.

services for CIC under the MSA, CIC retains the ultimate responsibility for all adjustments and claim payments made on its behalf.

13. CIC also operates within an intercompany pool structure with four affiliated insurance companies under the Applied umbrella: Continental Indemnity Company, Illinois Insurance Company, Pennsylvania Insurance Company, and Texas Insurance Company. The Pooling Agreement consolidates the businesses of each of these companies and distributes a pooled share of all premiums and losses that the companies experience.

SolutionOne and EquityComp Programs

14. CIC is authorized to sell workers' compensation insurance policies to employers in California. Every worker's compensation insurance policy issued in California must be approved by the Insurance Commissioner prior to being offered to the public. The SolutionOne and EquityComp programs are targeted at small and medium sized businesses and included guaranteed-costs insurance policies that were approved by the Commissioner. However, customers who signed up for these programs were also required to execute a Reinsurance Participation Plan ("RPA") issued by CIC affiliate AUCRA. The RPA was not filed or approved with the Commissioner, and while it was marketed as a profit-sharing program, it had the effect of modifying obligations of the parties to the SolutionOne and EquityComp programs. In the administrative proceeding *Matter of the Appeal of Shasta Linen Supply, Inc.*, the Commissioner found that the RPA amounted to a misapplication of the filed rates of CIC in violation of California Insurance Code section 11737, and that the RPA was void as a matter of law. Pursuant to a Stipulated Consent Cease and Desist Order the RPA was not to be marketed after September 2016.

Ongoing Litigation with Policyholders

15. Upon entry of the Conservation Order, I and my staff undertook a full review of the status of litigation and other proceedings in which CIC and its affiliates were parties. CIC and its affiliates are involved in over 50 ongoing lawsuits, arbitrations, and administrative actions with policyholders involving CIC's SolutionOne or EquityComp program, and associated RPAs, in California. These include cases pending in California Superior Court, the California Court of Appeal,

Federal District Court, in arbitration, and in administrative actions at the CDI. These suits generally involve policyholder challenges to the RPA, which was declared illegal and void by the Commissioner in the *Shasta Linen* case. These suits seek a variety of remedies, including rescission, restitution, disgorgement of wrongful gains, compensatory and punitive and exemplary damages, and costs. I am also aware of numerous similar lawsuits outside of California, some of which involve CIC, others involve affiliated insurance companies with whom CIC shares all premiums and losses via the Pooling Agreement. In some lawsuits, AUI and AUCRA are the named plaintiffs seeking to enforce the RPA against policyholders.

16. Paragraph 17 of the Conservation Order enjoins, among other things, actions against CIC and the Conservator during the pendency of the conservation. In anticipation of the development of the Rehabilitation Plan to address the issues leading to the conservation, the Conservator has worked diligently to enforce these injunctions and obtained stays of these actions. All such proceedings in California have been stayed.

17. As discussed in more detail below, the ongoing RPA litigation was a serious concern of the Commissioner that held up approval of Mr. Menzies' Form A and establishing a structure to fairly and justly resolve the litigation is a primary focus of the Rehabilitation Plan.

Other State Regulatory Actions

18. I am aware that several other state insurance regulators have taken issue with the SolutionOne and EquityComp programs offered by AUI and CIC affiliates. Among them:

a. Vermont first stopped sales by AUCRA and other CIC affiliates of RPA products in 2016, with the Vermont Department of Financial Regulation Commissioner levying a $300,000 administrative penalty and a $35,000 bill to reimburse investigative expense. A true and correct copy of the Vermont consent decree is attached to this declaration as **Exhibit D** (see page 8). Vermont regulators also required several CIC affiliates, including AUI, AUCRA, and ARS, to repay Vermont business for overcharging insureds (see Exhibit D, pages 9-10).

b. In March 2019, the New Jersey Department of Banking and Insurance issued an order to several CIC affiliates, including AUI, AUCRA, and ARS, to show cause as to why its subsidiary should not be suspended from transacting workers' compensation insurance and why it should not be ordered to "unwind" the EquityComp and SolutionOne programs back to 2008. A true and correct copy of the order is attached to this declaration as **Exhibit E** (see pages 9 - 10).

c. Further, in July 2019, the New York Department of Financial Services fined several CIC affiliates $3 million for including unapproved side agreements in their insurance products. A true and correct copy of the New York consent order is attached to this declaration as **Exhibit F**. In the consent order, the affiliates agreed they would not collect any additional funds from insureds who paid less under the illegal program than they would have paid pursuant to the filed and approved guaranteed-cost rates, and should it attempt to do so for any reason, it would have to return all additional premiums owed to all residents who were assessed greater amounts under the program than would have been otherwise owed under the filed and approved rates (see Exhibit F, page 8).

d. The SolutionOne and EquityComp programs were banned in Wisconsin in 2015, and the state fined the CIC affiliate a total of $205,000. A true and correct copy of the Wisconsin Office of the Commissioner of Insurance 2019 Market Conduct Examination is attached to this declaration as **Exhibit G**. (A summary of prior Wisconsin Insurance Commission actions is on pages 6 and 7.)

The Rehabilitation Plan

19. It is been the Conservator's objective to develop the Rehabilitation Plan with terms that correct the deficiencies that led to the imposition of conservation and resolve ongoing disputes between the Commissioner and CIC, while protecting the interests of policyholders, creditors, other beneficiaries of CIC, and the public. In accordance with these principles, the Conservator developed the Rehabilitation Plan with the following objectives: (1) complete and perfect CIC's attempt to

redomesticate from California to New Mexico; (2) provide for the reinsurance and assumption of all in-force workers' compensation policies issued by CIC and the reinsurance of all liabilities of CIC to California policyholders with the reinsurer granting the California policyholders the right to recover directly from the reinsurer any of CIC's obligations under the policies; (3) provide for the surrender for cancellation of CIC's California certificate of authority authorizing CIC to transact insurance in California by withdrawing from the state; (4) provide a means to resolve pending litigation and subsequent claims in California related to CIC's SolutionOne or EquityComp programs, and associated RPAs; and (5) upon the consummation of the merger of CIC into and with California Insurance Company, Inc. II ("CIC II"), require CIC II to change its name to a name that does not include the word "California" or any derivation of the word "California".

20. In order to accomplish these objectives, the Conservator's Rehabilitation Plan is centered around two primary features: (1) transferring and reinsuring CIC's book of California business to another California-admitted insurer to assume that business while avoiding harm to the policyholders and their employees; and (2) providing CIC and policyholders a reasonable opportunity to resolve their respective rights under the SolutionOne and EquityComp programs, including the associated RPAs, on terms fair to them, to CIC, and to the public.

21. The Conservator attempted to reach an agreement with CIC's pre-conservation management on the provisions of the Rehabilitation Plan. Accordingly, in December 2019, I and other representatives of the Conservator began negotiations with CIC's pre-conservation management over what we hoped would become a consensual plan for the company's rehabilitation. Over the course of several months, the parties made significant progress towards agreement on the consensual plan. However, in October 2020, the parties reached an impasse and were unable to conclude an agreement on a consensual plan. Accordingly, the Conservator is now presenting his Rehabilitation Plan to the Court for consideration and approval.

Primary Features of the Rehabilitation Plan

(1) Reinsuring CIC's California Business

22. As the Commissioner stated in his application for the Conservation Order, CIC's attempt to merge with New Mexico-based CIC II without the Commissioner's consent would have had the effect of forfeiting by operation of law its Certificate of Authority to transact the business of insurance in California. The Conservator has determined it is in the best interest of CIC, its policyholders, and the public to allow CIC to complete its merger with CIC II on terms that would complete CIC's forfeiture of its California Certificate of Authority. In order to accomplish this while avoiding harm to the policyholders and their employees, the Rehabilitation Plan includes an assumption reinsurance agreement ("Reinsurance Agreement") providing for another admitted insurer (the "Reinsurer") to assume CIC's book of California business. Assumption reinsurance agreements are common in the insurance industry when an insurer seeks to remove a block of policies off its books.

23. The Rehabilitation Plan provides for the Conservator to conduct a selection process to select a California-admitted insurer to assume CIC's gross liabilities and obligations arising under or in connection with the insurance policies issued to California policyholders or to cover, in whole or in part, employees in California. The Conservator will evaluate any submissions, may negotiate with one or more of the submitting insurers, and will then select a Reinsurer and submit its offer to the Court for approval.

24. The Rehabilitation Plan permits an affiliate of CIC to submit a bid. Pre-conservation management of CIC have indicated that CIC's affiliate, Continental Indemnity Company ("Continental"), a California-admitted insurer, may be prepared to assume its portfolio. However, in light of the regulatory violations related to the conservation proceeding and the Conservator's ongoing concerns about pre-conservation management, he has determined that it would not be in the interest of the CIC estate or its beneficiaries to consider a bid by Continental unless it agrees to contract for claims administration with an independent third-party administrator appointed by the Conservator.

With these assurances, the Conservator believes that the Plan will adequately protect policyholders and the public while taking into consideration the interests of CIC's shareholder.

(2) Resolution of Pending and Expected Litigation

25. The second feature of the Rehabilitation Plan that the Conservator has determined is necessary to rehabilitate CIC and end the conservation is to provide CIC and its policyholders a reasonable opportunity to resolve their respective rights in relation to the SolutionOne and EquityComp programs, including the associated RPAs, on terms that are fair and reasonable, using a process that is equitable. The large body of pending RPA litigation by and against policyholders was one of the main issues that held up the Commissioner's approval of Mr. Menzies' Form A, which sought approval for his acquisition of CIC from Berkshire Hathaway. Mr. Menzies attempted to circumvent the Form A approval by merging CIC with CIC II when he was unable to obtain the Commissioner's approval in time. This is what led to the conservation. Although pre-conservation management represented to the Court in their Application to Vacate the Conservation that they would agree to an injunction against consummation of the merger between CIC and CIC II, such an injunction would have been meaningless because Menzies already consummated his acquisition of CIC from Berkshire Hathaway. He did this without completing the CIC/CIC II merger and without obtaining the Commissioner's approval of his Form A. Thus, the Commissioner's concerns over ongoing litigation were left unaddressed.

26. The Conservator is vested under section 1037, subdivision (c), of the Insurance Code with the authority "to compound, compromise or in any other manner negotiate settlements of claims against that person upon such terms and conditions as the commissioner shall deem to be most advantageous to the estate of the person being administered or liquidated or otherwise dealt with under this article." Section 1037 goes on to state that the Conservator may do such acts as he "may deem necessary or expedient for the accomplishment or in aid of the purpose of [the conservation] proceedings."

27. Pursuant to section 1037, the Conservator has established a fair and equitable process for resolving the respective rights of CIC and its policyholders in relation to the SolutionOne and

EquityComp programs that the Commissioner was unable to address prior to Mr. Menzies' attempt to circumvent the Form A process. The process for addressing these issues is detailed in Section 2.6 of the Rehabilitation Plan and Schedule 2.6 attached thereto. These provisions entitle each litigant or claimant desiring to resolve claims by or against CIC and its affiliates arising out of the illegal RPA to participate in a process designed to deliver a resolution reflecting the respective rights of all parties under the principal theories of recovery to which policyholders would be entitled in litigation, and to deliver that resolution more fairly, quickly, and economically than continued litigation. Litigants and claimant are not required to pursue recovery through this process and can elect to pursue their claims through other channels. At the end of the process, Conservator shall determine a reserve amount sufficient to cover all claims not resolved during the process. CIC will be required to deposit 150% of that reserve amount in a special deposit account approved by the Conservator to secure all final claims, which will be controlled by the Reinsurer upon Closing. The Conservator has determined that this process for resolution of the claims described above is an appropriate exercise of his discretion and is neither arbitrary nor improperly discriminatory.

28. A resolution of the litigation is also necessary. CIC and its affiliates have leveraged their size and resources to repeatedly litigate the legality of the RPA, which the Commissioner has already declared illegal. It would be inconsistent with the Conservator's duties to release CIC from conservation after their illegal attempt to circumvent the Form A process, only to allow the company and its affiliates to continue to prosecute lawsuits premised on an insurance product which the Commissioner has found to be illegal.

29. After careful analysis and consideration, the Conservator has concluded that the Rehabilitation Plan is an appropriate and lawful means for resolving the conservation of CIC and should therefore be approved by the Court.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

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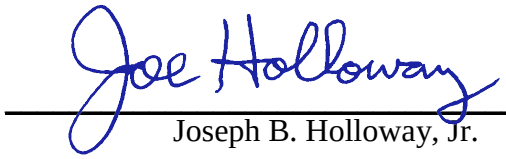
Executed at Livermore, California on October 19, 2020.



Joseph B. Holloway, Jr.

4146-3514-2440

Index of Exhibits to Declaration of Joseph Holloway in Support of Conservator's Application for Approval of Rehabilitation Plan

Exhibit	Description
A	California Insurance Company Rehabilitation Plan
B	Management Services Agreement between CIC and AUI
C	Addendum No. 1 to Management Services Agreement between CIC and AUI
D	Vermont Department of Financial Regulation – Stipulation and Consent Order, *In re Continental Indemnity Company, Applied Underwriters, Inc., Applied Risk Services Inc., and Applied Underwriters Captive Risk Assurance Company, Inc.*
E	New Jersey Department of Banking and Insurance – Order to Show Cause, *In the Matter of Proceedings by the Commissioner of Banking and Insurance, State of New Jersey, to have Applied Underwriters, Inc., et al. cease and desist from selling the EquityComp, SolutionOne, and PremierExclusive workers' compensation programs.*
F	New York State Department of Financial Services – Consent Order, *In the Matter of Continental Indemnity Company, Applied Underwriters, Inc., Applied Risk Services Inc., Applied Risk Services of NY, Inc., and Applied Underwriters Captive Risk Assurance Company, Inc.*
G	Wisconsin Office of the Commissioner of Insurance – Market Conduct Examination of Continental Indemnity Company, August 20, 2018 – August 29, 2018

EXHIBIT A

CALIFORNIA INSURANCE COMPANY
REHABILITATION PLAN

This REHABILITATION PLAN (the "Plan"), dated October 19, 2020, is made and established by Ricardo Lara, Insurance Commissioner of the State of California ("Commissioner"), in his capacity as the statutory conservator ("Conservator") of California Insurance Company ("CIC"), a California domiciled property and casualty insurance company in statutory conservation under California Insurance Code sections 1010-1062.

RECITALS

A. On November 4, 2019, CIC was placed into conservation ex parte by the Superior Court of San Mateo County, California, in the action entitled *Insurance Commissioner of the State of California v. California Insurance Company* (Case No. 19 CIV 06531 CPF-11-511261) at the request of the Commissioner, who was appointed the Conservator of CIC pursuant to Insurance Code section 1011(c). The court proceeding concerning the conservation shall be referred to herein as the "Conservation Proceeding" and the San Mateo Superior Court assigned to preside over the Conservation Proceeding shall be referred to as the "San Mateo Superior Court."

B. The Commissioner brought the Conservation Proceeding to respond to issues relating to Steven M. Menzies, an individual and pre-conservation Chief Executive Officer and sole indirect shareholder of CIC ("Menzies"), and CIC's attempt to consummate the sale of CIC to Menzies by unlawfully seeking to merge CIC into a newly created New Mexico entity, California Insurance Company, Inc. II ("CIC II"), without prior approval of the Commissioner as required by Insurance Code section 1215.2. The November 4, 2019, Order issued by the San Mateo Superior Court shall be referred to herein as the "Conservation Order."

C. The Conservator, having determined it to be in the best interests of the Policyholders, creditors, the shareholder of CIC and the public to resolve the issues requiring the Conservation Proceeding, to address the various issues underlying and pertaining to this Conservation Proceeding and litigation involving Policies, and to structure a plan for the rehabilitation of CIC, has now established this Plan and the other Transaction Documents to set forth all material terms and provisions for a comprehensive and integrated plan of rehabilitation for CIC. The Conservator shall have full authority to perform or take actions he deems necessary to ensure performance by CIC of any and all obligations required to be performed by CIC under this Plan.

D. Pursuant to this Plan and the other Transaction Documents described herein, effective as of the Closing, CIC shall, among other things, (1) perfect its attempted redomestication from California to New Mexico, on the terms and subject to the conditions set forth in this Plan; (2) enter into the Assumption Reinsurance and Administration Agreement to provide for the reinsurance and assumption of all in-force California Policies issued by CIC and the reinsurance of all liabilities of CIC to California Policyholders incurred prior to the Closing, and providing that the California Policyholders have the right to recover directly from the Reinsurer any of CIC's obligations under the Policies; (3) surrender for cancellation its

California certificate of authority authorizing CIC to transact insurance in California by withdrawing from the state pursuant to Insurance Code section 1070 et seq.; (4) offer to settle Pending Litigation and Subsequent Litigation, as those terms are defined in Schedule 2.6, on reasonable terms as set forth herein; and (5) upon the consummation of the merger of CIC into and with CIC II, change the name of CIC II to a name that does not include the word "California" or any derivation of the word "California".

E. The Conservator has determined that this Plan, including the transactions contemplated by it, and the other Transaction Documents are fair and equitable to, and in the best interests of, the Policyholders, creditors, the shareholder of CIC, and to the insurance-buying public of the states in which CIC operates.

F. Any obligations that Menzies is required to perform under this Plan shall be performed by Menzies or his successors (including, but not limited to, his successors in interest or successors in position with CIC), or by CIC itself.

ARTICLE I
DEFINITIONS

In this Plan, unless otherwise specifically provided or the context so requires, the terms listed below shall have the following definitions and shall include the plural as well as the singular:

"Affiliate" means, with respect to a Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person.

"AUI" means Applied Underwriters, Inc., a corporation domiciled in Nebraska and Affiliate of CIC and AUCRA.

"AUCRA" means Applied Underwriters Captive Risk Assurance Company, Inc., an Iowa domiciled corporation and Affiliate of CIC and AUI.

"Business" means CIC's California business and operations consisting of the issuance and administration of any insurance policy including all contracts, policies, certificates, binders, slips, covers or other agreements of workers' compensation and employers liability insurance as defined in the Transaction Documents, including all supplements, riders and endorsements issued or written in connection therewith.

"Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in the State of California are authorized or obligated by law or executive order to be closed.

"CDI" means the California Department of Insurance.

"CIC" has the meaning set forth in the Preamble of this Plan, or a successor in interest.

"CIC II" means California Insurance Company II, a New Mexico domiciled property and casualty insurance company.

"Closing" means the closing of the transactions contemplated by this Plan.

"Closing Date" means 10:00 a.m., local time, on the date of Closing, as described in Article VII of this Plan.

"Commissioner" has the meaning set forth in the Recitals.

"Conservation Order" has the meaning set forth in the Recitals.

"Conservation Proceedings" has the meaning set forth in Recitals.

"Conservator" has the meaning set forth in the Preamble.

"Effective Date" means the date that the San Mateo Superior Court issues its Rehabilitation Order.

"Effective Time" has the meaning set forth in Article I of the Reinsurance Agreement.

"Governmental Authority" means any government or political subdivision thereof, whether federal, state or local, or any agency, commission, department or other instrumentality of any such government or political subdivision.

"Insurance Code" means the California Insurance Code, including the regulations thereunder in effect from time to time.

"Knowledge" means, as to a specific matter, actual knowledge after reasonable investigation of the circumstances pertaining to the specific matter.

"Law" means all applicable laws, decisions, rules, regulations, ordinances, codes, statutes, judgments, injunctions, orders, decrees, licenses, permits, policies, administrative interpretations and other requirements of Governmental Authorities.

"Lien" means any mortgage, pledge, hypothecation, assignment, lien (statutory or otherwise), preference, priority, charge or other encumbrance, adverse claim (whether pending or, to the knowledge of the Person against whom the adverse claim is being asserted or threatened) or restriction of any kind affecting title or resulting in an encumbrance against property, real or personal, tangible or intangible, or a security interest of any kind, including, without limitation, any conditional sale or other title retention agreement, any right of first refusal on real property, and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statute) of any jurisdiction (other than a financing statement which is filed or given solely to protect the interest of a lessor). "Lien" shall not include liens that arise out of a workers' compensation claim for which the Workers'

Compensation Appeals Board may have jurisdiction.

"Litigation" means any action, cause of action (whether at law or in equity), arbitration, hearing, inquiry, proceeding claim or complaint by any Person alleging potential liability, wrongdoing or misdeed of another Person, or any administrative or other similar proceeding, criminal prosecution or investigation by any Governmental Authority or arbitration panel alleging potential liability, wrongdoing or misdeed of another Person.

"Management Services Agreement" means the Agreement made by and between CIC and AUI, pursuant to which AUI performs certain services for CIC in the conduct of CIC's insurance operations, that was executed on July 26, 2005, as well as the addendum executed September 3, 2019, that stipulates that the Agreement remains in force for two years from September 30, 2019.

"Notification Package" has the meaning set forth in Section 3.1.

"Permits" means all licenses, franchises, permits, orders, approvals, consents, authorizations, qualifications and filings with and under all Federal, state or local laws and of all Governmental Authorities, including, without limitation, state insurance regulatory authorities.

"Person" means any individual, corporation, partnership, firm, joint venture, association, joint-stock company, trust, unincorporated organization, public, governmental, judicial or regulatory authority or body or other entity.

"Plan" has the meaning set forth in the Preamble.

"Policies" means insurance policies issued to California Policyholders or to cover, in whole or in part, employees in California. "Policies" includes (1) all guaranteed-cost workers' compensation and employers' liability insurance policies issued by CIC, and (2) all workers' compensation and employers' liability insurance policies, supplements, endorsements, riders and ancillary agreements in connection therewith, classified by CIC as SolutionOne Profit Sharing or EquityComp, including Reinsurance Participation Agreements entered into by CIC Affiliates but excluding FELA and Jones Act exposures. As used in this Plan, "Policies" includes policies or other agreements that are (1) in effect as of the Effective Time; (2) become effective after the Effective Time, including through (a) the reinstatement of lapsed policies pursuant to provisions therein or of applicable Law, (b) the issuance or renewal thereof by CIC after the Effective Time to honor quotes outstanding as of the Effective Time, or to satisfy renewal rights of employers under contractual provisions or applicable Law, or (c) modifications agreed to by the Reinsurer on behalf of CIC pursuant to the authority granted to the Reinsurer under Section 7.01 of the Reinsurance Agreement; and (3) guaranteed-cost workers' compensation and employers liability insurance policies issued by CIC to California Policyholders that have expired prior to the Closing Date, where the gross liabilities and obligations of CIC arising under or in connection with such policies are unpaid or unperformed as of the Effective Time.

"Policyholder" means (a) any Person that is named as an insured under a Policy or (b) any Person other than the CIC or an Affiliate of CIC that is named as a party to an RPA issued in conjunction with a Policy.

"Policy Liabilities" means those Policy liabilities of CIC reinsured and assumed by the Reinsurer and as more specifically defined in the Reinsurance Agreement.

"Procedural Order" means the San Mateo Superior Court's July 30, 2020 Order Setting Briefing Schedule, Hearing Date, and Procedures for Conservator's Application for Order Approving Rehabilitation Plan for California Insurance Company, as well as any subsequent orders granting stipulations as to the hearing date and briefing schedule contained therein, or any other subsequent court-authorized amendments to the July 30, 2020 Order.

"Rehabilitation Order" means the order of the San Mateo Superior Court approving this Plan and the other Transaction Documents (including all transactions contemplated hereby and thereby), as submitted to the Court by the Conservator with his motion to approve this Plan, without modification, unless such modification has been approved by the Conservator.

"Reinsurance Agreement" means the Assumption Reinsurance and Administration Agreement to be entered into among the Conservator, on behalf of CIC, and Reinsurer on the Closing Date, substantially in the form of Exhibit A attached hereto, as such form may be modified by agreement between the Conservator and Reinsurer.

"Reinsurer" means an insurer that is authorized to transact workers' compensation insurance in the State of California, and which is approved by the Conservator as the Reinsurer hereunder.

"San Mateo Superior Court" has the meaning set forth in Recitals.

"SAP" means statutory accounting principles prescribed or permitted by the CDI consistently applied throughout the specified period and in the comparable period in the immediately preceding year in connection with the preparation of the statutory financial statements of CIC.

"Statutory Workers' Compensation Deposits" has the meaning set forth in Section 2.3.

"Transaction Documents" means this Plan, the Assumption Reinsurance and Administration Agreement, and all exhibits thereto.

"Transferred Assets" means the sum of (1) admitted assets of CIC free and clear of any Liens, having a net admitted asset value determined in accordance with SAP as prescribed or permitted by the CDI equal to CIC's net unearned premium reserve, loss and loss adjustment expense (including losses that have been incurred but not reported) reserve, if any, with respect to the Policies; (2) any collateral posted by a Policyholder maintained by CIC or a CIC Affiliate pursuant to the terms of the Policies to secure the obligations of the Policyholders under the Policies; (3) any amounts due CIC under any reinsurance agreements in effect on the Closing Date between CIC and any reinsurer (other than the Reinsurer) relating to the Policies; and (4) if the Reinsurer is an Affiliate of CIC, the cash instruments or approved interest-bearing securities or approved stocks readily convertible into cash, investment certificates or such other assets

authorized by Insurance Code section 11691 in an amount no less than the reserves required of CIC to be maintained under Insurance Code section 11550 et seq. relating to loss reserves on the Policies as of the Closing Date.

In the event of a conflict between the defined terms in this Plan and the defined terms in the Transaction Documents and Schedule 2.6, the defined terms in the Transaction Documents and Schedule 2.6 shall control. Any defined term used herein that is not expressly defined in this Plan shall have the meaning set forth in the applicable Transaction Document or Schedule 2.6, as applicable. The Recitals set forth are incorporated as part of this Plan.

ARTICLE II
TRANSACTIONS

Section 2.1. Transaction Documents. Subject to the terms, provisions and conditions of this Plan, the Conservator, on behalf of CIC, and where applicable, the Reinsurer, shall enter into the transactions set forth in this Plan and the Transaction Documents.

Section 2.2. Reinsurance Agreement. CIC shall enter into the Assumption Reinsurance and Administration Agreement to provide for the reinsurance and assumption of all in-force California Policies issued by CIC and the reinsurance of all liabilities of CIC to California Policyholders incurred prior to the Closing with the Reinsurer granting the California Policyholders the right to recover directly from the Reinsurer any of CIC's obligations under the Policies.

(a) Selection of Reinsurer. The Conservator shall select an insurer authorized to write workers' compensation insurance in California that is qualified to enter into the Reinsurance Agreement, as follows:

(1) The Conservator shall prepare and publish a Solicitation of Expressions of Interest inviting certain insurers that are authorized to transact workers' compensation business in California to submit an Expression of Interest to indicate their possible interest in entering into the Reinsurance Agreement as the Reinsurer. The Solicitation of Expressions of Interest shall include a detailed summary of the Policies to be reinsured and assumed, which shall detail the loss and unearned premium reserves; all related reinsurance, and other rights; rights to future premiums; and such additional information that the Conservator determines may be useful to an insurer to evaluate whether to respond to the Solicitation of Interest. The Solicitation of Expressions of Interest shall be accompanied by an actuarial opinion by an actuary retained by the Conservator, the cost of which shall be paid from the assets of CIC, attesting to the accuracy of the information provided. The Solicitation of Expressions of Interest shall specify a date by which Expressions of Interest shall be submitted to the Conservator.

(2) Expressions of Possible Interest shall indicate the financial terms that would be required for the insurer to enter into the Reinsurance Agreement. Expressions of Interest shall be treated as confidential if so requested by the submitting insurer.

(3) An Affiliate of CIC may submit an Expression of Interest but shall indicate therein that it agrees to be bound by the requirement of Section 2.2(c) regarding administration of claims by a third-party administrator.

(4) The Conservator shall evaluate the Expressions of Interest and may engage in negotiations with individual insurers that have submitted Expressions of Interest, which negotiations shall be confidential. Upon completions of his evaluation, the Conservator in his sole discretion shall select the Reinsurer, taking into consideration the interests of Policyholders, creditors, and shareholders, consistent with the public interest.

(5) Notwithstanding the confidentiality provision in paragraph (2) above, the Expression of Interest submitted by the selected Reinsurer shall be a public document.

(6) In the course of evaluating and selecting the Reinsurer, the Conservator may retain such experts as he deems necessary or appropriate, the costs of which shall be paid out of the assets of CIC pursuant to Section 8.2 hereof.

(7) Upon selection of a Reinsurer, the Conservator shall promptly file with the Conservation Court an application for approval of the Reinsurer.

(b) Reinsurance Agreement. Effective as of the Closing Date, CIC and the Reinsurer shall enter into the Reinsurance Agreement, in form and substance attached hereto as Exhibit A, whereby, effective as of the Closing Date, CIC shall cede to Reinsurer and Reinsurer shall reinsure and assume the Policies and the Policy Liabilities, which, if the Reinsurer is an Affiliate of CIC, shall be administered by a third-party administrator as set forth in this section. The primary purpose and intent of the Reinsurance Agreement is to provide, subject to the terms and limitations set forth in the Reinsurance Agreement, for the transfer and assumption of all in-force Policies and the reinsurance of all liabilities incurred under all such in-force and expired Policies to the extent the same are unpaid or unperformed on or after the Closing, before deduction for all other applicable cessions, if any, under CIC's reinsurance programs. The provisions for the transfer and assumption of the Policies and the unpaid or unperformed liabilities and obligations incurred under such Policies prior to the Closing are set forth in the Reinsurance Agreement.

(c) Third-Party Administrator. If the Reinsurer is an Affiliate of CIC, the Policies and Policy Liabilities reinsured and assumed pursuant to the Reinsurance Agreement shall be administered by a qualified third-party administrator appointed by the Conservator. The third-party administrator shall administer all claims arising under the Policies reinsured and assumed by the Reinsurer, including adjustment and payment of claims and setting of loss reserves, until all of the Policies and Policy Liabilities reinsured and assumed pursuant to this Plan have been paid or otherwise extinguished.

Section 2.3. Transfer of California Workers' Compensation Deposits. If the Reinsurer is an Affiliate of CIC, effective as of the Closing Date, CIC shall transfer to the Reinsurer the cash instruments or approved interest-bearing securities or approved stocks readily convertible into cash, investment certificates or such other assets authorized by Insurance Code section 11691 in

an amount no less than 100% of the reserves required of CIC to be maintained under Insurance Code section 11550 et seq. relating to loss reserves on workers' compensation business of CIC in California as of the Closing Date, no less than the sum of the amounts specified in Insurance Code section 11693(a), whichever is greater (the "Statutory Workers' Compensation Deposits"). In the event that the Reinsurer is not an Affiliate of CIC, such Reinsurer shall be required to establish a Statutory Workers' Compensation Deposit consistent with the requirements of California Law prior to the Effective Time of the Reinsurance Agreement.

Section 2.4. Redomestication of CIC. As of the Closing Date, the Conservator on behalf of CIC shall effectuate the merger of CIC into and with California Insurance Company II, Inc. ("CIC II"), a New Mexico domiciled property and casualty insurance company, thereby completing the attempted redomestication of CIC from California to New Mexico, and upon the effective date of the merger of CIC into and with CIC II and the transfer of the domicile of CIC to New Mexico, CIC shall cease to be a California domestic insurer. The Conservator, on behalf of CIC, shall provide the CDI with information and documentation reasonably necessary to complete the proposed transfer of domicile of CIC from California to New Mexico. The CDI shall perform any ministerial acts necessary to complete the redomestication of CIC from California to New Mexico.

Section 2.5. Cancellation of California Certificate of Authority. As of the Closing Date, the California Certificate of Authority of CIC shall be cancelled by operation of law pursuant to Insurance Code section 701 as of the effective date of the merger of CIC into and with CIC II as provided in Section 2.4. Prior to the effective date of the merger of CIC into and with CIC II and the cancellation of the California certificate of authority of CIC, the Conservator, on behalf of CIC, shall discharge the liabilities of CIC to residents of California by causing the primary liabilities under policies insuring residents of California to be reinsured and assumed by the Reinsurer pursuant to the Reinsurance Agreement. The CDI shall perform any ministerial acts necessary to cancel the California Certificate of Authority of CIC.

Section 2.6. Pending and Subsequent Litigation. Schedule 2.6 hereto, which is hereby incorporated by reference as if fully set forth in this Plan, sets forth the terms and conditions under which Claimants, as defined in Schedule 2.6, will be offered by CIC the opportunity to settle Pending Litigation and Subsequent Litigation, as defined therein. Where such a Claimant accepts the offer to settle, the Claimant, CIC, and any affected Affiliate of CIC, as defined in Schedule 2.6, shall enter into a mutual release in accordance with the provisions of Schedule 2.6. Any liability to CIC that results from the Pending Litigation and Subsequent Litigation in which the Claimant has not accepted the offer shall be transferred to the Reinsurer pursuant to the Reinsurance Agreement and thereafter shall be an obligation of the Reinsurer pursuant to the Reinsurance Agreement. The Reinsurer shall assume and shall be authorized to defend against any claims and matters, and to pursue and collect on any counterclaims and matters, arising in that Pending Litigation or in Subsequent Litigation.

After every such Claimant has made an Election, as defined in Schedule 2.6, the Conservator shall determine a reserve amount sufficient to cover all Pending Litigation not resolved by settlement and all matters identified in the Schedule of Subsequent Litigation and Potential Subsequent Litigation pursuant to Schedule 2.6. CIC will deposit 150% of that reserve

amount in a special deposit account, pursuant to the terms and conditions of that account, which shall be approved by the Conservator, to secure all final claims in said Pending Litigation and Subsequent Litigation against CIC or its Affiliates. Control of the special deposit account shall be transferred to the Reinsurer upon the Closing. CIC, its successors, and their Affiliates shall preserve all papers, books, claims files, accounting records and other records pertaining to the Pending Litigation and Subsequent Litigation for no less than five years after the Closing; for Pending Litigation and Subsequent Litigation not settled during the Conservation, such papers, books, claims files, accounting records and other records pertaining to the Pending Litigation and Subsequent Litigation shall be preserved for no less than five years after final resolution of the relevant case except as pertaining to workers' compensation claims in which benefits are potentially payable to an injured worker; in that event, such papers, books, claims files, accounting records and other records shall be indefinitely preserved. On the Closing Date, CIC shall transfer to the Reinsurer all such papers, books, claims files, accounting records and other records pertaining to the Pending Litigation and Subsequent Litigation in its possession to the Reinsurer, which shall likewise preserve the papers, books, claims files, accounting records and other records pertaining to the Pending Litigation and Subsequent Litigation for the same period of time.

The Elections set forth in Schedule 2.6 shall be available exclusively to the Claimants in the Pending Litigation and Subsequent Litigation, as defined in Schedule 2.6, and CIC shall not be required to offer the Elections to any Person other than such Claimants pursuant to this Agreement.

Section 2.7. Assignment of Medical Provider Agreements. The Rehabilitation Order shall assign from CIC to the Reinsurer any agreements between CIC and providers of medical services that are or may be necessary for the Reinsurer to service the Policies being reinsured and assumed by the Reinsurer.

Section 2.8. Transfer of CIC Assets to Reinsurer by Conservator. Subject to the terms and conditions contained in this Plan and the Reinsurance Agreement, at the Closing, the Conservator on behalf of CIC shall (1) cause CIC to convey and transfer to the Reinsurer, CIC's right, title and interest to admitted assets of CIC free and clear of any Liens, having a net admitted asset value determined in accordance with SAP as prescribed or permitted by the CDI equal to CIC's net unearned premium reserve, loss and loss adjustment expense (including losses that have been incurred but not reported) reserve, if any, relating to the Policies reinsured and assumed by Reinsurer under the Reinsurance Agreement; (2) cause CIC to convey and transfer to the Reinsurer any collateral posted by any CIC California Policyholder pursuant to the terms of the Policies maintained by CIC or an Affiliate of CIC to secure the obligations of the Policyholders under the Policies; (3) cause CIC to assign to Reinsurer any amounts due CIC on or after the Closing Date under any reinsurance agreements in effect on or after the Closing Date between CIC and any reinsurer (other than the Reinsurer) relating to the Policies reinsured and assumed by the Reinsurer pursuant to the Reinsurance Agreement; and (4) cause CIC to assign to Reinsurer any premiums receivable on and after the Closing Date attributable to the Polices reinsured and assumed by Reinsurer pursuant to the Reinsurance Agreement.

Section 2.9. Execution of Documents Evidencing Transfers and Assignments. At the

Closing, the Conservator on behalf of CIC shall deliver to the Reinsurer, such bills of sale, assignments, stock powers, bond powers, evidences of consent and such other transfer instruments or documents, all in form and substance satisfactory to the Reinsurer as may be reasonably necessary or desirable to evidence or perfect the sale, conveyance, transfer, assignment and delivery of, title to and right to use the assets transferred to Reinsurer by CIC pursuant to Section 2.8 to Reinsurer, and at the Closing Reinsurer shall deliver receipts to CIC for the assets transferred to Reinsurer pursuant Section 2.8.

Section 2.10. Name Change. After the Closing Date, upon the consummation of the merger of CIC into and with CIC II, Menzies shall cause CIC II to cease using any and all trade names, trademarks, logos and trade dress, including without limitation, those containing the words "California", or any other name, term or identification that includes any derivation of the word "California", in its policies, advertising, literature, inventory, products, labels, packaging, supplies or other materials relating to CIC and CIC II as soon as practicable, but in any event, subject to any approval by applicable Governmental Authorities, within one hundred and twenty (120) days after the Closing Date. After one hundred and twenty (120) days after the Closing Date, any inventory of CIC and CIC II supplies utilized by CIC or CIC II shall be relabeled (by sticker or other reasonable method) with a trade name and trademarks that do not include the words "California" or "CA" or any derivation of the foregoing. Insofar as CIC's name is used in CIC's outstanding agreements, CIC shall be entitled to use the names set forth therein to the extent necessary to enforce fully the provisions of those agreements until the termination or renewal of those agreements in the ordinary course.

ARTICLE III
COURT APPROVAL AND NOTICE

Section 3.1. Court Approval of Plan and Notification Package. Pursuant to the Procedural Order, there will be a Hearing on the Rehabilitation Plan Application at the San Mateo Superior Court at a time and date specified in that Order, at which the Conservator will request the San Mateo Superior Court to issue the Rehabilitation Order. Pursuant to the Procedural Order, the Conservator shall give, at the last known address and no later than the date specified in the Procedural Order, written notice of the Rehabilitation Plan Application to (1) every Policyholder of an in-force or expired Policy, at the last known address of such Policyholders as set forth in the records of ClC; (2) the direct and indirect shareholders of CIC and their respective directors, if any; (3) known creditors of CIC; (4) reinsurers other than the Reinsurer; and (5) other interested parties. As required by the Procedural Order, the notice, referred to herein as the "Notification Package" shall (i) summarize the proposed Rehabilitation Plan and the Transaction Documents; (ii) notify recipients of the hearing date on the Conservator's Rehabilitation Plan Application; (iii) provide an Internet link to the proposed Rehabilitation Plan and Rehabilitation Plan Application and advise recipients of the Notification Package how they may request and receive paper copies of such documents; (iv) explain the opportunity to file papers in connection with the Hearing on the Rehabilitation Plan Application and notify recipients of the Notification Package that only persons or entities filing papers will be entitled to make presentations at such Hearing; and (v) notify recipients of the Notification Package that any person or entity not filing papers shall be deemed to have forever waived any and all objections, comments, suggestions, or

any other matter they may have made with respect to the Rehabilitation Plan Application and the proposed Rehabilitation Plan.

ARTICLE IV
CONSERVATOR ACTIONS

From the Effective Date to the Closing Date, the Conservator shall do the following:

Section 4.1. Conduct of Business. Prior to the Closing Date, except for the transactions contemplated hereby, and except as otherwise required or contemplated hereunder to effectuate the transactions set forth in Article II, the Conservator shall use its reasonable efforts to:

(a) Cause CIC to carry on the Business in the ordinary course except as modified to comply with applicable Law and to effectuate the transactions contemplated by this Plan and the other Transaction Documents;

(b) Cause CIC to use its reasonable best efforts to preserve its assets and the Business;

(c) Cause CIC not to enter into any contract or agreement relating to the Business, other than (1) such contracts or agreements that are entered into in the ordinary course of business consistent with applicable Law, and (2) any such contract or agreement not entered into in the ordinary course of business necessary or appropriate to consummate the transactions contemplated by this Plan and the Transaction Documents;

(d) Cause CIC not to make, without prior written consent of the Conservator (1) any material change, except in the ordinary course of business, in its assets (including, but not limited to, any change in the composition of such assets so as to materially alter the proportion of cash thereof) or liabilities, or (2) any commitment for any capital expenditures including, without limitation, replacements of equipment in the ordinary course of business, involving, in the aggregate, more than $100,000;

(e) Cause CIC not to carry on any negotiations or enter any agreement with any other Person relating to the sale of any of CIC's Business;

(f) Cause CIC not to cancel, surrender or let lapse any insurance or reinsurance policies issued to CIC, solely as such policies relate to CIC's Business;

(g) Cause CIC to cooperate and take all actions necessary or appropriate to effectuate the provisions of this Plan and the Transaction Documents and to refrain from taking any action that would prevent compliance with any of the provisions of this Plan or the Transaction Documents; and

(h) Cause CIC to direct AUI to cooperate with the Conservator and perform all duties set forth in the Management Services Agreement, as is necessary or appropriate to carry out the

terms of this Plan.

Section 4.2. Notice of Changes and Defaults. Conservator shall promptly notify Menzies and the Reinsurer of the occurrence or the non-occurrence of any event, condition or circumstance, or the discovery of any inaccuracy, omission or mistake, of which it becomes aware during such period that would materially adversely affect the ability of Conservator to consummate the transactions contemplated by this Plan.

Section 4.3. Delivery of Motion, Notice, etc. The Conservator shall provide to Menzies and his counsel copies of any motion or notice filed with the San Mateo Superior Court or with any other Person by the Conservator as contemplated by this Plan and of any order issued by the San Mateo Superior Court to the Conservator.

Section 4.4. Orderly Transition. Prior to the Closing, the Conservator, Menzies and the Reinsurer shall: (1) mutually cooperation and provide to each other all reasonable assistance in furtherance of the implementation and effectuation of the Plan and the Transaction Documents; (2) execute, acknowledge, deliver, file and record such further certificates, amendments, instruments, agreements and documents (including the filing of any notices with any Governmental Authorities); and (3) take all other actions as may be required by applicable Law or as may be necessary or advisable to carry out the intent of this Agreement and the other Transaction Documents following San Mateo Superior Court approval of the Plan. The Conservator shall have full authority to perform or take actions he deems necessary to ensure performance by CIC of any and all obligations required to be performed by CIC under this Plan.

ARTICLE V
COVENANTS OF MENZIES AND REINSURER

Section 5.1. Additional Consents and Approvals. Within thirty (30) days of the issuance of the Rehabilitation Order, Menzies and the Reinsurer shall file with the appropriate Governmental Authorities any applications, notices or other documents necessary to obtain any authorizations, consents or approvals that are required to be obtained, made or given to consummate the transactions contemplated hereby and Menzies and the Reinsurer shall use their respective reasonable efforts to obtain any such necessary authorization, consent, approval from such Governmental Authorities as is required to be obtained, made or given by such Person to consummate the Transactions contemplated by this Plan.

Section 5.2. Notice of Litigation and Investigations. From the Effective Date through the Closing Date, Menzies shall promptly notify Conservator of any Litigation at law or in equity, that individually or in the aggregate have or may reasonably be expected to have a material adverse effect on the validity or enforceability of this Agreement or the Transaction Documents or on the ability of Menzies and the Reinsurer to perform their respective obligations under this Agreement and the other Transaction Documents, and any investigation by any Governmental Authority or law enforcement agency that is commenced or, to the Knowledge of Menzies, threatened against CIC, against any property or asset of CIC, against any officer or director of CIC with respect to the affairs of CIC, or with respect to the Business, and of any request for additional information or documentary materials by any Governmental Authority, in connection

with the transactions contemplated hereby.

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Section 5.3. Notice of Changes and Defaults. From the Effective Date through the Closing Date, Menzies shall promptly notify Conservator of the occurrence or the non-occurrence of any event, condition or circumstance, or the discovery of an inaccuracy, omission or mistake, of which it becomes aware during such period that would that would materially adversely affect the ability of Conservator, CIC, or Reinsurer to consummate the transactions contemplated by this Plan.

ARTICLE VI
CONDITIONS PRECEDENT TO CLOSING

Section 6.1. Conditions Precedent to Closing. Except as otherwise expressly provided herein, the obligations of each of the Conservator, Menzies, and Reinsurer to proceed with the Closing are subject to the fulfillment, satisfaction or written waiver, prior to or at the Closing, of each of the following conditions precedent:

(a) Rehabilitation Order. The San Mateo Superior Court shall have issued the Rehabilitation Order as defined in Article I, and all appeals or other appellate court review thereof have been waived, time-barred, or determined;

(b) Terms of the Rehabilitation Order. The Rehabilitation Order shall confirm: (1) the enforceability of the terms and conditions of this Plan and the other Transaction Documents, and the transactions contemplated hereby and thereby; (2) that this Plan, and the other Transaction Documents are fair, just and reasonable to Policyholders, creditors, the shareholder of CIC, and the public; (3) that all executory portions of the Transaction Documents are approved and made valid, binding and enforceable in the event of a future insolvency of CIC; (4) that the reinsurers of CIC (other than the Reinsurer) are not prejudiced by and have no lawful basis to avoid or terminate their contractual obligations to CIC pursuant to such reinsurance agreements as a result of the transactions contemplated herein or in the Transaction Documents, and (4) such other matters relating to this Plan, the Transaction Documents and the transactions contemplated hereby and thereby as the Conservator shall deem necessary or desirable;

(c) Consents. All consents, approvals and certifications, in form and substance reasonably satisfactory to the Conservator, Menzies, and Reinsurer, of third parties or Governmental Authorities whose consent, approval or certification is required for the consummation of the transactions contemplated by this Plan and the other Transaction Documents;

(d) Notification Package. The Notification Package shall have been sent to each Policyholder and other recipient in accordance with Section 3.1 and with the Procedural Order; and

(e) No Prohibition. There shall not have been any action taken, or any statute, regulation, judgment, or order enacted, entered or issued that, directly or indirectly (1) prohibits

or makes illegal the consummation of the transactions contemplated by this Plan or the other Transaction Documents; or (2) imposes any material conditions or limitations on the Conservator's ability to exercise his full rights under this Plan or the other Transaction Documents.

Section 6.2. Conditions Precedent to Menzies' and Reinsurer's Obligation to Close. The obligation of Menzies and Reinsurer to proceed with the Closing is subject to the fulfillment, satisfaction or written waiver, prior to or at the Closing, of each of the following conditions precedent (in addition to those described in Section 6.1 hereof):

(a) Performance by the Conservator and Menzies. The Conservator and Menzies shall have performed and complied, in all material respects, with all provisions of the agreements and covenants required by this Plan and the other Transaction Documents to be performed or complied with by each of them prior to or at the Closing, and there shall have been no adverse event or occurrence which materially impairs or interferes with the ability to consummate the transactions contemplated by this Plan or the other Transaction Documents and to perform each of their respective obligations under this Plan and the other Transaction Documents;

(b) Corporate Matters. The Conservator shall have delivered to Menzies and Reinsurer such other documents, instruments, certifications and further assurances reasonable and necessary to effect the transactions contemplated by this Plan and the other Transaction Documents; and

(c) Transaction Documents. On or prior to the Closing Date, the Conservator and the Reinsurer shall have executed and delivered to Menzies the Transaction Documents, and all of the conditions precedent stated in the Transaction Documents shall have been satisfied.

Section 6.3. Conditions Precedent to Conservator's Obligations to Close. The obligation of the Conservator to proceed with the Closing shall be subject to the fulfillment, satisfaction or written waiver, prior to or at the Closing, of each of the following conditions precedent (in addition to those described in Section 6.1 hereof):

(a) Performance by Menzies and Reinsurer. Menzies and the Reinsurer shall have performed and complied, in all material respects, with all provisions of the covenants and agreements required by this Plan to be performed or complied with by it prior to or at Closing, and there shall have been no adverse event which materially impairs or interferes with the ability of Menzies or Reinsurer to consummate the transactions contemplated by this Plan and the other Transaction Documents and to perform their respective obligations under this Plan and the other Transaction Documents;

(b) Satisfaction of Judgments. CIC shall have fully satisfied all outstanding judgments entered prior to the Closing Date against CIC in any Litigation. For purposes of this provision, "outstanding judgment" means any final judgment on a matter brought in any state or federal court, arbitration, or mediation, where CIC has not paid the full amount required to satisfy the judgment. A "final judgment" includes final orders that have been affirmed on appeal, or where the final order is no longer appealable because, as of the Closing Date, the time for

appeal has lapsed and there is no appeal on file. In addition, all outstanding judgments entered against any Affiliate arising out of a Policy shall have been satisfied;

(c) Transaction Documents. On or prior to the Closing Date, Menzies and Reinsurer shall have executed and delivered the Transaction Documents; and

(d) Expenses. On or prior to the Closing Date, CIC shall have paid any unpaid outstanding invoices for expenses described in Section 8.2 hereof.

ARTICLE VII
CLOSING

Section 7.1. Closing. The Closing shall take place on the first Business Day following the satisfaction or waiver of all of the conditions set forth in Article VI (other than a condition which contemplate or require only delivery or filing of one or more documents immediately prior to or contemporaneously with the Closing) on the Closing Date at the principal offices of the Conservator, commencing at 10:00 a.m., local time, or at such other place and time as Menzies, the Conservator and the Reinsurer shall mutually agree.

Section 7.2. Sequence of Actions Necessary to Closing. The transactions necessary to Close under this Plan and the other Transaction Documents shall occur in the following sequence:

(a) After every such Claimant has received their Settlement Offer and made an Election or declined to make such an Election, as set forth in Schedule 2.6, the Conservator shall determine a reserve amount sufficient to cover all Pending Litigation and Subsequent Litigation not resolved by settlement. CIC shall deposit 150% of that reserve amount in a special deposit account with the Reinsurer, pursuant to the terms and conditions of that account, which shall be approved by the Conservator, to secure all final claims in said Pending Litigation and Subsequent Litigation against CIC, Reinsurer or the CIC Affiliates;

(b) CIC shall, within thirty (30) days of the Election by each Claimant, pay, or cause to be paid, the amount to which the Claimant is entitled. If CIC is entitled to receive payment from the Claimant under the Election, the Claimant shall make that payment within thirty (30) days of the Election or such further date as the Conservator may permit. Notwithstanding the foregoing, the failure of a Claimant to make payment under the Election shall not delay Closing; and

(c) After each of the Claimants has made their Election and received payment pursuant to Schedule 2.6 and each of the conditions precedent to the Closing set forth in Article VI hereof have been met or waived, the transactions set forth in this Plan and the other Transaction Documents shall be consummated pursuant to the terms and subject to the conditions set forth herein and therein.

Section 7.3. Items to be Delivered at Closing by the Conservator. At the Closing, upon the terms and subject to the conditions contained in this Plan, the Conservator on behalf CIC shall deliver or cause to be delivered to Menzies and Reinsurer the following:

(a) A certificate of the Conservator, dated as of the Closing Date, certifying that CIC has performed and complied in all material respects with all agreements and conditions required by this Plan to be performed and complied with by CIC at the Closing;

(b) Such orders of the San Mateo Superior Court confirming the terms of this Plan and the other Transaction Documents and the transactions contemplated hereby and thereby relative to the respective transactions and interests under this Plan; and

(c) Such other certificates and Closing documents as may be necessary for the consummation of the transactions contemplated by this Plan and the other Transaction Documents.

Section 7.4. Items to be Delivered at Closing by the Reinsurer. At the Closing, upon the terms and subject to the conditions contained in this Plan, the Reinsurer shall deliver, as appropriate, to the Conservator the following:

(a) A certificate of a duly authorized officer of Reinsurer, dated the Closing Date, certifying (1) that Reinsurer has performed and complied in all material respects with all agreements and conditions required by this Plan and the other Transaction Documents to be performed by Reinsurer at the Closing; (2) that Reinsurer has all requisite power and authority to execute and deliver the Reinsurance Agreement and any other documents required for the Closing to which it is a party and to consummate the transactions contemplated hereby and thereby; (3) that the execution, delivery and performance by Reinsurer of the Reinsurance Agreement will not violate any laws or statutes to which Reinsurer is subject, or its corporate charter or bylaws or any material indenture, contract or agreement to which Reinsurer is a party or by which it is bound; (4) that the Reinsurance Agreement has been duly executed and delivered by Reinsurer and constitute the legal, valid and binding obligations of Reinsurer, enforceable against Reinsurer in accordance with its terms; and (5) if the Reinsurer is an Affiliate of CIC, an undertaking executed by Reinsurer confirming that the Reinsurer shall not issue or renew any policies in California unless such policies are in full compliance with all the applicable laws and regulatory requirements of the State of California;

(b) A copy of all resolutions adopted by the Board of Directors of Reinsurer, in each case relating to the transactions contemplated by this Plan and the other Transaction Documents, certified on the Closing Date to be true and correct and in effect by the Secretary or Assistant Secretary of Reinsurer, as the case may be; and

(c) CIC shall have delivered the Transferred Assets to Reinsurer in compliance with the terms and subject to the conditions set forth in this Plan and the Reinsurance Agreement; and such other certificates and Closing documents as may be necessary for the consummation of the transactions contemplated by this Plan and the other Transaction Documents.

Section 7.5. Further Assurances after the Closing. Reinsurer shall, from time to time after the Closing, take such other proper actions and execute and deliver such other documents, instruments, certifications and further assurances as may reasonably be requested by another Person as required or necessary to effectuate the intent and purpose of this Plan and the other Transaction Documents.

Section 7.6. Reports to the Court Regarding Closing of Transactions, and Motion for Order Concluding Conservation Proceedings and Discharge of Conservator. After the Closing, the Conservator shall file such documents with the San Mateo Superior Court as are necessary to advise the Court of the Closing of the transactions contemplated by the Plan and the other Transaction Documents.

(a) After Closing, and at other times where the Conservator deems that significant milestones in the implementation of this Rehabilitation Agreement have been reached, the Conservator will file with the Court his Status Report making public the progress that has been made toward conclusion of the conservation.

(b) After the Closing and the consummation of the transactions set forth in this Plan, including full performance of Schedule 2.6, the Conservator shall apply to the Court for an order concluding the Conservation Proceedings and discharging the Commissioner as Conservator, but maintaining jurisdiction for the purpose of ensuring the enforcement of the Plan.

(c) Any and all claims arising out of or related to this Plan or to any of the other Transaction Documents shall be heard and determined by the San Mateo Superior Court, which shall have exclusive jurisdiction over any such disputes and shall have sole authority to determine the scope and nature of any remedies to be granted in connection with such claims.

ARTICLE VIII
GENERAL PROVISIONS

Section 8.1. Termination. This Plan may be terminated prior to Closing only as follows:

(a) By the Conservator, if the San Mateo Superior Court does not grant the Conservator's motion to approve the Plan, if any Governmental Authority that must grant a requisite regulatory approval has denied approval of the transaction, or if any Governmental Authority has issued an injunction prohibiting the transaction that has become final and nonappealable; or

(b) By the Conservator, upon his reasonable determination, that the financial condition of CIC has materially deteriorated to the point that the Conservator will be unable to pay the Reinsurer all amounts due under the Reinsurance Agreement, and thereafter retain adequate free assets and sufficient cash flow to fund the anticipated costs of administering the Conservation Proceeding; or

(c) In the event of the termination of this Plan, this Plan shall thereafter become void and have no effect, and no Person shall have any liability or obligation to any other Person under

this Plan or the other Transaction Documents, provided, however, that if this Plan is terminated as a result of the violation of this Plan by any Person, such Person shall not be relieved of its liability for such violation.

Section 8.2. Expenses. All costs and expenses, including attorneys' fees, of taking possession of, conserving, conducting, and rehabilitating CIC (including the pre-conservation costs of preparing to take possession of and conserving CIC, and all costs and expenses, including attorneys' fees, incurred by the Conservator and the CDI in bringing and prosecuting the conservation proceeding and order, and incurred with regard to or in relation to the Rehabilitation Agreement and Rehabilitation Order, including but not limited to, the costs of or associated with the Independent Consultant as defined in Schedule 2.6, and otherwise dealing with the business, conduct, and property of CIC under the provisions of Insurance Code sections 1010 et seq.) shall be paid out of the funds and assets of CIC. The Commissioner does not waive or limit any right, authority, or discretion with respect to entitlement to costs, expenses or compensation to be paid out of the assets of CIC under Insurance Code sections 1010 et seq. or any other provisions of the Insurance Code or applicable law.

(a) If there are any unpaid outstanding invoices for expenses described in Section 8.2 hereof, such invoices shall be paid at Closing. CIC and its successors-in-interest shall pay any additional invoices tendered after Closing and arising out of the Conservation (including the pre-conservation costs of preparing to take possession of and conserving CIC, and all costs and expenses, including attorneys' fees, incurred by the Conservator and the CDI in bringing and prosecuting the conservation proceeding and order, and incurred with regard to or in relation to the Rehabilitation Agreement and Rehabilitation Order, including but not limited to, the costs of or associated with the Independent Consultant as defined in Schedule 2.6, and otherwise dealing with the business, conduct, and property of CIC under the provisions of Insurance Code sections 1010 et seq.).

(b) In the interest of expediting performance of this Rehabilitation Agreement, the Conservator may commence the process of retaining the Independent Consultant and associated experts provided for in Schedule 2.6, and may commence their work, prior to approval by the Court of the Rehabilitation Order.

Section 8.3. Indemnification by Menzies and CIC with Respect to Third-Party Claims. Menzies and CIC shall hold the Conservator harmless against, and pay, any and all claims made by third parties, as such claims are suffered, sustained, incurred or required to be paid by the Conservator resulting from the breach of any representation, warranty, covenant or agreement of Menzies contained in or made pursuant to this Plan.

Section 8.4. Entire Plan. This Plan and the other Transaction Documents (including the exhibits and schedules attached hereto and thereto) supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Persons affected by this Plan. There are no representations, promises, warranties, covenants or undertakings, other than those expressly set forth or referred to in this Plan, and the other Transaction Documents.

Section 8.5. Amendment. This Plan may be amended only by the Conservator with leave

of Court upon a showing of good cause.

Section 8.6. No Assignment. None of the rights or obligations under this Plan or the other Transaction Documents may be assigned or transferred to or assumed by any other person, except as expressly provided herein.

Section 8.7. Governing Law. This Plan shall be governed and construed in accordance with the Laws of the State of California, including the Insurance Code, applicable to agreements made and to be performed entirely within the State of California, without giving effect to the principles of conflicts of law thereof, and jurisdiction and venue for any action arising under this Plan shall be in the San Mateo Superior Court.

Section 8.8. Headings: Gender and Person. All section headings contained in this Plan are for convenience of reference only, do not form a part of this Plan and shall not affect in any way the meaning or interpretation of this Plan. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

Section 8.9. Notices. Any notice, request, demand, waiver, consent, approval or other communication required or permitted to be made hereunder shall be in writing and shall be deemed given only if delivered by hand, or mailed by certified or registered mail with postage prepaid and return receipt requested, or sent by facsimile transmission, as follows:

(a) If to the Commissioner, the Conservator or CIC, to:

California Insurance Company in Conservation
c/o Conservation & Liquidation Office
100 Pine Street, 12th Floor
San Francisco, CA 94111
Attention: Joe Holloway, CEO

with concurrent copies to:

California Department of Insurance
1901 Harrison Street, 6th Floor
Oakland, CA 94612
Attention: Kenneth B. Schnoll, Esq.

and to:

Orrick, Herrington & Sutcliffe LLP
400 Capitol Mall, Suite 300
Sacramento, CA 95814-4407
Attention: Cynthia Larson, Esq.

(b) If to Menzies, to:

6515 North 159 Street
Omaha, NE 68116

with concurrent copies to:

DLA Piper, LLP
555 Mission Street, Suite 2400
San Francisco, CA 94105
Attention: Shand S. Stephens, Esq.

(c) If to AUI, to:

10805 Old Mill Road
Omaha, NE 68154
Attention: Alan Quasha

with concurrent copies to:

DLA Piper, LLP
555 Mission Street, Suite 2400
San Francisco, CA 94105
Attention: Shand S. Stephens, Esq.

(d) If to AUCRA, to:

10805 Old Mill Road
Omaha, Nebraska 68154
Attention: Jeffrey A. Silver

with concurrent copies to:

DLA Piper, LLP
555 Mission Street, Suite 2400
San Francisco, California 94105
Attention: Shand S. Stephens, Esq.

(e) If to Reinsurer, to:

with concurrent copies to:

or to such other address as may be designated by a party by written notice to the other parties. Such notice, request, demand, waiver, consent, approval or other communication will be deemed to have been given as of the date so delivered, sent by facsimile (with confirmation of receipt) or mailed.

Section 8.10. Severability. If any provision of this Plan is held by a court of competent jurisdiction to be invalid, illegal or unenforceable, the remainder of the provisions of this Plan shall remain in full force and effect.

Section 8.11. Non-Liability of the Conservator and Commissioner. The Commissioner, acting in his capacity as Conservator of CIC or in any other official capacity, shall have no liability whatsoever, in any capacity, for any acts or omissions arising out of or related to this Plan, or to the conservation of CIC, or to alleged acts or omissions during the conservation of CIC. In addition, the Commissioner, acting in his capacity as Conservator or in any other capacity, shall have no obligation or liability whatsoever, in any capacity, to indemnify CIC, Menzies or the Reinsurer, or any officer, director, employee or agent thereof, for any claims, actions, demands, suits, losses, liabilities, expenses or costs (including attorneys' fees) asserted against any of them, or their officers, directors, employees or agents, including but not limited to those arising out of or related to this Plan, or to the conservation of CIC, or to alleged acts or omissions during the conservation of CIC. The State of California is not a party to this Plan and shall have no liability with respect to this Plan or the conservation of CIC, or any acts or omissions during the conservation of CIC.

IN WITNESS WHEREOF, the Conservator executes and adopts this Plan by and on behalf of CIC, as of the day and year first above written.

RICARDO LARA, Insurance Commissioner, in his capacity as Conservator of California Insurance Company and not in his individual capacity

By: _____
Joseph B. Holloway
Deputy Conservator

SCHEDULE 2.6

TERMS FOR SETTLING PENDING AND SUBSEQUENT LITIGATION

I. DEFINITIONS

The following definitions are for use solely in this Schedule 2.6 and Section 2.6 of the Rehabilitation Plan that references it. For purposes of this Schedule 2.6 and Section 2.6, to the extent the definitions below may differ from those in the Rehabilitation Plan, the Definitions in this Schedule 2.6 control.

1. "Affiliate" means any corporation or other business that owns, is owned by, or shares common or substantially common ownership or management with the Company, including, but not limited to, Applied Underwriters, Inc.; Applied Underwriters Captive Risk Assurance Co., Inc.; Applied Risk Services, Inc.; Applied Risk Services, Inc. of New York; Continental Insurance Company; Continental National Indemnity; Pennsylvania Insurance Company; and North American Casualty Company.

2. "Cal Retro Plan" means the California Retrospective Rating Plan published by the WCIRB.

3. "CIC Guaranteed-Cost Premium" means the premiums set pursuant to the filed rates for the Company's Guaranteed Cost Policy over the term of the Policy, calculated as the Policyholder's manual rates applied to the payroll of each classification, adjusted for schedule credits and debits and the Policyholder's experience modification factor, waivers of subrogation, and any premium for employer liability increased limits. Insofar as the approved rate includes premium taxes and assessments, they are included in CIC Guaranteed-Cost Premium.

4. “Claimant” means a Party to Pending Litigation or Subsequent Litigation who is asserting or may assert an interest in that Proceeding contrary to the interest of the Company, its Affiliates, or its Successors.

5. “Claims-Handling Expert” means a Qualified Expert retained by the Independent Consultant.

6. “Closed Out” means a Policy for which Policyholder has no future liability to the Company, including to its Affiliates. Obligations related to coverage for employees under a Closed Out Policy remains in effect.

7. “Company” means the California Insurance Company, in conservation pursuant to November 4, 2019, order of the Superior Court of San Mateo County.

8. “Conservation Court” means the San Mateo County Superior Court.

9. “Conservation Date” means November 4, 2019.

10. “Conservator” means the Deputy Insurance Commissioner and Deputy Conservator of the Company pursuant to the Order of Conservation.

11. “Days” means calendar days.

12. “Election” means a Claimant’s choice to exercise one of the options specified in Article II, below, or a Claimant’s failure to timely exercise one of the options specified therein.

13. “IBNR Reserves” means reserves for claims incurred but not reported.

14. “Incurred Losses,” as used in this Schedule 2.6, means the sum of claim payments, case reserves on reported claims, allocated loss adjustment expenses, and IBNR Reserves.

15. “Independent Consultant” is the person or firm designated to perform the duties specified below.

16. “Order of Conservation” means the “Order Appointing Insurance Commissioner as Conservator and Restraining Order” issued and filed by the Conservation Court on the Conservation Date.

17. “Overpayment” and “Overpaid” refer to payment, reserving, or both on a workers’ compensation claim where the sum of the amount paid and the amount reserved exceeds the amount that should be paid or reserved, or has been paid or reserved, in accordance with California law and accepted claims-adjustment practices.

18. “Party” means a plaintiff, petitioner, appellant (including, but not limited to, appellants before the Administrative Hearing Bureau of the California Department of Insurance), defendant, respondent, appellee, intervenor, or real party in interest.

19. “Pending Litigation” means a Proceeding pending on the Conservation Date.

20. “Person” means any natural person or group of natural persons, association, organization, business trust, partnership, limited liability company, or corporation, or any affiliate thereof.

21. “Policy” means a workers’ compensation insurance policy written to cover, in whole or in part, employees in California and issued on or before June 28, 2018.

22. “Policyholder” means (a) any Person that is named as an insured under a Policy or (b) any Person other than the Company or an Affiliate who is named as a party to an RPA in connection with a Policy.

23. “Proceeding” means a matter brought in any state or federal court, before the Commissioner, or in an arbitration, in which a Claimant is a Party and is asserting a claim against, or defending against a claim by, the Company, its Affiliate, or a Successor regarding a Policy or RPA. For purposes of this Schedule 2.6, an action on a promissory note or other document brought in whole or in part to collect money that the Company, its Affiliate, or a Successor claims to be due, or to have been due, in whole or in part, under a Policy or an RPA is deemed to be “regarding a Policy or an RPA.”

24. “Pure Premium Rate” means the approved fixed-cost pure premium rate filing published by the WCIRB on the effective date of the policy.

25. “Qualified Expert” means a person who possesses special knowledge, skill, experience, training, or education sufficient to qualify them under Evidence Code section 720 as an expert in the field for which they have been selected to provide expert services under the terms of this Schedule.

26. “Redundant” refers to a case reserve that has been set at an amount greater than a reasonable actuarial estimate of the amount necessary to pay the ultimate settlement value of a workers’ compensation claim.

27. “Rehabilitation Order” has the meaning assigned to it in the Conservator’s Rehabilitation Plan for CIC.

28. “Reserves Expert” means an actuary who is a Fellow of the Casualty Actuarial Society retained by the Independent Consultant.

29. “Restitution Amount” means the Option 1 Restitution Amount, Option 2 Restitution Amount, or Option 3 Restitution Amount, as prescribed in Articles III, IV, and V, respectively, and as adjusted pursuant to the provisions of Article VII. The Restitution Amount may be negative where it is determined that the Claimant has a net liability to the Company pursuant to Article III, Section 4, Article IV, Section 6, or Article V, Section 5.

30. “RPA” means a Reinsurance Participation Agreement issued by an Affiliate in connection with a Policy covering California employees.

31. “Settlement Offer” means the written offer specified in Article II, below.

32. “Subsequent Litigation” is a Proceeding brought after the Conservation Date by the Company, its Affiliate, or a Successor or a claim asserted by a Policyholder deemed eligible to be a Claimant pursuant to Article 8, Section 2 of this Schedule.

33. “Successor” means an assignee or other successor in interest of a promissory note or other evidence of indebtedness or obligation of a Policyholder where the indebtedness or obligation arises or arose in connection with an RPA.

34. “Total Payments” means the sum of all payments made by or on behalf of a Claimant and its affiliates for workers’ compensation coverage, whether denominated premiums, collateral, fees, deposits, assessments, premium taxes, commissions, adjustments, or other terms, for or in connection with a Policy or an RPA. “Total Payments” shall not include any payments by Claimant and its affiliates for payroll processing services.

35. “WCIRB” means the Workers’ Compensation Insurance Rating Bureau of California.

II. POLICYHOLDERS’ OPTIONS TO SETTLE LITIGATION

1. Every Claimant will be offered an opportunity to make an Election to settle any Pending Litigation or Subsequent Litigation to which it is a Party. Election shall be made by exercising in writing and submitting to the Conservator a notice of election to settle under “Option 1,” “Option 2,” or “Option 3,” as defined in Article III, Article IV, and Article V, respectively. These options are available exclusively to a Claimant Party to Pending Litigation or to Claimants in Subsequent Litigation. The Company is not expected or required to offer these options to any other Person. The availability of these options shall not be construed as an admission of liability, and it is the intent of the Conservator that neither the existence of the options nor the acceptance of any option by particular Claimants shall be admissible for any purpose against the Company or its Affiliates.

2. A Claimant may, either by express declination of the written offer or by failing to act within the prescribed time, decline to settle under any of the options specified here, in which case that Claimant remains at liberty to pursue against the Company, its Affiliate, or their successor in interest its claims after the termination of the conservation, or such earlier date that the Conservator may specify.

3. Except as otherwise specified in this paragraph, upon election of Option 1, Option 2, or Option 3, the Policy that is the subject of the Pending Litigation or Subsequent Litigation will be Closed Out. Nothing herein shall be deemed to affect the obligations of the Company or the Reinsurer owed to any injured employee, or otherwise related to coverage, under a Policy.

III. OPTION 1

1. Option 1 is available to any Claimant who purchased a Guaranteed Cost Policy from the Company under its EquityComp or SolutionOne programs and who also executed an RPA.

2. The Claimant that elects Option 1 will be entitled to its "Option 1 Restitution Amount," calculated as follows:

    a. The Total Payments;

    b. Minus the CIC Guaranteed-Cost Premium, using the audited payroll and rates set forth in the Policy.

3. If the result of the calculation prescribed in Section 2 of this Article is positive, the Company shall pay, or cause to be paid, to the Claimant the Option 1 Restitution Amount.

4. If the result of the calculation prescribed in Section 2 is negative, the Company may collect that amount, converted to a positive number. In no case may the sum of the Total Payments prior to the collection authorized in this Section plus the collection authorized in this Section exceed the CIC Guaranteed Cost Premium.

5. Claimant shall not be liable for, and neither the Company, its Affiliates, nor a Successor shall seek to collect, any amounts in excess of the collection authorized in Section 4.

6. Whether or not the Claimant executed an RPA, the Claimant electing Option 1 will not be liable for, and neither the Company, its Affiliates, nor a Successor will be entitled to collect, any charges under the RPA.

IV. OPTION 2

1. Option 2 is available to any Claimant who purchased a Guaranteed Cost Policy from the Company under its EquityComp or SolutionOne programs and who also executed an RPA.

2. The Claimant that elects Option 2 will be entitled to its Option 2 Restitution Amount, calculated as Total Payments minus the Retrospective Premium that would have been operative at the time of the Policy's inception:

    a. The Retrospective Premium is calculated as the sum of the Cal Retro Plan California Standard Premium and the Non-California Standard Premium, multiplied by the sum of the Expense Ratio and the Insurance Charge, that quantity added to Incurred Losses and Incurred Allocated Loss Adjustment Expenses, subject to a Maximum Cost.

    b. The California Standard Premium is defined as:

i. The actual payroll by class code;

ii. Multiplied by the rate per $100 for that class code, as specified in the filed and approved WCIRB pure premium rates operative at the time of the Policy's inception;

iii. Multiplied by the Experience Modification Rating (Xmod) for the Policy operative at the time of the Policy's inception;

iv. Multiplied by 1.15;

v. Summed across all class codes for all Policies. If the Claimant has more than one RPA, each RPA is calculated separately. If the Claimant had an extension from one agreement, the original and extension years are calculated together.

c. The Non-California Standard Premium is defined as the workers' compensation insurance premium for risks with exposures outside California, determined on the basis of the insurer's authorized rates, by classification and by state, any applicable experience modifications, and any other authorized premium charge applicable, excluding premium discount.

d. The Expense Ratio is taken from the WCIRB's Quarterly Experience Report as of December 31, 2019, calculated by subtracting the page 5 accident year loss and ALAE ratio from the page 6 combined ratio averaged by weighting on the Standard Premium average of each policy's expense ratio.

e. The Insurance Charge is taken from the WCIRB Table ML in effect at the inception of the first Policy,

i. using the Ultimate Loss Group column determined from Section 1 of Schedule 1 of the RPA and

ii. the Entry ratio determined by

(1) dividing the Maximum Loss and ALAE Ratio, taken from Section 2 of Schedule 1 of the RPA (referred to therein as "Cumulative Aggregate Limit")

(2) by the Expected Loss and ALAE Ratio, calculated by dividing the CIC Permissible Loss and LAE Ratio, taken from CIC's filed and approved Workers' Compensation Insurance – Rate Filing Form for the relevant period, by 1.1 to take into account unallocated loss adjustment expenses (ULAE).

f. Case Incurred losses and Incurred ALAE are determined by summing the Total Incurred column from the most recent Analysis of Ultimate Claims Costs section of the Plan Analysis.

3. For purposes of the calculation prescribed in Section 2 of this Article, "Actual Losses" means Paid Losses plus Case Reserves plus IBNR Reserves, as follows.

    a. "Paid Losses" means amounts recorded paid on and attributable to claims under the Claimant's Policy, including amounts paid under an RPA, subject to the provisions of Article VII.

    b. "Case Reserves" means any reserves maintained by the Company for losses or loss adjustment expenses attributable to the Claimant's claims at issue in the Pending Litigation, subject to the provisions of Article VII, Section 1.

    c. IBNR Reserves shall be calculated from CIC's 2009 through 2018 Annual Statements, Schedule P, Part 1, for direct and assumed loss payments (column 4), direct and assumed defense and cost-containment expenses (DCC) (column 6), direct and assumed losses unpaid – case basis (column 13), and direct and assumed DCC unpaid (column 17), as follows:

        i. The direct and assumed loss and DCC case incurred for each accident year 2009 through 2018 is calculated by summing the data taken from the four columns specified in the preceding paragraph c, above, which will represent the diagonals of the direct and assumed loss and DCC case incurred data triangle, with the 2018 Annual Statement data being the bottom-most diagonal.

        ii. Age-to-age loss and defense and cost-containment expenses (DCC) loss development factors for each accident year are derived by dividing the case incurred figure calculated as specified in subparagraph i of this paragraph c, above, for a given accident year at a given maturity by its equivalent at the prior maturity, producing averages of the age-to-age factors by maturity upon which the development pattern up to 120 months are determined.

        iii. The ultimate tail factor at 120 months is calculated from the 2018 Annual Statement, Schedule P, Part 1, as the average, for accident years 2009, 2010, and 2011, of 1 plus

            (1) the sum of the direct and assumed losses unpaid – bulk and IBNR (column 15) and the direct and assumed DCC unpaid – bulk and IBNR (column 19)

            (2) divided by the corresponding case incurred loss and DCC figure at the bottom of the corresponding data triangles.

            (3) The calculated tail factor for accident year 2010 is adjusted to 120 months by dividing by the selected 108-120 month age-to-age development factor.

(4) The calculated tail factor for accident year 2011 is adjusted to 120 months by dividing by the selected 108-120 month and 96-108 month age-to-age development factors.

iv. The final age-to-ultimate development factors are determined by multiplying the various age-to-age factors from subparagraph ii of this paragraph c by the selected 120-month ultimate tail factor from subparagraph iii of this paragraph c.

v. The specific age-to-ultimate factor for a given policyholder will be the factor from subparagraph iv of this paragraph c, above, which corresponds to the midpoint between the given policy effective and expiry dates.

vi. The IBNR provision prior to discount, as specified below in subparagraph vii of this paragraph c, will equal the specific age-to-ultimate development factor minus 1.0, multiplied by the sum of the policyholder's paid losses and case reserves.

vii. The IBNR provision shall be discounted to reflect an investment yield of 2.7% per year, which reflects the returns realized by CIC and property-casualty insurers for 2010 through 2019, by multiplying the IBNR provision prior to discount in subparagraph vi of this paragraph c, above, by 0.9, which reflects the 2.7% annual investment yield applied to loss payment patterns.

d. Paid losses and reserves shall be determined as of June 30, 2020.

4. The calculation prescribed in this Section 2 of this Article shall be made separately for each policy year and summed across all policies.

5. If the result of the calculation prescribed in Section 2 of this Article is positive, the Company shall pay, or cause to be paid, to the Claimant the Option 2 Restitution Amount.

6. If the result of the calculation prescribed in Section 2 of this Article is negative, the Company may collect that amount, converted to a positive number, but in no case may the sum of the Total Payments prior to the collection authorized in this Article plus the collection authorized in this Section exceed the result of the calculation prescribed in Section 2.a through 2.b.v of this Article.

7. If there is a dispute regarding how the Cal Retro Plan is properly applied to the Claimant's Policy, that dispute shall be resolved by the Independent Consultant, whose determination will be final and non-reviewable.

V. OPTION 3

1. Option 3 is available to any Claimant who purchased a Guaranteed Cost Policy from the Company under its EquityComp or SolutionOne programs and who also executed an RPA.

2. The Claimant that elects Option 3 will be entitled to its "Option 3 Restitution Amount," calculated as follows:

    a. The Total Payments;

    b. Minus the "Final Cost" as prescribed in the "Scenario Worksheet" for Cumulative 3-Year Program Amounts on the Claimant's "Workers' Compensation Program Summary & Scenarios". Locate the equivalent "Ultimate Claims Cost" for Claimant's Actual Loss Ratio by dividing the Estimated LPCA by the Actual LPCA and multiplying that by the Actual Losses. Use the result to interpolate the Worksheet's equivalent "Ultimate Claims Cost" to determine the "Final Cost." Adjust that result for the Claimant's change in Actual LPCA over Estimated LPCA as well as the period of the Claimant's actual Active Term if other than 36 months.

3. For purposes of the calculation prescribed in Section 2 of this Article:

    a. Any case reserves maintained by the Company on the Conservation Date and attributable to the Claimant's claims at issue in the Pending Litigation shall be treated as losses, subject to the provisions of Article VII;

    b. IBNR Reserves, computed as for Option 2, shall be treated as losses, subject to the provisions of Article VII;

    c. Recorded paid losses shall be treated as losses, subject to the provisions of Article VII; and

    d. Paid losses and reserves shall be determined as of June 30, 2020.

4. If the result of the calculation prescribed in Section 2 of this Article is positive, the Company shall pay, or cause to be paid to the Claimant, the Option 3 Restitution Amount.

5. If the result of the calculation prescribed in Section 2 of this Article is negative, the Company may collect that amount, converted to a positive number, but in no case may the sum of the Total Payments prior to the collection authorized in this Section plus the collection authorized in this Section exceed the result of the calculation prescribed in Sections 2 and 3 of this Article.

6. If there is a dispute regarding how the RPA is properly applied to the Claimant's Policy, that dispute shall be resolved by the Independent Consultant, whose determination will be final and non-reviewable.

VI. PROCEDURE FOR SETTLEMENT OFFERS AND ELECTIONS

1. The Independent Consultant shall adopt templates prescribing how the Option 1, Option 2, and Option 3 Refund Amounts will be calculated. The templates shall prescribe each data element of the calculation and the formulas for combining the data elements into refund amounts. The Independent Consultant shall commence work on these templates upon appointment. Adoption of the templates shall be as follows:

    a. Not later than 30 days after commencing its duties, the Independent Consultant shall make public draft templates prescribing how the Option 2 Refund Amount and the Option 3 Refund Amount will be calculated;

    b. Not later than 15 days after the draft templates are made public, any person may offer comments on the draft templates; and

    c. Not later than 60 after commencing its duties, the Independent Consultant shall make public the final versions of the templates. The Independent Consultant may, with the approval of the Conservator, extend this 60-day period. The Independent Consultant's determination of the templates shall be final.

2. Beginning not more than 10 days after the final versions of the templates are made public, and completing no more than 30 days after the final versions of the templates are made public, the Company shall submit to the Independent Consultant a data file for each Pending Litigation and Subsequent Litigation matter, specifying the values prescribed by the templates. The values the Company submits for case reserves and paid losses shall be the values on the Company's books as of June 30, 2020, which the Company may not dispute in a review conducted pursuant to Article VII.

3. Simultaneous with submission of the data file prescribed in Section 2 of this Article, the Company shall provide a copy of the data file to each Claimant and its counsel in the Pending Litigation or Subsequent Litigation matter. Each Claimant may, within 15 days of receipt of the data file, dispute the data contained in the file. Any such dispute shall be in writing, may include supporting evidence, and shall be simultaneously provided to the Company. At this stage, loss reserves and paid claims may not be challenged as they are subject to separate challenge under Article VII. Other values (e.g., premium and other amounts paid, payroll, experience modification factors, and schedule credits and debits) may be challenged in the dispute provided for in this Section. The Company, acting through its pre-conservation management, may, within 15 days of receipt of the dispute, submit a written answer to the Independent Consultant, with a simultaneous copy to the Claimant. The Independent Consultant may request from the Company, and the Company, acting through its pre-conservation management, shall provide any information necessary to resolve such a dispute. The Independent Consultant shall set forth in the settlement offer prescribed in Section 4 of this Article its determination of each disputed item, and the Independent Consultant's determination of such disputes shall be final.

4. Within 30 days of latest submission prescribed in Section 2 or permitted in Section 3 of this Article, the Independent Consultant shall submit to the Conservator, a written Settlement Offer to each Claimant, which the Conservator shall promptly tender to each Claimant. The Settlement Offer shall explain the Claimant's Election options, including the option not to settle Pending Litigation or Subsequent Litigation, and shall include the Independent Consultant's calculation of the Claimant's prospective restitution from, or liability to, the Company under Option 1, Option 2, and Option 3. The Settlement Offer shall also explain the Claimant's rights to obtain a Request for Claim Information and Review of Incurred Losses pursuant to Article VII. The Settlement Offer shall also explain to the Claimant that, if either party fails to make payment as specified in this Schedule 2.6, its sole and exclusive remedy is to seek enforcement of the Rehabilitation Order and the transactions entered into thereunder in the Conservation Court.

5. Each Settlement Offer under Option 1, Option 2, and Option 3 shall provide for the payment of interest as follows:

    a. If the Restitution Amount is positive, CIC shall pay interest to the Claimant, over the period from the dollar-average date of Total Payments made to the date the Restitution Amount is paid, which shall be designated in the offer, at 2.7%, compounded annually.

    b. If the Restitution Amount is negative, CIC shall collect interest from the Claimant, over the period from the dollar-average date of Total Payments due to the date the Restitution Amount is paid, which shall be designated in the offer, at 2.7%, compounded annually.

6. The Settlement Offer shall specify a date, not later than 30 days after the date of the Settlement Offer, by which the Claimant to whom it is addressed may make the Election. If the Claimant has requested a Review of Incurred Losses, the period for Election shall be extended as specified in Article VII, Section 4. Failure to make a timely Election shall be deemed declination of the Settlement Offer. A Claimant may request, and the Conservator may, in his discretion, grant a reasonable extension of the period for the Claimant to make the Election.

7. The Company shall, within 30 days of the Election, pay, or cause to be paid, the amount to which the Claimant is entitled. If the Company is entitled to receive payment from the Claimant under the Election, the Claimant shall make that payment within 30 days of the Election or such further date as the Conservator may permit. The Conservator may, upon a showing of hardship, prescribe such additional period, not to exceed 120 days, for a Claimant to make the payment prescribed in this Section. If the Company fails to make payment as specified in this Schedule 2.6, Claimant's sole and exclusive remedy is to seek enforcement of the Rehabilitation Order and the transactions entered into thereunder in the Conservation Court.

8. In making an Election, the Claimant shall irrevocably submit to the jurisdiction of the San Mateo Court in the Conservation Proceeding.

VII. REVIEW OF INCURRED LOSSES

1. Request for Claim Information

a. Any Party who is a Claimant in Pending Litigation or Subsequent Litigation and contends that payments or case reserves are Redundant may make a written Request for Claim Information.

   i. The Request for Claim Information shall be made to the Company, with a copy to the Independent Consultant.

   ii. The Request for Claim Information shall specify the claim number or, if the Claimant cannot provide the claim number, sufficient other information necessary to identify the claim.

   iii. The Request for Claim Information may be made at any time after the Rehabilitation Plan's Effective Date and shall be made no later than 14 days after receipt of the Settlement Offer prescribed in Article VI. The Independent Consultant, with the approval of the Conservator, may extend the foregoing deadlines in this paragraph for good cause.

b. In response to a Request for Claim Information, the Company shall provide to the requesting Claimant at the Company's expense a loss run, a complete copy of the claim file, and, to the extent not included in the claim file, a copy of every email, memo, or other document pertaining to the setting of reserves for each requested claim.

c. The requested information shall be provided to the Claimant within 30 days of the date the Request for Claim Information was transmitted to the Company. If more than three claims are specified in the Request for Claim Information, the Independent Consultant may grant the Company additional time to provide the information.

d. A Claimant need not make a Request for Claim Information to be entitled to make a Request for Review of Incurred Losses.

2. Request for Review of Incurred Losses

a. Any Party who is a Claimant in Pending Litigation or Subsequent Litigation and contends that any claim was Overpaid case or that case reserves on a claim are Redundant as of June 30, 2020, may make a written Request for Review of Incurred Losses.

b. The Request for Review of Incurred Losses shall be made to the Independent Consultant, with a copy to the Company.

c. The Request for Review of Incurred Losses shall be made no later than 14 days after receipt of the Settlement Offer prescribed in Article VI or, if a Request for Claim Information is made, within 30 days of receipt of the complete response to the Request for Claim Information. Multiple Requests for Review of Incurred Losses may be made for different claims, provided that each request is made within 30 days of receipt of the complete response to the Request for Claim Information pertaining to that claim. For good cause, the Independent Consultant may grant the Claimant additional time to make a Request for Review of Incurred Losses.

d. The Request for Review of Incurred Losses shall specify the claim number or, if the Claimant cannot provide the claim number, sufficient alternative information necessary to identify each claim to which the request pertains.

e. The Request for Review of Incurred Losses shall specify whether the request is for a review of case reserves, of claim payments, or both.

f. The Request for Review of Incurred Losses may, but is not required to, contain argument why the Claimant contends the case reserves are Overstated or the reserves are materially Redundant, and may, but is not required to, be accompanied by a statement of opinion by a Qualified Expert retained by and at the expense of the Claimant.

3. Review of Incurred Losses

a. Where the Request for Review of Incurred Losses alleges that a claim was Overpaid, the review shall be limited to reviewing the claim files for instances of failure to comply with the following claim-handling standards, based on evidence in the claim file and reasonable inferences from that evidence:

i. Amount paid or settlement not supported by the injury documented in the claim file or is otherwise unreasonable;

ii. Inadequate inquiry into whether the claim arose out of and in the course and scope of employment in accordance with Labor Code section 3600 et seq.;

iii. Impairment rating that is not supported by admissible evidence;

iv. Authorization of treatment that is inconsistent with Medical Treatment Utilization Schedule unless adequately rebutted by credible medical evidence;

v. Failure to pursue apportionment;

vi. Failure to pursue evidence of a fraudulent claim; or

vii. Failure to pursue subrogation.

b. The Independent Consultant shall retain the services of such Qualified Experts as are necessary to determine whether the claim was Overpaid or the case reserves are Redundant.

c. When determining whether claims were Overpaid or case reserves are Redundant, the Independent Consultant may take into consideration any expert opinions that have been submitted, including those of the retained Qualified Experts, those submitted by the Company, and those submitted by the Claimant, but the determination shall reflect the independent judgment of the Independent Consultant. The payments made and reserves set by the Company shall be given no more or less weight than any other expert opinion.

d. Within 30 days of receipt of a Request for Review of Incurred Losses, the Independent Consultant shall issue a written decision determining, as to each claim, whether the claim was Overpaid and whether the case reserves are Redundant. If the Independent Consultant determines either that the claim was Overpaid or case reserves are Redundant, the Independent Consultant shall determine the amounts by which the claim was Overpaid or the reserves are Redundant and shall revise the Option 2 Restitution Amount and the Option 3 Restitution Amount accordingly. The Independent Consultant's determination of the Review of Incurred Losses and of the Restitution Amounts shall be final.

4. Revised Settlement Offer

a. If a Claimant makes a timely Request for Review of Case Reserves or Request for Review of Claims Files pursuant to this Article, the time for Claimant to make an Election shall be tolled during the period of the requested review or reviews.

b. Upon issuance of the Independent Consultant's decision and determination of revised Restitution Amounts, if any, pursuant to Section 3.d of this Article, the Independent Consultant shall tender to Claimant a revised Settlement Offer giving written notice of the Restitution Amounts as they may have been revised. If the review of Incurred Losses results in any change in paid losses or reserves, the remaining components of Incurred Losses shall be adjusted accordingly. If the review of Incurred Losses results in any change in the Restitution Amount, the adjusted amount shall also reflect any reduction of other expenses, such as premium taxes and assessments, that are calculated as a percentage of premium.

c. A revised Settlement Offer shall give Claimant 30 days to make an Election. A Claimant may request, and the Conservator may, in his discretion, grant a reasonable extension of the period for the Claimant to make the Election.

VIII. PROCEDURE FOR SUBSEQUENT LITIGATION

1. No later than 60 days after the Rehabilitation Plan's Effective Date, the Company shall provide the Conservator a Schedule of Subsequent Litigation and Potential Subsequent Litigation listing the policies on which it, an Affiliate, or a Successor has asserted, or may believe it has a right to assert, the right to bring Subsequent Litigation. The schedule shall

identify the policyholder and the identities of the obligee and obligor. The schedule shall state the following as to each policy: policy dates; the amounts and dates paid as premiums, collateral, or other payments; the amount the Company, its Affiliate, or a Successor claims is due and to whom; and the dates on which demands may have been made for payment and the amounts demanded.

2. Any potential Claimant who is not presently a Party to Pending Litigation may file a Notice of Claim with the Conservator within 60 days of the publication of the Notice provided for in Rehabilitation Plan, Section 3.1. The Conservator shall confirm that the Policyholder was Party to an RPA that had not been Closed Out as of the Conservation Date. Upon the Conservator's determination, the Conservator shall give notice to the Policyholder and CIC that the Policyholder shall be treated as a Claimant and eligible for Subsequent Litigation under this Schedule 2.6.

3. No Subsequent Litigation may be initiated if it has not been identified in the Schedule of Subsequent Litigation and Potential Subsequent Litigation or been designated as eligible for Subsequent Litigation pursuant to Section 2 of this Article.

4. Any Subsequent Litigation, other than that described in Section 2 of this Article, must be initiated no later than 45 days after the Schedule of Subsequent Litigation has been tendered to the Conservator. Thereafter, all rights of the Company, its Affiliates, and any Successors under such policies shall be extinguished, except in the form of a counterclaim the Company, its Affiliate, or a Successor may have in litigation initiated by an adverse party.

5. In any Subsequent Litigation, the Claimant shall be entitled to the election of options provided in Articles II through V, including the review of case reserves and claim payments provided in Article VII.

IX. ADDITIONAL TERMS

1. The Conservator shall, after consultation with the Company's pre-conservation management, and any other persons he deems appropriate, appoint the Independent Consultant, who shall commence the duties prescribed under this Schedule 2.6 within 60 days of the Rehabilitation Plan's Effective Date.

2. The Independent Consultant shall have the following qualifications:

    a. He or she shall have expertise in the following fields:

        i. Actuarial science as applied to workers' compensation retrospective rating programs; and

        ii. Financial management of a workers' compensation retrospective rating program.

    b. He or she shall be familiar with insurance-industry accounting rules and practices as they apply to the workers' compensation line of business.

c. He or she shall be familiar, or able to obtain timely familiarity, with information systems maintained by CIC and containing data required to perform the duties of the Independent Consultant. This expertise may be established by having an identified expert on such systems to whom the Independent Consultant would have demonstrated availability.

d. He or she shall, as a part of a firm or firms with which he or she is associated, or by demonstrated availability on a contract basis, have available persons (i) qualified to serve as the Claims Handling Expert and (ii) qualified to serve as the Reserves Expert.

e. "Demonstrated availability," as used in this Article, may be established by affirmative representations by the person confirming his or her availability and willingness to perform the duties specified.

3. The Independent Consultant shall appoint the Reserves Expert, who shall be a Qualified Expert in setting reserves for workers' compensation claims, and the Claims-Handling Expert, who shall be a Qualified Expert in adjusting workers' compensation claims.

4. The Independent Consultant and every person he or she may appoint or retain to provide services under this Schedule 2.6 shall be a disinterested person satisfying the following criteria.

   a. Neither he or she, nor any firm in which he or she has an employment position or an ownership interest, shall have provided any services to the Company or an Affiliate in the five years preceding his or her appointment pursuant to this Article. He or she shall agree, as a condition of appointment, not to accept any employment and not to contract for professional services with the Company or an Affiliate for three years following completion of his or her services under this Schedule 2.6.

   b. Neither he or she, nor any firm in which he or she has an employment position or ownership interest, shall have provided any services to any Claimant, or any person who has provided professional services to a Claimant, in the five years preceding his or her appointment pursuant to this Article. He or she shall agree, as a condition of appointment, not to accept any employment and not to agree to contract for professional services with any Claimant, or any person who has provided legal services to a Claimant, for three years following completion of his or her services under this Schedule 2.6.

5. Neither the Company nor the Claimant may have any substantive ex parte communications with the Independent Consultant or any person appointed by him to provide services under this Schedule 2.6. Written communications shall reflect that the opposing party (Company or Claimant) received a timely copy of the communication. Oral communications shall be memorialized by an email to the other party, with copy to the Independent Consultant or his or her appointee, summarizing the full substance of the

communication. An adverse party shall be afforded timely opportunity to respond to the substance of such a written or oral communication.

6. The Company and a Claimant may, with the approval of the Independent Consultant, agree to vary the calculations prescribed in Articles III, IV, or V.

7. All costs of the Independent Consultant, the Reserves Expert, and the Claims-Handling Expert shall be paid by the Company until such time as the Company is redomesticated. Thereafter, any such costs shall be paid by the Reinsurer selected pursuant to the Rehabilitation Plan.

8. The Company and any Affiliate or Successor that is a Party or asserts a right against the Claimant arising out of a Policy or RPA will execute a waiver and full release of liability of any Claimant who exercises Option 1, Option 2, or Option 3. The Company and its officers will take all steps necessary to secure the cooperation of any and all Affiliates and Successors from which cooperation may be required for Pending Litigation or Subsequent Litigation to be settled according to the terms of the Rehabilitation Plan and this Schedule 2.6.

Exhibit A

To the California Insurance Company Rehabilitation Plan

ASSUMPTION REINSURANCE AND ADMINISTRATION AGREEMENT

THIS ASSUMPTION REINSURANCE AND ADMINISTRATION AGREEMENT (this "Agreement"), dated as of [_____], 2020, is made by and between CALIFORNIA INSURANCE COMPANY, a California domiciled property and casualty insurance company in conservation ("CIC"), and _____, a/an _____ domiciled property and casualty insurance company (the "Reinsurer"). CIC and the Reinsurer are referred to herein collectively as the "Parties".

WHEREAS, CIC desires to cede, transfer, assign and sell to the Reinsurer all of CIC's right, title and interest in and to the Policies;

WHEREAS, the Reinsurer desires to assume CIC's duties and obligations in connection with, relating to, or arising out of such Policies upon the terms and subject to the conditions set forth herein;

WHEREAS, CIC desires to cede, on an indemnity reinsurance basis, to the Reinsurer, CIC's Policy Liabilities in connection with, relating to and arising out of the Policies, upon the terms and conditions set forth herein;

WHEREAS, the Reinsurer desires to reinsure and assume one hundred percent (100%) of CIC's Policy Liabilities arising under or in connection with the Policies, upon the terms and subject to the conditions set forth herein; and

WHEREAS, in connection with the foregoing, the Superior Court for the County of San Mateo has issued an order approving a Rehabilitation Plan (the "Rehabilitation Plan") that calls for the execution and delivery of this Reinsurance Agreement as of the Closing of the transactions contemplated thereunder;

NOW, THEREFORE, in consideration of the mutual covenants and promises, and upon the terms and conditions hereinafter set forth, the Parties hereto agree as follows.

ARTICLE I
DEFINITIONS

Capitalized terms used in this Agreement and not otherwise defined shall have the meanings given such terms in the Rehabilitation Plan. For purposes of this Agreement, the following terms shall have the meanings specified below.

"Claims" shall have the meaning set forth in Section 7.03.

"Dispute" shall have the meaning set forth in Section 11.02.

"Disputed Complaint" shall have the meaning set forth in Section 7.05.

"Effective Time" means 11:59 p.m. Pacific Time, on the Closing Date.

"Extra-Contractual Liabilities" means any and all liabilities and obligations of any nature, kind or description for (1) consequential, extra-contractual, tort, bad faith, exemplary, punitive, special or similar damages; and (2) statutory or regulatory damages, fines, penalties, forfeitures, and similar charges of a penal or disciplinary nature.

"GAAP" means generally accepted accounting principles consistently applied throughout the specified period and in a comparable period in the immediately preceding year.

"JAMS" shall have the meaning set forth in Section 11.03.

"Law" means all applicable laws, decisions, rules, regulations, ordinances, codes, statutes, judgments, injunctions, orders, decrees, licenses, permits, policies, administrative interpretations and other requirements of Governmental Authorities.

"Non-Novated Policies" shall have the meaning set forth in Section 2.04.

"Novated Policies" means those Policies transferred to the Reinsurer by novation as of the Novation Date and under which Policies the Reinsurer shall have become the successor to CIC under the Policies as described in Section 2.03.

"Novation Date" shall have the meaning set forth in Section 3.02 hereof.

"Obligations" shall have the meaning set forth in Section 2.01 hereof.

"Policies" means insurance policies issued to California Policyholders or to cover, in whole or in part, employees in California. "Policies" includes (1) all guaranteed-cost workers' compensation and employers' liability insurance policies issued by CIC, and (2) all workers' compensation and employers' liability insurance policies, supplements, endorsements, riders and ancillary agreements in connection therewith, classified by CIC as SolutionOne Profit Sharing or EquityComp, including Reinsurance Participation Agreements entered into by CIC Affiliates but excluding FELA and Jones Act exposures. As used in this Agreement "Policies" includes policies or other agreements that are (1) in effect as of the Effective Time; (2) become effective after the Effective Time, including through (a) the reinstatement of lapsed policies pursuant to provisions therein or of applicable Law, (b) the issuance or renewal thereof by CIC after the Effective Time to honor quotes outstanding as of the Effective Time, or to satisfy renewal rights of employers under contractual provisions or applicable Law, or (c) modifications agreed to by the Reinsurer on behalf of CIC pursuant to the authority granted to the Reinsurer under Section 7.01 of the Reinsurance Agreement; and (3) guaranteed-cost workers' compensation and employers liability insurance policies issued by CIC to California Policyholders that have expired prior to the Closing Date, where the gross liabilities and obligations of CIC arising under or in connection with such policies are unpaid or unperformed as of the Effective Time.

"Policyholder" means (a) any Person that is named as an insured under a Policy, or (b) any Person other than the CIC or an Affiliate of CIC that is named as a party to an RPA issued in conjunction with a Policy.

"Policy Liabilities" means CIC's gross liabilities and obligations arising under or in connection with the Policies to the extent the same are unpaid or unperformed on or after the Effective Time, before deduction for all other applicable cessions, if any, under CIC's reinsurance programs. In addition, the term "Policy Liabilities" shall include:

(a) all Extra-Contractual Liabilities that arise from any act, error or omission after the Effective Time, whether or not intentional, in bad faith or otherwise, by the Reinsurer or any of its affiliates, or any of their respective officers, employees, agents or representatives relating to the Policies, and any attorneys' fees incurred by the Reinsurer or CIC related to such Extra-Contractual Liabilities;

(b) all liabilities and obligations for premium taxes arising on account of any premiums with respect to the Policies allocable to coverage after the Effective Time;

(c) all liabilities and obligations for returns or refunds of premiums (irrespective of when due) under the Policies;

(d) any assessment required by any insurance guaranty, insolvency, or other similar fund maintained by California relating to the Policies assessed or imposed on the basis of premium for coverage after the Effective Time;

(e) all liabilities and obligations for commission payments and other compensation, if any, due and payable with respect to the Policies to or for the benefit of agents and brokers to the extent that such amount accrues after the Effective Time; and

(f) any obligation arising as a result of the Reinsurer's failure to perform its obligations pursuant to Section 7.07.

"SAP" means statutory accounting principles prescribed or permitted by the CDI consistently applied throughout the specified period and in the comparable period in the immediately preceding year in connection with the preparation of the statutory financial statements of CIC.

"Services" shall have the meaning set forth in Section 7.02.

ARTICLE II
BUSINESS TRANSFERRED AND REINSURED

Section 2.01. Assignment of Policies. As of the Effective Time (1) except as is otherwise provided in Section 5.01 below, CIC hereby cedes, transfers, assigns and sells to the Reinsurer all of CIC's right, title and interest in the Policies identified in Schedule 2.01 attached hereto and made a part hereof, and delegates to the Reinsurer all of CIC's duties and obligations of performance and payment under the Policies arising after the Effective Time, and (2) the Reinsurer hereby accepts, assumes and agrees to perform all of CIC's duties and obligations, whether direct, indirect, contingent, unliquidated, unmatured or otherwise arising after the

Effective Time (collectively, "Obligations"), in connection with, relating to, or arising out of the Policies.

Section 2.02. Novation. As soon as practicable after the Effective Time, the Conservator and the Reinsurer shall each use their commercially reasonable efforts to effect the assumption by novation by the Reinsurer of the Policies (each such Policy being referred to herein as a "Novated Policy" and Novated Policies shall include any such subsequently novated Policies). If the Reinsurer does not for any reason assume by novation any Policy, then the Reinsurer shall assume, accept and reinsure, on an indemnity reinsurance basis, 100% of the Policy Liabilities related to such Non-Novated Policies in accordance with the terms and conditions of this Agreement.

Section 2.03. Direct Obligations. To the extent that the Reinsurer assumes by novation any Policies under applicable Law, as of the Novation Date (1) the Reinsurer shall be the successor to CIC under such Novated Policies as if such Novated Policies were direct obligations originally issued by the Reinsurer and the Reinsurer shall be responsible for the performance of all obligations and the payment of all benefits and amounts due under the Novated Policies in accordance with their terms; (2) the Reinsurer shall be substituted in the place and stead of CIC, and each policyholder under any such Novated Policy shall disregard CIC as a party thereto and treat the Reinsurer as if it had been originally obligated thereunder except as otherwise provided herein; (3) CIC shall be released of all liability with respect to such Novated Policies; (4) the Policyholders under such Novated Policies shall have the right to file claims arising under such Novated Policies directly with the Reinsurer and shall have a direct right of action for indemnification, benefits and services under such Novated Policies against the Reinsurer, and the Reinsurer hereby consents to be subject to any such direct action taken by any such Policyholder; and (5) if the Reinsurer is an Affiliate of CIC, the Policies and Policy Liabilities reinsured and assumed pursuant to this Agreement shall be administered by an independent third-party administrator as provided in Section 2.2 of the Rehabilitation Plan, including adjustment and payment of claims and setting of loss reserves until all Policies and Policy Liabilities reinsured and assumed hereunder have been fully discharged and extinguished.

Section 2.04. Indemnity Reinsurance. Effective as of the Effective Time, CIC shall cede to the Reinsurer, and the Reinsurer shall assume from CIC on an indemnity reinsurance basis, 100% of the Policy Liabilities under all Policies that are identified in Schedule 2.01 attached hereto and made a part hereof which the Reinsurer has not for any reason (including the lack of any required approval or consent of a Policyholder under a Policy) as of the Effective Time assumed by novation (each such Policy being referred to herein as a "Non-Novated Policy"). It is understood and agreed that the Policyholders shall have the right to file claims arising under such Non-Novated Policies directly with the Reinsurer and shall have a direct right of action for indemnification, benefits and services under such Non-Novated Policies against the Reinsurer, and the Reinsurer hereby consents to be subject to any such direct action by any such policyholders. Notwithstanding the foregoing, the term "Non-Novated Policy" shall not include any Policy from and after the date of its assumption by novation at any time by the Reinsurer.

Section 2.05. Policy Liabilities. The Reinsurer accepts, reinsures, and assumes the

Policies and Policy Liabilities subject to any and all defenses, setoffs, and counterclaims to which CIC would be entitled with respect to the Policy Liabilities, it being expressly understood and agreed by the Parties hereto that no such defenses, setoffs, or counterclaims are or shall be waived by the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, and that the Reinsurer is and shall be fully subrogated in and to all such defenses, setoffs, and counterclaims. From and after the Effective Time, as among the Parties, the Reinsurer shall bear and shall have responsibility for paying or performing all Policy Liabilities. The Policy Liabilities ceded under this Agreement shall be subject to any changes required by Law and the same rates, terms, conditions, waivers, interpretations, modifications and alterations as the Policies.

ARTICLE III
ASSUMPTION CERTIFICATES; OPTION LETTERS

Section 3.01. Notification Materials. The Conservator shall prepare and deliver a Notice of Transfer and Certificate of Assumption together with those notices and materials substantially in the form set forth in Exhibit A attached hereto (collectively, the "Notification Materials"), which shall inform each Policyholder to a Policy of the proposed transfer, assumption and novation of such Policy. The Conservator shall prepare the Notification Materials for inclusion in the Notification Package as soon as feasible, but no later than 10 days after the Effective Date of the Rehabilitation Plan.

Section 3.02. Mailing. No assumption by novation of a Policy shall take effect until the earlier of the acceptance of the assumption by the Policyholder to a Policy or thirty (30) days (or such other period, if any, as may be required by applicable Law) (the "Novation Date") after the Notification Materials have been mailed to each Policyholder.

Section 3.03. Expenses. All expenses incurred by the Parties hereto to prepare and mail the Notification Materials pursuant to this Article shall be the exclusive responsibility of CIC.

ARTICLE IV
TERM

Section 4.01. Term. This Agreement shall remain in force and effect until all Policy Liabilities reinsured and assumed by Reinsurer have been discharged in full, or all Policies are transferred and assumed by the Reinsurer by novation and all obligations of the Reinsurer hereunder have been fully discharged and extinguished.

ARTICLE V
CONSIDERATION

Section 5.01. Consideration to the Reinsurer. The Reinsurer shall be entitled to all premium, premium adjustments and other consideration allocable to coverage provided by the Policies after the Effective Time (irrespective of when due) received by CIC or the Reinsurer with respect to the Policies. In the event that CIC receives any premium or other consideration with

respect to a Policy allocable to coverage after the Effective Time, CIC shall promptly remit such premiums and other consideration to the Reinsurer along with all pertinent information pertaining thereto including the nature of the payment, source of funds, policy number and period to which it relates. In the event that the Reinsurer receives any premium or other consideration with respect to a contractual liability or contractual obligation arising under a Policy paid or performed by CIC prior to the Effective Time, the Reinsurer shall promptly remit such premiums and other consideration to CIC along with all pertinent information pertaining thereto including the nature of the payment, source of funds, policy number and period to which it relates.

Section 5.02. Application of Future Consideration. Any premium, premium adjustments and other consideration received and retained by the Reinsurer pursuant to Section 5.01 shall be applied by the Reinsurer to the oldest unpaid obligations or outstanding invoices relating to the period after the Effective Time.

Section 5.03. Additional Consideration for Indemnity Reinsurance. As additional consideration for the assumption by Reinsurer of the Policy Liabilities, CIC shall (1) transfer to Reinsurer as of the Effective Time CIC's right, title and interest to admitted assets of CIC free and clear of any Liens, having a net admitted asset value determined in accordance with SAP equal to CIC's net unearned premium reserve, loss, and loss adjustment expense (including losses that have been incurred but not reported) reserve, if any, attributable to claims arising under the Policies prior to the Effective Time; (2) assign to Reinsurer as of the Effective Time CIC's right, title and interest to all collateral posted by any CIC Policyholder pursuant to the terms of the Policies and maintained by CIC or an Affiliate of CIC to secure the obligations of the Policyholders under the Policies; and (3) assign to Reinsurer any amounts due to CIC under any reinsurance agreements in effect on or after the Effective Time including any renewals or extensions thereof, between CIC and any reinsurer (other than the Reinsurer) relating to the Policy Liabilities assumed by the Reinsurer under this Agreement. All recoveries by CIC from reinsurers other than the Reinsurer, to the extent such reinsurance agreements, treaties and contracts provide reinsurance coverage for the Policy Liabilities shall be paid promptly by CIC to the Reinsurer.

Section 5.04. Statutory Workers' Compensation Deposits. Effective as of the Effective Time, if the Reinsurer is an Affiliate of CIC, CIC shall assign and transfer to the Reinsurer the cash instruments or approved interest-bearing securities or approved stocks readily convertible into cash, investment certificates or such other assets authorized by Insurance Code section 11691 in an amount no less than the reserves required of CIC to be maintained under Insurance Code section 11550 et seq. relating to loss reserves on workers' compensation business of CIC in California as of the Closing Date, no less than the sum of the amounts specified in Insurance Code section 11693(a), whichever is greater. If the Reinsurer is not an Affiliate of CIC, as of the Effective Time, the Reinsurer shall establish the statutory Workers' Compensation Deposit required under California Law in the amount required by Insurance Code.

ARTICLE VI
ACCOUNTING AND SETTLEMENT

Section 6.01. Accounting Reports. On or before the last Business Day of each month, the Reinsurer shall provide CIC with reports of activities under this Agreement with respect to the Policies for the preceding month showing any amounts due CIC or the Reinsurer, as the case may be, as reimbursement for paid claims, premiums or other amounts due with respect to the Policies and any information required by the Statement of Statutory Accounting Principles, as amended, of the National Association of Insurance Commissioners. On or before the last Business Day of January, April, July and October, the Reinsurer shall provide CIC with quarterly reports or an annual report of such activities as appropriate.

Section 6.02. Financial Statement Information. The Reinsurer and CIC shall each provide the other with the financial, accounting and actuarial information necessary to prepare SAP regulatory, tax and GAAP monthly, quarterly and annual financial statements and returns and satisfy other requirements including reserve and related calculations regarding the Policies in the form reasonably required by the Reinsurer and CIC. CIC and the Reinsurer shall agree to mutually acceptable procedures and time schedules for the transmission and receipt of such information.

Section 6.03. Settlements. Within ten (10) Business Days after delivery of each monthly report, the Reinsurer and CIC shall settle on an estimated basis, all amounts then due under this Agreement for that month. The Reinsurer and CIC shall make a final settlement of all amounts due for each calendar year within twenty (20) Business Days after the delivery of the annual report referred to in Section 6.01 hereof.

Section 6.04. Net Payment Basis. Amounts payable under this Agreement by the Parties hereto shall be settled against each other, dollar for dollar, and only a net payment shall be due; provided, however, that no balance or amount due by the Parties under any other agreement shall be offset against any obligation arising under this Agreement.

Section 6.05. Late Payments. If any payment due either Party is received by the other Party more than sixty (60) days after the due date for such payment under this Agreement, interest shall accrue from the date on which such payment was due (taking into account the provisions of Section 6.06 hereof) until payment is received by the Party entitled thereto, at an annual rate equal to the Bank of America Reference Rate quoted for six-month periods as reported in The Wall Street Journal on the first Business Day of the month in which such payment first becomes due.

Section 6.06. Federal Funds. All settlements in accordance with this Agreement shall be made by wire transfer of immediately available funds on the due date, or if such day is not a Business Day, on the next day which is a Business Day. Payment may be made by check payable in immediately available funds in the event the Party entitled to receive payment has failed to provide wire transfer instructions.

Section 6.07. Reports to Governmental Authorities. During the term of this Agreement,

the Reinsurer and CIC shall promptly furnish each other copies of any and all filings with, and reports or communications received from, any Governmental Authority which relates directly and materially to the Policies, including, without limitation, each annual statement, each quarterly financial report to the Governmental Authority of the Party's domicile having principal jurisdiction over the Party and each report on periodic examination issued by such Governmental Authority to the extent it relates to the Policies.

ARTICLE VII
POLICY ADMINISTRATION; REPORTING

Section 7.01. Administration of Policies. The Reinsurer, or, if the Reinsurer is an Affiliate of CIC, an independent third-party administrator appointed by the Conservator of CIC as provided in Section 2.2 of the Rehabilitation Plan, shall administer the Policies and Policy Liabilities reinsured and assumed by Reinsurer pursuant to this Agreement including adjustment and payment of claims and setting of loss reserves with respect to all Policies and Policy Liabilities reinsured and assumed hereunder until all Policies and Policy Liabilities reinsured and assumed pursuant to this Agreement have been fully discharged and extinguished. Without limiting the foregoing, the Reinsurer or the third party administrator on behalf of the Reinsurer, shall provide reasonable advance notice to CIC of its intent to cancel specific Policies for non-payment of premium. Unless CIC objects to the proposed cancellations within five calendar days of receipt of the notice from the Reinsurer or the third party administrator, the Reinsurer or the third party administrator on behalf of Reinsurer shall have the right to cancel the referenced Policies for non-payment of premium in a manner consistent with applicable Law. If CIC objects to the proposed cancellation of any Policy for non-payment of premium, CIC shall indemnify the Reinsurer for any unpaid premium with respect to any such Policy until such Policy is cancelled.

Section 7.02. Administration. The Reinsurer or a third-party administrator on behalf of the Reinsurer shall, at the Reinsurer's expense, provide the technical and administrative service, assistance and support functions described in Schedule 7.02 attached hereto (the "Services") reasonably necessary or appropriate for the proper management and administration of the Policies, which shall include, but not be limited to, the Services required for the proper administration of the Policies prior to the Effective Time and not performed as of the Effective Time. The Services by Reinsurer or a third-party administrator on behalf of the Reinsurer shall at all times be consistent with applicable Law, regulatory actions, and pronouncements.

Section 7.03. Claims Payment Instructions. The Reinsurer or a third-party administrator on behalf of the Reinsurer, as appropriate, at the expense of the Reinsurer, shall administer and process all payments to injured workers for covered claims under the Policies (the "Claims") in conformance with applicable Law, including review, investigation, adjustment, settlement, defense and payment of Claims, special investigation and anti-fraud compliance, and preparation of any report required concerning the foregoing Services and will, in connection with such Claims administration, retain, at its sole discretion, any outside investigation firms, adjusters, attorneys or other professionals that the third party administrator or Reinsurer, as appropriate, deems necessary in the adjustment of such Claims.

Section 7.04. Communications Relating to Policies. On and after the Effective Time, CIC shall forward promptly to the Reinsurer all notices and other written communications it receives relating to the Policies (including all inquiries or complaints from state insurance regulators, agents, brokers and policyholders and all notices of claims, suits and actions for which it receives service of process). CIC shall be entitled to retain copies of all such materials.

Section 7.05. Complaint Handling Procedure. The Parties shall cooperate with each other in providing information necessary to respond to any inquiries and complaints concerning the Policies. All inquiries and complaints concerning the Policies received by CIC shall be forwarded immediately by email, facsimile or overnight mail to a contact person designated by the Reinsurer for reply. After consultation with CIC, except as provided below, the Reinsurer shall answer all inquiries and complaints received by it concerning the Policies. If the Reinsurer and CIC disagree as to the appropriate response to an inquiry or complaint, CIC shall be entitled to assume, at its own expense, the control of the handling of the response to such inquiry or complaint (a "Disputed Complaint"), including employment of counsel. CIC shall apprise the Reinsurer of and consult with the Reinsurer with respect to the progress of a Disputed Complaint. In exercising such control, CIC shall act in good faith with respect to similar inquiries or complaints. Any payment arising out of a Disputed Complaint controlled by CIC, to the extent such payment constitutes an Extra-Contractual Liability, shall be added to the Policy Liabilities and shall be unconditionally binding on the Reinsurer; provided, however, that if CIC receives an offer of settlement or compromise from the other parties to a Disputed Complaint for a specific amount or obtains a commitment from such other parties that they would accept a compromise or settlement requiring only the payment of a specific amount, the granting of an appropriate release or similar accommodation, and CIC, after mandatory consultation with and over the objection of the Reinsurer, refuses to consent thereto and elects to continue to dispute or otherwise pursue such Disputed Complaint, then the liability of the Reinsurer with respect to such Disputed Complaint shall be deemed limited to that amount including expenses for which CIC would have been liable if such compromise and settlement had been accepted by CIC. Upon answering such inquiries or complaints, the Reinsurer shall furnish CIC with a copy of the complaint file. The Reinsurer shall be solely responsible for maintaining any complaint files, complaint registers or other reports of any kind, that are required to be maintained under applicable Law.

Section 7.06. Filings. The Reinsurer shall be responsible for all compliance and regulatory matters relating to the administration of the Policies, including monitoring changes in applicable Law, filing and refiling forms and rates, and preparing and filing all reports and other filings required by applicable Law. The Reinsurer shall provide to CIC copies of all reports and filings with respect to the Policies required to be made with any Governmental Authority.

Section 7.07. Communications Relating to Policies. On and after the Effective Time, CIC shall forward promptly to the Reinsurer all notices and other written communications received by it relating to the Policies (including all inquiries or complaints from Governmental Authorities, agents, brokers and insureds and all notices of claims, suits and actions for which it receives service of process). CIC shall be entitled to retain copies of all such materials.

Section 7.08. Inspection. Each Party hereto and its respective authorized representatives

shall have the right, upon prior written notice, at reasonable times during normal business hours, to inspect and review all books, records, accounts, reports, tax returns, files and information of the other party hereto reasonably relating to this Agreement. The Parties shall keep all non-public information received from the other Party strictly confidential, and unless otherwise required by applicable Law or Governmental Authority, shall not disclose any of the same without obtaining the prior approval of the Party providing the information. The rights of the Parties under this Section 7.08 shall survive termination of this Agreement.

ARTICLE VIII
REGULATORY APPROVALS; STATEMENT CREDIT

Section 8.01. Regulatory Approvals. The consummation of this Agreement and the transactions contemplated hereby are expressly contingent upon and subject to obtaining any and all such approvals and consents as may be required by applicable Law, regulation, or from the Conservation Court and any Governmental Authority. No provision in this Agreement shall be deemed to require any Party hereto to take any action prohibited by applicable Law, regulation, or Governmental Authority. The form of any application for any such approvals or consents as may be required by applicable Law, regulation, or Governmental Authority shall be approved by CIC and the Reinsurer prior to the filing of any such application.

Section 8.02. Statement Credit. The Reinsurer shall at its own expense take all actions reasonably necessary to permit CIC to obtain full financial statement credit in all applicable jurisdictions for the reinsurance provided to it by the Reinsurer and the assumptions by novation pursuant to this Agreement, including, if necessary, posting acceptable security.

ARTICLE IX
INDEMNIFICATION

Section 9.01. Indemnification by the Reinsurer. The Reinsurer shall indemnify, defend and hold CIC harmless from and against all Policy Liabilities and all losses, liabilities, claims, damages and expenses (including reasonable attorneys' fees and expenses) that are based upon or arise out of the breach of any obligation of the Reinsurer provided for in this Agreement.

Section 9.02. Indemnification by CIC. CIC shall indemnify the Reinsurer against, and hold Reinsurer harmless from, all losses, liabilities, claims, damages and expenses (including reasonable attorneys' fees and expenses) that are based upon or arise out of the breach of any obligation of CIC provided for in this Agreement.

ARTICLE X
INSOLVENCY

Section 10.01. Payments by the Reinsurer. With respect to any Policy, the Reinsurer hereby agrees that all amounts due under this Agreement with respect to the Policies shall be payable by the Reinsurer to any conservator, liquidator, or statutory successor of CIC on the basis

of the claims allowed against CIC by any court of competent jurisdiction or by any conservator, liquidator, or statutory successor of CIC having authority to allow such claims, without diminution because of that insolvency; or because the conservator, liquidator, or statutory successor has failed to pay all or a portion of any claims. Payments by the Reinsurer as set forth in this Section 10.01 shall be made directly to CIC or to its conservator, liquidator, or statutory successor, except where the Policy specifically provides another payee of such reinsurance in the event of the insolvency of CIC.

Section 10.02. Claims. It is agreed that in the event of the insolvency of CIC, the liquidator, receiver or other statutory successor of CIC shall give prompt written notice to the Reinsurer of the pendency or submission of a Claim under the Policies reinsured and assumed hereunder. During the pendency of such claim, the Reinsurer may investigate such Claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense available to CIC or its receiver. The expense thus incurred by the Reinsurer is chargeable against CIC, subject to any court approval, as a part of the expense of insolvency, liquidation, or rehabilitation to the extent of a proportionate share of the benefit which accrues to CIC solely as a result of the defense undertaken by the Reinsurer.

Section 10.03. Amounts Due under the Policies. All amounts due under the Policies shall be payable by the Reinsurer on the basis of the liability of the Reinsurer under the Policies, without diminution because of the insolvency of CIC. Any benefits or amounts due to insureds with respect to a Policy shall be paid or performed by the Reinsurer in accordance with the Policy.

ARTICLE XI
ARBITRATION

Section 11.01. Conciliation. If a dispute between the Parties relating to this Agreement is not resolved within ten (10) Business Days from the date that a Party has notified the other Party that such dispute exists, then such dispute shall be submitted on the next Business Day for conciliation to a senior executive officer or his or her designee of each Party. If such senior executive officers are unable to resolve the dispute within fifteen (15) Business Days from the date that it is first presented to them, then such dispute shall be referred to binding arbitration.

Section 11.02. Arbitration. In the event of any dispute between the Parties hereto relating to, arising out of, or in connection with any provision of this Agreement (hereinafter a "Dispute"), the Parties to this Agreement and their representatives, designees, successors and assigns agree that any such Dispute shall be settled by binding arbitration to take place in California.

Section 11.03. Appointment of Arbitrator. Any arbitration hereunder shall be conducted by a single arbitrator chosen from the panel of arbitrators of the Judicial Arbitration & Mediation Services ("JAMS") with experience and expertise in the workers' compensation insurance business. If a JAMS arbitrator with specific experience in the workers' compensation insurance business is not available, the arbitrator must have general experience in the property and casualty insurance industry. Within ten (10) days of notice of a Dispute from CIC to Reinsurer or notice from Reinsurer to CIC, CIC and Reinsurer shall use their best efforts to choose a mutually

agreeable arbitrator. If CIC and the Reinsurer cannot agree on an arbitrator, the arbitrator shall promptly be selected by JAMS.

Section 11.04. Procedures. The Party submitting a Dispute to arbitration hereunder shall present its case to the arbitrator and the other Party hereto in written form within twenty (20) days after the appointment of the arbitrator. The other Party hereto shall then have twenty (20) days to submit a written response to the arbitrator and the original party who submitted the Dispute to arbitration. After timely receipt of each Party's case, the arbitrator shall have twenty (20) days to render his or her decision.

Section 11.05. Judicial Formalities. The arbitrator is relieved from judicial formalities and, in addition to considering the rules of law, the limitations contained in this Agreement and the customs and practices of the workers' compensation insurance industry, shall make his or her award with a view to effectuating the intent of this Agreement.

Section 11.06. Decisions Final. The decision of the arbitrator shall be final and binding upon the Parties, and judgment may be entered thereon in a court of competent jurisdiction.

Section 11.07. Costs. Each Party shall bear its own cost of arbitration, and the costs of the arbitrator shall be shared equally by the Parties.

Section 11.08. Equitable Relief. Sections 11.01 and 11.02 shall not apply to any claim for equitable relief, including, without limitation, claims for specific performance, a preliminary injunction, or a temporary restraining order. Such claims shall be submitted to a court of competent jurisdiction, and neither Party shall be required to post any bond or other security. If a Party chooses to pursue equitable relief, such conduct shall not constitute a waiver of, or be deemed inconsistent with, the arbitration provisions set forth in this Article XI. Once the claims for equitable relief are finally decided, any and all remaining claims shall be submitted to arbitration pursuant to Section 11.02 and the arbitrator shall be bound by the findings and rulings of the court on the claims for equitable relief.

Section 11.09. Survival of Article. This Article XI shall survive termination of this Agreement.

ARTICLE XII
MISCELLANEOUS

Section 12.01. Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered by hand by certified process server, certified or registered mail (postage prepaid and return receipt requested), by a nationally recognized overnight courier service (appropriately marked for overnight delivery) or by facsimile (with request for immediate confirmation of receipt in a manner customary for communications of such respective type). Notices shall be effective upon receipt and shall be addressed as follows:

If to the Reinsurer:

with a copy to:

If to the Commissioner, the Conservator or CIC, to:

California Insurance Company in Conservation
c/o Conservation & Liquidation Office
100 Pine Street, 12th Floor
San Francisco, CA 94111
Attention: Joe Holloway, CEO

with copies to:

California Department of Insurance
1901 Harrison Street, 6th Floor
Oakland, CA 94612
Attention: Kenneth B. Schnoll, Esq.

Orrick, Herrington & Sutcliffe LLP
400 Capitol Mall, Suite 300
Sacramento, CA 95814-4407
Attention: Cynthia Larson, Esq.

10805 Old Mill Road
Omaha, NE 68154
Attention: Jeffrey A. Silver

DLA Piper, LLP
555 Mission Street, Suite 2400
San Francisco, CA 94105
Attention: Shand S. Stephens, Esq

All notices and other communications required or permitted under the terms of this Agreement that are addressed as provided in this Section shall (i) if delivered personally or by overnight express, be deemed given upon delivery; (ii) if delivered by facsimile transmission, be deemed given when electronically confirmed; and (iii) if sent by registered or certified mail, be deemed given when received. Any Party from time to time may change its address for notice purposes by giving a similar notice specifying a new address, but no such notice shall be deemed to have been given until it is actually received by the party sought to be charged with the contents thereof.

Section 12.02. Entire Agreement. This Agreement (including the Exhibits and Schedules hereto) and the Transaction Documents contain the entire agreement and understanding among the Parties with respect to the transactions contemplated hereby, and supersedes all prior agreements

and understandings, written or oral, with respect thereto.

Section 12.03. Expenses. Except as otherwise expressly provided in this Agreement, whether or not the transactions contemplated hereby are consummated, each of the Parties hereto shall pay its own costs and expenses incident to preparing for, entering into and carrying out this Agreement and the consummation of the transactions contemplated hereby.

Section 12.04. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Parties.

Section 12.05. No Third-Party Beneficiary. Except as otherwise specifically provided in this Agreement, nothing in this Agreement is intended or shall be construed to give any person, other than the Parties hereto, their successors and permitted assigns, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provisions contained herein.

Section 12.06. Amendment. This Agreement may only be amended or modified by a written instrument executed on behalf of the Parties hereto and any such amendment shall be subject to receipt of any and all consents, approvals, permits and authorizations required to be obtained from Governmental Authorities.

Section 12.07. Assignment; Binding Effect. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by either of the Parties hereto without the prior written consent of the other Party, and any such assignment that is attempted without such consent shall be null and void. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the Parties and their respective successors and permitted assigns.

Section 12.08. Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under any present or future Law, and if the rights or obligations of the Parties under this Agreement will not be materially and adversely affected thereby, (a) such provision shall be fully severable; (b) this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part hereof; and (c) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance herefrom.

Section 12.09. Duty of Cooperation. Each Party hereto shall cooperate fully with the other party hereto in all reasonable respects in order to accomplish the objectives of this Agreement.

Section 12.10. Governing Law. This Agreement shall be governed by and construed in accordance with the Law of the State of California.

Section 12.11. Waiver. Any term or condition of this Agreement may be waived in

writing at any time by the Party that is entitled to the benefit thereof. A waiver on one occasion shall not be deemed to be a waiver of the same or any other breach or nonfulfillment on a future occasion. All remedies, either under the terms of this Agreement, or by Law or otherwise afforded, shall be cumulative and not alternative, except as otherwise provided by Law.

Section 12.12. Errors and Omissions. Inadvertent delays, errors or omissions that occur or are made in connection with the transactions contemplated by this Agreement shall not relieve any Party from any liability that would have attached had such delay, error or omission not occurred, provided that such error or omission is rectified by the Party making such error or omission as soon as possible after discovery thereof and such error or omission does not prejudice any other Party.

Section 12.13. Interpretation. For purposes of this Agreement, the terms "hereof", "herein", "hereto", "hereunder", and derivative or similar words refer to this Agreement (including the exhibits hereto) as a whole unless otherwise indicated. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". Whenever the singular is used herein, the same shall include the plural, and whenever the plural is used herein, the same shall include the singular, where appropriate. The headings used in this Agreement have been inserted for convenience and do not constitute matter to be construed or interpreted in connection with this Agreement.

Section 12.14. Business Associate. In performing functions, activities, or services for, or on behalf of CIC involving the use or disclosure of Protected Health Information, as that term is defined in 45 CFR 164.501, the Reinsurer shall comply with the Business Associate Addendum set forth in Schedule 12.14 hereto.

IN WITNESS WHEREOF, CIC and the Reinsurer have each executed this Agreement as of the date first written above.

CALIFORNIA INSURANCE COMPANY

By:_____

[REINSURER]

By:_____

SCHEDULE 2.01

CALIFORNIA INSURANCE COMPANY POLICIES

The Policies identified by contract number:

SCHEDULE 7.02

SERVICES

The Reinsurer, or the third-party administrator on behalf of the Reinsurer shall perform, consistent with applicable Law and the terms of the Policies, all services reasonably necessary for, and incident to the proper management and administration of, the Policies, including but not limited to the following services:

A. All policyholder services relating to the Policies including the following:

1. Billing and collection of premiums for Policies;

2. Setting renewal rates for the Novated Policies in a manner consistent with the rates and rating plans filed by CIC with applicable Governmental Authorities;

3. Handle policyholder service requests (including adding new employees to Policies, deleting insureds from Policies), inquiries and complaints relating to the Policies;

4. Preparation and mailing of premium notices on a timely basis to policyholders of the Policies; transmission of additional premium notices, lapse notices, reinstatement offers and other notices to policyholders of the Policies;

5. Underwriting and processing of any and all policy changes and reinstatements;

6. Policyholder mailings of any necessary endorsements or other contract documents;

7. Preparation of quarterly financial statement data (within ten (10) Business Days after the end of a calendar quarter) and annual financial statement data (within thirty-five (35) calendar days after the end of the calendar year), for inclusion in CIC's financial statements;

8. Administration of any agreement providing for the payment of commissions relating to any Policy; and

9. Development, as necessary, and maintenance of computer systems required to provide the Services.

SCHEDULE 12.14

BUSINESS ASSOCIATE ADDENDUM

This Business Associate Addendum (the "Addendum") supplements and is made a part of the Assumption Reinsurance and Administration Agreement (the "Agreement") by and between California Insurance Company ("CIC'') and _____, a/an _____ domiciled property and casualty insurance company (the "Reinsurer"), and is effective as of the effective date of the Agreement.

Recitals

A. CIC may disclose certain information to the Reinsurer pursuant to the terms of the Agreement, some of which may constitute Protected Health Information, as defined below.

B. The parties intend to protect the privacy and provide for the security of Protected Health Information in compliance with the Health Insurance Portability and Accountability Act of 1996, Public Law No. 104-191 ("HIPAA") and the regulations promulgated thereunder by the U.S. Department of Health and Human Services (the "HIPAA Regulations") and other applicable laws.

C. The purpose of this Addendum is to satisfy certain standards and requirements of HIPAA and the HIPAA Regulations, including, but not limited to, 45 CFR 164.502(e) and 45 CFR 164.504(e).

In consideration of the mutual promises below and the exchange of information pursuant to the Agreement and this Addendum, the parties agree as follows:

1. Definitions

(a) "Business Associate" means the Reinsurer to the extent it performs functions, activities, or services for, or on behalf of, CIC pursuant to the Agreement involving the use or disclosure of Protected Health Information.

(b) "Covered Entity" means CIC.

(c) "Privacy Rule" means the Standards for Privacy of Individually Identifiable Health Information at 45 CFR part 160 and part 164, subparts A and E.

(d) "Protected Health Information" has the same meaning as the term "protected health information" in 45 CFR 164.501, limited to the information created or received by Business Associate from or on behalf of Covered Entity.

(e) Capitalized terms used but not otherwise defined in this Addendum have the same meaning as those terms in the Privacy Rule.

2. Obligations and Activities of Business Associate

(a) Business Associate shall not use or disclose Protected Health Information other than as permitted or required by this Addendum or as Required By Law.

(b) Business Associate shall use appropriate safeguards to prevent use or disclosure of the Protected Health Information other than as provided for by the Agreement and this Addendum.

(c) Business Associate agrees to mitigate, to the extent practicable, any harmful effect that is known to Business Associate of a use or disclosure of Protected Health Information by Business Associate in violation of the requirements of this Addendum.

(d) Business Associate shall report to Covered Entity any use or disclosure of the Protected Health Information not provided for by this Addendum of which it becomes aware.

(e) Business Associate shall ensure that any agent, including a subcontractor, to whom it provides Protected Health Information received from, or created or received by Business Associate on behalf of, Covered Entity agrees to the same restrictions and conditions that apply through this Addendum to Business Associate with respect to such information.

(f) Business Associate shall provide access, at the request of Covered Entity, and in the time and manner designated by Covered Entity, to Protected Health Information in a Designated Record Set, to Covered Entity or, as directed by Covered Entity, to an Individual in order to meet the requirements under 45 CFR 164.524.

(g) Business Associate agrees to make any amendment(s) to Protected Health Information in a Designated Record Set that the Covered Entity directs or agrees to pursuant to 45 CFR 164.526 at the request of Covered Entity or an Individual, and in the time and manner designated by Covered Entity.

(h) Business Associate agrees to make its internal practices, books, and records, including policies and procedures, relating to the use and disclosure of Protected Health Information received from, or created or received by Business Associate on behalf of, Covered Entity available to the Secretary, in a time and manner designated by the Secretary, for purposes of the Secretary determining Covered Entity's compliance with the Privacy Rule.

(i) Business Associate agrees to document such disclosures of Protected Health Information and information related to such disclosures as would be required for Covered Entity to respond to a request by an Individual for an accounting of disclosures of Protected Health Information in accordance with 45 CFR 164.528.

(j) Business Associate agrees to provide to Covered Entity, in the time and manner

designated by Covered Entity, information collected in accordance with Section (2)(i) of this Addendum, to permit Covered Entity to respond to a request by an Individual for an accounting of disclosures of Protected Health Information in accordance with 45 CFR 164.528.

3. Permitted Uses and Disclosures by Business Associate General Use and Disclosure Provisions

Except as otherwise limited in this Addendum, Business Associate may use or disclose Protected Health Information to perform functions, activities, or services for, or on behalf of, Covered Entity as specified in the Agreement, provided that such use or disclosure would not violate the Privacy Rule if done by Covered Entity.

4. Specific Use and Disclosure Provisions

(a) Except as otherwise limited in this Addendum, Business Associate may use Protected Health Information for the proper management and administration of Business Associate or to carry out the legal responsibilities of Business Associate.

(b) Except as otherwise limited in this Addendum, Business Associate may disclose Protected Health Information for the proper management and administration of Business Associate, provided that disclosures are Required By Law, or Business Associate obtains reasonable assurances from the person to whom the information is disclosed that it will remain confidential and used or further disclosed only as Required By Law or for the purpose for which it was disclosed to the person (which purpose shall be consistent with the limitations imposed by this Addendum) and the person notifies the Business Associate of any instances of which it is aware in which the confidentiality of the information has been breached.

(c) Except as otherwise limited in this Addendum, Business Associate may use Protected Health Information to provide Data Aggregation services to Covered Entity as permitted by 42 CFR 164.504(e)(2)(i)(B).

(d) Business Associate may use Protected Health Information to report violations of Law to appropriate Federal and State authorities, consistent with 45 CFR 164.502G)(l).

5. Obligations of Covered Entity Provisions for Covered Entity to Inform Business Associate of Privacy Practices and Restrictions

(a) Covered Entity shall notify Business Associate of any limitation in its notice of privacy practices in accordance with 45 CFR 164.520, to the extent that such limitation may affect Business Associate's use or disclosure of Protected Health Information.

(b) Covered Entity shall notify Business Associate of any changes in, or revocation of,

permission by an Individual to use or disclose Protected Health Information, to the extent that such changes may affect Business Associate's use or disclosure of Protected Health Information.

(c) Covered Entity shall notify Business Associate of any restriction on the use or disclosure of Protected Health Information that Covered Entity has agreed to in accordance with 45 CFR 164.522, to the extent that such restriction may affect Business Associate's use or disclosure of Protected Health Information.

(d) Covered Entity shall not request Business Associate to use or disclose Protected Health Information in any manner that would not be permissible under the Privacy Rule if done by Covered Entity, except as permitted by Sections 4(b) and 4(c) of this Addendum.

6. Term and Termination

(a) This Addendum shall be effective as of the effective date of the Agreement, and shall terminate when all of the Protected Health Information provided by Covered Entity to Business Associate, or created or received by Business Associate on behalf of Covered Entity, is destroyed or returned to Covered Entity, or, if it is infeasible to return or destroy Protected Health Information, protections are extended to such information, in accordance with the termination provisions in this Section.

(b) Upon Covered Entity's knowledge of a material breach of this Addendum by Business Associate, Covered Entity shall either: (i) provide an opportunity for Business Associate to cure the breach or end the violation and terminate this Addendum, and the provision for performance of functions, activities, or services for, or on behalf of Covered Entity under the Agreement, if Business Associate does not cure the breach or end the violation within the time specified by Covered Entity; (ii) immediately terminate this Addendum, and the provision for performance of functions, activities, or services for, or on behalf of Covered Entity under the Agreement, if Business Associate has breached a material term of this Addendum and cure is not possible; or if neither termination nor cure is feasible, report the violation to the Secretary.

(c) Effect of Termination.

(i) Except as provided in paragraph (ii) of this section, upon termination of this Addendum, for any reason, Business Associate shall return or destroy all Protected Health Information received from Covered Entity, or created or received by Business Associate on behalf of Covered Entity, and shall retain no copies of the Protected Health Information. This provision shall apply to Protected Health Information that is in the possession of subcontractors or agents of Business Associate.

(ii) In the event that Business Associate determines that returning or destroying

the Protected Health Information is infeasible, Business Associate shall provide to Covered Entity notification of the conditions that make return or destruction infeasible. Upon mutual agreement that return or destruction of Protected Health Information is infeasible, Business Associate shall extend the protections of this Addendum to such Protected Health Information and limit further uses and disclosures of such Protected Health Information to those purposes that make the return or destruction infeasible, for so long as Business Associate maintains such Protected Health Information.

7. Miscellaneous

(a) Regulatory References. A reference in this Addendum to a section in the Privacy Rule means the section as in effect or as amended.

(b) Amendment. The Parties agree to take such action as is necessary to amend this Addendum from time to time as is necessary for Covered Entity to comply with the requirements of the Privacy Rule and the HIPAA.

(c) Survival. The respective rights and obligations of Business Associate under Section 6(c) of this Addendum shall survive the termination of this Addendum.

(d) Interpretation. The provisions of this Addendum shall prevail over any provisions in the Agreement that may conflict with or appear inconsistent with any provision of this Addendum. Any ambiguity in this Addendum shall be resolved to permit Covered Entity to comply with the Privacy Rule.

EXHIBIT A

NOTIFICATION MATERIALS

NOTICE OF TRANSFER

Dear Policyholder:

This notifies you of an agreement reached between California Insurance Company ("CIC") and _____, a/an _____ domiciled property and casualty Insurance Company ("Reinsurer"), for the transfer of your California workers' compensation insurance policy from CIC to Reinsurer. This assumption will be effective as of 12:01 a.m. Pacific Time, on _____, 2020. Your policy is being transferred from CIC to Reinsurer pursuant to the terms and subject to the conditions set forth in a Rehabilitation Plan relating to the conservation of CIC and as ordered by the Conservation Court supervising the conservation of CIC.

The Reinsurer is authorized to provide workers' compensation insurance in California. To introduce you to the Reinsurer, attached is a summary of essential information about Reinsurer.

Your rights as a policyholder and the terms of your policy will not change as a result of the transfer. Additionally, your benefits will not change as a result of the transfer. Upon the effective date of the policy transfer, Reinsurer will provide your coverage. It will have direct responsibility for the payment of all claims and benefits and for all other policy obligations.

You have the following options with regard to the assumption of your policy:

Option 1. Accept the transfer of your policy from CIC to Reinsurer.

Option 2. Object to the Rehabilitation Plan and the proposed transfer of your policy from CIC to Reinsurer. If you choose this option, you will have the opportunity to appear before the Conservation Court to object to the Rehabilitation Plan and the transfer of your policy from CIC to Reinsurer.

CIC and Reinsurer recommend that you choose Option 1.

If you wish to choose Option 1, simply do not return the Rejection Form and you will automatically be deemed to have accepted this option as of [date]. You should then attach the [enclosed] Certificate of Assumption [that you will be receiving under separate cover] to your policy.

If you wish to choose Option 2, you must complete the enclosed Rejection Form, sign it and return it within 30 days of this Notice. If you do not return the Rejection Form within that time, you will be deemed to have accepted the transfer of your policy. [You should also return the [enclosed] Certificate of Assumption.]

In considering whether to accept the assumption, please note as of the date of the agreement between CIC and Reinsurer, CIC will withdraw entirely from the California insurance market and cease offering workers' compensation insurance in California. Please also note that the Reinsurer will be responsible for the administration of the CIC California workers' compensation insurance policies after CIC withdraws completely from the California market. As a result, if you reject the assumption, although CIC would remain legally responsible for its policy obligations to you, Reinsurer will be responsible for administering your CIC policy until your insurance terminates.

The enclosed Certificate of Assumption should be attached to your policy unless you choose to reject the assumption of your policy.

Your current and future premiums should be paid as indicated by your premium notices.

If you have any questions about the assumption of your policy or about CIC or [Reinsurer] _____, please feel free to call CIC at _____. Written inquiries may be mailed to: CIC at [Address], [City], [State] [Zip Code].

Sincerely,

_____ _____

CALIFORNIA INSURANCE COMPANY

[REINSURER]

CERTIFICATE OF ASSUMPTION

You are hereby notified that [Reinsurer] _____ has, effective as of _____, 2020 (the "Effective Time"), assumed all rights, liabilities, and obligations of CIC under your workers' compensation insurance policy with CIC.

From and after the Effective Time, all references in your policy or certificate to "CIC" are hereby changed to [Reinsurer] "_____". Except for the substitution of [Reinsurer] _____ for CIC as your insurer, your rights as an insured will not be affected by the change in companies, and the terms and conditions of your policy or certificate will not be changed by reason of the assumption.

All correspondence and inquiries concerning your policy or certificate, including premium payments, policy or certificate changes, and notices of claims, should be submitted to:

[Reinsurer]
[Street Address]
[City], [State [Zip Code]

This Certificate of Assumption, as of the Effective Time, forms a part of and should be attached to the policy or certificate issued to you by CIC.

IN WITNESS WHEREOF, _____ has caused this Certificate of Assumption to be duly signed and issued.

_____
[Reinsurer]

NOTICE OF REJECTION OF ASSUMPTION

To: California Insurance Company

REJECTION

I have reviewed the Notice of Transfer and the Certificate of Assumption whereby [Reinsurer] would assume all of the rights, liabilities, and obligations of California Insurance Company under my workers' compensation insurance policy previously issued by California Insurance Company.

I hereby notify you that I REJECT the proposed assumption of my policy and the substitution of [Reinsurer] thereunder, and I wish to retain my policy with California Insurance Company.

DATE:

_____
Policyholder Signature

_____
Print or Type Name

_____
California Insurance Company Policy ID #

EXHIBIT B

MANAGEMENT SERVICES AGREEMENT

This Management Services Agreement ("Agreement") is made by and between CALIFORNIA INSURANCE COMPANY ("the Company") and APPLIED UNDERWRITERS, INC. ("AUI").

The Company desires that AUI perform certain services for the Company in the conduct of the Company's insurance operations. The Company is organized under the laws of the state of California and is subject to regulation by the California Department of Insurance. Therefore, in consideration of the mutual agreements described in this Agreement, the Company and AUI agree as follows:

I. APPOINTMENT OF MANAGER

The Company and AUI agree that AUI will perform services for the Company as described in this Agreement in the manner provided in this Agreement.

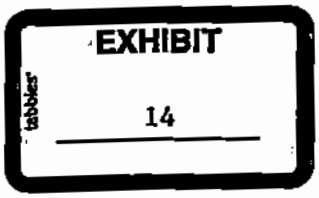
AUI will perform the services under this Agreement with the same standards of care, prudence and diligence which it exercises in the performance of its own responsibilities. In the performance of the duties hereunder, AUI will always be subject to the direction and supervision of the Company's Board of Directors, its Executive and Investment Committees and the instruction of appropriate officers of the Company.

II. DUTIES

A. MANAGEMENT SERVICES

1. Accounting Services, Financial Statements and Tax Returns. AUI will provide the necessary and appropriate financial services, including general accounting services, services necessary to support customary internal auditing and treasury functions, payroll services, the preparation of all required tax returns and reports (federal, state and local), the preparation of the annual statement of the Company, the preparation of all books of account and other records necessary to reflect and report the financial condition of the Company (said books of account and other records to be in conformity with the accounting practices prescribed or permitted by the California Insurance Department which conform in all material respects with statutory accounting principles), provided that all such books of account and records will at all times be the property of the Company and will be surrendered by AUI to the Company on request.

2. Actuarial Services. AUI will provide all requisite actuarial services, including but not limited to, product development support services, actuarial accounts services, financial and product services, valuation services, and other usual and customary actuarial



services.

3. Claims Services. AUI will provide the necessary and appropriate investigation, adjustment, defense and payment of claims arising from any Company policy of insurance pursuant to claims handling standards and procedures approved by the Company, provided that no claim payment in excess of $100,000 may be authorized without the prior approval of a Company officer at or above the level of Vice President, and provided further that the officers of the Company will monitor the claims handling services provided on the Company's behalf and the Company will retain the ultimate responsibility for all adjustments and claim payments made on its behalf.

4. Reinsurance. AUI will provide the necessary and appropriate reinsurance services to include securing of reinsurance, placing it into effect, controlling its termination, its valuation, the preparation and payment of accounts and any administrative matter concerning reinsurance transactions assumed or ceded.

5. Accounts Receivable. AUI will collect all funds due the Company. AUI will use due diligence in the collection of accounts but will be responsible to the Company only for premiums which are actually collected. AUI will regularly account to the Company on monies received by AUI on behalf of the Company. Due diligence in the collection of accounts receivable will mean regular contact of persons owing money to the Company with the demand for payment and maintenance of records adequate to enforce any debts owed. Due diligence will not include any enforcement of the debts owed.

6. Deposits of Monies Received. AUI will immediately deposit into accounts of the Company maintained for that purpose all monies received by AUI for the Company.

7. Accounts Payable. AUI will make payments of the accounts payable of the Company which are incurred by the Company in the ordinary course of business and which represent expenses of the Company in areas for which AUI is responsible under this Agreement. For that purpose, AUI may be designated as the signatory on certain depository and checking accounts of the Company. AUI will provide regular accounting to the Company of the payments which AUI has paid.

8. Underwriting. AUI will perform such underwriting services as the Company will from time to time request. Underwriting services will include the review of applications for policies of insurance, making decisions on coverage, follow up with applicants for additional information and working with reinsurers of the Company as requested. Certain underwriting services to be performed by AUI may be delegated to a third party upon approval of such third parties and the terms of the delegation by the Company. AUI will comply with all guidelines set forth by the Company with respect to underwriting, the acceptance or rejection of certain classes of business, the scope of coverage and the provisions of the coverage document or related to the issuance of policies.

9. Computer Equipment, Computer Systems and Software. AUI will provide the

Company with all of the necessary computer equipment, computer systems and software services as required to service the various functions of the Company's business. All of the computer records and software programs will remain the property of the Company.

10. Expenses Arising in Management Services. AUI will pay all expenses which it incurs in the performance of its duties for the Company under Section A. The Company will pay all expenses which it incurs, including the expenses of printing, premium auditing, financial statements, claims auditing, legal services, reinsurance premiums and premiums for any other insurances purchased by the Company or as is set forth elsewhere in this Agreement.

11. Purchasing and Mail Services. AUI will provide the officers of the Company with purchasing and mail handling functions as may be required by the Company in the normal course of business.

12. Personnel and Administrative Services. AUI will provide the officers of the Company with necessary and appropriate personnel, administrative, office and building services.

B. INVESTMENT SERVICES

1. Accounting and Bookkeeping Services. AUI will provide investment accounting and bookkeeping services to the Company and maintain and preserve such investment accounts, books and other records as may be required of the Company by state insurance law or other applicable statutes, rules or regulations, provided that all such accounts, books and other records will at all times be the property of the Company and will be surrendered by AUI to the Company on request.

2. Purchases and Sales. AUI will at the request of the investment officers of the Company purchase, manage, convert, exercise, sell or otherwise deal with or dispose of the Company's assets consistent with the Company's investment objectives and policies. In placing securities brokerage transactions for the Company, AUI will seek execution by responsible brokerage firms at reasonably competitive rates.

3. Reports. AUI will from time to time or at any time requested by the Company's Board of Directors or its Investment Committee, make reports to such Board or Committee of its performance of the foregoing services and furnish advice and recommendations with respect to any investment-related aspect of the business and affairs or the Company.

C. LOSS PREVENTION

AUI will arrange for and coordinate loss prevention services as agreed with the Company, including furnishing assistance and professional consultation to participating insureds, in developing loss prevention systems, making inventories and surveys regarding

exposures and risks covered under the Company program, analyzing claim causes and trends, including frequency and severity, developing and conducting training programs and other information for loss prevention. The type of services which will be provided to individual insureds to help them to develop loss prevention systems will include review and analysis of past claims, management controls and development of recommendations to improve risk management.

III. COMPENSATION

In consideration of the services rendered by AUI pursuant to this Agreement, the Company will reimburse AUI for actual expenses incurred. The amount will be payable quarterly in arrears based on the actual expenses incurred and reconciled annually.

IV. DURATION AND TERMINATION OF THIS AGREEMENT.

The Agreement will remain in force for one year after its effective date and from year to year thereafter until terminated at any time, upon sixty (60) days written notice, by authorized officers of either the Company or AUI.

The rights, obligations, duties and authority under this Agreement are not assignable and this Agreement will automatically terminate in the event of its assignment.

Within sixty (60) days of termination of this Agreement, all books and records in the possession of AUI which relate to the business of the Company will be transferred to the Company.

V. OWNERSHIP OF RECORDS

AUI will maintain separately all appropriate records, files, ledgers and reports so as to accurately reflect at all times the financial transactions of the Company. All records of any kind relating to claims, premiums, insureds, policyholders, policies, loss experience, reinsurance applications or underwriting or management services will be the property of the Company and will be available for inspection or audit by the Company or its representatives at any time during this Agreement.

VI. MISCELLANEOUS

This Agreement will be construed in accordance with the laws of the State of

California. The provisions of this Agreement may be executed simultaneously in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

All services rendered pursuant to this Agreement will be performed in full accordance with all applicable insurance laws and regulations.

This Agreement contains the entire agreement of the parties hereto and no prior representation, inducement, promises or agreements, oral or otherwise, between the parties not embodied herein will be of any force or effect.

THIS AGREEMENT SIGNED on the 26 day of July, 2005 effective for the year 2005 and each year thereafter until terminated by the terms herein contained.

IN WITNESS WHEREOF, the parties have caused the signature of their duly authorized officers to be hereto affixed.

APPLIED UNDERWRITERS, INC.	CALIFORNIA INSURANCE COMPANY
By: _____	By: _____
Printed Name: Steven Menzies	Printed Name: Sidney Ferenc
Title: President	Title: President

EXHIBIT C

ADDENDUM NO. 1
TO
MANAGEMENT SERVICES AGREEMENT
BY AND BETWEEN
CALIFORNIA INSURANCE COMPANY
AND
APPLIED UNDERWRITERS, INC.
DATED
JULY 26, 2005

This Addendum No. 1 to the Management Services Agreement by and between CALIFORNIA INSURANCE COMPANY (the "Company") and APPLIED UNDERWRITERS, INC. ("AUI") dated July 26, 2005 (the "Agreement") is amended as follows:

1. The first paragraph of Article IV, Duration And Termination Of This Agreement is deleted and replaced by the following:

> The Agreement will remain in force for two (2) years from September 30, 2019 and automatically renew for successive two (2) year periods thereafter unless nonrenewed by either party notifying the other one (1) year before expiration of the then current term of its intent to nonrenew the Agreement.

2. All other terms and conditions of the Agreement not modified by this Addendum No. 1 are hereby ratified and confirmed.

APPLIED UNDERWRITERS, INC.

By: _____
Printed Name: Steven M. Menzies
Title: President
Date: September 3, 2019

CALIFORNIA INSURANCE COMPANY

By: _____
Printed Name: Jeffrey A. Silver
Title: Secretary
September 3, 2019

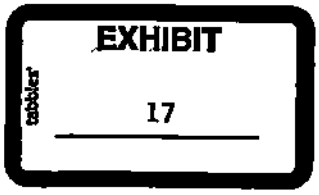


EXHIBIT D

STATE OF VERMONT

DEPARTMENT OF FINANCIAL REGULATION

In re:	)	
Continental Indemnity Company,	)	
NAIC Code 28258	)	
Applied Underwriters, Inc.	)	
Applied Risk Services Inc., VT License #283	)	
Applied Underwriters Captive Risk Assurance	)	
Company, Inc.	)	**Docket No. 15-026-I**
	)	

STIPULATION AND CONSENT ORDER

The Insurance Division of the Vermont Department of Financial Regulation (the "Department"), Continental Indemnity Company ("Continental"), Applied Underwriters, Inc. ("AUI"), Applied Risk Services Inc. ("ARS"), and Applied Underwriters Captive Risk Assurance Company, Inc. ("AUCRA") hereby stipulate and agree as follows:

1. Pursuant to the authority contained in 8 V.S.A. §§ 11, 12, 13, 4726 and 4804, the Commissioner of the Department is charged with administering and enforcing the insurance laws of the State of Vermont and is authorized to investigate insurers to determine compliance with these laws and regulations.

2. Continental, AUI, ARS, and AUCRA (collectively, "Respondents") acknowledge and admit the jurisdiction of the Commissioner over the subject matter of this Stipulation and

Consent Order set forth herein.

3. Continental is a foreign insurer domiciled in Iowa, with an address of record of 10805 Old Mill Rd, Omaha, NE 68154. Continental is licensed in the State of Vermont to issue accident and health, property and casualty, and workers' compensation insurance policies. Continental is an indirect subsidiary of Applied Underwriters, Inc. ("AUI").

4. AUI is a non-insurer with an address of record of 10805 Old Mill Rd, Omaha, NE 68154. AUI is not a licensed insurer authorized to enter in insurance contracts or engage in the insurance business in Vermont.

5. ARS is a non-resident producer firm holding Vermont License #283 with an address of record of 10805 Old Mill Rd, Omaha, NE 68154. ARS is a subsidiary of AUI.

6. AUCRA is a corporation organized and existing under the laws of the British Virgin Islands with its principal place of business in Omaha, Nebraska, and with an address of record of 10805 Old Mill Rd, Omaha, NE 68154. AUCRA also is a subsidiary of AUI. AUCRA is not a licensed insurer authorized to enter into workers' compensation insurance contracts or engage in the insurance business in Vermont.

7. The Department has conducted an investigation of the Respondents' role in the sale of workers' compensation coverage to Vermont resident businesses; specifically, sales of AUI's SolutionOne® product(s). From 2007 to the present, SolutionOne® with the SolutionOne® Profit-Sharing product[1] was sold to fifty-three (53) Vermont businesses seeking workers' compensation coverage and comprised 172 separate workers' compensation insurance policies. See Exhibit 1.

[1] "SolutionOne®" as used below will refer to the SolutionOne® product sold with the profit sharing component.

8. The SolutionOne® product is described in AUI's marketing materials as an integrated package combining workers' compensation with payroll services, risk management tools, and employment protection coverage, and was targeted to small- and medium-sized employers with workers' compensation premiums between $5,000 and $250,000. In 2007, AUI began marketing SolutionOne® primarily to small- and medium-sized Vermont businesses seeking workers' compensation coverage through Vermont licensed independent producers.

9. The Department's investigation revealed that, in fact, several distinct programs were sold in Vermont under the common registered name "SolutionOne." Per Respondents' nomenclature, these will be referred to as a "pooled" program, a "fixed cost" or "capped loss" program, and a "single risk" program. Each of the these consist of the following common components: (i) a guaranteed-cost workers' compensation policy issued by Continental as a licensed insurer in Vermont; (ii) a "profit sharing" component effected via a separate agreement described as a "reinsurance participation agreement" entered into between the insured and AUCRA; and (iii) payroll processing effected via a SolutionOne® Services Agreement with AUI.

10. However, the various SolutionOne® programs differed in significant ways. For example, in the so-called pooled version of SolutionOne® initially brought to the Department's attention by Vermont complainants, the loss experience of a range of heterogeneous small companies was aggregated in a single cell of AUCRA and then divided proportionately according to the relative premium amounts among the various insureds. There was a minimum base cost and maximum ceiling cost established at inception. This, combined with Applied's

methods for estimating future losses, resulted in several Vermont companies receiving unanticipated large assessments based on the loss experience of the heterogeneous pool.[2]

11. In contrast, the single risk version of SolutionOne® segregated the loss experience and a portion of premium of each individual insured to its own cell within AUCRA, whereby the credit or debit assessed on the insured was a function of the losses experienced by each such insured itself, with a minimum base cost and maximum ceiling cost established at inception.

12. Another key difference between the various SolutionOne® programs is whether additional assessments may be charged. The pooled and single risk versions of SolutionOne® allowed for additional assessments by AUI depending on the claims experience of the insureds aggregated in a single cell. In contrast, under the fixed cost/capped loss version of SolutionOne®, there is no possibility of an additional assessment, regardless of the insured's claims experience.

13. In each of the SolutionOne® programs, the guaranteed-cost workers' compensation component was effected by the issuance of Continental's workers' compensation policies using forms and rates that were filed and approved by the Department. However, the Department has concluded that all SolutionOne® Profit-Sharing transactions in Vermont – each effected via a separate "Reinsurance Participation Agreement" (RPA) with AUCRA – materially modified the terms of Continental's approved and filed guaranteed-cost workers' compensation policy, bypassing the required review and approval of the Department.

[2] Respondents have represented to the Department that new sales of this product were discontinued in all jurisdictions in July 2012.

14. In the case of the pooled and single risk products, the Department asserts that SolutionOne® de facto operated as a retrospective rating plan, replacing Continental's guaranteed-cost worker's compensation insurance policy with an unfiled, unapproved retrospective rating plan which had the potential for higher and unpredictable assessments should a certain level of claims occur. In the case of the fixed cost/capped loss program, SolutionOne® resembles a dividend plan, replacing Continental's guaranteed-cost worker's compensation insurance policy with an unfiled, unapproved plan holding out the promise of a refund of premium in the future depending on experience.

15. The Department acknowledges that Respondents fully cooperated with the Department to address the concerns of Vermont policyholders enrolled in SolutionOne®, including but not limited to providing requested information, voluntarily ceasing new sales of SolutionOne®, as well as ceasing assessments on Vermonters under SolutionOne® while a resolution was sought with the Department.

16. Respondents, without admitting the Department's allegations or conclusions and solely for the purpose of resolving this administrative action, being aware of the expenses, consumption of time and uncertainty inherent in litigation, have agreed to enter into this Stipulation and Consent Order with the Department on the terms and conditions hereinafter set forth in lieu of proceeding with a hearing, but agree not to contest their validity in the event of any future administrative or judicial action by or involving the Department. To the extent any violations may exist, Respondents deny any intentional wrongdoing.

VIOLATIONS OF LAW

17. As a result of its investigation the Department has concluded that, with regard to the sale of the SolutionOne® product, Respondents were not in compliance with Vermont insurance laws and regulations because:

a. While Continental used rates and forms approved by the Department for the guaranteed-cost workers' compensation component of SolutionOne®, because: (i) Continental policies were only sold in Vermont as part of the bundled SolutionOne package, which included a separate Reinsurance Participation Agreement (RPA) between Continental's affiliate AUCRA and the insured; and (ii) as a result of the separate RPA, the ultimate cost of the workers' compensation insurance could differ and other key contractual terms were materially different from the Continental guaranteed cost workers' compensation policy issued, therefore Respondents de facto engaged in the sale of an unfiled, unapproved insurance product in Vermont (See 8 V.S.A. § 3541);

b. The pooled and single risk SolutionOne® programs were not suitable for many of the Vermont businesses to which they were marketed, given the smaller premiums, unpredictable variations in claim frequency and claim size, and liquidity constraints of these businesses. (See 8 V.S.A. §§ 4723 and 4724(16)).

c. All SolutionOne programs were misleadingly characterized as both a "profit sharing" arrangement and a valid reinsurance transaction in Vermont, in

violation of 8 V.S.A. § 4723 and of 8 V.S.A. § 4724(1)(A).

18. Respondents have been made aware that the Department may proceed with an administrative action against them for the violations cited above.

19. The Department has concluded its investigation of the Respondents' SolutionOne® product and this is a final settlement of all matters involving the Department's investigation of Respondents' sale of the SolutionOne® product in Vermont.

20. **NOW THEREFORE**, in consideration of the mutual covenants contained herein, the Department and Respondents further stipulate and agree as follows:

a. Within fifteen (15) business days of signing this Stipulation & Consent, Continental agrees to send immediate initial notice (the "Initial Notice) to SolutionOne® policyholders of and producers of record for all in-force policies, advising these policyholders that, pursuant to a Stipulation and Consent Order with the Department concerning Applied Underwriter's SolutionOne® Profit Sharing Program, their Continental guaranteed cost workers' compensation policy will non-renew at policy expiration; provided however, that policyholders may choose to enter into a new Continental guaranteed cost workers' compensation policy issued using only Continental's filed and approved rates. In the event a policyholder does not enter into a new Continental guaranteed cost workers' compensation policy at least 50 days prior to the renewal date, the existing policy will be non-renewed by Continental. The Initial Notice is subject to prior review and approval by the Department and shall contain language clearly explaining the above, as well as that, if a

policy is to be non-renewed, then in accordance with the requirements of 21 V.S.A. § 697, each policyholder will receive a legal notice of non-renewal at least 45 days prior to the renewal date.

b. If the Continental guaranteed cost policy is/will be non-renewed in accordance with a. above, the Initial Notice will be followed by a separate legal notice of non-renewal prepared for and sent to each policyholder in accordance with 21 V.S.A. § 697, as well as to the producers of record.

c. Respondents agree that upon sending the Initial Notice, any Continental guaranteed cost policy that cancels prior to the natural expiration date of the policy term shall receive a "pro rata" return of premium and no "short rate" penalty should be applied by Respondents or their affiliates.

d. Respondents agree to:

   i. Pay an administrative penalty of **Three Hundred Thousand ($300,000.00)** Dollars, paid by check payable to the Vermont Department of Financial Regulation within thirty (30) days of execution of this Stipulation and Consent Order. and;

   ii. Reimburse the Department for investigative and other expenses, in the sum of **Thirty Five Thousand ($35,000.00)** Dollars, paid by check payable to the Vermont Department of Financial Regulation within thirty (30) days of execution of this Stipulation and Consent Order.

   iii. With regard to insureds in Vermont who purchased workers' compensation policies issued by Continental and entered into one or more

RPAs with AUCRA (or its affiliates) under SolutionOne®, Respondents agree to make whole all Vermonters who were assessed more under SolutionOne® (i.e., under the RPA(s)), including any interest/financing charges, than they would have paid under Continental's approved and filed guaranteed-cost workers' compensation insurance rates, based on data as of March 31, 2015. Restitution to Vermont insureds is to be calculated and paid as follows:

1. For any given insured, if the aggregated total of all sums collected under the RPA(s) for all policy periods exceeds the aggregated total of all corresponding policies' guaranteed cost premiums, then restitution in the amount of the difference is to be made by Respondents to the insured. For purposes of this calculation, all in-force and expired policies for each insured are to be included regardless of whether the SolutionOne program was pooled, single risk, or fixed cost/capped loss, and the calculations are to be made using data and amounts as of March 31, 2015.
2. In calculating a. above, restitution shall be paid as per Exhibit 2, and shall be made within sixty (60) days of the signing of this Stipulation & Consent Order.
3. Respondents agree that no further billings, assessment or collections of additional premium are permitted for policies that expired prior to March 31, 2015.

4. If payments to insureds are accompanied by a waiver or release, such form of waiver or release shall be subject to the Department's prior approval.

For those insureds having policies that are/were still in-force as of March 31, 2015, the final premium to be collected by Continental and its affiliates for the remaining policy period between March 31, 2015, and the expiration date of the policy, shall not exceed the premium computed according to the lesser of the guaranteed cost rate and the "Loss Pick Containment Rate" (per $100 payroll) specified for the insured in Schedule 1 of the relevant RPA, multiplied by the final audited payroll for such in-force policy.

e. As a result of the SolutionOne® Program, a number of Vermont insureds paid less for workers' compensation insurance than they would have paid under Continental's approved and filed guaranteed cost workers' compensation rates. As a condition to this Stipulation and Consent, Continental and the other Respondents waive any claim to those payments.

f. Respondents represent that in order to ensure future compliance with regard to Vermont laws, they have already instituted the following:

   i. Discontinuing the sale and renewal of all SolutionOne® product(s) in Vermont until reviewed and approved by the Department;

   ii. Initiating an internal audit procedure to ensure that Respondents' insurance products, as well as their affiliates' insurance products and marketing

efforts, comply with Vermont insurance laws and regulations, including but not limited to those pertaining to trade practices and rates and form regulations.

21. Respondents hereby waive their statutory right to notice and a hearing before the Commissioner of the Department, or her designated appointee.

22. Respondents acknowledge and agree that this stipulation is entered into freely and voluntarily and that except as set forth herein, no promise was made to induce the Respondents to enter into it. Respondents acknowledge their understanding of and agree to all terms, conditions, and obligations contained in this Stipulation and Consent Order.

23. Respondents consent to the entry of this Stipulation and Consent Order and agree to be fully bound by its terms and conditions. Respondents acknowledge that noncompliance with any of the terms of this Stipulation and Consent Order may constitute a separate violation of the insurance laws of the State of Vermont and may subject them to sanctions under the provisions of 8 V.S.A. §§ 4804. Respondents further acknowledge that the Commissioner retains jurisdiction over this matter for the purpose of enforcing this order.

24. The undersigned representative of each of the Respondents affirms that he or she has taken all necessary steps to obtain the authority to bind each of the Respondents to the obligations stated herein and has the authority to bind each of the Respondents to the obligations stated herein.

AGREED AND ACCEPTED:

Division of Insurance, Vermont Department of Financial Regulation

By: _____ Date: 10/30/15
Kaj Samsom, Deputy Commissioner of Insurance

Continental Indemnity Company

By: _____ Date: 10/19/15

Applied Underwriters, Inc.

By: _____ Date: 10/19/15

Applied Risk Services Inc.

By: _____ Date: 10/19/15

Applied Underwriters Captive Risk Assurance Company, Inc.

By: _____ Date: 10/19/15

ORDER

IT IS HEREBY ORDERED:

1. Respondents Continental Indemnity Company, Applied Underwriters, Inc., Applied Risk Services Inc., and Applied Underwriters Captive Risk Assurance Company, Inc., shall comply with all agreements, stipulations, and undertakings as recited above.

2. Nothing contained in this Order shall restrain the Department from responding to and addressing any complaint involving Continental Indemnity Company, Applied Underwriters, Inc., Applied Risk Services Inc., and/or Applied Underwriters Captive Risk Assurance Company, Inc. filed with the Department or shall preclude the Department from pursuing any other violation of law with respect to the sale of the SolutionOne® product occurring after the date this Order is signed.

Dated at Montpelier, Vermont this 30th day of October, 2015.

Susan L. Donegan

Susan L. Donegan, Commissioner
Vermont Department of Financial Regulation

Exhibit 1.

EXHIBIT 1.

Policy Number	Policy Begin Date	Policy End Date	Policy Premium	Amount Collected Via RPA	Interest	Total	Difference
46-889156-01-01	05/04/14	05/04/15	$22,095.00	$13,666.73	$0.00	$13,666.73	$8,428.27
46-848821-01-01	12/27/11	12/27/12	9,997.00	7,498.07	0.00	7,498.07	2,498.93
46-848821-01-02	12/27/12	12/27/13	10,183.00	7,353.21	0.00	7,353.21	2,829.79
46-848821-01-03	12/27/13	12/27/14	10,053.00	13,043.06	0.00	13,043.06	(2,990.06)
46-848821-01-04	12/27/14	05/08/15	1,808.00	486.97	0.00	486.97	1,321.03
46-806202-01-01	09/03/08	09/03/09	5,685.00	12,180.46	0.00	12,180.46	(6,495.46)
46-806202-01-02	09/03/09	09/03/10	9,718.00	17,473.17	0.00	17,473.17	(7,755.17)
46-806202-01-03	09/03/10	09/03/11	9,243.00	20,317.46	0.00	20,317.46	(11,074.46)
46-806202-01-04	09/03/11	09/03/12	7,996.00	21,401.90	0.00	21,401.90	(13,405.90)
46-806202-01-05	09/03/12	09/03/13	7,441.00	17,043.62	0.00	17,043.62	(9,602.62)
46-806202-01-06	09/03/13	09/03/14	7,054.00	14,784.58	0.00	14,784.58	(7,730.58)
46-806202-01-07	09/03/14	09/03/15	3,541.00	2,731.88	0.00	2,731.88	809.12
46-810325-01-01	12/06/08	12/06/09	13,436.00	9,818.18	0.00	9,818.18	3,617.82
46-810325-01-02	12/06/09	12/06/10	16,043.00	18,290.73	0.00	18,290.73	(2,247.73)
46-810325-01-03	12/06/10	12/06/11	14,603.00	17,234.85	0.00	17,234.85	(2,631.85)
46-810325-01-04	12/06/11	12/06/12	18,966.00	18,051.92	0.00	18,051.92	914.08
46-810325-01-05	12/06/12	12/06/13	20,591.00	19,514.10	0.00	19,514.10	1,076.90
46-810325-01-06	12/06/14	12/06/15	7,240.00	6,343.68	0.00	6,343.68	896.32
46-845692-01-01	12/01/11	12/01/12	6,088.00	4,220.51	0.00	4,220.51	1,867.49
46-845692-01-02	12/01/12	12/01/13	6,172.00	5,273.64	0.00	5,273.64	898.36
46-845692-01-03	12/01/13	12/01/14	7,006.00	8,017.26	0.00	8,017.26	(1,011.26)
46-845692-01-04	12/01/14	12/01/15	1,823.00	1,565.73	0.00	1,565.73	257.27
46-098632-01-09	10/01/14	10/01/15	5,651.00	4,612.29	0.00	4,612.29	1,038.71
46-842350-01-01	09/01/11	09/01/12	21,070.00	20,991.98	0.00	20,991.98	78.02
46-842350-01-02	09/01/12	09/01/13	24,611.00	27,827.77	0.00	27,827.77	(3,216.77)
46-842350-01-03	09/01/13	09/01/14	24,922.00	36,251.48	0.00	36,251.48	(11,329.48)
46-851959-01-01	05/01/12	05/01/13	7,653.00	6,038.35	0.00	6,038.35	1,614.65
46-851959-01-02	05/01/13	05/01/14	11,831.00	9,252.15	0.00	9,252.15	2,578.85
46-851959-01-03	05/01/14	05/01/15	10,910.00	14,130.18	0.00	14,130.18	(3,220.18)
46-806667-01-01	10/02/08	10/02/09	25,928.00	24,067.56	0.00	24,067.56	1,860.44
46-806667-01-02	10/02/09	10/02/10	36,542.00	36,871.00	0.00	36,871.00	(329.00)
46-806667-01-03	10/02/10	10/02/11	29,997.00	34,323.33	0.00	34,323.33	(4,326.33)
46-873295-01-02	06/11/14	06/11/15	6,617.00	4,423.13	0.00	4,423.13	2,193.87
46-827832-01-01	06/07/10	06/07/11	61,760.00	72,967.71	0.00	72,967.71	(11,207.71)

EXHIBIT 1.

Policy			Policy	Amount Collected			
Number	Begin Date	End Date	Premium	Via RPA	Interest	Total	Difference
46-827832-01-02	06/07/11	06/07/12	68,042.00	74,594.29	0.00	74,594.29	(6,552.29)
46-827832-01-03	06/07/12	06/07/13	69,455.00	107,627.42	0.00	107,627.42	(38,172.42)
46-857402-01-03	07/15/14	07/15/15	8,129.00	6,903.32	0.00	6,903.32	1,225.68
46-801623-01-01	03/06/08	03/06/09	27,413.00	38,603.37	0.00	38,603.37	(11,190.37)
46-801623-01-02	03/06/09	03/06/10	40,289.00	24,638.18	0.00	24,638.18	15,650.82
46-801623-01-03	03/06/10	07/29/10	14,463.00	13,645.15	0.00	13,645.15	817.85
46-836383-01-01	02/10/11	02/10/12	8,817.00	7,173.38	0.00	7,173.38	1,643.62
46-836383-01-02	02/10/12	02/10/13	11,355.00	10,407.53	0.00	10,407.53	947.47
46-836383-01-03	02/10/13	02/10/14	10,552.00	14,268.15	0.00	14,268.15	(3,716.15)
46-836383-01-04	02/10/14	02/10/15	17,697.00	10,838.61	0.00	10,838.61	6,858.39
46-819471-01-01	11/01/09	11/01/10	17,860.00	17,337.46	0.00	17,337.46	522.54
46-819471-01-02	11/01/10	11/01/11	19,938.00	19,545.52	0.00	19,545.52	392.48
46-819471-01-03	11/01/11	11/01/12	19,924.00	27,319.14	0.00	27,319.14	(7,395.14)
46-819471-01-04	11/01/12	11/01/13	17,798.00	25,140.98	0.00	25,140.98	(7,342.98)
46-819471-01-07	01/01/15	01/01/16	6,229.00	5,552.21	0.00	5,552.21	676.79
46-869912-01-02	04/24/14	04/24/15	13,649.00	11,065.58	0.00	11,065.58	2,583.42
46-841642-01-01	07/04/11	07/04/12	42,780.00	33,244.62	0.00	33,244.62	9,535.38
46-841642-01-02	07/04/12	07/04/13	37,946.00	32,283.57	0.00	32,283.57	5,662.43
46-841642-01-03	07/04/13	07/04/14	39,588.00	51,452.75	0.00	51,452.75	(11,864.75)
46-837784-01-01	03/17/11	03/17/12	15,133.00	13,298.33	0.00	13,298.33	1,834.67
46-837784-01-02	03/17/12	03/17/13	18,412.00	17,935.37	0.00	17,935.37	476.63
46-837784-01-03	03/17/13	06/17/13	4,873.00	6,422.76	0.00	6,422.76	(1,549.76)
46-837784-03-05	06/17/13	03/17/14	10,889.00	14,940.60	0.00	14,940.60	(4,051.60)
46-837784-04-07	04/24/14	03/17/15	17,036.00	14,679.37	0.00	14,679.37	2,356.63
46-847538-01-01	01/04/12	01/04/13	26,880.00	20,838.75	0.00	20,838.75	6,041.25
46-847538-01-02	01/04/13	01/04/14	26,285.00	22,641.49	0.00	22,641.49	3,643.51
46-847538-01-03	01/04/14	01/04/15	29,792.00	35,795.06	0.00	35,795.06	(6,003.06)
46-847538-01-04	01/04/15	01/04/16	6,164.00	4,778.44	0.00	4,778.44	1,385.56
46-839412-01-01	05/18/11	05/18/12	214,466.00	487,267.67	531.40	487,799.07	(273,333.07)
46-839412-01-02	05/18/12	05/18/13	169,083.00	143,782.43	0.00	143,782.43	25,300.57
46-839412-01-03	05/18/13	05/18/14	265,822.00	56,178.95	65.43	56,244.38	209,577.62
46-841696-01-01	07/09/11	07/09/12	45,170.00	34,974.34	0.00	34,974.34	10,195.66
46-841696-01-02	07/09/12	07/09/13	52,255.00	51,845.23	0.00	51,845.23	409.77
46-841696-01-03	07/09/13	07/09/14	49,055.00	60,935.82	0.00	60,935.82	(11,880.82)

EXHIBIT 1.

Policy			Policy	Amount Collected			
Number	Begin Date	End Date	Premium	Via RPA	Interest	Total	Difference
46-841696-01-04	07/09/14	05/19/15	61,959.00	44,345.55	0.00	44,345.55	17,613.45
46-801256-01-01	02/04/08	02/04/09	21,308.00	29,217.15	0.00	29,217.15	(7,909.15)
46-801256-01-02	02/04/09	02/04/10	26,460.00	31,666.15	0.00	31,666.15	(5,206.15)
46-801256-01-03	02/04/10	02/04/11	24,184.00	39,152.58	0.00	39,152.58	(14,968.58)
46-801256-01-04	02/04/11	02/04/12	22,214.00	33,751.67	0.00	33,751.67	(11,537.67)
46-801256-01-05	02/04/12	02/04/13	23,571.00	29,064.06	0.00	29,064.06	(5,493.06)
46-801256-01-06	02/04/13	02/04/14	28,128.00	37,976.24	0.00	37,976.24	(9,848.24)
46-801256-01-07	02/04/14	02/04/15	31,225.00	55,501.18	0.00	55,501.18	(24,276.18)
46-843043-01-01	09/05/11	09/05/12	45,635.00	35,047.34	0.00	35,047.34	10,587.66
46-843043-01-02	09/05/12	09/05/13	60,402.00	69,182.31	0.00	69,182.31	(8,780.31)
46-843043-01-03	09/05/13	09/05/14	47,169.00	58,236.75	0.00	58,236.75	(11,067.75)
46-843043-01-04	09/05/14	09/05/15	21,451.00	13,586.42	0.00	13,586.42	7,864.58
46-841352-01-01	06/30/11	06/30/12	21,895.00	16,927.08	0.00	16,927.08	4,967.92
46-841352-01-02	06/30/12	06/30/13	17,133.00	15,255.44	0.00	15,255.44	1,877.56
46-841352-01-03	06/30/13	06/30/14	19,323.00	25,071.48	0.00	25,071.48	(5,748.48)
46-815090-01-01	05/01/09	05/01/10	10,642.00	7,664.56	0.00	7,664.56	2,977.44
46-815090-01-02	05/01/10	05/01/11	10,966.00	13,114.59	0.00	13,114.59	(2,148.59)
46-815090-01-03	05/01/11	05/01/12	9,427.00	10,758.91	0.00	10,758.91	(1,331.91)
46-815090-01-04	05/01/12	05/01/13	9,891.00	7,520.59	0.00	7,520.59	2,370.41
46-815090-01-05	05/01/13	05/01/14	9,420.00	7,901.25	0.00	7,901.25	1,518.75
46-815090-01-06	05/01/14	05/01/15	9,589.00	11,518.39	0.00	11,518.39	(1,929.39)
46-875198-01-02	08/10/14	05/23/15	33,593.00	25,308.87	0.00	25,308.87	8,284.13
46-805319-01-01	09/01/08	09/01/09	9,211.00	9,742.97	0.00	9,742.97	(531.97)
46-805319-01-02	09/01/09	09/01/10	7,770.00	14,431.21	0.00	14,431.21	(6,661.21)
46-805319-01-03	09/01/10	09/01/11	6,659.00	17,656.14	0.00	17,656.14	(10,997.14)
46-874833-01-02	08/16/14	08/16/15	58,933.00	48,570.06	0.00	48,570.06	10,362.94
46-807361-01-01	10/16/08	01/19/09	5,692.00	7,391.01	0.00	7,391.01	(1,699.01)
46-062300-01-02	09/30/11	09/30/12	13,317.00	9,472.37	0.00	9,472.37	3,844.63
46-062300-01-03	09/30/12	09/30/13	21,616.00	15,924.59	0.00	15,924.59	5,691.41
46-062300-01-04	09/30/13	09/30/14	23,771.00	22,581.83	0.00	22,581.83	1,189.17
46-062300-01-05	09/30/14	09/30/15	12,255.00	7,464.87	0.00	7,464.87	4,790.13
46-330871-01-01	11/26/14	11/26/15	1,533.00	1,474.06	0.00	1,474.06	58.94
46-889518-01-01	05/20/14	05/20/15	58,873.00	43,416.07	0.00	43,416.07	15,456.93
46-064961-01-03	12/31/09	12/31/10	13,427.00	14,364.52	0.00	14,364.52	(937.52)

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Policy			Policy	Amount Collected			
Number	Begin Date	End Date	Premium	Via RPA	Interest	Total	Difference
46-064961-01-04	12/31/10	12/05/11	16,897.00	14,625.71	0.00	14,625.71	2,271.29
46-851530-01-01	03/20/12	03/20/13	11,028.00	8,419.99	0.00	8,419.99	2,608.01
46-851530-01-02	03/20/13	03/20/14	12,662.00	11,102.91	0.00	11,102.91	1,559.09
46-851530-01-03	03/20/14	03/20/15	11,689.00	14,876.02	0.00	14,876.02	(3,187.02)
46-865823-01-02	02/11/14	02/11/15	12,708.00	10,618.73	0.00	10,618.73	2,089.27
46-810625-01-01	04/01/09	04/01/10	55,436.00	35,820.35	0.00	35,820.35	19,615.65
46-810625-01-02	04/01/10	04/01/11	41,320.00	56,313.09	0.00	56,313.09	(14,993.09)
46-810625-01-03	04/01/11	04/01/12	51,958.00	64,548.58	0.00	64,548.58	(12,590.58)
46-810625-01-04	04/01/12	04/01/13	57,706.00	90,626.47	0.00	90,626.47	(32,920.47)
46-841807-01-01	07/21/11	07/21/12	45,239.00	34,152.33	0.00	34,152.33	11,086.67
46-841807-01-02	07/21/12	07/21/13	50,382.00	50,921.26	0.00	50,921.26	(539.26)
46-841807-01-03	07/21/13	07/21/14	52,214.00	64,950.24	0.00	64,950.24	(12,736.24)
46-815405-01-01	07/01/09	07/01/10	32,158.00	37,527.89	0.00	37,527.89	(5,369.89)
46-815405-01-02	07/01/10	07/01/11	27,770.00	34,465.85	0.00	34,465.85	(6,695.85)
46-815405-01-03	07/01/11	07/01/12	34,357.00	43,988.69	0.00	43,988.69	(9,631.69)
46-810325-02-06	04/10/13	12/06/13	3,383.00	71.25	0.00	71.25	3,311.75
46-810325-02-01	12/06/14	12/06/15	431.00	0.00	0.00	0.00	431.00
46-853483-01-01	04/13/12	04/13/13	16,105.00	12,474.21	0.00	12,474.21	3,630.79
46-853483-01-02	04/13/13	04/13/14	14,508.00	11,550.66	0.00	11,550.66	2,957.34
46-853483-01-03	04/13/14	04/13/15	13,443.00	17,291.61	0.00	17,291.61	(3,848.61)
46-882253-01-02	12/15/14	12/15/15	4,552.00	3,820.07	0.00	3,820.07	731.93
46-808636-01-01	12/01/08	12/01/09	8,171.00	11,527.32	0.00	11,527.32	(3,356.32)
46-808636-01-02	12/01/09	12/01/10	10,844.00	10,363.94	0.00	10,363.94	480.06
46-808636-01-03	12/01/10	12/01/11	10,572.00	12,192.73	0.00	12,192.73	(1,620.73)
46-808636-01-04	12/01/11	12/01/12	12,485.00	15,611.87	0.00	15,611.87	(3,126.87)
46-808636-01-05	12/01/12	12/01/13	20,694.00	25,318.36	0.00	25,318.36	(4,624.36)
46-808636-01-07	12/01/14	12/01/15	20,334.00	12,167.92	0.00	12,167.92	8,166.08
46-842011-01-01	08/17/11	08/17/12	12,310.00	9,496.40	0.00	9,496.40	2,813.60
46-842011-01-02	08/17/12	08/17/13	15,862.00	13,362.37	0.00	13,362.37	2,499.63
46-842011-01-03	08/17/13	08/17/14	21,484.00	27,250.01	0.00	27,250.01	(5,766.01)
46-842011-01-04	08/17/14	08/17/15	17,116.00	12,347.65	0.00	12,347.65	4,768.35
46-810135-01-01	01/06/09	01/06/10	15,083.00	12,489.22	0.00	12,489.22	2,593.78
46-810135-01-02	01/06/10	01/06/11	15,070.00	13,830.03	0.00	13,830.03	1,239.97
46-810135-01-03	01/06/11	09/23/11	8,735.00	9,701.07	0.00	9,701.07	(966.07)

EXHIBIT 1.

Policy			Policy	Amount Collected			
Number	Begin Date	End Date	Premium	Via RPA	Interest	Total	Difference
46-038081-02-05	11/10/10	11/10/11	21,296.00	26,170.55	0.00	26,170.55	(4,874.55)
46-038081-02-06	11/10/11	11/10/12	62,414.00	60,259.36	0.00	60,259.36	2,154.64
46-038081-02-07	11/10/12	11/10/13	75,099.00	55,894.05	0.00	55,894.05	19,204.95
46-038081-02-08	11/10/13	11/10/14	44,798.00	35,731.49	0.00	35,731.49	9,066.51
46-038081-02-09	11/10/14	11/10/15	19,704.00	18,361.11	0.00	18,361.11	1,342.89
46-849480-01-01	02/20/12	02/20/13	11,576.00	11,390.27	0.00	11,390.27	185.73
46-849480-01-02	02/20/13	01/01/14	13,413.00	13,019.13	0.00	13,019.13	393.87
46-038081-01-03	11/10/08	11/10/09	17,611.00	24,157.71	0.00	24,157.71	(6,546.71)
46-038081-01-04	11/10/09	11/10/10	21,143.00	21,512.81	0.00	21,512.81	(369.81)
46-814771-01-01	05/12/09	05/12/10	5,540.00	3,554.28	0.00	3,554.28	1,985.72
46-814771-01-02	05/12/10	05/12/11	5,012.00	3,873.64	0.00	3,873.64	1,138.36
46-814771-01-03	05/12/11	06/26/11	761.00	700.27	0.00	700.27	60.73
46-830471-01-01	08/13/10	08/13/11	102.00	94.20	0.00	94.20	7.80
46-830471-01-02	08/13/11	01/20/12	292.00	236.20	0.00	236.20	55.80
46-803531-01-01	05/05/08	05/05/09	16,506.00	20,016.16	0.00	20,016.16	(3,510.16)
46-803531-01-02	05/05/09	05/05/10	19,106.00	11,872.69	0.00	11,872.69	7,233.31
46-803531-01-03	05/05/10	05/05/11	16,862.00	18,807.57	0.00	18,807.57	(1,945.57)
46-803531-01-04	05/05/11	05/05/12	14,651.00	19,704.75	0.00	19,704.75	(5,053.75)
46-803531-01-05	05/05/12	05/05/13	15,530.00	12,010.45	0.00	12,010.45	3,519.55
46-803531-01-06	05/05/13	05/05/14	17,035.00	14,131.92	0.00	14,131.92	2,903.08
46-803531-01-07	05/05/14	05/05/15	16,116.00	20,800.10	0.00	20,800.10	(4,684.10)
46-875667-01-02	08/12/14	08/12/15	70,823.00	70,562.61	0.00	70,562.61	260.39
46-801381-01-01	01/19/08	01/19/09	8,491.00	8,153.82	0.00	8,153.82	337.18
46-801381-01-02	01/19/09	01/19/10	10,806.00	7,652.10	0.00	7,652.10	3,153.90
46-801381-01-03	01/19/10	01/19/11	12,540.00	13,487.00	0.00	13,487.00	(947.00)
46-801381-01-04	01/19/11	01/19/12	13,153.00	11,467.42	0.00	11,467.42	1,685.58
46-801381-01-05	01/19/12	01/19/13	13,075.00	10,247.61	0.00	10,247.61	2,827.39
46-801381-01-06	01/19/13	01/19/14	15,439.00	12,847.55	0.00	12,847.55	2,591.45
46-801381-01-07	01/19/14	01/19/15	18,309.00	23,521.34	0.00	23,521.34	(5,212.34)
46-854930-01-01	06/06/12	06/06/13	34,470.00	26,473.62	0.00	26,473.62	7,996.38
46-854930-01-03	06/06/13	06/06/14	33,847.00	27,561.25	0.00	27,561.25	6,285.75
46-854930-01-05	06/06/14	06/06/15	26,242.00	33,990.77	0.00	33,990.77	(7,748.77)
46-857839-01-01	07/01/12	07/01/13	17,796.00	13,825.70	0.00	13,825.70	3,970.30
46-857839-01-02	07/01/13	07/01/14	15,394.00	14,453.47	0.00	14,453.47	940.53

Exhibit 2. Restitution to be paid

Refund to be Made to Vermont Policyholders Who Purchased SolutionOne Products
To be Computed on an Account Basis & Based on 3/31/2015 Valuation
For All Expired & In-Force Policies as of 03/31/15

First 8 Digits of Policy Number	{a} Guaranteed Cost Premium	{b} Program Charges Collected	{c} = {b} - {a}	{d} Amount to be Refunded
46-801256	177,090	256,329	79,239	79,239
46-803531	115,806	117,344	1,538	1,538
46-805319	23,640	41,830	18,190	18,190
46-806202	50,678	105,933	55,255	55,255
46-806667	92,467	95,262	2,795	2,795
46-807361	5,692	7,391	1,699	1,699
46-808636	83,100	87,182	4,082	4,082
46-810625	206,420	247,308	40,888	40,888
46-815405	94,285	115,982	21,697	21,697
46-819471	81,749	94,895	13,146	13,146
46-827832	199,257	255,189	55,932	55,932
46-837784	66,343	67,276	933	933
46-839412	649,371	687,826	38,455	38,455
46-841807	147,835	150,024	2,189	2,189
46-842350	70,603	85,071	14,468	14,468
46-843043	174,657	176,053	1,396	1,396
Grand Total	**2,238,993**	**2,590,895**		**351,902**

EXHIBIT 1.

Policy			Policy	Amount Collected			
Number	Begin Date	End Date	Premium	Via RPA	Interest	Total	Difference
46-857839-01-03	07/01/14	07/01/15	13,106.00	17,956.88	0.00	17,956.88	(4,850.88)
46-865702-01-03	01/20/15	01/20/16	973.00	1.04	0.00	1.04	971.96
			$4,199,892.00	$4,384,608.43	$596.83	$4,385,205.26	

Respondents certify that the information provided in Exhibits 1 and 2 is true, complete and accurate:

Continental Indemnity Company
By: _____ **Date:** 10/19/15

Applied Underwriters, Inc.
By: _____ **Date:** 10/19/15

Applied Risk Services Inc.
By: _____ **Date:** 10/19/15

Applied Underwriters Captive Risk Assurance Company, Inc.
By: _____ **Date:** 10/19/15

EXHIBIT E

ORDER NO. E19-25

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF:

Proceedings by the Commissioner of Banking and Insurance, State of New Jersey, to have Applied Underwriters, Inc., Applied Underwriters Captive Risk Assurance Company, Inc., Applied Risk Services, Inc., Ref. No. 0091510, and Continental Indemnity Company, NAIC Code 28258, cease and desist from selling the EquityComp, SolutionOne, and PremierExclusive workers' compensation programs, unwind the programs, and pay restitution; to suspend the authority of Continental Indemnity Company to write workers' compensation insurance; and to fine, suspend, and/or revoke the insurance producer license of Applied Risk Services, Inc.	**ORDER TO SHOW CAUSE**

TO:

Applied Underwriters, Inc.
c/o Jeffrey A. Silver, Esq., Registered Agent
10805 Old Mill Road
Omaha, Nebraska 68154

Applied Risk Services, Inc.
c/o Jeffrey A. Silver, Esq., Registered Agent
10805 Old Mill Road
Omaha, Nebraska 68154

Applied Underwriters Captive Risk Assurance Company, Inc.
c/o C T Corporation System, Registered Agent
400 E Court Ave.
Des Moines, Iowa 50309

Continental Indemnity Company
c/o Jeffrey A. Silver, Esq., Registered Agent
10805 Old Mill Road
Omaha, Nebraska 68154

This matter, having been opened by the Commissioner of Banking and Insurance ("Commissioner"), State of New Jersey, upon information that Applied Underwriters, Inc. ("Applied"), Applied Risk Services, Inc. ("ARS"), Applied Underwriters Captive Risk Assurance Company, Inc. ("AUCRA"), and Continental Indemnity Company ("Continental") (collectively, "Respondents") may have violated various provisions of the insurance laws of the State of New Jersey; and

WHEREAS, Respondents are subject to the provisions of the New Jersey Insurance Producer Licensing Act of 2001, N.J.S.A. 17:22A-26 to -48 ("Producer Act"), the general penalty provision of N.J.S.A. 17:33-2, and the Employers' Liability Insurance Law, N.J.S.A. 34:15-70 to -95.5; and

WHEREAS, pursuant to N.J.S.A. 17:22A-40(a)(2), an insurance producer shall not violate any insurance laws, or violate any regulation, subpoena or order of the Commissioner or of another state's insurance regulator; and

WHEREAS, pursuant to N.J.S.A. 17:22A-40(a)(5), an insurance producer shall not intentionally misrepresent the terms of an actual or proposed insurance contract, policy, or application for insurance; and

WHEREAS, pursuant to N.J.S.A. 17:22A-40(a)(8), an insurance producer shall not use fraudulent, coercive or dishonest practices, or demonstrate incompetence, untrustworthiness or financial irresponsibility in the conduct of insurance business; and

WHEREAS, pursuant to N.J.S.A. 17:22A-40(a)(16), an insurance producer shall not commit any fraudulent act; and

WHEREAS, pursuant to N.J.S.A. 17:22A-40(a)(17), an insurance producer shall not knowingly facilitate or assist another person in violating any insurance laws; and

WHEREAS, pursuant to N.J.S.A. 17:33-2, the penalty for any violation of N.J.S.A. 17:17-1 to 17:51B-4, other than the failure of an insurance company to file an annual statement, shall be a penalty not exceeding $1,000 for the first offense and not exceeding $2,000 for each subsequent offense; and

WHEREAS, pursuant to N.J.S.A. 34:15-88, every insurance company or mutual association which insures employers against liability either under the Employers' Liability Insurance Law or for damages imposed by law arising out of any other liability to employees because of personal injuries including death at any time resulting therefrom, or both, shall file with the Commissioner its classification of risks and premiums and rules pertaining thereto, together with the basis rates and system of merit or schedule rating applicable to such insurance; and

WHEREAS, N.J.S.A. 34:15-88 further provides that no insurance company or mutual association writing workmen's compensation or employer's liability insurance in this state shall issue, renew, or carry any insurance against the liability of an employer either for compensation or for damages imposed by law, because of personal injuries, including death at any time resulting therefrom, sustained by his employees, or for both, except in accordance with the classifications, rules, basis rates, and system of merit or schedule rating approved by the Commissioner as aforesaid and applied by the New Jersey Compensation Rating and Inspection Bureau ("CRIB"); and

WHEREAS, N.J.S.A. 34:15-88 further provides that if any insurance company or mutual association authorized to write workmen's compensation or employer's liability insurance in this state shall violate any of the provisions of the Employers' Liability Insurance Law, the Commissioner, may, in her discretion, after public hearing, suspend the

authority of said insurance company or mutual association to transact workmen's compensation or employer's liability insurance in this state for such period as said Commissioner shall fix; and

WHEREAS, pursuant to N.J.S.A. 34:15-90.2(f), CRIB shall have authority to establish and maintain rules, regulations and premium rates for workers' compensation and employers' liability insurance and equitably adjust the same; and

WHEREAS, pursuant to N.J.S.A. 34:15-90.2(i), CRIB shall have authority to prepare and file, for the approval of the Commissioner, and for the use by all of its members, any amendments to its policy forms and its system of classification of risks and premiums thereto, together with the basis rates and system of merit or schedule rating applicable to such insurance, as currently set forth in the New Jersey Workers' Compensation and Employers' Liability Insurance Manual; and

WHEREAS, pursuant to the New Jersey Workers' Compensation and Employers' Liability Insurance Manual, Part Three, Section 3, Page 1, Paragraph 9, no endorsement shall be issued or attached to any Workers Compensation or Employers Liability Policy which purports to construe, alter, limit, waive or extend any of the provisions of the policy or the applicable provisions of the Employers' Liability Insurance Law, except as otherwise provided by the Manual; and

FACTUAL ALLEGATIONS

IT APPEARING, that Applied is an indirect subsidiary of Berkshire Hathaway Inc. and is the parent company of AUCRA and ARS. Applied is a Nebraska financial service corporation that provides payroll processing services and underwrites workers' compensation insurance through its affiliated insurance companies to small and medium-

sized employers. Applied's address is 10805 Old Mill Road, Omaha, Nebraska 68154. Applied is not an authorized or admitted insurer and is not permitted to enter into insurance contracts or engage in the business of insurance in New Jersey; and

IT FURTHER APPEARING, that ARS is currently licensed as a non-resident business entity insurance producer in the State of New Jersey, pursuant to N.J.S.A. 17:22A-34, with an address of 10805 Old Mill Road, Omaha, Nebraska 68154. ARS is a subsidiary of Applied and also acts as a billing agent; and

IT FURTHER APPEARING, that AUCRA is an insurance company organized and existing under the laws of Iowa with its principal place of business in Omaha, Nebraska, with an address of 10805 Old Mill Road, Omaha, Nebraska 68154. AUCRA is a subsidiary of Applied, and its purpose is to serve as a reinsurance arm for Applied. AUCRA is not an authorized or admitted insurer and is not permitted to enter into insurance contracts or engage in the business of insurance in New Jersey; and

IT FURTHER APPEARING, that Continental is a foreign insurer domiciled in Iowa, with an address of 10805 Old Mill Road, Omaha, Nebraska 68154. Continental is licensed in the State of New Jersey to issue accident and health, property, and casualty, and workers' compensation insurance policies. Continental is an indirect subsidiary of Applied; and

IT FURTHER APPEARING, that the Boards of Directors for Applied, ARS, AUCRA, and Continental are identical in composition. Jeffrey A. Silver, Esq., Applied's General Counsel, serves on each of these Boards; and

IT FURTHER APPEARING, that from 2008 to present, Respondents marketed and sold workers' compensation programs called EquityComp, SolutionOne, and/or PremierExclusive (collectively, the "programs") to at least 300 New Jersey employers; and

IT FURTHER APPEARING, that these programs combine issuance of a guaranteed cost workers' compensation policy[1] sold by Continental and a "reinsurance participation agreement" ("RPA") with AUCRA; and

IT FURTHER APPEARING, that the guaranteed cost workers' compensation component of the programs uses forms and rates that were filed with CRIB and approved by the Commissioner, but that the RPA and the programs were never filed with CRIB nor approved by the Commissioner; and

IT FURTHER APPEARING, that Applied has patented the RPA. The patent states that the purpose of the RPA is to allow small and medium sized employers to utilize retrospective rating plans,[2] a practice which is only permitted in New Jersey under certain circumstances not applicable to the RPA, including but not limited to filing and compliance with CRIB's parameters for retrospective rating plans as approved by the Commissioner:[3]

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[1] A guaranteed cost policy essentially fixes an employer's insurance premiums, meaning that the actual cost of claims against the policy will not cause premiums to fluctuate during the life of the policy. Nat'l Convention Servs., LLC v. Applied Underwriters Captive Risk Assur. Co., 239 F. Supp. 3d 761, 769 (S.D.N.Y. Mar. 9, 2017).

[2] A retrospective rating plan is a loss sensitive insurance policy, meaning that premiums can fluctuate during the life of the policy depending on the actual cost of the claims. Ibid.

[3] In New Jersey, retrospective rating plans are available on a one or three year rating period to any insured with estimated annual standard premium of at least $25,000. The Large Risk Alternative Rating Option, another optional form of Retrospective Rating, is available to any insured with estimated annual workers compensation and employers liability standard premium of $100,000 of New Jersey or countrywide premium, or in any combination with any other commercial casualty line of insurance for the rating term. New

> One of the challenges of introducing a fundamentally new premium structure into the marketplace is that the structure must be approved by the respective insurance departments regulating the sale of insurance in the states in which the insureds operate.
>
> In the United States, each state has its own insurance department and each insurance department must give its approval to sell insurance with a given premium plan in its respective jurisdiction. Getting approval can be extremely time consuming and expensive, particularly with novel approaches that a department hasn't had experience with before. Also, many states require insurance companies to only offer small sized and medium sized companies a Guaranteed Cost plan, without the option of a retrospective plan. In part, this is because of governmental rules and laws that regulate the insurance industry.
>
> Disclosed herein is a reinsurance based approach to providing non-linear retrospective premium plans to insureds that may not have the option of such a plan directly.
>
> [Reinsurance Participation Plan, US Patent No. 7,908,157 B1 (issued Mar. 15, 2011), at col. 6, lines 22-40.]

IT FURTHER APPEARING, that the patent continues to describe how Respondents attempt to evade regulatory oversight of their programs:

> [C]ompliance with regulatory requirements that do not make specific provision for these plans . . . is based on the fact that an insurance carrier can cede a certain portion of an insurance risk to a reinsurance company. Said reinsurance company can, in turn, enter into a separate Participation Agreement with the insured whereby a credit or debit is assessed on the insured as a function of the losses experienced by each insured.
>
> An admitted insurance carrier . . . has a license from a state insurance department . . . to sell Guaranteed Cost workers' compensation insurance in a given state. The insurance carrier obtains approval by using an industry standard Guaranteed Cost policy and filing premium rate requests

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Jersey Workers Compensation Employers Liability Insurance Manual (2018), Part Three, Sec. 12, p. 1.

> with the insurance department . . . . The insurance department, already familiar with the policy, approves the rates. . . .
>
> The insurance carrier then contractually arranges with a broker . . . to sell said standard policies to a targeted class of companies. These targeted classes include small sized . . . and medium sized . . . companies.
>
> [Id. at col. 6, lines 45-63.]

IT FURTHER APPEARING, that the patent explains how an employer's use of the RPA results in an employer obtaining a retrospective rating plan:

> The reinsurance company . . . can now provide funds to implement a non-linear retrospective rating plan as a "participation plan." The reinsurance company does this by entering into a separate contractual arrangement with the insured. If the insured has lower than average losses in the next year, then the reinsurance company can provide a premium reduction . . . according to the participation plan. If the insurance has higher than average losses in a given year, then the reinsurance company will assess additional premium . . . accordingly. The insured can now, in effect, have a retrospective rating plan because of the arrangement among the insurance carrier . . . , the reinsurance company . . . , and the insured, even though, in fact, the insured has Guaranteed Cost insurance coverage with the insurance carrier . . . .
>
> [Id. at col. 7, lines 41-54.]

IT FURTHER APPEARING, that the RPA potentially leads to higher and unpredictable assessments against an employer should a certain level of claims occur; and

IT FURTHER APPEARING, that the RPA causes the ultimate cost and other key contractual terms of the guaranteed-cost workers' compensation policy to be materially different than those filed with CRIB and approved by the Commissioner; and

IT FURTHER APPEARING, that the state insurance departments of California, Vermont, and Wisconsin have concluded that the programs do not comply with their states'

insurance laws, because the RPA is a collateral agreement that modifies the underlying guaranteed cost policy, and that the RPA was required to be filed with and approved by the insurance departments of those states; and

IT FURTHER APPEARING, that the Supreme Court of Nebraska, Respondents' home state, in Citizens of Humanity, LLC v. Applied Underwriters Captive Risk Assur. Co., 909 N.W. 2d 614, 620-21, 632-33 (Neb. 2018), found that the RPA was a retrospective rating plan and that it was not a reinsurance contract; and

IT FURTHER APPEARING, that on June 4, 2012, Applied's General Counsel met with representatives of CRIB and spoke about the programs, but the conversation did not constitute approval of the program by the Commissioner; and

IT FURTHER APPEARING, that the RPA is a de facto Retrospective Rating Plan Endorsement that materially modifies the guaranteed-cost workers' compensation policy of the programs; therefore, the RPA and the programs must be filed with CRIB and approved by the Commissioner; and

VIOLATIONS OF LAW

COUNT 1

IT FURTHER APPEARING, that from 2008 to present, Respondents marketed and sold an unfiled and unapproved workers' compensation program with impermissible retrospective rating to at least 300 New Jersey employers that, based on a sampling, resulted in approximately 85% of those employers owing approximately $18.9 million to Respondents, often in excess of CRIB's approved premium rates, in violation of N.J.S.A. 17:22A-40(a)(2), (5), (8), (16), and (17); and N.J.S.A. 34:15-88;

NOW, THEREFORE, IT IS on this 6th day of March, 2019;

ORDERED, Respondent Continental appear and show cause why its authority to transact workmen's compensation or employer's liability insurance should not be suspended, pursuant to N.J.S.A. 34:15-88; and

IT IS FURTHER ORDERED, that Respondents appear and show cause why they should not be ordered to unwind the programs, pursuant to N.J.S.A. 34:15-88; and

IT IS FURTHER ORDERED, that Respondents appear and show cause why they should not be ordered to cease and desist from collecting additional premiums from insured New Jersey businesses that may have paid less than they would have under their Continental policy including voiding all contracts, liens or promissory notes entered into by New Jersey businesses with the Respondents regarding payment of the additional premium due under the retrospective rating, pursuant to N.J.S.A. 34:15-88; and

IT IS FURTHER ORDERED, that Respondent ARS appear and show cause why its insurance producer license shall not be revoked by the Commissioner, pursuant to N.J.S.A. 17:22A-40a; and

IT IS FURTHER ORDERED, that Respondents appear and show cause why the Commissioner should not assess a fine of up to $5,000 for the first violation, and $10,000 for each subsequent violation of the Producer Act, and/or $1,000 for the first offense and not exceeding $2,000 for each subsequent offense as applicable under N.J.S.A. 17:33-2, and order Respondents to pay restitution of moneys owed to any person, pursuant to N.J.S.A. 17:22A-45c. Restitution shall include return of all insurance premiums in excess of the premiums that should have been charged by Continental in accordance with the approved CRIB rating system, after any applicable payroll audits, and excluding specified

fees for non-insurance services under the RPA, such as those for payroll processing, with interest; and

IT IS FURTHER ORDERED, that Respondents appear and show cause why they should not be required to reimburse the Department of Banking and Insurance for the costs of the investigation and prosecution authorized pursuant to N.J.S.A. 17:22A-45c; and

IT IS PROVIDED, that Respondents have the right to request an administrative hearing, to be represented by counsel or other qualified representative, at their own expense, to take testimony, to call or cross-examine witnesses, to have subpoenas issued, and to present evidence or argument if a hearing is requested; and

IT IS FURTHER PROVIDED, that, unless a request for a hearing is received within twenty (20) days of the service of this Order to Show Cause, the right to a hearing in this matter shall be deemed to have been waived by Respondents, and the Commissioner shall dispose of this matter in accordance with law. A hearing may be requested by mailing the request to Virgil Dowtin, Chief of Investigations, Department of Banking and Insurance, P.O. Box 329, Trenton, New Jersey 08625, or by faxing the hearing request to the Department at (609) 292-5337. A copy shall also be sent to Deputy Attorney General Adam B. Masef, R.J. Hughes Justice Complex, 25 Market Street, P.O. Box 117, Trenton, New Jersey 08625. The request shall contain the following:

(a) Respondent's full name, address and daytime telephone number;

(b) A statement referring to each charge alleged in this Order to Show Cause and identifying any defense intended to be asserted in response to each charge. Where the defense relies on facts not contained in the Order to Show Cause, those specific facts must be stated;

(c) A specific admission or denial of each fact alleged in this Order to Show Cause. Where the Respondent has no specific knowledge regarding a fact alleged in the Order to Show Cause, a statement to that effect must be

contained in the hearing request. Allegations of this Order to Show Cause not answered in the manner set forth above shall be deemed to have been admitted; and

(d) A statement requesting the hearing.

Marlene Caride
Commissioner

EXHIBIT F

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

----------X

In the Matter of:

Continental Indemnity Company,
Applied Underwriters, Inc.,
Applied Risk Services Inc.,
Applied Risk Services of NY, Inc.,
and Applied Underwriters Captive Risk Assurance Company, Inc.

Respondents.

----------X

CONSENT ORDER

WHEREAS the New York State Department of Financial Services (the "Department") commenced an investigation in December 2015 of Continental Indemnity Company ("Continental"), Applied Underwriters, Inc. ("Applied"), Applied Risk Services Inc. ("ARSI"), Applied Risk Services of NY, Inc. ("ARSNY") (collectively, Applied Risk Services, or "ARS") and Applied Underwriters Captive Risk Assurance Company, Inc. ("AUCRA") (collectively, "Respondents") pursuant to the New York Insurance Law and Financial Services Law (the "Investigation");

WHEREAS the Department investigated whether Respondents' design, offering, and marketing and subsequent sale to New York employers of a program consisting of workers' compensation insurance offered with a separate agreement that was not filed with the Department (the "Program") violated the Insurance Law and Financial Services Law;

WHEREAS Respondents voluntarily ceased offering the Program in New York after the Department's Investigation began;

NOW, THEREFORE, the Department and Respondents are willing to resolve all matters involving the Program cited herein in lieu of proceeding by notice and a hearing.

FINDINGS

The findings of the Department are as follows:

Relevant Entities

1. Applied is based in Omaha, Nebraska that, through its subsidiaries, offers workers' compensation insurance to employers in New York. Among its affiliates are Continental and AUCRA. Applied manages most of Continental's insurance business, pursuant to a Management Services Agreement with Continental, including establishing underwriting standards and managing claims.

2. Continental is a subsidiary of North American Casualty Co. ("NAC"), which is, in turn, a subsidiary of Applied, and is incorporated in Iowa. Continental is a property/casualty insurer duly licensed in New York to issue workers' compensation policies.

3. AUCRA is a subsidiary of NAC, and a property casualty company incorporated and licensed in Iowa. AUCRA is not licensed or otherwise authorized to offer insurance in New York.

4. ARS is a subsidiary of Applied, and is incorporated in Nebraska with its principal place of business in Nebraska. ARS acts as a billing agent, collecting and remitting funds on a pass-through basis for the Program.

5. ARSNY d/b/a ARS Insurance Agency, is a subsidiary of Applied and is incorporated in New York with its principal place of business in Omaha, Nebraska. ARSNY is duly licensed by the Department as a property/casualty agent to produce workers' compensation

insurance in New York and is listed as a third-party administrator, with a New York City address and phone number, by the New York Workers' Compensation Board.

Background

6. New York Workers' Compensation Law §§ 2 and 3 require that nearly all New York employers provide workers' compensation coverage for their employees. Workers' compensation insurance is one of the biggest expenses for nearly any business, large or small. Most workers' compensation insurance written in New York is in the form of guaranteed-cost policies, by which insurers charge a set premium based on identified employee classifications and corresponding payroll.

7. Pursuant to Insurance Law § 2313, the New York Compensation Insurance Rating Board ("CIRB") serves as the nongovernment rate service organization ("RSO") for New York State workers' compensation insurers. CIRB is a private unincorporated association of insurance carriers responsible for the collection of workers' compensation data, and the development of workers' compensation rates and rules regarding the proper application of these rates to workers' compensation policies. CIRB also administers various individual risk-rating plans such as the Retrospective Rating Plan, which is publicly available on the CIRB website.

8. Retrospective rating, set out in the Retrospective Rating Plan, is an optional program which is mutually agreed-upon by the employer and the insurer. Retrospective rating premiums are based on projected loss experience and are subject to a contractual adjustment after policy expiration based upon the individual employer's actual loss experience. In contrast, a guaranteed-cost policy sets premiums at a monthly amount that is not subject to change based on an individual employer's loss experience. Retrospective rating programs are approved by the

Superintendent in accordance with Article 23 of the Insurance Law, provided that premiums are calculated using uniformly-applied criteria applicable to all insured employers in a non-discriminatory manner.

9. New York's smallest employers, who generally pay the least in premiums for workers' compensation insurance, are not eligible for retrospective rating and cannot thereby reduce their workers' compensation costs if they manage their claims and have a robust safety program. Pursuant to CIRB's Retrospective Rating Plan Manual, which the Department has approved, retrospective ratings is an option in New York only for policies with at least $25,000 of standard workers' compensation premium.

The Insurance Program

10. Applied offered the Program in New York under multiple names, including "SolutionOne" and "EquityComp." The Program included guaranteed-cost workers' compensation policies issued by Continental on forms and rates approved by the Department along with another contract titled a "Reinsurance Participation Agreement" ("RPA"), that employers entered into with AUCRA. Respondents offered policies under the Program to New York employers ("New York Policies") from as early as January 2010, to late 2016. While some New York employers paid less for coverage under the Program than they would have paid under the workers' compensation policies alone, some New York employers paid more for coverage under the Program than they would have paid under the workers' compensation policies alone, many significantly more.

11. Although the guaranteed-cost policy forms represented that "[t]he only agreements relating to this insurance are stated in this policy," to participate in the Program

employers obtaining guaranteed-cost policies were required to sign the RPAs, which were related to the policies. The RPAs established a loss-sensitive formula, which modified and superseded the agreement established by the guaranteed-cost policies, operating similarly to a retrospective rated workers' compensation insurance policy. The RPAs required the employer to fund a segregated cell with AUCRA from which the insurer's losses would be paid subject to a minimum and maximum estimated at the inception of each Program although Continental remained exclusively responsible for the payment of any and all losses under the policies.

12. Employers remitted monthly payments to ARS, which forwarded the payments to Continental. Continental allocated the monthly payments to AUCRA to fund the employer's segregated cell. When a claim was filed, Continental would pay the claim, but then would cede the liability to AUCRA, which would in turn cede the liability to the employer's segregated cell. As disclosed in Program documents, because the RPAs required the employer to fund the segregated cell, the terms of the RPAs controlled the amount of the employers' monthly payments regardless of the terms of the guaranteed-cost policy.

13. On March 15, 2011, officers of Applied were granted Patent No. 7,908,157 B1 for a "Reinsurance Participation Plan," the formula used in the RPA. The patent explicitly states that its purpose is to introduce a novel premium structure into the marketplace enabling the offering of retrospective-style insurance to small and medium-sized insureds and describes the program as "a reinsurance based approach to providing non-linear retrospective plans to insureds . . . while at the same time complying with state regulation." However, the Program as implemented did not comply with New York law. The patent is filed and publicly available.

14. The RPA was not filed with the Department, and as a result the RPA and the Program as a whole were not reviewed or approved by the Department.

15. Despite the fact that the Program was marketed as a way that employers could "share in the underwriting profit" of their workers' compensation insurance, and because workers' compensation claims have a long tail, the RPAs required the employer to wait three years to receive any "profit distributions," and gave AUCRA the option to withhold funds in some cases for up to four more years.

16. The formula by which the RPAs calculate costs was complex and the way in which it was presented to employers was misleading. When offered the Program, employers were given a visual representation that showed their lowest and highest possible costs, but that did not give an indication of what their total payments might be. The Program's formula was based on a non-linear model, which was novel enough that the Respondents received a patent for it. Under the formula, Program fees can rise rapidly with the first few claims to levels substantially higher than what would have been paid under a typical linear retrospective model.

17. The Department determined that parts of the Program constituted an unlicensed insurance business. Some of the Respondents engaged in the unlicensed business while others actively aided it. Moreover, the RPAs were policy forms that should have been filed with the Department but Respondents issued them for delivery to employers without doing so. The RPAs resulted in fees that were different from the rates in the filed and approved guaranteed-cost policy.

18. Applied has cooperated with the Department's investigation.

19. Respondents have agreed to this Consent Order to avoid the time, expense and distraction of litigation. This Consent Order includes Findings of the Department which have not been the subject of an adjudicatory hearing or judicial process in which Respondents have had an opportunity to present evidence and examine witnesses. The parties agree that this Consent Order

does not create any private rights or remedies against Respondents, create any liability for Respondents, constitute evidence of wrongdoing by Respondents for the purpose of any third-party proceeding, or waive any defenses of Respondents against any person or entity not a party to this Consent Order.

Violations

20. By reason of the foregoing, the Department finds that Respondents violated Sections 1102, 2117, 2307, and 2324 of the Insurance Law and Section 408 of the Financial Services Law:

a. As described under Insurance Law § 1101(b)(1)(E), Applied has engaged in doing an unlicensed insurance business in this state in violation of Insurance Law § 1102;

b. ARS and AUCRA aided unlicensed insurance business in violation of Insurance Law § 2117;

c. AUCRA issued for delivery, and ARS delivered, unfiled policy forms in violation of Insurance Law § 2307;

d. Continental and ARS offered and provided inducements and rebates to consumers in violation of Insurance Law § 2324; and

e. Applied violated Financial Services Law § 408.

AGREEMENT

IT IS HEREBY UNDERSTOOD AND AGREED by Respondents and all subsidiaries, affiliates, successors, assigns, agents, representatives and employees, that:

Injunctive Relief

21. Respondents have voluntarily ceased offering the Program in New York and will not resume offering the Program in New York without the Department's approval. Respondents shall not issue new RPAs, or any documents equivalent to RPAs, or renew existing RPAs relating to any New York Policies.

22. Respondents shall not collect or seek to collect any additional funds from insureds who paid less under the Program than they would have paid pursuant to Continental's filed and approved guaranteed-cost rates. Should Respondents attempt to do so for any reason, including in relation to any private action, Respondents shall return all additional premiums owed to all New York residents who were assessed greater amounts pursuant to the Program than otherwise would have been owed pursuant to Continental's filed and approved guaranteed-cost workers' compensation insurance rates.

23. After the effective date of this Consent Order, Respondents shall not commence arbitration proceedings or enforce arbitration provisions pursuant to contracts entered into in the State of New York or by New York employers.

24. Should any New York employer wish to maintain coverage through Respondents, Respondents shall offer such employer the opportunity to renew the filed policy.

25. Respondents shall comply with New York Insurance Law provisions specified in Paragraph 20, and with New York Financial Services Law § 408, as well as all other applicable laws and regulations.

Civil Penalty

26. No later than ten (10) business days after the Effective Date of this Consent Order, Applied, on behalf of Respondents, shall pay a civil penalty in the amount of three million dollars ($3,000,000) to the Department. The payment shall be made by wire transfer in accordance with the Department's instructions.

27. Neither Respondents, nor any of their parents, subsidiaries, or affiliates shall, collectively or individually, seek or accept, directly or indirectly, reimbursement or indemnification, including but not limited to payment made pursuant to any insurance policy referenced in this Consent Order, or from any of its parents, subsidiaries, or affiliates, with regard to any or all of the amounts payable pursuant to this Consent Order.

28. Respondents agree that they will not claim, assert, or apply for a tax deduction or tax credit with regard to any federal, state, or local tax, directly or indirectly, for any portion of the civil penalty paid pursuant to this Consent Order.

Other Relief

29. Respondents will not contest the authority of the Department to effectuate this Consent Order. Respondents will cease and desist from engaging in any acts in violation of the New York Insurance Law and will comply with those and any other applicable New York laws and regulations.

Breach of the Consent Order

30. If any of Respondents default on any material obligation under this Consent Order, the Department may terminate this Consent Order in its entirety, at its sole discretion, upon five (5) business days' written notice. In the event of such termination, Respondents

expressly agree and acknowledge that this Consent Order shall in no way bar or otherwise preclude the Department from commencing, conducting or prosecuting any investigation, action, or proceeding against Respondents, however denominated, related to the provisions of the Consent Order, or from using in any way statements, documents or other materials produced or provided by Respondents prior to or after the date of this Consent Order, including, without limitation, such statements, documents or other materials, if any, provided for purposes of settlement negotiations.

31. In the event that the Department believes any Respondent to be materially in breach of this Consent Order ("Breach"), the Department will provide written notice to such Respondent of the Breach. Within ten (10) business days from the date of receipt of said notice, or on a later date if so determined in the sole discretion of the Superintendent, such Respondent must appear before the Department and shall have an opportunity to rebut the Department's assertion that a Breach has occurred, and, to the extent pertinent, demonstrate that any such Breach is not material or has been cured.

32. Respondents understand and agree that failure to provide the required submission to the Department within the specified period as set forth in Paragraph 31 of this Consent Order is presumptive evidence of a Breach thereof. Upon a finding of Breach, the Department has all the rights and remedies available to it under the New York Insurance Law, Financial Services Law, or other applicable laws and may use any and all evidence available to the Department for all ensuing hearings, notices, orders and other remedies that may be available under the New York Insurance Law, Financial Services Law, or other applicable laws.

Other Provisions

33. Respondents shall submit to the Department annual affidavits of compliance with the terms of this Consent Order for a period of three (3) years commencing from the Effective Date of this Consent Order.

34. The Department has agreed to the terms of this Consent Order based on, among other things, the representations made to the Department by Respondents. To the extent that representations made by Respondents—either directly or through their counsel—are later found to be materially incomplete or inaccurate, this Consent Order is voidable by the Department in its sole discretion.

35. Upon the request of the Department, Respondents shall provide all documentation and information reasonably necessary for the Department to verify compliance with this Consent Order.

36. Respondents represent and warrant, through the signatures below, that the terms and conditions of this Consent Order are duly approved, and execution of this Consent Order is duly authorized.

37. All notices, reports, requests, certifications, and other communications to any party pursuant to this Consent Order shall be in writing and shall be directed as follows:

For the Department:

Bruce Wells
Associate Counsel, Enforcement
New York State Department of Financial Services
One State Street
New York, New York 10004-1511

For Continental:

10805 Old Mill Road
Omaha, Nebraska 68154
Attention: Jeffrey A. Silver

with a copy to:
DLA Piper LLP
1251 Avenue of the Americas
New York, New York 10020
Attention: Shand Stephens

For Applied:

10805 Old Mill Road
Omaha, Nebraska 68154
Attention: Jeffrey A. Silver

with a copy to:
DLA Piper LLP
1251 Avenue of the Americas
New York, New York 10020
Attention: Shand Stephens

For Applied Risk Services Inc.:

10805 Old Mill Road
Omaha, Nebraska 68154
Attention: Jeffrey A. Silver

with a copy to:
DLA Piper LLP
1251 Avenue of the Americas
New York, New York 10020
Attention: Shand Stephens

For Applied Risk Services of NY, Inc.:

10805 Old Mill Road
Omaha, Nebraska 68154
Attention: Jeffrey A. Silver

with a copy to:
DLA Piper LLP
1251 Avenue of the Americas
New York, New York 10020
Attention: Shand Stephens

For AUCRA:

10805 Old Mill Road
Omaha, Nebraska 68154
Attention: Jeffrey A. Silver

with a copy to:
DLA Piper LLP
1251 Avenue of the Americas
New York, New York 10020
Attention: Shand Stephens

38. This Consent Order and any dispute thereunder shall be governed by the laws of the State of New York without regard to any conflicts of laws principles.

39. Respondents waive all rights to further notice and hearing in this matter as to any allegations of past violations up to and including the Effective Date of this Consent Order and agrees that no provision of the Consent Order is subject to review in any court or tribunal outside the Department.

40. This Consent Order may not be amended except by an instrument in writing signed on behalf of all the parties to this Consent Order.

41. In the event that one or more provisions contained in this Consent Order shall for any reason be held invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Consent Order.

42. This Consent Order may be executed in one or more counterparts, and shall become effective when such counterparts have been signed by each of the parties hereto and the Consent Order is So Ordered by the Superintendent of Financial Services or her designee (the "Effective Date").

43. Upon execution of this Consent Order by the parties, the Department will discontinue the Investigation as to and against Respondents solely with respect to the practices set forth herein through the Effective Date of this Consent Order. No further action will be taken by the Department against Respondents for the conduct set forth in this Consent Order provided Respondents comply fully with the terms of the Consent Order.

WHEREFORE, the signatures evidencing assent to this Consent Order have been affixed hereto on the dates set forth below.

DEPARTMENT OF FINANCIAL SERVICES

By: _____
R. BRUCE WELLS
Associate Counsel, Enforcement
Consumer Protection and Financial
Enforcement Division

July 17, 2019

By: _____
CHRISTOPHER B. MULVIHILL
Deputy Superintendent, Enforcement
Consumer Protection and Financial
Enforcement Division

July 17, 2019

By: Katherine A. Lemire /s/ SF
KATHERINE A. LEMIRE
Executive Deputy Superintendent
Consumer Protection and Financial
Enforcement Division

July 17, 2019

APPLIED UNDERWRITERS, INC.,

By: _____
JEFFREY A. SILVER, Secretary
July 17, 2019

CONTINENTAL INDEMNITY COMPANY,

By: _____
JEFFREY A. SILVER, Secretary
July 17, 2019

APPLIED RISK SERVICES INC.,

By: _____
JEFFREY A. SILVER, Secretary
July 17, 2019

APPLIED RISK SERVICES OF NY, INC.

By: _____
JEFFREY A. SILVER, Secretary
July 17, 2019

APPLIED UNDERWRITERS CAPTIVE RISK ASSURANCE COMPANY, INC.

By: _____
JEFFREY A. SILVER, Secretary
July 17, 2019

THE FOREGOING IS HEREBY APPROVED.
IT IS SO ORDERED.

Linda A Lacewell
LINDA A. LACEWELL
Superintendent of Financial Services

July 17, 2019

EXHIBIT G

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark Afable, Commissioner

Wisconsin.gov

125 South Webster • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ocicomplaints@wisconsin.gov
Web Address: oci.wi.gov

Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

CONTINENTAL INDEMNITY COMPANY
10805 OLD MILL ROAD
OMAHA, NE 68154-2607

dated August 29, 2018, and served upon the company on January 18, 2019, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 11th day of March, 2019.

Mark Afable
Commissioner of Insurance

STATE OF WISCONSIN
OFFICE OF THE COMMISSIONER OF INSURANCE

MARKET CONDUCT EXAMINATION

OF

CONTINENTAL INDEMNITY COMPANY
OMAHA, NEBRASKA

AUGUST 20, 2018 – AUGUST 29, 2018

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[redacted]

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

Bureau of Market Regulation
125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
(608) 266-3585 • (800) 236-8517
Fax: (608) 264-8115
E-Mail: ocicomplaints@wisconsin.gov
Web Address: oci.wi.gov

August 29, 2018

Honorable Theodore K. Nickel
Commissioner of Insurance
Madison, WI 53702

Commissioner:

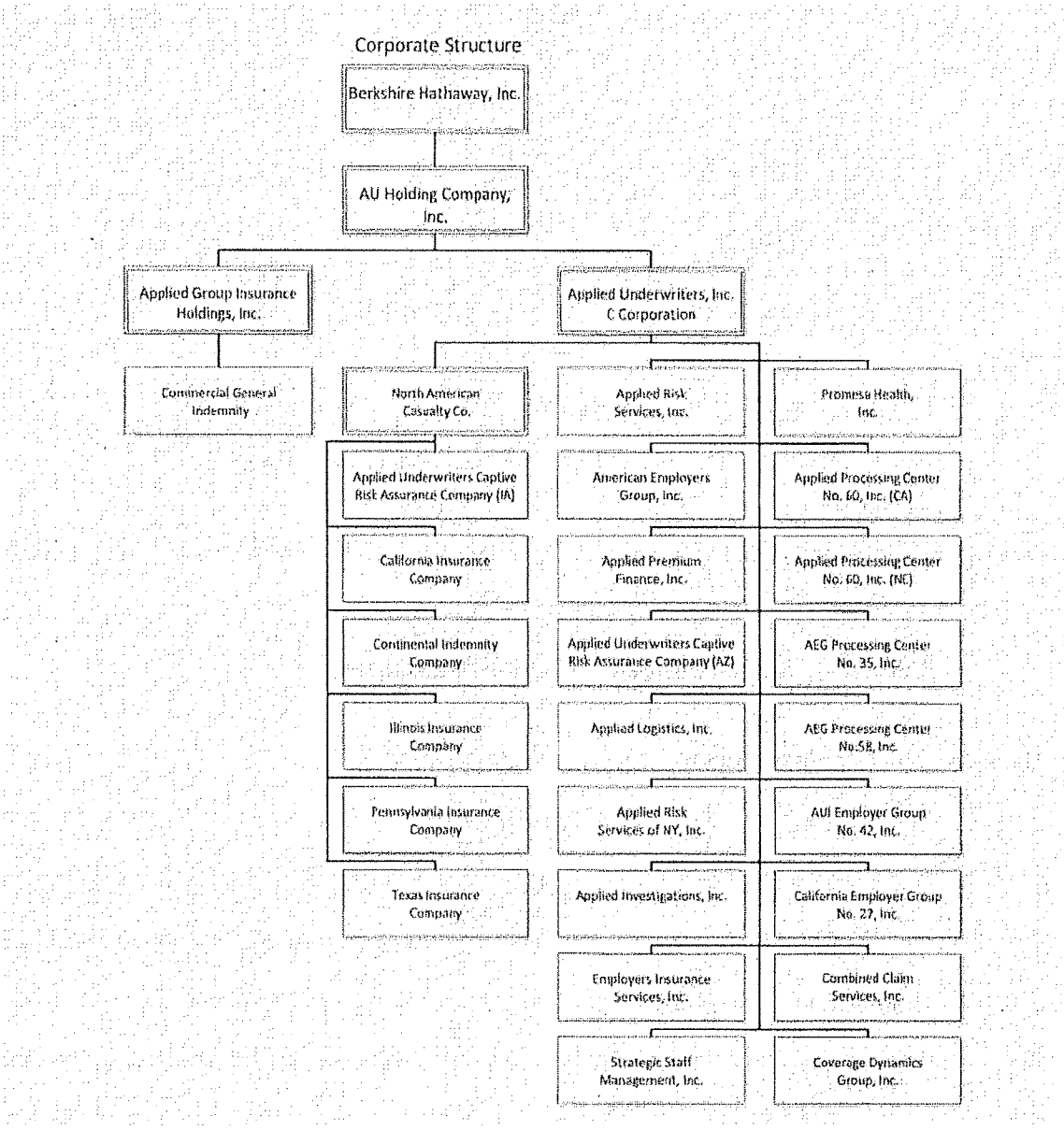
Pursuant to your instructions and authorization, a targeted market conduct examination was conducted August 20, 2018 to August 29, 2018, of:

CONTINENTAL INDEMNITY COMPANY
Omaha, Nebraska

and the following report of the examination is respectfully submitted.

I.INTRODUCTION

Continental Indemnity Company f/k/a/ Continental National Indemnity Company (the company) is a stock company domiciled in Iowa with an address of record of 10805 Old Mill Rd, Omaha, NE 68154. The company is a subsidiary of Applied Underwriters, Inc. In 2005, Berkshire Hathaway Inc. purchased eighty-one per cent (81%) of the holding company that owns the company. Applied Risk Services, Inc. is a general agency that is also a subsidiary of Applied Underwriters, Inc.



In 2016 the company was licensed in 47states and 2 jurisdictions, American Samoa, and District of Columbia. The company was writing business in 35 states and jurisdictions, including; Alabama, Arkansas, Colorado, District of Columbia, Delaware, Florida, Iowa, Illinois, Indiana, Kansas, Kentucky, Louisiana, Massachusetts, Maryland, Maine, Michigan, Minnesota, Missouri, Mississippi, North Carolina, Nebraska, New Hampshire, New Jersey, New Mexico,

New York, Oklahoma, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Virginia, Vermont, Wisconsin, and West Virginia.

The national direct premiums written and Wisconsin direct premiums written for the years 2016, 2015 and 2014 were as follows:

National Direct Premium Written to Wisconsin Direct Premium Written

Year	National Direct Premiums Written	Wisconsin Direct Premiums Written	WI as Percentage of National Premium
2016	$291,543,835	$2,807,781	0.96%
2015	$303,910,242	$4,621,221	1.52%
2014	$291,651,106	$4,139,446	1.42%

From 2014 to 2016 the entirety of the Wisconsin premium earned by the company was in the workers' compensation line of business. The following table summarizes the premium earned and incurred losses in Wisconsin from 2014 to 2016 for the workers' compensation line of business.

Wisconsin Direct Premium and Loss Summary

Year	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid
2016	$2,807,781	$2,807,781	$1,218,694
2015	$4,621,221	$4,621,221	$2,235,228
2014	$4,139,446	$4,139,446	$1,718,736

The Office of the Commissioner of Insurance (OCI) received three (3) complaints against the company between 2013 through 2017. A complaint is defined as 'a written communication

received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent.' The 3 complaints received by OCI are all categorized under the Worker's Compensation line of business with reasons being for claims handling, policyholder service and market and sales.

II. PURPOSE AND SCOPE

A targeted examination was conducted to determine whether the company's practices and procedures comply with the Wisconsin insurance statutes and rules. The examination focused on the period from January 1, 2014 through December 31, 2017. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination.

The examination included a review of workers' compensation insurance business in Wisconsin and consisted of a review of company operations and management; policyholder service and complaints; policy forms and rates; marketing, sales, and advertising; claims; underwriting and rating; and producer licensing.

A specific issue reviewed in the examination is the company's compliance with ch. 626, Wis. Stat. This chapter in Wisconsin statutes addresses rate regulation in workers' compensation insurance and establishes the Wisconsin Compensation Rating Bureau (WCRB). Wisconsin is a "controlled rate state," meaning, no insurer writing workers' compensation insurance under s. 626.03, Wis. Stat., may use a rate, rating plan or classification nor an expense loading not approved by the commissioner (OCI). The rates that must be used by an insurer are rates that have been filed by the WCRB with the commissioner on behalf of its members (insurers) for every manual of classifications, rules and rates, every rating plan and every modification of any of them proposed for use in Wisconsin.

The report is prepared on an exception basis and comments on those areas of the company's operations where adverse findings were noted.

III. PRIOR WISCONSIN OCI ACTIONS

The company has not been subject to prior market conduct examinations by Wisconsin, however, it has been subject to a series of regulatory actions taken by Wisconsin regarding the company's workers' compensation line of business. A summary of specific actions (OCI Case No. 13-C35597) is listed below.

Order of Forfeiture and Order (February 13, 2015)

An order issued by OCI requiring the company to cease and desist from marketing, binding and renewing SolutionOne policies and any similarly designed policy or programs in Wisconsin or to Wisconsin employers.

Order of Forfeiture and Order (April 29, 2015)

An order issued by OCI to the company to pay a forfeiture of fifteen thousand dollars ($15,000.00) and to cancel any policy that was renewed in violation of the February 13, 2015 Order.

Stipulation and Order (June 22, 2015)

The company entered into a stipulation to cease and desist from marketing, binding, issuing and renewing SolutionOne and EquityComp policies and any similarly designed workers' compensation policy including, but not limited to, reinsurance agreements; or any other policy or program that has not been approved by the WCRB. The company also agreed to mid-term cancel all of the SolutionOne and EquityComp policies with Wisconsin coverage that was issued after February 13, 2015. The company was able to offer replacement workers' compensation policies or Wisconsin endorsements to those policyholders as long as the replacement workers' compensation policy/endorsement was a WCRB approved policy form, used WCRB mandated rates and was not subject to any unapproved side agreements including, but not limited to, a reinsurance agreement.

The company was able to offer a payroll service agreement to policyholders as long as it did not contain any terms related to or affecting workers' compensation insurance, including, but

not limited to, policy cancellation terms, claims handling, and/or participation in a medical or pharmaceutical network for workers' compensation claimants.

The company agreed to the imposition of a forfeiture of twenty thousand dollars ($20,000.00) payable to the State of Wisconsin as well as a potential forfeiture of twenty thousand dollars ($20,000.00) per policy sold or renewed in Wisconsin after the date of the order (June 22, 2015) if the company did not comply with the terms of the order.

Order of Forfeiture and Order (November 24, 2015)

An order issued by OCI for the company to pay a forfeiture of one hundred and forty thousand dollars ($140,000.00), payable to the State of Wisconsin for the renewal of seven SolutionOne and EquityComp products after the June 22, 2015 Stipulation and Order took effect.

Stipulation and Order (January 7, 2016)

The company agreed to the forfeiture in the November 24, 2015 order. The company confirmed that all in-force SolutionOne and EquityComp policies with Wisconsin coverage had been cancelled in accordance with the Stipulation and Order dated June 22, 2015, each of which cancellations included an offer of a replacement workers' compensation policy, or Wisconsin endorsement, on a WCRB approved policy form and using WCRB mandated rates.

IV. CURRENT EXAMINATION FINDINGS

Company Operations and Management

The examiners reviewed the company's response to the Company Operations and Management interrogatory, Board of Directors meeting minutes and the Berkshire Hathaway audit. The company offers two main products; SolutionOne for small to medium sized employers and EquityComp for large employers. The company stated that it did not offer either of these products in Wisconsin after the July 2, 2015, stipulation.

The company indicated that it did not have formal business or long-range strategic plans. The examiners found that the company does not have a written compliance plan and has few written policies and procedures. The company does not have a department responsible for agent oversight. The company indicated an agent oversight department is not necessary since it operates through independent brokers.

The company indicated that it has no contracts with any third party entities. The examiners found that duties, such as advertising, not performed by the company were performed by associated companies under the same Applied Underwriters Inc. umbrella. The company also does not have its own internal audit department. The company indicated that internal audits are performed every three years by Berkshire Hathaway Inc. The most recent audit was conducted on November 14, 2016. The examiners reviewed the audit and noted that there were recommendations regarding security access, to reinforce existing claims practices and verify adherence, to enhance the claim quality assurance program regarding process adherence and broaden the claim settlement review process, to improve claim triage and assignment process regarding conversion of medical only claims to indemnity claims, to enhance claim fraud monitoring procedures, and to enhance underwriting documentation for individual customer accounts. The examiners did not find any documentation indicating that the results of the Berkshire Hathaway audit were reported to the Board of Directors.

The general counsel is the company compliance officer and the Board secretary. All departments report to the general counsel regarding compliance. Per the general counsel, the company and its Board do not have any other committees. The general counsel indicated that significant compliance issues are reported to the Board, however, the examiners did not find any issues reported in the Board minutes during the period of review.

1. **Recommendation:** It is recommended that the company document that all audit results and enforcement actions are reported to the Board of Directors.

Policyholder Service and Complaints

The examiners reviewed the company's response to the Policyholder Service and Complaints interrogatory and three (3) complaint files.

The examiners found that all complaints the company receives from a department of insurance are handled by the general counsel and recorded in the complaint register. All other complaints are handled by customer service. The company states that it does not have a definition or guideline as to what constitutes a complaint. However the examiners found that the company's Claims Practices and Procedures Guide provides a definition of a complaint as "an insured, Injured Worker, medical provider, vendor or other party providing a written or verbal complaint in regards to the company's service or lack of service". This is in line with OCI's and the National Association of Insurance Commissioners' (NAIC) definition of a complaint.

The company has a Policyholder Service (PHS) section responsible for handling customer calls. The company states that it does not have PHS official training documents. Policy renewal is automated and all billings are automated clearing house (ACH) transactions. The company's underwriting section handles requests for policy cancellation. The company indicated it does not have any written policy and procedures for handling this request. The company's Claim Practices and Procedures Guide states that the claim section is responsible

for handling any customer calls regarding claim questions or verbal complaints regarding claims.

The examiners reviewed the company's complaint log and the three (3) complaints received during the period of review, all of which were OCI complaints. The examiners found no issues with the two (2) closed complaints. The one (1) open complaint is related to a finding discussed in the Underwriting and Rating section of this report. The open complaint involves the use of non-filed workers' compensation rates for workers' compensation quotes.

Policy Forms and Rates

The examiners reviewed the company's response to the Policy Forms and Rates interrogatory, the company's WCRB Carrier Elections web form and related correspondence. The examiners also reviewed data provided by the WCRB regarding the company's policies issued during the exam review period.

The company's Actuarial Department is responsible for filing forms and rates with the WCRB. As a result of Wisconsin being a controlled rate state for workers' compensation, carriers licensed in the state must file forms and rates with the WCRB rather than with OCI. For this reason, the company's Actuarial Department has minimal communication with OCI. The only workers' compensation filings that OCI accepts from carriers are carrier specific workers' compensation dividend filings. The company states that it does not have any dividend filings with OCI. An examiner review of the System for Electronic Rate and Form Filing (SERFF) verified that the company had not filed dividends with OCI.

The company indicated that the Actuarial Department has multiple sources of information concerning Wisconsin insurance laws and regulations and monitors all states for changes to rates and insurance laws and regulations.

The company further indicated that all workers' compensation insurance policies are rated in accordance with the company's filed rates, forms, and underwriting manual. In response to the Policy Forms and Rates interrogatory, the company stated that its forms and manuals would be available for review while examiners were onsite at the company's office. The examiners reviewed a copy of the company's specific carrier elections that it filed with the WCRB. The examiners found that the only other rating or underwriting manuals provided by the company were WCRB manuals, specifically the WCRB's Wisconsin Workers' Compensation and Employers Liability Insurance Manual (WI Basic Manual) and the WCRB filed class rates for the years 2016, 2017 and 2018. The examiner's review of the carrier election form included filing information regarding terrorism and catastrophe coverage charges, use of a premium discount table, use of a short-rate cancellation penalty, a choice in how to charge for Waiver of Right to Recover from Others, and electing not to participate in the Wisconsin Apprenticeship Program. The examiners reviewed the WI Basic Manual provided by the company and verified that it was up to date.

2. **Recommendation:** It is recommended that the company develop and implement an underwriting manual for Wisconsin business in order to ensure compliance with Wisconsin regulation.

Marketing, Sales and Advertising

The examiners reviewed the company's response to the Marketing, Sales and Advertising interrogatory, two (2) agency agreements and a sample of nine (9) national advertisements.

The nine national advertisements reviewed were magazine advertisements which appeared on the back of the Insurance Journal magazine. The examiners found that the advertisements were general advertisements for Applied Underwrtiers and did not list any specific policy product. The advertisements had no Wisconsin-specific advertising.

The examiners found that the company's Sales Department is responsible for working with independent agents regarding their marketing and sales activities. The company indicated that Brand Communications manages its advertising, including planning contests, trade shows and events. Brand Communications is a part of Applied Underwriters, Inc.

The company indicated it has no long-term marketing plans for Wisconsin. Currently, it is not actively selling or marketing plans in Wisconsin. The company is continually reevaluating its marketing practices nationwide, including in Wisconsin.

The company indicated that current sales are usually renewals or Wisconsin coverage being requested as an add-on to current multi-state policies by the insureds. The examiners reviewed WCRB policy data along with a sample of new and renewal policies provided by the company (included in the underwriting portion of this exam) that supported the company's statement. The examiners also found that the renewals with an effective date after the Wisconsin Stipulation and Order dated January 7, 2016, were in compliance with the Order.

The company indicated it does not allow sales employees to prepare advertising. In addition, the company does not review advertising prepared by independent brokers. If the company becomes aware of inaccurate information and the broker doesn't correct it immediately, the issue is referred to the company's general counsel.

The company currently has two (2) broker appointments in Wisconsin, American Advantage and The Starr Group. The agency agreements state the company has the right to audit books and records of the agent on the policies. The company did not provide documentation of any agent audits performed. The agreement further states the situs of the agreement is Nebraska and the agent hereby submits to the jurisdiction of Nebraska. However, the Schedule 1 to the Agreement states the authorized territory is Wisconsin.

No exceptions were noted.

Claims

The examiners reviewed the company's response to the Claims interrogatory, the Claims Practices and Procedures Guide, claims forms, standard letters, claims reports and a sample of twenty-five (25) paid claims and twenty-five (25) unpaid claims.

The company stated that its claims department is responsible for workers' compensation insurance claims and manages all aspects of claims handling including calls with verbal complaints and written complaints. The company indicated that it does not use a third-party administrator for processing Wisconsin claims.

The examiners reviewed the Claims Practices and Procedures Guide. The guide states that, after receiving the claim the claim adjuster should make contact with three (3) parties: (1) the employer, (2) the employee, and (3) the medical provider. This task should be completed within seventy-two (72) hours. The examiners found that all claim files sampled documented that this task was completed within seventy-two (72) hours and the majority were completed within the first twenty-four (24) hours of receiving notice of the incident report from the employer.

The examiners noted while reviewing the Claims Practices and Procedures Guide that the company uses an intake report form when contacting the three (3) parties. The form focuses on documenting information that is relevant to the company and its relationship to each party. The employer section focuses on the employer's contact and policy information. The employee section focuses on the employee's contact, workplace, and injury information. The medical provider section focuses on the provider's contact and treatment information. The form also has a section to document other information, such as who completed the form and when it was completed.

The company stated that adjusters review and process claims and managers are consulted as needed if proposed settlements exceed an adjuster's authority. The company handles all utilization review of medical claims. Retrospective review determinations are made within thirty (30) days of the written request. Prospective medical review determinations are

made within five (5) business days of the written request, and expedited review determinations are made within seventy-two (72) hours of the written request. The company stated that claim payments are generally verbally explained to its insureds. The company acknowledged providing a loss run report if additional information is requested. The company stated that it expects all benefits payable to be issued in a timely manner and interest due is applied in the event of an untimely payment. The examiners found the company did not have a written procedure as to how the company would determine when interest is due on a late claim payment and how to pay such interest, as required by s. 102.22, Wis. Stat. In the sample of twenty-five (25) paid claims that the examiners reviewed there were no instances of late or nonpayment on behalf of the company.

The company's claim adjusters handle verbal claim complaints, adjusters and team leaders handle written complaints and legal counsel and the Vice President of Claims handle any department of insurance complaint involving claims.

3. **Recommendation:** It is recommended that the company develop and implement a written policy and procedure to identify when interest is due on late claim payments and how to pay such interest, as required by s. 102.22, Wis. Stat.

Underwriting and Rating

The examiners reviewed the company's response to the Underwriting interrogatory and a sample of files including twenty-five (25) renewal files, twenty-five (25) new business files, twenty-five (25) cancellation/termination files and ten (10) quote files.

The examiners found the company did not have manuals for use in processing new business applications or underwriting applications. The company indicated that new business is processed by the New Business Unit and each application is reviewed by the company's Special Investigation Unit (SIU) to confirm accuracy. The company indicated it did not produce underwriting reports for new or renewal policies.

During the review of the renewal and new business sample files, the examiners found that four (4) new business files and one (1) renewal file did not have any reference to Wisconsin coverage in the policy or elsewhere in the file. When notified of this, the company provided documentation to the examiners that in each case the policyholder requested that Wisconsin coverage be added to the policy midterm. The company then provided proof of coverage and file notes of the request made by the policyholder.

During the review of the new and renewal samples the examiners found that policies that were issued after the January 7, 2016, Stipulation and Order did not include any reinsurance language in the policy file. This is in accordance with the OCI Stipulation and Order dated June 22, 2015.

The examiners found that the company mid-term canceled SolutionOne and EquityComp polices that were in effect before the June 22, 2015, Stipulation and Order and offered a replacement workers' compensation policy using WCRB mandated rates in accordance to the June 22, 2015, and January 7, 2016, Stipulations and Orders.

The examiners found that all renewals issued by the company after January 7, 2016, Stipulation and Order were issued in accordance with the Stipulation and Order.

While reviewing the cancellation/termination files, the examiners found in the nine (9) files listed below that the nonrenewal notice did not include instructions for obtaining insurance through the Wisconsin Workers' Compensation Insurance Pool (WWCIP) as required by s. Ins 21.01 (9), Wis. Adm. Code.

Cancellation/Termination Files

[redacted]

[redacted]

When presented with this finding, the company acknowledged that its notices do not comply with the Wisconsin Administration Code and would be amended to bring them into compliance.

The examiners found in the seventeen (17) new business files and nine (9) quote files listed below, that the quoted rates associated with the policies did not match the rates filed with OCI by the WCRB. Section 626.25, Wis. Stat., provides that no insurer writing any insurance specified under s. 626.03 may use a rate, rating plan or classification nor expense loading not approved by the commissioner.

[redacted]

When presented with these findings the company stated,

> *"The rates in each of the proposals reflect anticipated results of a second separate reinsurance transaction between the insured and Applied Underwriters Captive Risk Assurance Company to which Continental Indemnity Company is not a party. In the event any of the Proposals were accepted, the Wisconsin workers' compensation policy would have been issued with the approved rates filed with the Wisconsin Compensation Rating Bureau."*

The quotes for the policies listed above that fall between the examination review period of January 1, 2014 to January 7, 2016, are documented and acknowledged to have been issued before the issue date of the last Stipulation and Order as referenced in the "Prior Wisconsin OCI Actions" section. For that period of time the company was still issuing SolutionOne and EquityComp policies in Wisconsin that included a second separate reinsurance agreement between the insured and Applied Underwriters Captive Risk Assurance Company. For all quotes and policies after the Stipulation and Order dated January 7, 2016, when the company agreed to stop providing SolutionOne and EquityComp policies on Wisconsin coverage the correct WCRB filed workers' compensation class code rates should be used.

4. **Recommendation:** It is recommended that the company amend its cancellation and termination notices to include instructions for obtaining insurance through the Wisconsin Workers' Compensation Insurance Pool (WWCIP) as required by s. Ins 21.01 (9), Wis. Adm. Code.

5. **Recommendation:** It is recommended that the company amend its quotes to show the WCRB filed class code rates for any Wisconsin workers' compensation exposure, as required by s. 626.25, Wis. Stat.

Producer Licensing

During the marketing, sales and advertising review and the underwriting review, the examiners found the company contracts only with agencies/brokers.

The company indicated that it does not have agents; its contracts are with the agencies/brokers. The company requires all agencies to maintain current and valid licenses. The brokers provide a copy of their license to the company's licensing department. The examiners found that the company provided no agent training materials, stating it had none, as product information is communicated by phone calls to independent agents working on an open brokerage basis. The company does not monitor agent sales activity for review/investigation, nor does it conduct agent audits. The company has not terminated any agents for cause. In addition, it does not give agents the authority to collect premium payments.

A result of this company procedure, the examiners found that thirty-two (32) policies listed agents on the polices who were not licensed to write business in Wisconsin, as required by s. 628.03, Wis. Stat., and s. Ins 659, Wis. Adm. Code (Attachment 1). Forty-nine (49) policies listed agents on the policies who were not appointed by the company as required by s. Ins 6.57, Wis. Adm. Code (Attachment 2). When presented with these findings, the company provided information showing that the agents associated with the policies were licensed in the state in which the policyholder was domiciled, but they were not licensed in the state of Wisconsin. The company does acknowledge that while it only does business with independent

brokers and while the internal sales representatives for the company are licensed and appointed in Wisconsin, going forward it will license and appoint all brokers in Wisconsin.

6. **Recommendation:** It is recommended that the company develop and implement a written policy and procedure to ensure that all individual agents doing business in Wisconsin are licensed in Wisconsin, as required by s. 628.03, Wis. Stat., and s. Ins 6.59, Wis. Adm. Code.

7. **Recommendation:** It is recommended that the company develop and implement a written policy and procedure to ensure that all individual agents doing business in Wisconsin are appointed with the company, as required by s. Ins 6.57, Wis. Adm. Code.

V. CONCLUSION

The company agreed to the final Stipulation and Order on January 7, 2016, stating that all SolutionOne and EquityComp policies with Wisconsin coverage had been cancelled and that it would not issue either program going forward unless it was filed and approved by the WCRB. The company was found to be in compliance with this Stipulation and Order as the examiners did not find any active SolutionOne or EquityComp policies with Wisconsin coverage. All policies the examiners reviewed after January 7, 2016 had the correct WCRB rates. However, the quotes for the policies after January 7, 2016, continue to have "blended" rates listed for Wisconsin coverage. This report contains seven (7) recommendations in the areas of company operations and management, policyholder service and complaints, policy forms and rates, claims, underwriting and rating and producer licensing.

VI. SUMMARY OF RECOMMENDATIONS

Company Operations and Management

Page 8 1. It is recommended that the company document that all audit results are reported to the Board of Directors.

Policy Forms and Rates

Page 10 2. It is recommended that the company develop and implement an underwriting manual for Wisconsin business in order to ensure compliance with Wisconsin regulation.

Claims

Page 14 3. It is recommended that the company develop and implement a written policy and procedure to identify when interest is due on late claim payments and how to pay such interest, as required by s. 102.22, Wis. Stat.

Underwriting and Rating

Page 18 4. It is recommended that the company amend its cancellation and termination notices to include instructions for obtaining insurance through the Wisconsin Workers' Compensation Insurance Pool (WWCIP) as required by s. Ins 21.01 (9), Wis. Adm. Code.

Page 18 5. It is recommended that the company amend its quotes to show the WCRB filed class code rates for any Wisconsin workers' compensation exposure, as required by s. 626.25, Wis. Stat.

Producer Licensing

Page 19 6. It is recommended that the company develop and implement a written policy and procedure to ensure that all individual agents doing business in Wisconsin are licensed in Wisconsin, as required by s. 628.03, Wis. Stat., and s. Ins 6.59, Wis. Adm. Code.

Page 19 7. It is recommended that the company develop and implement a written policy and procedure to ensure that all individual agents doing business in Wisconsin are appointed with the company, as required by s. Ins 6.57, Wis. Adm. Code.

VII. ACKNOWLEDGEMENT

The courtesy and cooperation extended to the examiners during the course of the examination by the officers and employees of the company is acknowledged and appreciated.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination.

Name	Title
David Haushalter	Insurance Examiner
Darcy Paskey	Insurance Examiner
Moua Yang	Insurance Examiner

Respectfully submitted,

Andrew Stoughton
Examiner-in-Charge