

Report of the Examination of
Third Coast Insurance Company
New Berlin, Wisconsin
As of December 31, 2023

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December 5, 2024

Honorable Nathan D. Houdek
Commissioner of Insurance
State of Wisconsin
101 East Wilson 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 2019 and 2020 as of December 31, 2018. The current examination covered the intervening period ending December 31, 2023, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Accident Fund Insurance Company of America. The Michigan Department of Insurance and Financial Services acted in the capacity as the lead state for the coordinated examinations. Work performed by the Michigan Department of Insurance and Financial Services 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.

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 completing 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 Department of Insurance and Financial Services. 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 worker's compensation insurance in the state of Illinois. TCHC was jointly owned by RISCORP, Inc. (a Florida worker's compensation service company) and Health Care Services Corporation (HCSC). Below is a brief history of the company since its inception:

1996	Third Coast Insurance Company (TCIC) was formed under Illinois law for the purpose of writing worker's 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 worker's 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.
2021	TCIC's Wisconsin Certificate of Authority was amended on August 13, 2021, to allow TCIC to operate as a domestic surplus lines insurer in Wisconsin.

Blue Cross Blue Shield of Michigan Mutual Insurance Company (BCBSM), the ultimate controlling entity, is a nonprofit health care organization. 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) and other legal entities, including companies not writing insurance. Emergent Holding provides oversight, strategic direction, performance management, and financial and risk management services.

Accident Fund Insurance Company of America (AFICA) is 100% owned by Accident Fund Holdings, and in turn owns 10 insurance subsidiaries, both directly and indirectly. The five direct subsidiaries are: 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) (collectively, the "AF Group"). The five indirect

subsidiaries, acquired in 2023 as part of the acquisition of the Ameritrust Group, include: Star Insurance Company, Ameritrust Insurance Corporation, Century Surety Company, ProCentury Insurance Company, and Williamsburg National Insurance Company.

AFICA and its insurance subsidiaries collectively operate as the Accident Fund Group (AF Group).

In 2023, the company wrote direct premium in the following states:

Texas	\$59,290,265	29.9%
New Jersey	17,846,270	9.0
California	13,977,628	7.0
Indiana	10,037,380	5.1
Illinois	9,274,632	4.7
Arizona	8,378,879	4.2
Georgia	7,954,040	4.0
Pennsylvania	7,746,066	3.9
Tennessee	7,656,797	3.9
Alabama	6,129,210	3.1
All others	<u>50,143,553</u>	<u>25.2</u>
Total	<u>\$198,434,720</u>	<u>100.0%</u>

The company is licensed to write surplus lines in all states and the District of Columbia. The major products marketed by the company are commercial property and casualty coverages. TCIC's business mix includes fire, commercial auto, other liability, and commercial property. Business is primarily written through Managing General Agents/Third Party Administrators and an affiliate, Fundamental Agency, Inc.

The following table is a summary of the net insurance premiums written by the company in 2023. 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
Fire	\$64,890,246	\$(1,232,266)	\$63,657,980	\$0
Commercial multiple peril (non-liability portion)	462,111		462,111	0
Inland marine	994,980		994,980	
Other liability – occurrence	40,210,685		40,210,685	0
Other liability – claims made	5,171,169		5,171,169	0
Commercial auto no-fault (personal injury)	391,592		391,592	0
Other commercial auto liability	81,649,521		81,649,521	0
Commercial auto physical damage	4,664,416		4,664,416	0
Reinsurance – non-proportional assumed property	<u> </u>	<u>(443,380)</u>	<u>(443,380)</u>	<u>0</u>
Total All Lines	<u>\$198,434,720</u>	<u>\$(1,675,646)</u>	<u>\$196,759,074</u>	<u>\$0</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members elected annually, all of whom are employees of the company or affiliates and may also be members of other boards of directors in the holding company group. Officers are elected annually to serve a one-year term.

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

Name	Principal Occupation	Term Expires
Tricia A. Keith	Executive Vice President, Chief Operating Officer, Blue Cross Blue Shield of Michigan, President, Emerging Markets President	2025
Lisa M. Corless	President and Chief Executive Officer, Accident Fund Holdings	2025
Anthony G. Phillips	Executive Vice President, Emerging Markets Performance Management	2025
John S. Roberts	Executive Vice President, Business Performance, Chief Risk Officer and Chief Actuary, Emergent Holdings	2025
Jordan B. Lotsof	Vice President, Fundamental Underwriters, AF Group	2025

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office
Jordan B. Lottsoff	President
Anthony G. Phillips	Treasurer
Bobbi J. Elliot	Secretary

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

Audit Committee¹

Timothy J. McCarthy, Chair
Gregory A. Sudderth, Vice Chair

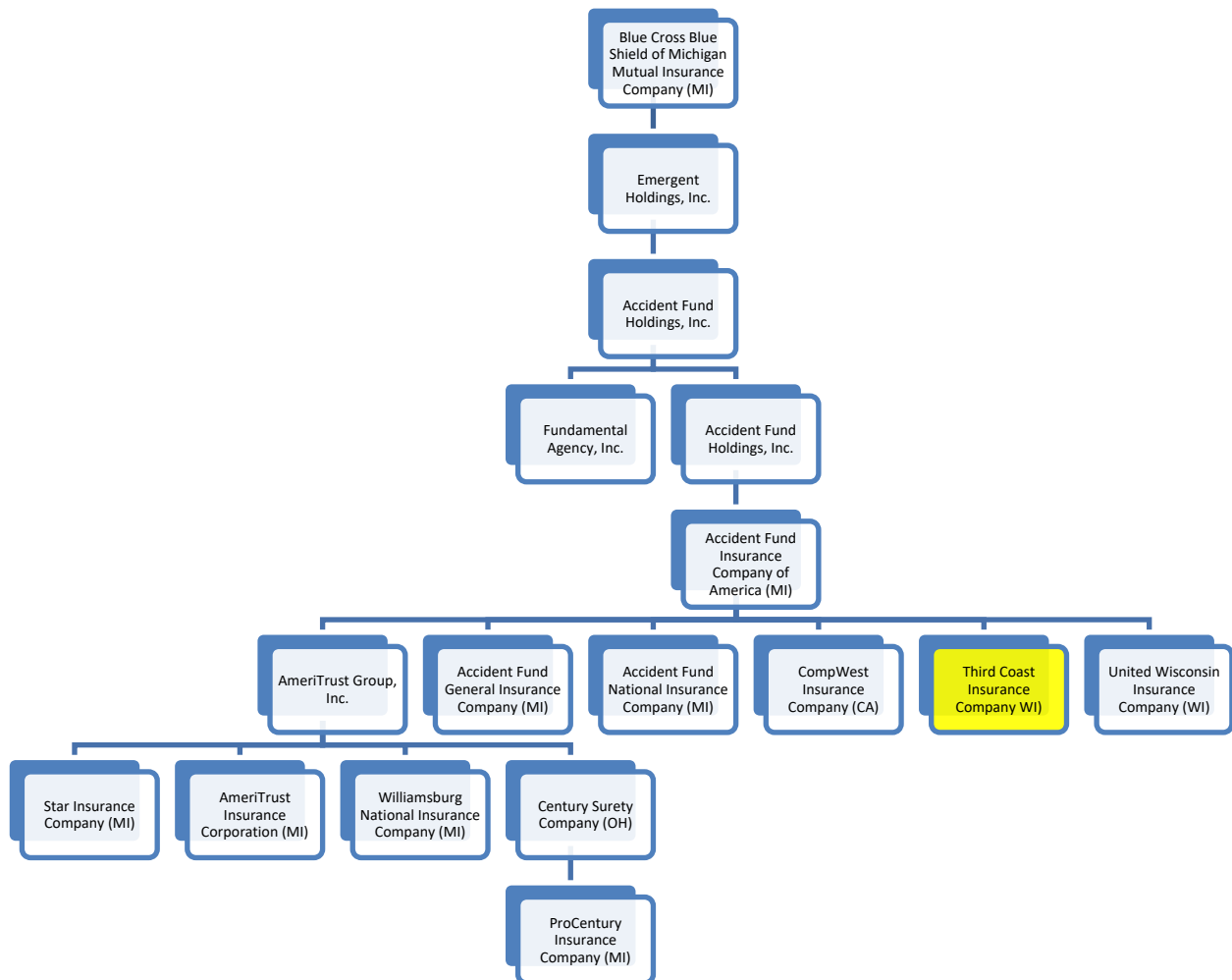
¹ The Audit Committee of Emergent Holdings serves as the audit committee for all members of the group.

James G. Agee
Patrick J. Devlin
Yousif B. Ghafari
Paula J. Herbart

IV. AFFILIATED COMPANIES

Third Coast Insurance Company is a member of a holding company system. The abbreviated organizational chart below depicts the ultimate controlling person, and the relationships among the affiliates within the Accident Fund group. A brief description of the significant affiliates follows the organizational chart.

**Organizational Chart (Abbreviated)
As of December 31, 2023²**



² On January 3, 2023, Accident Fund Insurance Company of America acquired 100% of the membership interests of Miracle Nova I (U.S.) LLC, including AmeriTrust Group, Inc. and its five insurance subsidiaries (the “AmeriTrust Group”) for \$609M. At the time of the examination, the AmeriTrust Group members participated in an intercompany reinsurance pool led by Star Insurance Company (the lead company), which was separate from the Intercompany Reinsurance and Pooling Agreement led by Accident Fund Insurance Company of America (discussed in Section V (Reinsurance)).

Accident Fund Insurance Company of America (AFICA)

Accident Fund Insurance Company of America provides various property and casualty products, including worker's compensation, property, general liability, and commercial auto insurance. AFICA is domiciled in the State of Michigan and is licensed to write business in all 50 states and the District of Columbia. It is the parent company of the insurance subsidiaries comprising the AF Group and the recently acquired AmeriTrust Group. As of December 31, 2023, the audited financial statements of AFICA reported assets of \$5,420,572,000, liabilities of \$3,584,559,000, and capital and surplus of \$1,836,013,000. Operations for 2023 produced net income of \$108,511,000.

AmeriTrust Group, Inc.

AmeriTrust Group, Inc. is indirectly owned by Miracle Nova I (US) LLC (the entity acquired by AFICA in 2023). AmeriTrust Group, Inc. owns Star Insurance Company, which in turn owns four insurance company subsidiaries (collectively known as the "AmeriTrust Group"). The AmeriTrust Group provides a wide array of property and casualty products, including worker's compensation, property, general liability, and commercial auto.

Accident Fund General Insurance Company (AFGIC)

Accident Fund General Insurance Company provides a wide array of property and casualty products, including worker's 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, 2023, the audited financial statements of AFGIC reported assets of \$321,055,000, liabilities of \$203,236,000, and capital and surplus of \$117,819,000. Operations for 2023 produced net income of \$1,539,000.

Accident Fund National Insurance Company (AFNIC)

Accident Fund National Insurance Company provides a wide array of property and casualty products, including worker's 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, 2023, the audited financial statements of AFNIC reported assets of \$168,772,000, liabilities of \$78,737,000, and capital and surplus of \$90,035,000. Operations for 2023 produced net income of \$1,009,000.

CompWest Insurance Company (CompWest)

CompWest Insurance Company provides a wide array of property and casualty products, including worker's compensation, property, general liability, and commercial auto insurance. CompWest is domiciled in the State of California and is licensed to write business in 12 states. As of December 31, 2023, the audited financial statements of CompWest reported assets of \$228,040,000, liabilities of \$73,001,000, and capital and surplus of \$155,039,000. Operations for 2023 produced net loss of \$502,000.

United Wisconsin Insurance Company (UWIC)

United Wisconsin Insurance Company writes worker's 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, 2023, the audited financial statements of UWIC reported assets of \$210,402,000, liabilities of \$81,823,000, and capital and surplus of \$128,579,000. Operations for 2023 produced net loss of \$311,000.

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.

Agreements with Affiliates

Affiliated reinsurance agreements are discussed in the "Reinsurance" section of the examination report. A brief 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, was further amended effective January 1, 2019, to include Emergent Holdings and last amended effective January 1, 2023, to add AmeriTrust entities.

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 has been amended from time to time to include additional subsidiaries. The most recent amendment, effective January 1, 2023, added the AmeriTrust entities.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination 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 (AF Group)
- Reinsurer: Accident Fund Insurance Company of America
- 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 related to all insurance and reinsurance policies issued by or on behalf of the Affiliated Companies.
- Participation:
- | | |
|-------|------|
| AFICA | 100% |
| AFGIC | 0% |
| AFNIC | 0% |
| CWIC | 0% |
| TCIC | 0% |
| UWIC | 0% |
- Commissions: None
- Effective Date: April 1, 2020
- Expiration: 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

The AF Group has multiple reinsurance contracts in effect as of December 31, 2023, covering its various lines of business. The contracts include catastrophic excess of loss, quote share, facultative, and excess of loss treaty arrangements. Corporate treaties cover the entire enterprise: worker's compensation (covering \$215M xs \$10M), property (covering property per risk exposure \$10M xs \$10M, CAT \$270M xs \$25M, and Auto Fac \$55M xs \$20M), and casualty lines (covering \$40M xs \$10M).

The AF Group strategically places quota share reinsurance on products that roll into corporate placements, and purchases reinsurance on exposures below the corporate treaty retention. Lastly, AFICA participates in several state-mandated programs.

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, 2023, 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 and the compulsory and security surplus calculation.

Third Coast Insurance Company
Assets
As of December 31, 2023

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$57,689,829	\$	\$57,689,829
Cash, cash equivalents, and short-term investments	590,845		590,845
Investment income due and accrued	383,289		383,289
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	28,836,451	1,386,230	27,450,221
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	25,594,370		25,594,370
Net deferred tax asset	<u>594,667</u>	<u>137,875</u>	<u>456,792</u>
Total Assets	<u>\$113,689,451</u>	<u>\$1,524,105</u>	<u>\$112,165,346</u>

Third Coast Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2023

Other expenses (excluding taxes, licenses, and fees)		\$	10,302
Current federal and foreign income taxes			43,312
Ceded reinsurance premiums payable (net of ceding commissions)			54,963,309
Payable to parent, subsidiaries, and affiliates			147,990
Payable for securities			<u>496,450</u>
Total Liabilities			55,661,363
Common capital stock	\$ 1,000,000		
Gross paid in and contributed surplus	71,400,900		
Unassigned funds (surplus)	<u>(15,896,917)</u>		
Surplus as Regards Policyholders			<u>56,503,983</u>
Total Liabilities and Surplus			<u>\$112,165,346</u>

**Third Coast Insurance Company
Summary of Operations
For the Year 2023**

Underwriting Income

Investment Income

Net investment income earned	\$1,820,641	
Net realized capital gains (losses)	<u>(1,332,651)</u>	
Net investment gain (loss)		\$487,990

Net income (loss) after dividends to policyholders but before federal and foreign income taxes	487,990	
Federal and foreign income taxes incurred	<u>206,140</u>	

Net Income (Loss)		<u>\$281,850</u>
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Third Coast Insurance Company
Cash Flow
For the Year 2023

Premiums collected net of reinsurance		\$1,113,511
Net investment income		<u>1,768,457</u>
Total		2,881,968
Federal and foreign income taxes paid (recovered)	\$ 756,658	
Total deductions		<u>756,658</u>
Net cash from operations		2,125,310
Proceeds from investments sold, matured, or repaid:		
Bonds	\$38,711,140	
Miscellaneous proceeds	<u>2,488,035</u>	
Total investment proceeds		41,199,175
Cost of investments acquired (long- term only):		
Bonds	<u>43,374,912</u>	
Total investments acquired	<u>43,374,912</u>	
Net cash from investments		(2,175,737)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(261,826)</u>	
Net cash from financing and miscellaneous sources		<u>(261,826)</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(312,253)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>903,098</u>
End of Year		<u>\$ 590,845</u>

**Third Coast Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2023**

Assets	\$112,165,346
Less liabilities	<u>55,661,363</u>
Adjusted surplus	56,503,983
Compulsory surplus (subject to a minimum of \$2 million)	<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)	<u>\$54,503,983</u>
Adjusted surplus (from above)	\$56,503,983
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%)	<u>2,800,000</u>
Security Surplus Excess (Deficit)	<u>\$53,703,983</u>

**Third Coast Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2023**

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

	2023	2022	2021	2020	2019
Surplus, beginning of year	\$56,432,832	\$56,645,634	\$56,350,927	\$55,416,551	\$19,702,219
Net income	281,850	(421,906)	1,470,056	1,008,590	730,226
Change in net unrealized capital gains/losses		(2,127)		2,127	
Change in net deferred income tax	254,879	1,187,507	(1,222,455)	(10,999)	(112,051)
Change in nonadmitted assets	(465,578)	(976,276)	47,106	(65,342)	96,157
Surplus adjustments:					
Paid in					
Transferred to capital					35,000,000
Surplus, End of Year	<u>\$56,503,983</u>	<u>\$56,432,832</u>	<u>\$56,645,634</u>	<u>\$56,350,927</u>	<u>\$55,416,551</u>

Growth of Third Coast Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2023	\$112,165,346	\$55,661,363	\$56,503,983	\$ 281,850
2022	95,718,977	39,286,145	56,432,832	(421,906)
2021	119,373,791	62,728,157	56,645,634	1,470,056
2020	104,199,808	47,848,881	56,350,927	1,008,590
2019	65,072,974	9,656,423	55,416,551	730,226
2018	23,182,082	3,479,863	19,702,219	389,131

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2023	\$196,759,074	\$0	\$0	0.0%	0.0%	0.0%
2022	176,955,544	0	0	0.0	0.0	0.0
2021	263,181,167	0	0	0.0	0.0	0.0
2020	267,976,208	0	0	0.0	0.0	0.0
2019	24,603,730	0	0	0.0	0.0	0.0
2018	10,001,151	0	0	0.0	0.0	0.0

During the period under examination, the company's surplus increased by 187%, and gross premiums written increased by 1867%. The company was previously authorized to write a range of property and casualty coverages. Beginning in 2018, the company started to focus on surplus lines business. As part of the transition, a capital contribution of \$35,000,000 was made by AFICA in 2019. The transition was completed during the current examination period and the company is currently eligible to write surplus lines in all 50 states and the District of Columbia.

The company's surplus lines business was previously written exclusively through its affiliate Fundamental Agency, Inc. (Fundamental) under a Surplus Lines Producer agreement, which focused on commercial trucking business. During the examination period, the company began writing other commercial lines business through MGAs and TPAs, which contributed to the substantial increase in gross premiums written.

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, 2023, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

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 that writes fire, commercial auto, other liability and commercial property coverages on a surplus lines basis. Business is primarily written through MGA's/TPAs, and an affiliate, Fundamental Agency, Inc. The company is currently eligible to write surplus lines business in all 50 states and the District of Columbia.

The company complied with all prior exam recommendations. There were no recommendations or adjustments made to the company's policyholders' surplus as a result of the current examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination resulted in no comments or recommendations.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended by the officers and employees of the company during the course of the examination 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
Rob Monroe	Insurance Financial Examiner
Elenor Lu, CISA	IT Specialist
Nick Hartwig, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

A handwritten signature in black ink that reads "Jeff Boyd". The signature is written in a cursive, flowing style. The "J" is large and loops around the "B". The "Boyd" part is also cursive and connected to the first name.

Jeff Boyd
Examiner-in-Charge