

EXAMINATION REPORT
OF
WORK FIRST CASUALTY COMPANY
AS OF
DECEMBER 31, 2019

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
WORK FIRST CASUALTY COMPANY
AS OF
DECEMBER 31, 2019

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.


Trinidad Navarro
Insurance Commissioner

Dated this 2 day of June, 2021

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May 21, 2021

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street, Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 20.038, dated March 3, 2020, an examination has been made of the affairs, financial condition and management of

WORK FIRST CASUALTY COMPANY

hereinafter referred to as Work First or the Company. The Company was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 501 Silverside Road, Suite 39, Wilmington, Delaware, 19809. The administrative office of the Company is located at 1100 East 6600 South, Suite 410, Salt Lake City, Utah, 84121. The examination was conducted remotely given office closures and travel restrictions in connection with the COVID-19 pandemic. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination was conducted as of December 31, 2015, by the Delaware Department of Insurance (Department). This examination of the Company covers the period of January 1, 2016 through December 31, 2019.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the *General Corporation Laws* of the State of Delaware, as required by 18 *Del. C.* §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Larson & Company PC (LC). Certain work papers for LC's 2019 audit of the Company have been incorporated into the work papers of the examiners. The

work papers were utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in financial statements as a result of this examination.

COMPANY HISTORY

As of December 31, 2004, the Company (then known as Monumental General Casualty Corporation) was domiciled in the State of Maryland and was a wholly owned subsidiary of AEGON USA, Inc. Effective December 21, 2005, the Company was acquired by Hire Calling Holding Company (Hire Calling). The Company's name was changed to Work First Casualty Company effective on January 13, 2006, and it was re-domesticated to the State of Delaware effective June 1, 2006. Hire Calling acquired the Company to provide workers' compensation insurance to its wholly owned temporary staffing company and unaffiliated companies with emphasis on marketing to the temporary staffing industry. Effective February 15, 2013, Hire Calling sold its wholly owned temporary staffing company and was subsequently dissolved on September 24, 2013. Upon the Hire Calling dissolution, the Wendt family completed a series of transactions ultimately transferring direct ownership of the Company to WF Holding Company, LLC (WF Holdings) effective October 1, 2015.

Since its acquisition by Hire Calling, the Company has been ultimately controlled by Richard Lester Wendt or his heirs. Roderick Carl Wendt has been deemed the ultimate controlling person of the Company since August 14, 2010.

Capitalization

The Company's Certificate of Incorporation authorizes the issue of 160,000 shares of common stock with a par value of \$30.00 per share. As of December 31, 2019, the Company had 101,894 common shares issued and outstanding totaling \$3.1 million. All outstanding common shares of the Company are owned by WF Holdings. As of December 31, 2019, the Company reported gross paid in and contributed surplus of \$8.8 million.

Dividends

No stockholder dividends were declared or paid during the examination period.

MANAGEMENT AND CONTROL

Directors

Pursuant to the *General Corporation Laws* of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the business and affairs of the Company must be exercised by, or under the authority of, its Board of Directors (Board). The Company's bylaws require its Board consist of not less than three nor more than nine individuals. Directors are elected annually by the stockholders for a term of one year. The bylaws require appointment of a Chairman of the Board and a Vice Chairman of the Board may be appointed at the Board's discretion. Directors duly elected and serving as of December 31, 2019, are as follows:

<u>Name</u>	<u>Business Affiliation</u>
Roderick Carl Wendt	Vice-Chairman JELD-WEN, Inc.
Mark Richard Wendt	Owner and President Diversified Contractors, Inc.
James Christopher Madden	President and Secretary Work First Casualty Company

Blaine Spencer Moon

Chief Financial Officer & Treasurer
Work First Casualty Company

Matthew Roderick Wendt

President
Spruce Street Services, LLC

Officers

Officers were appointed in accordance with the Company's bylaws during the period under examination. The bylaws require appointment of a President, one or more Vice Presidents, a Secretary, and a Treasurer. At its discretion, the Board may appoint a Chief Executive Officer. The Board may also appoint, or authorize the appointment of, one or more Assistant Vice Presidents, Assistant Secretaries, and/or Assistant Treasurers. One person may hold two positions but may not serve concurrently as both President and Vice President. The primary officers serving as of December 31, 2019, were as follows:

<u>Name</u>	<u>Title</u>
James Christopher Madden	President and Secretary
Blaine Spencer Moon	Vice-President, Chief Financial Officer and Treasurer
Deborah Annette Nowak	Vice President, Claims and Loss Prevention
Michael Armijo	Vice President, Information Services
Stephanie Jo Korab	Vice President, Compliance Officer and Assistant Secretary
Bruce Allen Winterrowd	Vice President Underwriting and Marketing

Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including approval of investment transactions as

required by 18 *Del. C.* §1304. In addition, review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination as required by 18 *Del. C.* §4919.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. The following is an organizational chart of the insurance holding company system as of December 31, 2019:

<u>Company</u>	<u>Domicile</u>
WF Holding Company, LLC ¹	Oregon
Work First Casualty Company	Delaware
RL Wendt, LLC	Oregon
Complete Aviation Services and Modification, LLC	Georgia
Superior Skilled Trades, LLC ²	Florida
SST Investments, LLC	Florida
Work First Select, LLC	Delaware
RLW RE Holdings, LLC	Utah

¹WF Holdings is owned by Spruce Street Ventures, LLC (Spruce Street), James Christopher Madden and Blaine Spencer Moon who own 65%, 25% and 10% interest, respectively. Roderick Carl Wendt and Mark Richard Wendt each own 50% interest in Spruce Street.

²Superior Skilled Trades, LLC is owned by Seth Sandler and RL Wendt, LLC who own 51% and 49% interest, respectively.

Agreements with Affiliates

As of December 31, 2019, the Company had no active affiliated agreements and received no material services from affiliates during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in all fifty states and the District of Columbia. The Company is a mono-line workers' compensation carrier focused on temporary staffing agencies. The Company distributes through a small broker network typically limited to brokers that have multiple temporary staffing clients. The Company writes business on a guaranteed cost or with a small, mid-tier or large deductible.

REINSURANCE

The Company reported the following distribution of gross and net premium written for the years ended December 31, 2019, and the prior examination date of December 31, 2015:

	<u>2019</u>	% of Gross Premium Written	<u>2015</u>	% of Gross Premium Written
Direct business	\$ 20,719,602	85.1%	\$ 13,006,306	95.5%
Reinsurance assumed from non-affiliates	<u>3,641,991</u>	<u>14.9%</u>	<u>607,563</u>	<u>4.5%</u>
Gross premiums written	<u>\$ 24,361,593</u>	<u>100%</u>	<u>\$ 13,613,869</u>	<u>100%</u>
Reinsurance ceded to non-affiliates	<u>1,437,812</u>	<u>5.9%</u>	<u>866,493</u>	<u>6.4%</u>
Total ceded	<u>\$ 1,437,812</u>	<u>5.9%</u>	<u>\$ 866,493</u>	<u>6.4%</u>
Net premiums written	<u>\$ 22,923,781</u>	<u>94.1%</u>	<u>\$ 12,747,376</u>	<u>93.6%</u>

The Company's primary reinsurance programs consist of an unaffiliated assumed reinsurance arrangement and a third party ceded reinsurance program designed to limit the Company's exposure to certain levels of risk. The following is a summary of each program.

Assumed Reinsurance

The Company's primary assumed reinsurance transactions relate to a 100% quota share agreement with a national AM Best A rated carrier that allows the Company to provide workers' compensation insurance to an insured that requires its insurer maintain an AM Best Rating. The Company underwrites and issues policies on behalf of the cedant and assumes premium, less a ceding fee, and 100% of the losses. The Company manages losses under the agreement in the same manner as it does losses associated with its direct written premium business.

Ceded Reinsurance

The Company utilizes a reinsurance intermediary to broker its excess of loss reinsurance contract(s) for annual policy years. Subscribing reinsurers and the percentage participation may change from year to year, however the programs overall retention was unchanged during the examination period. The excess of loss program consists of the following two per occurrence

layers: 1.) 1st excess of loss: 100% of \$4.0 million ultimate net loss, excess of \$1.0 million and
2.) 2nd excess of loss: 100% of \$5.0 million ultimate net loss, excess of \$5.0 million.

Additionally, the Company has utilized a semi-automatic facultative reinsurance agreement with Maiden Re North America to further limit potential losses on any one account. The agreement may be utilized to reduce the attachment point of any one claim from the excess of loss point of \$1.0 million to a limit designated on the specific policy.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets as of December 31, 2019
- Statement of Liabilities, Surplus and Other Funds as of December 31, 2019
- Statement of Income for the Year Ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2015 to December 31, 2019

Statement of Assets
As of December 31, 2019

	Ledger <u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$ 43,931,136	\$ -	\$ 43,931,136
Mortgage loans on real estate - First liens	1,004,286	-	1,004,286
Real Estate:			
Properties occupied by the company	827,228	-	827,228
Properties held for the production of income	721,841	-	721,841
Properties held for sale	20,000	-	20,000
Cash	8,361,329	-	8,361,329
Short-term investments	2,258,921	-	2,258,921
Other invested assets	3,574,646	-	3,574,646
Investment income due and accrued	458,023	-	458,023
Reinsurance:	-	-	-
Amounts recoverable from reinsurers	39,938	-	39,938
Funds held by or deposited with reinsured companies	1,911,707	-	1,911,707
Other amounts receivable under reinsurance contracts	27,086	-	27,086
Current federal tax recoverable	40,966	-	40,966
Net deferred tax asset	1,417,681	384,996	1,032,685
Guaranty funds receivable or on deposit	147,816	-	147,816
Electronic data processing equipment and software	313,968	-	313,968
Furniture and equipment	917	917	-
Aggregate write-ins for other than invested assets	384,757	101,867	282,890
Total assets	<u>\$ 65,442,246</u>	<u>\$ 487,780</u>	<u>\$ 64,954,466</u>

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2019

Losses	\$ 34,846,748
Loss adjustment expenses	4,086,452
Commission payable, contingent commissions and other similar charges	12,907
Other expenses	1,032,916
Taxes, licenses and fees	643,971
Current federal & foreign income taxes	231,024
Unearned premiums	1,529,750
Advance premium	19,253
Ceded reinsurance premiums payable	95,000
Funds held by company under reinsurance treaties	8,000
Amount withheld or retained by company for account of others	<u>1,526,991</u>
Total liabilities	<u>\$ 44,033,012</u>
Common capital stock	\$ 3,056,820
Gross paid in and contributed surplus	8,841,258
Unassigned funds (surplus)	<u>9,023,376</u>
Total surplus as regards policyholders	<u>\$ 20,921,454</u>
Total liabilities, capital and surplus	<u>\$ 64,954,466</u>

Statement of Income
For the Year Ended December 31, 2019

Premiums earned	\$	22,474,418
DEDUCTIONS:		
Losses incurred		10,400,173
Loss adjustment expenses incurred		4,008,012
Other underwriting expenses incurred		<u>5,985,346</u>
Total underwriting deductions	\$	<u>20,393,531</u>
 Net underwriting gain or (loss)	 \$	 <u>2,080,887</u>
INVESTMENT INCOME:		
Net investment income earned	\$	1,762,704
Net realized capital gains or (losses)		<u>63,226</u>
Net investment gain or (loss)	\$	<u>1,825,930</u>
OTHER INCOME (LOSS):		
Net gain (loss) from agents' or premium balances charged off	\$	(275,043)
 Net income before federal income taxes	 \$	 <u>3,631,774</u>
Federal and foreign income taxes incurred		<u>669,069</u>
Net income	\$	<u><u>2,962,705</u></u>

**Reconciliation of Capital and Surplus
For the Period from the Prior Examination
As of December 31, 2015 to December 31, 2019**

	Common Capital Stock	Gross Paid In & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2015	\$ 3,056,820	\$ 8,841,258	\$ (1,479,356)	\$ 10,418,722
2016 Net Income	-	-	1,906,113	1,906,113
2016 Other Changes ¹	-	-	336,667	336,667
December 31, 2016	<u>\$ 3,056,820</u>	<u>\$ 8,841,258</u>	<u>\$ 763,424</u>	<u>\$ 12,661,502</u>
2017 Net Income	-	-	1,583,371	1,583,371
2017 Other Changes ¹	-	-	882,955	882,955
December 31, 2017	<u>\$ 3,056,820</u>	<u>\$ 8,841,258</u>	<u>\$ 3,229,750</u>	<u>\$ 15,127,828</u>
2018 Net Income	-	-	2,995,635	2,995,635
2018 Other Changes ¹	-	-	(68,137)	(68,137)
December 31, 2018	<u>\$ 3,056,820</u>	<u>\$ 8,841,258</u>	<u>\$ 6,157,248</u>	<u>\$ 18,055,326</u>
2019 Net Income	-	-	2,962,705	2,962,705
2019 Other Changes ¹	-	-	(96,577)	(96,577)
December 31, 2019	<u><u>\$ 3,056,820</u></u>	<u><u>\$ 8,841,258</u></u>	<u><u>\$ 9,023,376</u></u>	<u><u>\$ 20,921,454</u></u>

¹Other Changes in Unassigned Funds (Surplus) for each year includes change in net unrealized capital gains/losses less capital gain/loss, change in net deferred income taxes and change in non-admitted assets.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no adjustments to the Company's financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:	
Losses	\$ 34,846,748
Loss Adjustment Expenses	4,086,452

The Department retained the actuarial services of INS Consultants Inc. (Consulting Actuary) to perform a risk-focused review of the Company's significant reserving and pricing activities. The Consulting Actuary assisted in review of the inherent risks, management oversight, and other mitigating controls over the Company's actuarial processes and procedures. The Consulting Actuary performed an independent reserve analysis including an assessment of the Company's reserves for compliance with applicable *Actuarial Standards of Practice* and the NAIC *Accounting Practices and Procedures Manual*.

SUBSEQUENT EVENTS

Subsequent events were evaluated through the date that this examination report was available to be issued. Based on this evaluation, the following significant transactions or events were deemed material for disclosure in this examination report.

Other Significant Events

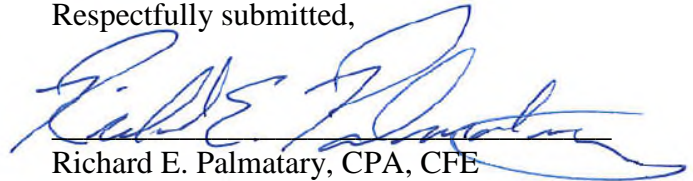
Beginning in March of 2020, the World has experienced, and continues to experience a pandemic related to the COVID-19 virus. As of the date of this examination report, the Company's operations and financial condition had not been materially impacted.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

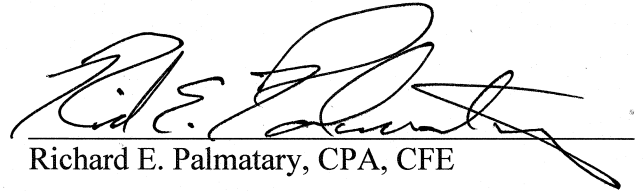
The assistance of Department's consulting actuarial and information technology firms, INS Consultants, Inc. and INS Services, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, Larson and Company, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Richard E. Palmatary, CPA, CFE
Examiner In-Charge
Delaware Department of Insurance

I, Richard E. Palmatary, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to Exam Authority No. 20.038.



Richard E. Palmatary, CPA, CFE