Report of the Examination of

Third Coast Insurance Company

New Berlin, Wisconsin

As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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April 30, 2020

Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

THIRD COAST INSURANCE COMPANY
New Berlin, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Third Coast Insurance Company (the company or TCIC) was conducted in 2016 and 2017 as of December 31, 2015. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of the Accident Fund Group. The Michigan Department of Insurance and Financial Services (DIFS) acted in the capacity as the lead state for the coordinated examinations. Work performed by the Michigan DIFS was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Michigan DIFS. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge.

II. HISTORY AND PLAN OF OPERATION

The company was organized on April 1, 1996, by Third Coast Holding Company (TCHC) for the purpose of writing workers' compensation insurance in the state of Illinois. TCHC was jointly owned by RISCORP, Inc. (a Florida workers' compensation service company) and Health Care Services Corporation (HCSC). Below is a brief history of the company since inception:

1996	Third Coast Insurance Company (TCIC) was formed under Illinois law for the purposes of writing workers' compensation insurance.
1999	TCIC ceased writing new and renewal business and placed its direct business into run-off.
1999	TCIC entered into a Loss Portfolio Transfer Agreement with St. Paul Reinsurance, covering all outstanding workers' compensation business written prior to October 1, 1999.
2007	Accident Fund Insurance Company of America acquired 100% of TCIC.
2016	TCIC redomesticated to Wisconsin effective September 12, 2016.

Blue Cross Blue Shield of Michigan Mutual Insurance Company (BCBSM), the ultimate controlling entity, is a nonprofit health care organization and the third largest Blue plan in the United States based on member population. BCBSM has wholly owned and minority investments in subsidiaries, organized into two business units: Emerging Markets and Health Plan Business. All legal entities of the Emerging Markets division were transferred to the ownership of Emergent Holdings, Inc. (Emergent Holdings) following its formation in 2018. Emergent Holdings is a wholly owned subsidiary of BCBSM and owns 100% of the outstanding stock of Accident Fund Holdings, Inc. (Accident Fund Holdings). Accident Fund Insurance Company of America (AFICA) is 100% owned by Accident Fund Holdings.

AFICA owns five wholly owned insurance subsidiaries: Accident Fund General Insurance Company (AFGIC), Accident Fund National Insurance Company (AFNIC), CompWest Insurance Company (CWIC), United Wisconsin Insurance Company (UWIC), and Third Coast

Insurance Company (TCIC). AFICA and its insurance subsidiaries collectively operate as the AF Group. Additional information on each insurance entity, as well as key affiliates of the AF Group, Accident Fund Holdings, and Emergent Holdings, is included in the Affiliated Companies section of this examination report.

Emergent Holdings is comprised of three distinct business units, one of which is the AF Group. The Corporate Functions division of Emergent Holdings provides oversight and services to all subsidiaries of Emergent Holdings. These services include Corporate Risk, Corporate Audit and Advisory Services (CAAS), Human Resources, and Performance Management and Finance. The Corporate Functions division of Emergent Holdings serves as a strategic controller for the AF Group, with centralized functions intended to ensure stability and establish consistency. The holding company structure includes a blend of leadership specifically focused on the AF Group and those for the entire Emerging Markets Division.

For Generally Accepted Accounting Principles (GAAP) purposes, the AF Group is broadly organized into three segments, each comprised of multiple brands (discussed in detail below). The Workers' Compensation segment consists of four distinct brands: Accident Fund, United Heartland, CompWest, and Third Coast Underwriters. The Alternative Markets segment consists of two brands: AF Specialty and Assigned Risk Solutions. The Multiline segment consists of two brands: AF Global Capital and Fundamental Underwriters. The brand names noted above can utilize the paper of multiple AF Group insurance companies, meaning the brand names are not specifically related to or an indication of a specific AF Group company (see table on the next page).

Gross Written Premium (000s)		AF Group Brands						
		Accident Fund	United Heartland	CompWest	Third Coast Underwriters	Alternative Markets	Multiline	Total
AF Group Companies	AFICA	$468,487	$73,367	$ 0	$50,487	$ 84,288	$ 0	$ 676,629
	AFGIC	232,728	66,791	0	34,971	7,224	0	341,714
	AFNIC	198,195	40,662	0	9,323	1,454	0	249,634
	CWIC	10,974	0	142,047	0	3	0	153,024
	TCIC	0	0	0	0	0	10,001	10,001
	UWIC	0	149,755	0	0	117,536	0	267,291
	AF Group	$910,384	$330,574	$142,047	$94,781	$210,505	$10,001	$1,698,293

The Workers' Compensation segment uses the paper of one or more legal insurance entities and produces workers' compensation business through independent insurance agencies and brokerages. The Accident Fund brand focuses on small-to-mid-sized businesses in 19 core states, primarily in the Midwest and Southeast. The United Heartland brand focuses on mid-to-large-sized business in the education, health care, long-term care facilities, manufacturing, nonprofits, social services, and wholesale industries. The CompWest brand focuses on California and certain Western states, targeting health care, hospitality, manufacturing, professional services, retail and wholesale services, and artisan contractors. The Third Coast Underwriters brand focuses on complex and challenging underserved markets (e.g., construction, non-trucking transportation, agriculture, etc.) in Midwestern, Gulf, and certain Southeastern states.

The Alternative Markets segment provides fronting services through its AF Specialty brand and servicing carrier business through its Assigned Risk Solutions brand. The Alternative Markets segment is focused on fee-based income (whereby the direct writing company cedes the bulk of the underwriting risk). The AF Group has been a servicing carrier for the Michigan and Indiana assigned risk pools since 2017 through the Assigned Risk Solutions brand. The AF Specialty brand specializes in fronting arrangements related to workers' compensation, property, general liability, and commercial auto program business.

The Multiline brand focuses exclusively on non-workers' compensation lines of business, including business written on a surplus lines basis. AF Global Capital (which is both a legal entity and a brand) participates as a capital provider to several Lloyd's syndicates. Fundamental Agency, Inc., formed in 2017, is a managing general underwriter that was created to distribute surplus lines commercial auto products written on TCIC's paper. The managing general underwriter operations started in 2018 under the Fundamental Underwriters brand.

Each brand is led by a brand president and operates independent field underwriting and claims functions (with AF Group oversight). Each AF Group company has its own board of directors, which consists of officers of the AF Group. These individual boards are overseen by the board of directors of Emergent Holdings, which consists of BCBSM officers and independent directors. Some of the most senior officers of the AF Group are also BCBSM officers.

In 2018, Third Coast Insurance Company wrote direct premium in the following states:

Illinois	$3,339,933	33.4%
Georgia	1,957,425	19.6
Pennsylvania	1,576,843	15.8
Iowa	1,191,870	11.9
Indiana	853,528	8.5
Missouri	764,155	7.6
Virginia	317,396	3.2
All others	0	0.0
Total	$10,001,150	100.0%

The company is licensed in three states and is eligible to write surplus lines in 41 states and the District of Columbia. TCIC was authorized to write a full spectrum of commercial property and casualty coverage in multiple states; however, the company surrendered many of these licenses when it was approved as a surplus lines insurer. In 2018, the company exclusively wrote commercial auto liability business on a surplus lines basis.

The following table is a summary of the net insurance premiums written by the company in 2018. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Commercial auto liability	$ 9,546,343	$0	$ 9,546,343	$0
Auto physical damage	454,808	0	454,808	0
Total All Lines	$10,001,151	$0	$10,001,151	$0

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors of the company consists of five members. These directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation specific to their service on the board.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Elizabeth R. Haar, Chair Dexter, Michigan	Executive Vice President and President – Emerging Markets, BCBSM Emergent Holdings, Inc.	2020
Lisa M. Corless Okemos, Michigan	President – AF Group Accident Fund Holdings, Inc.	2020
Able L. Travis* Lansing, Michigan	President Third Coast Insurance Company	2020
Anthony G. Phillips** Highland, Michigan	Executive Vice President, Performance Management, Chief Risk Officer and Chief Actuary Emergent Holdings, Inc.	2020
John S. Roberts*** East Lansing, Michigan	Senior Vice President of Administration COBX Co.	2020

* Mr. Travis replaced Ms. Marguerite Dixen as president and director of Third Coast Insurance Company, effective October 8, 2019. Mr. Travis has formerly served in the AF Group companies as vice president of innovation.

**Mr. Phillips replaced Mr. Frank Freund as treasurer and director of Third Coast Insurance Company, effective December 6, 2018. Mr. Freund retired after a long career as treasurer and director for all AF Group companies. Mr. Phillips now serves as treasurer and director for all AF Group companies.

***Mr. Roberts replaced Mr. Steven Reynolds as director of Third Coast Insurance Company, effective June 6, 2019. Mr. Reynolds retired after a long career as secretary and director for all AF Group companies. Mr. Roberts now serves as director for all AF Group companies.

Officers of the Company

The officers serving at the time of this examination are shown below. The 2018 compensation represents their total compensation for all companies they serve within the Accident Fund Group.

Name	Office	2018 Compensation
Marguerite D. Dixen*	President – Third Coast Insurance Company	$1,222,776
Anthony G. Phillips**	Treasurer – Third Coast Insurance Company	1,374,332
Steven E. Reynolds***	Secretary – Third Coast Insurance Company	702,327

* Mr. Travis replaced Ms. Marguerite Dixen as president and director of Third Coast Insurance Company, effective October 8, 2019. Mr. Travis has formerly served in the AF Group companies as vice president of innovation.

**Mr. Phillips replaced Mr. Frank Freund as treasurer and director of Third Coast Insurance Company, effective December 6, 2018. Mr. Freund retired after a lengthy career as treasurer and director for all AF Group companies. Mr. Phillips now serves as treasurer and director for all AF Group companies.

***Mr. Reynolds retired as secretary of the AF Group companies, effective June 6, 2019, and was replaced by Ms. Bobbi Jo Elliott.

Committees of the Board

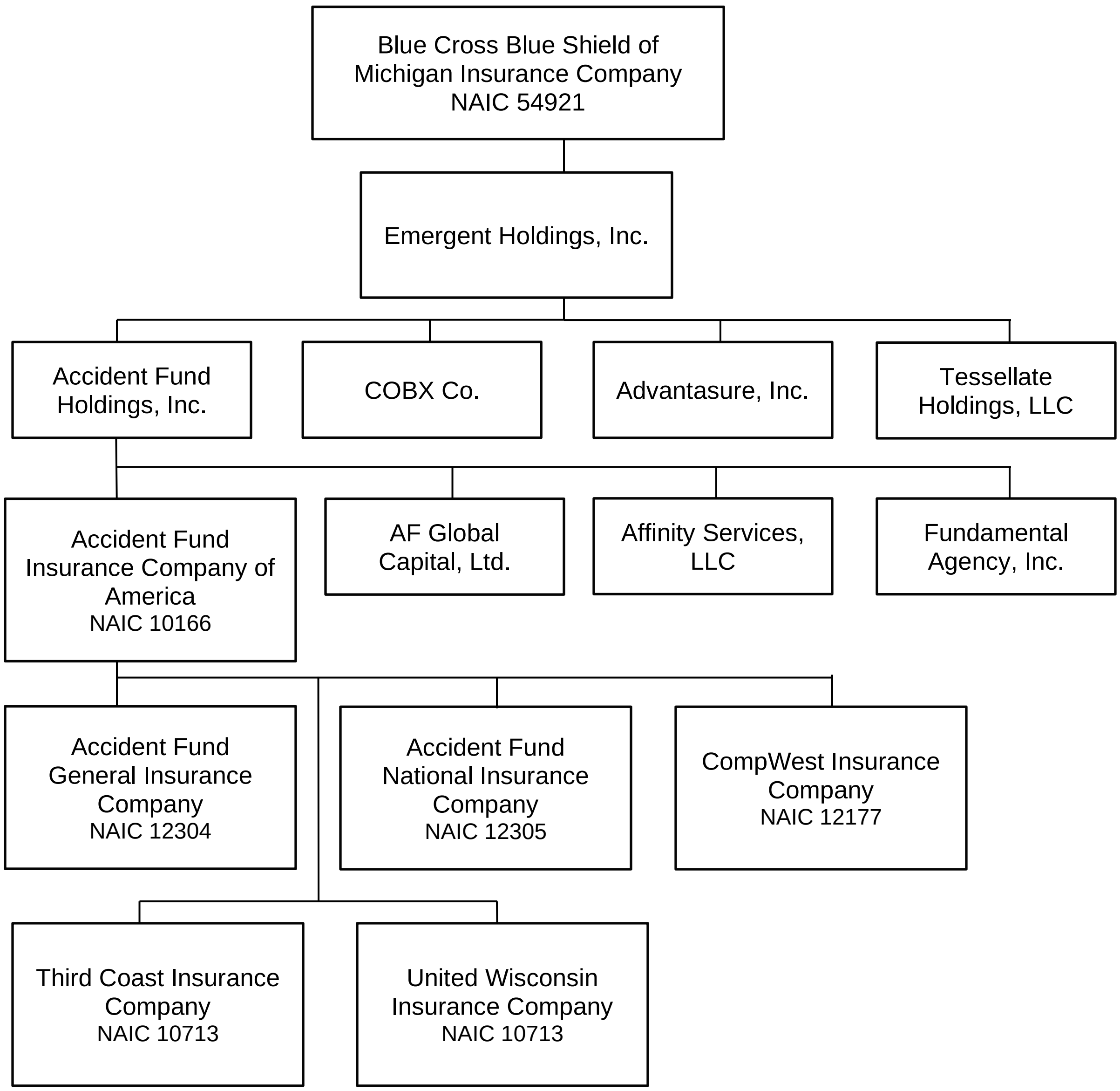
The company's bylaws allow for the formation of certain committees by the board of directors, but there were no committees appointed by the board at the time of the examination. The Audit Committee of Emergent Holdings, Inc., serves as the Audit Committee for TCIC. The five members of the Emergent Holdings' Audit Committee include:

Audit Committee
Timothy McCarthy, Chair
Gregory Sudderth, Vice Chair
Patrick Devlin
James Agee
Richard Whitmer

IV. AFFILIATED COMPANIES

Third Coast Insurance Company is a member of a holding company system. The abbreviated organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2018



Accident Fund Insurance Company of America

Accident Fund Insurance Company of America (AFICA) provides a wide array of property and casualty products, including workers' compensation, property, general liability, and commercial auto. AFICA is domiciled in the state of Michigan and is licensed to write business in all 50 states and the District of Columbia. As of December 31, 2018, the audited financial statements of AFICA reported assets of $3,779,604,000, liabilities of $2,842,224,000, and capital and surplus of $937,380,000. Operations for 2018 produced net income of $219,148,000.

Accident Fund General Insurance Company

Accident Fund General Insurance Company (AFGIC) provides a wide array of property and casualty products, including workers' compensation, property, general liability, and commercial auto. AFGIC is domiciled in the state of Michigan and is licensed to write business in 48 states and the District of Columbia. As of December 31, 2018, the audited financial statements of AFGIC reported assets of $250,959,000, liabilities of $142,744,000, and capital and surplus of $108,215,000. Operations for 2018 produced net income of $533,000.

Accident Fund National Insurance Company

Accident Fund National Insurance Company (AFNIC) provides a wide array of property and casualty products, including workers' compensation, property, general liability, and commercial auto. AFNIC is domiciled in the state of Michigan and is licensed to write business in 48 states and the District of Columbia. As of December 31, 2018, the audited financial statements of AFNIC reported assets of $186,690,000, liabilities of $103,470,000, and capital and surplus of $83,220,000. Operations for 2018 produced a net loss of $90,000.

CompWest Insurance Company

CompWest Insurance Company (CWIC) provides workers' compensation and other liability coverages primarily in California. CWIC is domiciled in the state of California and is licensed to write business in 12 states. As of December 31, 2018, the audited financial statements of CWIC reported assets of $232,415,000, liabilities of $89,928,000, and capital and surplus of $142,487,000. Operations for 2018 produced net income of $4,864,000.

United Wisconsin Insurance Company

United Wisconsin Insurance Company (UWIC) writes workers' compensation and commercial auto liability, written directly for its own account and through fronting arrangements on behalf of others. UWIC is licensed in 49 states (excluding Hawaii) and the District of Columbia. As of December 31, 2018, the audited statutory statements of UWIC reported assets of $207,042,000, liabilities of $83,5050,000, and capital and surplus of $123,537,000. Operations for 2018 produced net income of $4,632,000.

COBX Co.

COBX Co. provides shared and corporate services (e.g., accounting, internal audit, etc.) to its affiliated entities. As of December 31, 2018, the audited financial statements of COBX, Co., reported assets of $57,666,000, liabilities of $158,379,000, and total shareholder's equity of $(100,713,000). Operations for 2018 produced a net loss of $15,819.

Fundamental Agency, Inc.

Fundamental Agency, Inc., was formed in 2018 to facilitate Third Coast Insurance Company's ability to write risks on a non-admitted basis in certain jurisdictions. TCIC and Fundamental Agency, Inc. (Fundamental) are party to a Surplus Lines Producer Agreement, which specifies contractual limits on Fundamental's authority and maintains control in the company over the risks ultimately accepted for placement. As of December 31, 2018, the unaudited GAAP financial statements of Fundamental reported assets of $2,172,193, liabilities of $264,604, and total shareholders' equity of $1,907,589. Operations for 2018 produced a net loss of $114,113.

Agreements with Affiliates

Affiliated reinsurance agreements are discussed in the "Reinsurance" section of the examination report. A summary of the other agreements with affiliates follows:

Intercompany Services Agreement

BCBSM, Accident Fund Holdings, AFICA, and its subsidiaries have been party to an intercompany services agreement, pursuant to which the parties provide to and/or receive from one another various services upon request. Services to be provided include, but are not limited to financial accounting, underwriting, communications, marketing, claims administration, information systems, and general management/administrative services. The agreement was amended, effective February 15, 2018, to include Fundamental Agency, Inc., and was further amended effective January 1, 2019, to include Emergent Holdings.

Tax Allocation Agreement

BCBSM, Accident Fund Holdings, AFICA, and its subsidiaries have been party to a tax sharing agreement whereby each party is allocated an appropriate portion of the overall consolidated federal and state income tax liability. The agreement was amended, effective February 15, 2018, to include Fundamental Agency, Inc., and was further amended effective January 1, 2019, to include Emergent Holdings.

Surplus Lines Producer Agreement

TCIC is party to a Surplus Lines Producer Agreement with its affiliate, Fundamental Agency, Inc., effective January 1, 2018. The company grants Fundamental Agency, Inc., the authority to solicit, receive, and submit to the company proposals for contracts of insurance on a non-admitted basis. The terms of the Intercompany Services Agreement are unchanged by this agreement. The Intercompany Services Agreement expressly excludes the provision for producing activity by Fundamental Agency, Inc., to the company.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Affiliated Ceding Contracts

1. Type: Intercompany Reinsurance and Pooling Agreement

   Reinsurer: Accident Fund Insurance Company of America and CompWest Insurance Company

   Scope: Accident Fund Insurance Company of America is the Lead Company in the Intercompany Reinsurance and Pooling Agreement. The participating Affiliated Companies cede to the Lead Company, and the Lead Company accepts and reinsures, 100% of the underwriting liabilities of the Affiliated Companies related to all insurance and reinsurance policies issued by or on behalf of the Affiliated Companies. The Lead Company cedes to the Affiliated Companies, and the Affiliated Companies accept, assume and reinsure their respective percentages (shown below) of (a) all underwriting liabilities ceded to the Lead Company and (b) the Lead Company's own net retained underwriting liabilities.

   Participation:

AFICA	99.0%
AFGIC	0.0%
AFNIC	0.0%
CWIC	1.0%
TCIC	0.0%
UWIC	0.0%

   Commissions: None

   Effective date: January 1, 2017

   Termination: Agreement shall continue until termination by the consent of all parties hereto, or otherwise terminated as of the close of any quarter of a calendar year upon 12 months' notice in writing by any party.

Nonaffiliated Ceding Contracts

1. Type: Workers' Compensation Catastrophe Excess of Loss

   Reinsurer:

Name	First	Second	Third
Allied World Assurance Company, Ltd.	0.000%	0.000%	4.500%
Arch Reinsurance Company	0.000	3.000	3.000
Aspen Insurance UK Limited	10.000	7.000	4.675

Name	First	Second	Third
BGS Services (Bermuda) Limited on behalf of Lloyd's Syndicate 2987	0.000	3.000	5.000
Cincinnati Insurance Company	0.000	5.000	2.500
Endurance Specialty Insurance, Ltd.	0.000	6.000	2.000
Hamilton Re, Ltd.	0.000	2.000	3.000
Hannover Rueck SE	7.000	8.000	0.000
Lloyd's Syndicate 1084	5.000	0.000	22.000
Lloyd's Syndicate 4472	10.000	5.000	5.000
Lloyd's Syndicate 2014	7.000	7.000	5.000
Lloyd's Syndicate 1945	0.000	2.500	1.000
Lloyd's Syndicate 1414	4.000	5.000	4.500
Lloyd's Syndicate 5678	4.000	4.000	1.500
Lloyd's Syndicate 609	5.000	6.500	7.500
Lloyd's Syndicate 2987	8.000	14.000	7.125
Lloyd's Syndicate 566	4.500	0.000	1.500
Lloyd's Syndicate 1729	0.000	1.250	1.000
Lloyd's Syndicate 435	0.000	1.000	0.000
Lloyd's Syndicate 1955	0.000	1.750	3.000
Lloyd's Syndicate 4444	0.000	0.000	2.700
Markel Global Re	0.000	5.000	2.500
Munich Reinsurance America, Inc.	0.000	2.000	3.000
Odyssey Reinsurance Company	9.000	5.000	1.750
Partner Reinsurance Company of the U.S.	5.000	0.000	0.000
Safety National Casualty Corporation	12.500	0.000	0.000
Insurance Company of the West	9.000	0.000	0.000
Tokio Millennium Re Ag	0.000	6.000	6.250
Total	100.000%	100.000%	100.000%

Cedent(s): The reinsurance contract is issued to Accident Fund Insurance Company of America, as the leader of the intercompany pooling arrangement, on behalf of itself and each of its subsidiaries. The term "Affiliated Companies" refers to all insurance entities of the AF Group.

Scope: The contract indemnifies the Affiliated Companies in respect of business classified as Workers' Compensation, Excess Workers' Compensation and/or Employer's Liability in force at the inception of the contract, as well as all liability assumed by the Affiliated Companies, pursuant to the agreements between the Affiliated Companies and Sunz Insurance Company. Reinsurance coverage is provided in two sections: Section A and Section B. Reinsurance coverage shall apply only to those loss occurrences commencing during the term of the contract which are reported to the reinsurer prior to January 1, 2027. The Reinsurer shall have no liability for loss occurrences commencing after the expiration of the contract. However, at the

Company’s option, the Reinsurer shall remain liable in respect of policies in force at expiration, until the earlier of the expiration or next renewal of such policies.

Section A: As respects losses not otherwise covered under Section B below, the Reinsurer shall be liable for:

Layer	Affiliated Companies’ Retention Ultimate Net Loss in respect of each and every loss occurrence	Reinsurer’s Limit of Liability Ultimate Net Loss in respect of each and every loss occurrence
First	$10,000,000	$10,000,000
Second	$20,000,000	$20,000,000
Third	$40,000,000	$160,000,000

Section B: The Reinsurer shall be liable in the aggregate in respect of each and every loss occurrence arising from an act or acts of terrorism for:

Layer	Affiliated Companies’ Retention Ultimate Net Loss in respect of each and every loss occurrence Ultimate Net Loss in the aggregate	Reinsurer’s Limit of Liability Ultimate Net Loss in respect of each and every loss occurrence Ultimate Net Loss in the aggregate
First	$10,000,000	$10,000,000
Second	$20,000,000	$20,000,000
Third	$40,000,000	$160,000,000

Sections A and B: The maximum annual recovery for all loss occurrences during the term is shown below:

Layer	Maximum Annual Recovery
First	$40,000,000
Second	$60,000,000
Third	$480,000,000

Premium: The premium to be paid to the Reinsurer shall be calculated at the rates set out below multiplied by the Subject Net Earned Premium of the Affiliated Companies for the term of the contract, subject to the annual minimum and deposit premiums stated hereunder:

Layer	Rate	Deposit Premium	Minimum Premium
First	0.2926%	$5,251,600	$4,201,280
Second	0.0680%	$1,220,500	$976,400
Third	0.2591%	$4,650,000	$3,720,000

Commissions: None

Effective date: January 1, 2019

Expiration: January 1, 2020

Termination: The Affiliated Companies may terminate a subscribing Reinsurer's percentage share in the contract at any time by giving written notice to the subscribing Reinsurer in the event of certain circumstances (e.g. insolvency of reinsurance).

Reinstatement: As respects the First Layer of Section A, the limit of coverage will be reinstated from the time of the occurrence of the loss. For the first $10,000,000 so reinstated, the reinstatement is without charge. For the next $10,000,000 reinstatement, the Affiliated Companies agrees to pay an additional premium calculated at pro rata by multiplying 50% by the Reinsurer's premium for the term of the contract. For the next $10,000,000 so reinstated, the reinstatement is without charge. The Reinsurer's liability shall never exceed the Reinsurer's limit of liability in respect of any one loss occurrence and shall be further limited to $40,000,000 during the term of the contract.

2. Type: Commercial Automobile Excess of Loss

Reinsurer:

Name	First	Second
Lloyd's Syndicate 435	25.00%	25.00%
Lloyd's Syndicate 1945	5.00	4.00
Lloyd's Syndicate 609	5.00	5.00
Lloyd's Syndicate 1955	8.00	7.00
Lloyd's Syndicate 1084	10.00	10.00
Lloyd's Syndicate 4472	9.00	8.00
Lloyd's Syndicate 2987	25.00	23.00
Lloyd's Syndicate 4020	6.00	5.00
Lloyd's Syndicate 566	7.00	4.00
Lloyd's Syndicate 4444	0.00	5.00
Lloyd's Syndicate 1414	0.00	4.00
Total	100.00%	100.00%

Cedent(s): The reinsurance contract is issued to Accident Fund Insurance Company of America, as the leader of the intercompany pooling arrangement, on behalf of itself and each of its subsidiaries. The term "Affiliated Companies" refers to all insurance entities of the AF Group.

Scope: The contract indemnifies the Affiliated Companies in respect of business classified as Commercial Automobile Liability (including but not limited to Personal Injury Protection, Uninsured and Underinsured Motorist, Medical Payments, and General Liability when written in conjunction with Commercial Automobile coverage), and other lines classified by the Affiliated Companies as liability and required under Section 30 of the Motor Carrier Act of 1980, written or renewed during the term of the contract and underwritten for the Affiliated Companies by MGU Fundamental Underwriters. At the expiration of the contract, the Reinsurer shall remain liable for all policies covered by the contract that are in force at expiration, until the termination, expiration or renewal of such policies, whichever occurs first, plus any extended reporting periods.

Coverage: For each Excess Layer of reinsurance, the Reinsurer shall be liable for the Ultimate Net Loss over and above the initial Ultimate Net Loss retention as shown below:

Layer	Affiliated Companies' Retention	Reinsurer's Limit of Liability	
	Ultimate Net Loss in respect of each and every coverage, each and every loss occurrence, each and every policy	Ultimate Net Loss in respect of each and every coverage, each and every loss occurrence, each and every policy	Ultimate Net Loss in respect of all loss occurrences on risks attaching during the term of the contract
First	$1,000,000	$4,000,000	$12,000,000
Second	$5,000,000	$5,000,000	$15,000,000

However, where Ultimate Net Loss for a loss occurrence is $1,000,000 or less, Loss Adjustment Expense shall be subject to a Cost Franchise Deductible of $175,000. Loss Adjustment Expense equal to or exceeding the Cost Franchise Deductible shall be included in Ultimate Net Loss and covered under the contract. This only applies in respect of those loss occurrences involving one insured.

Premium As respects each Excess Layer, the Affiliated Companies shall pay the Reinsurer a deposit premium as shown below. The adjusted premium to be paid to the Reinsurer for the reinsurance provided under each Excess Layer shall be calculated at the rates set out below multiplied by the Affiliated Companies' Gross Net Written Premium Income with respect to the business covered.

Layer	Premium Rate	Deposit Premium	Minimum Premium
First	2.200%	$777,730	$544,411
Second	1.000%	$350,000	$245,000

Commissions: None

Effective date: October 1, 2019

Expiration: October 1, 2020

Termination: The Affiliated Companies may terminate a subscribing Reinsurer's percentage share in the contract at any time by giving written notice to the subscribing Reinsurer in the event of certain circumstances.

Reinstatement: The limit of coverage shall be reinstated from the time of the occurrence of the loss, and for each amount so reinstated, the Affiliated Companies agree to pay an additional premium calculated at pro rata of the Reinsurer's premium for the Excess Layer for the term of the contract. Nevertheless, the Reinsurer's liability shall not exceed the applicable limit in respect of any one loss occurrence, nor the applicable limit in respect of all loss occurrences on risks attaching during the term of the contract, as set forth above.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2018, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Third Coast Insurance Company
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$18,406,620	$	$18,406,620
Cash, cash equivalents, and short-term investments	804,996		804,996
Investment income due and accrued	138,223		138,223
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	805,022		805,022
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	2,641,078		2,641,078
Current federal and foreign income tax recoverable and interest thereon	48,528		48,528
Net deferred tax asset	497,787	160,172	337,615
Total Assets	$23,342,254	$160,172	$23,182,082

Third Coast Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2018

Other expenses (excluding taxes, licenses, and fees)		$ 1,200
Ceded reinsurance premiums payable (net of ceding commissions)		3,367,706
Payable to parent, subsidiaries, and affiliates		110,957
Total Liabilities		3,479,863
Common capital stock	$ 1,000,000	
Write-ins for other than special surplus funds:		
Surplus from Retroactive Reinsurance Account	(5,901,340)	
Gross paid in and contributed surplus	36,400,900	
Unassigned funds (surplus)	(11,797,341)	
Surplus as Regards Policyholders		19,702,219
Total Liabilities and Surplus		$23,182,082

Third Coast Insurance Company
Summary of Operations
For the Year 2018

Investment Income		
Net investment income earned	$478,502	
Net realized capital gains (losses)	(98,890)	
Net investment gain (loss)		$379,612
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		379,612
Federal and foreign income taxes incurred		(9,519)
Net Income		$389,131

Third Coast Insurance Company
Cash Flow
For the Year 2018

Premiums collected net of reinsurance		$ (78,394)
Net investment income		610,712
Total		532,318
Commissions, expenses paid, and aggregate write-ins for deductions		33,597
Net cash from operations		498,721
Proceeds from investments sold, matured, or repaid:		
Bonds	$6,766,372	
Cost of investments acquired (long-term only):		
Bonds	7,376,022	
Net cash from investments		(609,650)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		110,957
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		28
Cash, cash equivalents, and short-term investments:		
Beginning of year		804,968
End of Year		$804,996

Third Coast Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2018

Assets		$23,182,082
Less liabilities		3,479,863
Adjusted surplus		19,702,219
Annual premium:		
Lines other than accident and health	$0	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (Deficit)		$17,702,219
Adjusted surplus (from above)		$19,702,219
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,800,000
Security Surplus Excess (Deficit)		$16,902,219

Third Coast Insurance Company
Analysis of Surplus
For the Three-Year Period Ending December 31, 2018

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2018	2017	2016
Surplus, beginning of year	$19,313,819	$19,026,117	$18,516,068
Net income	389,131	513,265	510,049
Change in net deferred income tax	(112,325)	(595,291)	(183,446)
Change in nonadmitted assets	111,594	369,728	183,446
Surplus, End of Year	$19,702,219	$19,313,819	$19,026,117

Third Coast Insurance Company
Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2018

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

	Ratio	2018	2017	2016
#1	Gross Premium to Surplus	51%	0%	0%
#2	Net Premium to Surplus	0	0	0
#3	Change in Net Premiums Written	0	0	0
#4	Surplus Aid to Surplus	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0
#6	Investment Yield	2.5	2.5*	2.6*
#7	Gross Change in Surplus	2	2	3
#8	Change in Adjusted Surplus	2	2	3
#9	Liabilities to Liquid Assets	4	0	0
#10	Agents' Balances to Surplus	4	0	0
#11	One-Year Reserve Development to Surplus	0	0	0
#12	Two-Year Reserve Development to Surplus	0	0	0
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0

Ratio No. 6 measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets and was considered exceptional in 2016 and 2017. This is mainly due to the prolonged low interest rate environment in the United

States during the period under examination. The benchmark range for Ratio No. 6 was adjusted for the year ended December 31, 2018 (the floor was lowered to 2.0%).

Growth of Third Coast Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	$23,182,082	$3,479,863	$19,702,219	$389,131
2017	19,348,616	34,797	19,313,819	513,265
2016	19,032,836	6,719	19,026,117	510,049
2015	18,603,475	87,407	18,516,068	675,059

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	$10,001,151	$0	$0	0.0%	0.0%	0.0%
2017	0	0	0	0.0	0.0	0.0
2016	0	0	0	0.0	0.0	0.0
2015	0	0	0	0.0	0.0	0.0

During the period under examination, the company's admitted assets increased 24.6%, liabilities increased 38,812.2%, and surplus increased by 6.4%. Prior to 2018, the company was an inactive shell authorized to write a range of property and casualty coverages in 25 states. The AF Group made a strategic decision to reactivate TCIC as a surplus lines writer, and by year-end 2018, the company was eligible to write surplus lines business in 42 states, with premiums written in seven states. Due to state by state restrictions on licenses, the company was licensed as a direct writer in only three states as of December 31, 2018 (MA, UT, and WI).

The company's surplus lines business was written exclusively through its affiliate Fundamental Agency, Inc. (Fundamental) pursuant to a Surplus Lines Producer agreement. Fundamental was formed in 2018 to facilitate TCIC's ability to write surplus lines business in certain jurisdictions. During 2018, this business was a surplus lines commercial auto product focused on the commercial trucking market. Commercial auto liability and commercial auto physical damage coverages represented approximately 95.0% and 5.0% of gross written premium in 2018.

Under the intercompany pooling agreement, TCIC cedes 100% of its underwriting risk to the pool and does not assume any risk back from the pool. For 2018, the increase in liabilities was primarily due to reinsurance premiums payable. Net income for 2017 and 2018 consisted entirely of net investment gain. The growth in policyholder surplus over the examination period was driven almost entirely by net income derived from investment returns.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2018, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Custodial Agreement—It is recommended that the company obtain a custodial agreement with a bank or banking and trust company in compliance with s. 610.23, Wis. Stat.

   Action—Compliance.

Summary of Current Examination Results

The current examination resulted in no exam recommendations, reclassifications, or surplus adjustments.

VIII. CONCLUSION

Third Coast Insurance Company is a stock insurance company writing commercial auto liability coverage on a surplus lines basis through its affiliate Fundamental Agency, Inc. The company is licensed in three states and is eligible to write surplus lines in 41 states and the District of Columbia. Commercial Auto Liability and Auto Physical Damage represented approximately 95.0% and 5.0% of gross written premium in 2018, respectively. The company does not assume any premiums under the intercompany pooling agreement after its 100% cession to the pool.

During the period under examination, the company's admitted assets increased 24.6%, liabilities increased 38,812.2%, and surplus increased by 6.4%. In 2018, the AF Group reactivated TCIC as a surplus lines writer in certain jurisdictions. The increase in liabilities is the result of ceded reinsurance premiums payable related to the increased gross premium written on a surplus lines basis.

As of December 31, 2018, TCIC reported, admitted assets of $23,182,082, liabilities of $3,479,863, and policyholders' surplus of $19,702,219. The examination resulted in no adjustments to surplus, no recommendations, and no reclassifications.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination resulted in no comments or recommendations.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

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
Gabriel Gorske	Insurance Financial Examiner
David Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist
Terry Lorenz, CFE	Workpaper Specialist

Respectfully submitted,

Adrian Jaramillo
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization (WHO) declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. This office is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. OCI and all insurance regulators with the assistance of the National Association of Insurance Commissioners are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. OCI has been in communication with the AF Group regarding the impact of COVID-19 on business operations and the financial position of TCIC and no immediate action was deemed necessary at that time of this report.