

PROCEEDINGS BEFORE MICHAEL D. RILEY  
INSURANCE COMMISSIONER  
OF THE STATE OF WEST VIRGINIA

IN RE: BRICKSTREET MUTUAL INSURANCE COMPANY

Administrative Proceeding No.: 14-AP-FINCON-02026

**AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND  
DIRECTING ACTION**

COMES NOW Michael D. Riley, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the REPORT OF FINANCIAL EXAMINATION as of December 31, 2012, of BRICKSTREET MUTUAL INSURANCE COMPANY (hereinafter referred to as "Company") based upon the following findings, to wit:

**JURISDICTION**

1. Michael D. Riley is the Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. The Company was formed as a result of legislative action and executive proclamation to privatize the workers' compensation system in the State of West Virginia (State) in January 2005. The Company incorporated as a domestic, non-stock, mutual insurance company on March 9, 2005. The Company adopted BrickStreet Mutual Insurance Company as its trade name effective September 2, 2005. West Virginia Offices of the Insurance Commissioner issued the company a Certificate of Authority to sell insurance in the State of West Virginia on December 8, 2005.

## FINDINGS OF FACT

1. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2009 and ending April 3, 2014, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On March 14, 2014, the examiner filed a REPORT OF FINANCIAL EXAMINATION with the Insurance Commissioner pursuant to W.Va. Code § 33-2-9(j)(2). A copy of the REPORT OF FINANCIAL EXAMINATION is attached hereto as Exhibit A and incorporated herein as if set forth in full.

3. On or about April 3, 2014, a true and accurate copy of the REPORT OF FINANCIAL EXAMINATION was hand delivered to President & CEO Gregory A. Burton.

3. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was notified and afforded a period of thirty (30) days after receipt of the REPORT OF FINANCIAL EXAMINATION within which to make a submission, rebuttal, or objection concerning any matter contained in the REPORT OF FINANCIAL EXAMINATION.

4. By letter dated April 4, 2014, management of the Company indicated that they had reviewed the REPORT OF FINANCIAL EXAMINATION and concurred with the findings of the examination. A copy of the Company's letter of April 4, 2014, is attached hereto as Exhibit B.

## CONCLUSIONS OF LAW

W.Va. Code § 33-2-9(j)(3)(A) provides that following a review of the REPORT OF FINANCIAL EXAMINATION, the examination work papers, and any written submission, rebuttal, or objection the Insurance Commissioner shall enter an ORDER adopting the REPORT OF FINANCIAL EXAMINATION as filed or with modifications or corrections.

## ORDER

It is therefore AGREED by the Parties and ORDERED the following:

1. It is **ORDERED** that the Report of Financial Examination of BRICKSTREET MUTUAL INSURANCE COMPANY attached hereto as Exhibit A, is hereby ADOPTED and APPROVED by the Insurance Commissioner.

2. It is further **ORDERED** that a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND DIRECTING ACTION and the adopted REPORT OF FINANCIAL EXAMINATION shall be mailed to BRICKSTREET MUTUAL INSURANCE COMPANY by certified mail, return receipt requested upon entry of this Order by the Insurance Commissioner.

3. It is **ORDERED** that BRICKSTREET MUTUAL INSURANCE COMPANY shall file with the Insurance Commissioner, within thirty (30) days of the issuance of this ORDER, affidavits executed by each of its directors stating under oath that they have received a copy of the adopted REPORT OF FINANCIAL EXAMINATION and a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION and DIRECTING ACTION, in accordance with W.Va. Code § 33-2-9(j)(4).

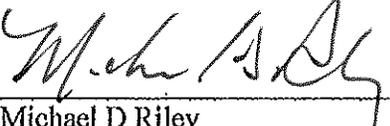
4. It is **ORDERED** that BRICKSTREET MUTUAL INSURANCE COMPANY take whatever actions are required to comply with the recommendations set forth in the REPORT OF FINANCIAL EXAMINATION, if any, and shall demonstrate compliance to the satisfaction of the Insurance Commissioner, if necessary.

5. That BRICKSTREET MUTUAL INSURANCE COMPANY waives any right to any notice, administrative hearing or appeal therefrom for the actions taken by the Insurance

Commissioner herein this Agreed Order Adopting Report of Financial Examination and Directing Action. BRICKSTREET MUTUAL INSURANCE COMPANY reserves herein its rights to notice, administrative hearing or appeal for any future enforcement actions taken by the Commissioner that might result from this Agreed Order, if any.

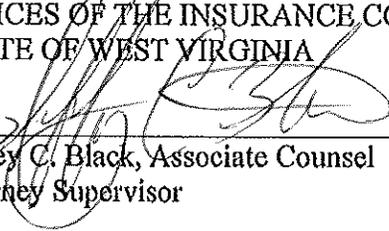
6. It is finally **ORDERED** that this administrative matter be hereby dismissed from the administrative docket of the Insurance Commissioner.

Entered this 22<sup>nd</sup> day of April, 2014.

  
Michael D Riley  
Insurance Commissioner

THE PARTIES DO SO AGREE:

OFFICES OF THE INSURANCE COMMISSIONER  
STATE OF WEST VIRGINIA

By:   
Jeffrey C. Black, Associate Counsel  
Attorney Supervisor

4/22/14  
Date

BRICKSTREET MUTUAL INSURANCE COMPANY

BY: Gregory A. Burton  
[Print Name]

Signed: GA

Its: President & CEO

Dated: 4-22-14



STATE OF WEST VIRGINIA

Offices of the Insurance Commissioner

EARL RAY TOMBLIN  
Governor

MICHAEL D. RILEY  
Insurance Commissioner

April 3, 2014

Mr. Gregory Burton, President and CEO  
Brickstreet Mutual Insurance Company  
400 Quarrier Street  
Charleston, West Virginia 25301

RE: Report of Financial Examination, as of December 31, 2012  
NAIC #: 12372 WV File #: D042

Dear Mr. Burton:

Please find enclosed a copy of the Report of Examination of Brickstreet Mutual Insurance Company. This examination was performed in accordance with the provisions of Chapter 33, Article 2, Section 9 of the West Virginia Code of 1931, as amended. The Report reflects the financial affairs and condition of Brickstreet Mutual Insurance Company, as of December 31, 2012.

You are hereby notified that you have thirty (30) days from receipt of this letter to make written submission or rebuttals with respect to any matter contained in the Report of Examination. If an exception is taken, it must be filed with this Department during the statutory time period.

Sincerely,

Michael D. Riley  
Insurance Commissioner

MDR/bsg

Enclosure: Copy of Report of Financial Examination



**REPORT ON MULTI-STATE EXAMINATION  
OF  
BRICKSTREET MUTUAL INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2012**

**NAIC CODE 12372  
NAIC GROUP CODE 4768**

**BY THE  
WEST VIRGINIA OFFICES OF THE INSURANCE COMMISSIONER**

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March 14, 2014

The Honorable Michael D. Riley  
Commissioner  
West Virginia Offices of the Insurance Commissioner  
1124 Smith Street  
Charleston, West Virginia 25301

Dear Commissioner:

In compliance with your instructions and pursuant to the Order Number 4768-2012-1 dated November 4, 2013, a comprehensive risk-focused examination and financial affairs examination was made of the books, records, and financial condition of

**BRICKSTREET MUTUAL INSURANCE COMPANY  
400 QUARRIER STREET  
CHARLESTON, WEST VIRGINIA 25301**

hereinafter referred to as BrickStreet or the Company. The following Report on Examination is respectfully submitted.

## SCOPE OF EXAMINATION

The West Virginia Offices of the Insurance Commissioner (WVOIC), have performed a full-scope, coordinated, multi-state risk-focused examination of the Company, as the Lead State. The Pennsylvania Insurance Department (PID) participated in this examination. This examination covered the period of January 1, 2009 through December 31, 2012, and includes any material transactions and/or events noted occurring subsequent to December 31, 2012. The fieldwork commenced on November 4, 2013, and concluded on March 14, 2014. The Company was last examined by representatives of the West Virginia Offices of the Insurance Commissioner as of December 31, 2008. The current examination was conducted concurrent with the examination of the Company's affiliate, NorthStone Insurance Company.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and Annual Statement Instructions promulgated by the NAIC. Accordingly, included in the examination were such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual

Statement Instructions as applicable to the West Virginia Laws, Regulations, and Directives of the West Virginia Offices of the Insurance Commissioner.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report on examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

The Company was audited annually by an independent public accounting firm. The firm expressed an unqualified opinion on the Company's financial statements on a statutory basis of accounting for all years under examination. We concentrated our examination efforts on the year ended December 31, 2012. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2012, and directed our efforts to the extent practical to those areas not covered by the firm's audit.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Exam Findings**

There were no adverse findings or significant non-compliance findings noted during the examination.

## **Prior Exam Findings**

The last full scope financial examination of the Company by the WVOIC was as of December 31, 2008. The examination noted two findings which have been remedied by the Company.

The findings were as follows:

1. The Catastrophe Excess of Loss Reinsurance contract did not assert that the agreement constitutes the entire contract between the parties as required by WV Code §33-4-15(g) and Statement of Statutory Accounting Principles (SSAP) No. 62, Sub-Paragraph 8(c).
2. The Company's Board of Directors has not been actively involved with the investment process of the Company since meeting minutes dated February 26, 2007, with annual assertions that the Company's investments were being made in accordance with delegations, standards, limitations and investment objectives prescribed by the Board as required by WV Code §33-8-4(b).

There have been no market conduct examinations since the date of the last financial condition examination.

## **HISTORY**

### **General**

BrickStreet is a mutual insurance company owned by its policyholders. The Company is organized pursuant to provisions of Chapters 23 and 33 of the West Virginia Code.

BrickStreet Mutual Insurance Company began operations on January 1, 2006. The Company is a mono-line workers' compensation carrier domiciled in the State of West Virginia. The

Company has historically operated in a single state, West Virginia, and approximately 67% of premium is still written in that state. Beginning in 2009, the Company expanded into other states. As of December 31, 2012, the Company is licensed to write insurance in thirteen jurisdictions (Alabama, District of Columbia, Georgia, Illinois, Indiana, Kentucky, Maryland, North Carolina, Pennsylvania, South Carolina, Tennessee, Virginia and West Virginia) and is currently writing in seven jurisdictions (Illinois, Indiana, Kentucky, North Carolina, Pennsylvania, Virginia and West Virginia). BrickStreet was founded as part of the transition of the State of West Virginia from a monopolistic state to a voluntary market. BrickStreet remains the leading provider (based on market share of direct premium written) for workers' compensation coverage in the State of West Virginia.

The Company was formed as a result of legislative action and executive proclamation to privatize the worker' compensation system in the State of West Virginia (State) in January 2005. The Company incorporated as a domestic, non-stock, mutual insurance company on March 9, 2005. The Company adopted BrickStreet Mutual Insurance Company as its trade name effective September 2, 2005.

WVOIC issued the Company a Certificate of Authority to sell insurance in the State of West Virginia on December 8, 2005. Between January 1, 2006, and July 1, 2008, the Company was the sole provider of workers' compensation insurance in the State. The Company was required to accept all employers who sought coverage and had the ability to pay the assessed premiums. As of July 1, 2008, the market in West Virginia opened to full competition among all private carriers licensed to write workers' compensation insurance.

### **Dividends to Policyholders**

The Company did not pay any cash dividends to policyholders during the examination period.

### **Surplus Notes**

The Company was capitalized via a \$200 million surplus note from the State of West Virginia and assumed the business (all premiums and liabilities) of the West Virginia Workers' Compensation Commission (WWCC) for claims with dates of injury or last exposure on or after July 1, 2005. All WWCC business prior to that date remains the responsibility of the State and is administered in run-off by the WVOIC. The surplus note was due in 2016. The Company paid off the \$200 million surplus note in September 2009.

### **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance**

On March 29, 2012, BrickStreet acquired a wholly owned subsidiary, PennCommonwealth Casualty of America Corporation (PennCommonwealth). After the acquisition, BrickStreet contributed \$9,000,000 to PennCommonwealth, and PennCommonwealth was renamed NorthStone Insurance Company (NorthStone). NorthStone is a mono-line workers' compensation carrier domiciled in the Commonwealth of Pennsylvania. The two companies entered into a pooling arrangement whereby NorthStone cedes all business written to the pool and assumes two percent of the pool's results. BrickStreet retains the remaining ninety-eight percent.

## **CORPORATE RECORDS**

The recorded minutes of the Board of Directors and committees were reviewed for the period under examination. This examination determined that the minutes adequately approve and support the Company's transactions and events.

The Company is a mutual insurance company and, therefore, is not subject to the Sarbanes-Oxley Act of 2002.

### **Conflict of Interest**

The Company has established a procedure for disclosure to its Board of any material interest or affiliation on the part of its officers, directors, and employees that are in conflict with the official duties of such persons.

Each year, the Company requires its directors, officers and employees to sign an attestation that they have read, understood and will abide by the Company's Code of Conduct policy which includes a conflict of interest questionnaire, and to divulge any potential conflicts of interest that could have an impact on the way they conduct the Company's business. A review of the conflict of interest questionnaires revealed conflicts were being reported as instructed.

## **MANAGEMENT AND CONTROL**

### **Management**

The following persons were serving on the Company's Board of Directors as of December 31, 2012:

### Directors

<u>Name and Location</u>	<u>Principal Occupation</u>
William Marston Becker Jupiter, Florida	President & Chief Executive Officer Alterra Capital Holdings, Ltd.
Thomas Vincent Flaherty Charleston, West Virginia	Attorney Flaherty, Sensabaugh, & Bonasso, PLLC
David Lee Rader Charleston, West Virginia	Assistant Vice President for External Affairs West Virginia Mutual Insurance Company
Stephen Glenn Roberts Charleston, West Virginia	President West Virginia Chamber of Commerce
Steven Frank White Charleston, West Virginia	Attorney White Law Offices, PLLC
Gregory Arthur Burton Charleston, West Virginia	President & Chief Executive Officer BrickSteet Mutual Insurance Company
Thomas Joseph Obrokta, Jr. Hurricane, West Virginia	Chief Operating Officer, General Counsel, and Secretary BrickStreet Mutual Insurance Company

The following persons were serving as the Company's officers as of December 31, 2012:

### Senior Officers

<u>Name</u>	<u>Title</u>
Gregory Arthur Burton	President & Chief Executive Officer
James Christopher Howat	Senior Vice President, Chief Financial Officer, and Treasurer
Thomas Joseph Obrokta, Jr.	Chief Operating Officer, General Counsel, and Secretary

The Board has established four committees that report directly to the Board, and assist the Board in oversight and monitoring of the Company, as follows:

Audit Committee

Steven Frank White - Chair  
David Lee Rader  
Stephen Glenn Roberts

Finance and Investment Committee

David Lee Rader - Chair  
William Marston Becker  
Gregory Arthur Burton  
Thomas Joseph Obrokta, Jr.  
James Christopher Howat

Compensation Committee

Stephen Glenn Roberts - Chair  
David Lee Rader  
Steven Frank White

Corporate Governance and Nominating Committee

William Marston Becker - Chair  
Thomas Vincent Flaherty  
Gregory Arthur Burton

The Audit Committee, which is comprised entirely of independent directors, has two sub-committees as follows:

Code of Conduct Committee

Thomas J. Obrokta - Chair  
Martin Langlois, Director of Internal Audit  
William McGee, Chief Compliance Officer  
Terri McCormick, Director of Human Resources  
Lisa Prater, Special Investigations Unit  
Deepesh Randeri, Information Security Officer

Enterprise Risk Management (ERM)

William McGee - Chair  
Martin Langlois, Director of Internal Audit  
Fred Boothe, Vice President of Insurance Services  
Deepesh Randeri, Information Security Officer  
Melissa Wood, Controller

## **Affiliated Companies**

BrickStreet is a member of an insurance holding company. On March 29, 2012, BrickStreet acquired 100% interest in NorthStone Insurance Company (formerly PennCommonwealth Casualty of America Corporation) from the Seller for a cash purchase price of \$825,000. BrickStreet entered into that transaction, which the Pennsylvania Insurance Department approved in an Order dated March 27, 2012, for the purpose of acquiring control of PennCommonwealth. Neither PennCommonwealth nor the Company made or received any payments or asset transfers in connection with the acquisition. NorthStone is a mono-line workers' compensation carrier domiciled in the Commonwealth of Pennsylvania. The two companies entered into a pooling arrangement whereby NorthStone cedes all business written to the pool and assumes two percent of the pool's results. BrickStreet retains the remaining ninety-eight percent. BrickStreet formed two additional affiliates in 2013, as described later, in the Subsequent Events section of this report.

## **Intercompany Agreement**

The Company entered into the following intercompany agreements with its subsidiary, NorthStone:

### *Management Services Agreement*

Effective July 1, 2012, BrickStreet and NorthStone entered into a Management Services Agreement, whereby BrickStreet provides to NorthStone personnel, management, and administrative services. From July 1, 2012 to December 31, 2012, BrickStreet processed no losses on the BrickStreet system for NorthStone. All claims were handled through a TPA whose fees were charged to NorthStone directly. NorthStone wrote no significant premium directly

subsequent to the execution of the management agreement. As a result the allocation base for overhead to be allocated to NorthStone was insignificant and NorthStone did not incur any charges for services provided by BrickStreet. In accordance with the management agreement, all items that were directly applicable to NorthStone were allocated to NorthStone directly.

#### *Tax Sharing Agreement*

BrickStreet and NorthStone entered into a Tax Sharing Agreement in 2012 as approved by the Board of Directors. BrickStreet and its wholly owned subsidiary file a consolidated federal income tax return. Under the tax sharing agreement, BrickStreet pays to or receives from its subsidiary the amount, if any, by which the consolidated federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal income tax return. Effectively, this results in each entity's annual income tax provision being computed with adjustments, as if it filed a separate return. Intercompany tax balances are settled quarterly.

#### *Reinsurance Pooling Agreement*

Effective October 1, 2012, BrickStreet and NorthStone entered into a Reinsurance Pooling Agreement. NorthStone cedes all premiums to BrickStreet and assumes two percent of the pool. During 2012, \$20,880,735 was transferred from BrickStreet to NorthStone related to the Reinsurance Pooling Agreement.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company maintains fidelity bond coverage, with an aggregate loss limit of liability of \$10,000,000 and a deductible for a single loss of \$100,000. This insurance adequately covered the suggested minimum amount of coverage for the Company, as recommended by the NAIC.

The Company maintains other insurance policies which included directors & officers liability, general liability, workers' compensation, employment practices liability, and personal property. From a review of the policies for the coverages listed above, the insurance limits were determined to be adequate as of December 31, 2012.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

During the period covered by this examination the Company sponsored a defined savings plan under Section 401(k) of the Internal Revenue Code covering substantially all of its employees. The Company matches employee contributions up to 6% of total compensation. Employer contributions are immediately vested when paid. Profit-sharing contributions, which can be made at the discretion of the Board of Directors, vest according to a six-year schedule.

### **TERRITORY AND PLAN OF OPERATIONS**

The Company writes mono-line workers' compensation coverage in West Virginia, Virginia, Pennsylvania, Illinois, Indiana, Kentucky, and North Carolina. The Company markets its products by appointment of independent agents and agencies.

### **COMPANY GROWTH**

#### **Profitability of Company**

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed Annual Statement.

(\$000 omitted)	2012	2011	2010	2009	2008
Premiums earned	261,871	250,568	263,769	337,674	462,944
Net underwriting gain (loss)	135	1,997	3,823	-10,618	83,629
Net income	36,755	47,095	52,764	38,969	113,613
Total assets (admitted)	1,703,069	1,575,131	1,499,346	1,448,404	1,514,866
Total liabilities	1,150,446	1,088,599	1,051,965	1,053,770	1,029,880
Surplus as regards policyholders	552,623	486,533	447,381	394,634	484,986

## REINSURANCE

The Company purchases reinsurance in order to reduce its retention on individual risks and enable it to underwrite policies with sufficient limits to meet policyholder needs. The Company has only purchased catastrophic reinsurance coverage since its inception. The Company limits the maximum net loss it can sustain for a single occurrence through the purchase of catastrophic coverage. For the annual treaty periods of 2012 and 2011 (beginning July 1 and ending June 30), the catastrophe excess of loss treaty generally provides coverage for 100% of losses in excess of BrickStreet's retention of \$5 million up to an ultimate net loss of \$100 million.

The Company assumes specific risks from selected carriers. The assumed reinsurance agreements are intended to provide the Company with the ability to provide coverage to selected policyholders in states where the Company has been licensed, but has not begun writing direct business or as an accommodation to those policyholders whose primary business is in a state in which the Company is licensed but who have business in states in which the Company is not licensed. The Company assumes reinsurance from Argonaut Insurance Company (Argonaut) and Companion Property & Casualty (Companion) on a 100% proportional basis. The Company underwrites all policies written on the Argonaut and Companion paper. Risks assumed are subject to the underwriting standards used to write direct business.

## **ACCOUNTS AND RECORDS**

The Company maintains its books and records at its home office in Charleston, West Virginia. In general, the Company's accounting and corporate records were maintained in a manner in which the financial condition was readily verifiable. The Company utilizes Lawson and CAMRA, for basic accounting, accounts payable, investments, general ledger postings and financial reporting. PowerSuite is utilized for the Company's Premium and Policy Processing and Claims Processing systems. The Company's accounting procedures, practices, and account records were reviewed and tested to the extent necessary. The trial balance prepared from the Company's general ledger and work papers for the year ended December 31, 2012, was agreed to the Annual Statement.

There were no significant delays encountered in obtaining examination-requested information.

## **INFORMATION TECHNOLOGY REPORT**

INS Services, Inc. performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## STATUTORY DEPOSITS

The Company is in compliance with statutory deposit requirements, as of December 31, 2012, as follows:

<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Pledged for the State of Georgia	\$ 85,000	\$ 92,952
Pledged for the State of North Carolina	200,000	223,571
Pledged for the State of Virginia	200,000	220,360
Pledged for the State of West Virginia	<u>1,100,676</u>	<u>1,203,798</u>
Total Statutory Deposits	<u>\$1,585,676</u>	<u>\$1,740,681</u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2012, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**BRICKSTREET MUTUAL INSURANCE COMPANY**

**Assets**

**DECEMBER 31, 2012**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$1,334,706,282		\$1,334,706,282
Common stocks	76,714,342		76,714,342
Properties occupied by the company	21,882,051		21,882,051
Cash and short-term investments	102,855,995		102,855,995
Receivables for securities	1,180,146		1,180,146
Investment income due and accrued	12,114,420		12,114,420
Uncollected premium and agents' balances in the course of collection	14,441,839		14,441,839
Deferred premiums, agents' balances and installments booked but deferred and not yet due	86,518,602		86,518,602
Amounts recoverable from reinsurers	35,744		35,744
Funds held by or deposited with reinsured companies	1,484,214		1,484,214
Net deferred tax asset	42,912,719		42,912,719
Electronic data processing equipment and software	117,054		117,054
Aggregate write-ins for other than invested assets	8,105,716		8,105,716
<b>Totals</b>	<b>\$1,703,069,124</b>	<b>\$0</b>	<b>\$1,703,069,124</b>

**BRICKSTREET MUTUAL INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2012**

	Per Company	Examination Adjustments	Per Examination
Losses	\$800,792,497		\$800,792,497
Loss adjustment expenses	153,198,502		153,198,502
Commissions payable, contingent commissions and other similar charges	11,022,657		11,022,657
Other expenses	20,479,993		20,479,993
Taxes, licenses and fees	1,449,970		1,449,970
Current federal & foreign income taxes	1,097,184		1,097,184
Unearned premiums	137,914,011		137,914,011
Advance premium	4,440,375		4,440,375
Ceded reinsurance premiums payable	1,088,179		1,088,179
Amounts withheld or retained by company for account of others	16,671,017		16,671,017
Remittances and items not allocated	1,894,614		1,894,614
Payable to parent, subsidiaries and affiliates	35,113		35,113
Payable for securities	361,902		361,902
<b>Total liabilities</b>	<b>\$1,150,446,014</b>		<b>\$1,150,446,014</b>
Gross paid in and contributed surplus	12,319,535		12,319,535
Unassigned funds (surplus)	540,303,575		540,303,575
<b>Surplus</b>	<b>\$552,623,110</b>		<b>\$552,623,110</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$1,703,069,124</b>		<b>\$1,703,069,124</b>

**BRICKSTREET MUTUAL INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2012**

<b>Underwriting Income</b>	
Premiums earned	\$261,871,071
Losses incurred	103,161,764
Loss adjustment expenses incurred	66,592,112
Other underwriting expenses incurred	91,981,777
Net underwriting gain	<u>135,418</u>
<b>Investment Income</b>	
Net investment income earned	49,070,240
Net realized capital gains	10,946,629
Net investment gain	<u>60,016,869</u>
Other Income	21,751
Federal and foreign income taxes incurred	23,418,585
Net Income	<u>\$36,755,453</u>
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31, prior year	\$486,532,855
Net income	36,755,453
Change in unrealized capital gains less capital gains tax	3,282,239
Change in net deferred income tax	10,208,246
Change in nonadmitted assets	15,844,317
Change in surplus as regards policyholders for the year	<u>\$66,090,255</u>
Surplus as regards policyholders, December 31, current year	<u>\$552,623,110</u>

A comparative analysis of changes in surplus is shown below.

**BRICKSTREET MUTUAL INSURANCE COMPANY  
Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2012**

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
Surplus as regards policyholders, December 31, 2012, per Annual Statement			\$552,623,110
<b>ASSETS:</b>			
No Adjustment			
<b>LIABILITIES:</b>			
No Adjustment			
Net Change in Capital and Surplus:			-
Surplus as regards policyholders, December 31, 2012, per Examination			<u>\$552,623,110</u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$ 953,990,999

The Company reported "Losses" and "Loss Adjustment Expenses" reserves totaling \$800,792,497 and \$153,198,502, respectively. The Company's actuary, Robert Miccolis, FCAS, MAAA of Deloitte Consulting LLC, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2012, made a reasonable provision for all loss reserves of the Company under the terms of its policies and agreements.

The WVOIC consulting actuary, INS Consultants, Inc., performed an actuarial review of the adequacy of the loss and loss adjustment expense reserves and estimated net loss and loss adjustment expense (LAE) reserves are reserves are \$102.2 million lower than BrickStreet's carried net loss and LAE reserves of \$954.0 million. This difference represents 10.7% of December 31, 2012, net Annual Statement reserves.

### Capital and Surplus

The amount of capital and surplus reported by the Company as of December 31, 2012, was \$552,623,110. The Company's RBC at December 31, 2012 was 986.9%.

## Summary of Examination Recommendations

There were no adverse findings or significant non-compliance findings noted during the examination.

### SUBSEQUENT EVENTS

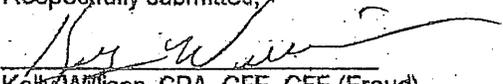
Subsequent to year-end management incorporated two new companies in the State of West Virginia, PinnaclePoint Insurance Company and SummitPoint Insurance Company. The companies have been licensed by the West Virginia Offices of the Insurance Commissioner as mono-line workers' compensation insurance carriers. BrickStreet capitalized each of the two new entities during 2013 with capitalization of \$10,200,000. During the year ended December 31, 2013, the Company added its two newly formed subsidiaries to the management services agreement, tax sharing agreement and the reinsurance pooling agreement. The terms of the modified reinsurance pooling agreements, provide for NorthStone Insurance Company, PinnaclePoint Insurance Company and SummitPoint Insurance Company each to cede all premiums to BrickStreet and assume two percent each of the pool. Brickstreet retains ninety-four percent of the pool.

### CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **BrickStreet Mutual Insurance Company**, as of December 31, 2012, consistent with West Virginia Laws, Regulations, and Directives of the West Virginia Insurance Commissioner.

In addition to the undersigned, James R. Neidermyer, FCAS, MAAA, consulting actuary of INS Consultants, Inc., Patricia Casey Davis, CFE, CPA, field manager of INS Regulatory Insurance Services, Inc., and Paul L. Berkebile, CFSA, CISA, CRISC, IT specialist of INS Services, Inc., participated in the examination.

Respectfully submitted,

  
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Kelly Wilson, CPA, CFE, CFE (Fraud)  
Examiner-in-Charge  
Representing the West Virginia Offices of the  
Insurance Commissioner