BEST'S RATING REPORT

COPPERPOINT INSURANCE GROUP

Domiciliary Address: 4101 Percival Road, Suite AX-200, Columbia, South Carolina, United States 29229

AMB #: 018724 NAIC #: N/A FEIN #: N/A

Phone: Fax: Website: N/A

CopperPoint American Ins Co	A
CopperPoint Casualty Ins Co	A
CopperPoint General Ins Co	A
CopperPoint Indemnity Ins Co	A
CopperPoint Insurance Company	A
CopperPoint National Ins Co	A
CopperPoint Premier Ins Co	A
CopperPoint Western Ins Co	A
MountainPoint Ins Co	A
Pacific Compensation Ins Co	A

Financial Strength Rating
A Excellent

Best's Credit Rating Effective Date
December 17, 2019

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Information

Best's Credit Rating Methodology

Understanding Best's Credit Ratings

Market Segment Outlooks

Financial Data Presented

Financial data in this report: (i) includes data of affiliated entities that are not rating unit members where analytics benefit from inclusion; and/or (ii) excludes data of rating unit member entities if they operate in different segments or geographic areas than the Rating Unit generally. See list of companies for details of rating unit members and any such included and/or excluded entities.

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

CopperPoint Insurance Group

AMB #: 018724
Associated Ultimate Parent: AMB # 044179 - CopperPoint Mutual Insurance Holding Company

Best's Credit Ratings – for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A	**a**
Excellent	**Excellent**
Outlook: **Stable**	Outlook: **Stable**
Action: **Upgraded**	Action: **Upgraded**

Assessment Descriptors

Balance Sheet Strength	**Strongest**
Operating Performance	**Adequate**
Business Profile	**Neutral**
Enterprise Risk Management	**Appropriate**

Rating Unit - Members

Rating Unit: CopperPoint Insurance Group | AMB #: 018724

AMB #	Rating Unit Members	AMB #	Rating Unit Members
014225	CopperPoint American Ins Co	014227	CopperPoint National Ins Co
013986	CopperPoint Casualty Ins Co	013813	CopperPoint Premier Ins Co
013987	CopperPoint General Ins Co	013988	CopperPoint Western Ins Co
014226	CopperPoint Indemnity Ins Co	022107	MountainPoint Insurance Co
014958	CopperPoint Insurance Company	012572	Pacific Compensation Ins Co

Rating Rationale

Balance Sheet Strength: Strongest

- CopperPoint Insurance Group maintains the strongest level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) scores at the 99.6% level.
- CopperPoint Insurance Group maintains modest net and gross underwriting leverage.
- The group's reinsurance program reduces retentions to manageable levels while protecting policyholder surplus.

Operating Performance: Adequate

- Pre-tax operating earnings have outperformed the workers' compensation industry composite by a wide margin over the recent five-year period.
- Operating earnings have been driven by growth in the level of net investment income that has augmented increasingly profitable underwriting performance.
- Improved underwriting results in recent years reflect ongoing initiatives that management has implemented to restore underwriting profitability.

Business Profile: Neutral

- The acquisition of Pacific Compensation Insurance Company in December 2017 allowed CopperPoint Insurance Group to expand its direct writing capabilities of workers' compensation insurance to California. During 2018, CopperPoint Insurance Company expanded its direct writing capabilities to Nevada, Utah, Colorado and New Mexico.
- The acquisition of Alaska National Insurance Company (ANIC) provides the group with a significant presence in Alaska, California, Washington, Idaho and Oregon. These states represented approximately $248 million of ANIC's written premium in 2018 with Alaska contributing nearly $110 million of premium.
- The acquisition of ANIC provides product diversification in two respects, introducing a focus on loss sensitive, large deductible/retrospectively rated products that provide the organization with a competitive advantage within the workers' compensation market. Alaska National's existing premium base includes approximately $70 million of non-workers' compensation commercial lines premium, a platform that enhances CopperPoint's commercial lines capabilities.

Enterprise Risk Management: Appropriate

- Risk management capabilities are considered appropriate for the risk profile of the group, with clearly defined risk tolerances.
- CopperPoint operates within a corporate-wide framework for managing emerging and developed exposures.
- CopperPoint maintains a risk management register that details risk exposures, resulting in mitigating actions intended to reduce exposures, as well as providing detail on the direction of the trend in underlying exposures.

Outlook

- The stable outlooks reflect the group's strongest level of balance sheet strength, adequate but improving operating performance, neutral business profile, and appropriate enterprise risk management.

Rating Drivers

- Factors that could lead to positive rating actions include an improvement in underwriting performance that can be sustained at a level that materially outperforms that of similarly rated workers' compensation carriers while maintaining the strongest level of risk-adjusted capitalization.
- Negative rating actions may occur should operating results deteriorate due to a weakening in underwriting performance.
- Negative rating actions could also occur should the level of risk-adjusted capitalization decline to a level that is not in line with AM Best's expectations, particularly if the resulting balance sheet strength is no longer supportive of the current ratings.

Credit Analysis

Balance Sheet Strength

Strongest risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) scores at the 99.6% level.

Capitalization

CopperPoint Insurance Group's risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio is assessed as the strongest, reflective of its conservative premium leverage measures and lower than average credit risk exposure given its highly rated panel of reinsurers. The group's risk-adjusted capital measures consider the slightly higher than average common stock leverage and large loss reserve balance given its longer than average tail and years of doing business. While debt exists at CopperPoint Insurance Company, it is associated with the acquisition of Alaska National, and is structured with favorable terms and conditions.

The group experienced sound growth in policyholder surplus over the recent five year period driven by favorable operating earnings. The favorable surplus growth reflects the profitable pre-tax earnings driven by solid investment income, augmented by realized capital gains, as well as the improvement in underwriting results over the past five years.

During 2013, CopperPoint purchased an adverse development cover (ADC) that transferred $303 million of its loss reserves as consideration for the protection. This transaction further improved the group's underwriting leverage position. The ADC protects the group's reserves, on a limited basis, from 2012 and prior and benefits its risk based capital position. The ADC is accounted for using the prospective method of accounting.

CopperPoint Insurance Group maintains favorable balance sheet liquidity as invested assets exceed net liabilities by a comfortable margin. Quick, current and overall liquidity ratios are strong and compare favorably with the workers' compensation composite. The group's liquidity position is further enhanced by positive operating cash flows, primarily reflective of its strong investment income. The group's investments consist largely of marketable bonds and stocks that could be readily converted to cash for liquidity needs.

Balance Sheet Strength (Continued...)

Asset Liability Management - Investments

The group maintains an investment portfolio comprised primarily of Government agency and Corporate bond holdings with the balance held in Government bonds. Common stock leverage is slightly higher than the industry composite of 24.6. While common stock leverage is only slightly elevated relative the industry composite which potentially drives unrealized gain/loss volatility, the equity holdings are diversified. The risk-adjusted capital position is a mitigating factor.

The invested asset base has increased throughout the recent five-year period, despite the persistent low interest rate environment. The investment yield closely approximates the peer composite over the long term, despite steady improvement in recent years. Total return on invested assets trails that of the peer composite over the five year period, although slightly outperforms the composite when viewed over the ten-year period. Viewed in the aggregate, the group recorded a small amount of unrealized capital gains during the five-year period.

Reserve Adequacy

CopperPoint has reported variable prior year loss reserve development over the past several years which stems from several different sources: a one-time adjustment of its self-insureds loss reserves being reclassified from other liabilities to loss reserves, unwinding of the schedule P discount, and the loss reserves ceded to the ADC. Given CPM's adverse development cover on accident years 2012 and prior and the current position of its loss reserves relative to their external actuary's midpoint, prior year loss reserve development trends prospectively should be significantly more stable going forward.

Holding Company Assessment

The holding company assessment is considered neutral, having no direct impact on the ratings of the group.

Operating Performance

CopperPoint Insurance Group has reported increasing profitable operating performance throughout the recent five-year period as evidenced by the group's five-year average pre-tax return on revenue measures that outperform the industry composite by a wide margin driven by strong investment income generated from the large invested asset base. The improved operating results over the recent five-year period reflect a decline in underwriting losses through 2014, followed by a swing to increasingly profitable underwriting results in subsequent years.

Despite the strong pre-tax earnings, underwriting performance narrowly outperforms the industry composite as evidenced by the combined ratio.

Although CopperPoint's five-year average combined ratio has improved during the period to 98.1 through year end 2018, the measure only narrowly outperforms that of the workers' compensation industry composite five-year average combined ratio of 98.7

The group's operating ratio outperforms the industry composite by 8.8 points over the recent five-year period given the strength of it's investment earnings.

Prior to 2013, the group had a unique operating advantage given SCF's position as a state fund which qualified as a tax-exempt entity for federal income tax purposes. During that time, SCF maintained its leading market share of the Arizona compensation market while its tax exempt status and strong capital position enabled SCF to remain competitive. Beginning in 2007 when competition heated up in Arizona, given the economic downturn, some companies including CopperPoint, opted to compete with lower up front pricing rather than on the back-end through policyholder dividends.

Prior to its privatization in 2013, SCF's operating strategy did not focus on underwriting profitability as much as maintaining a stable rate environment in the state. However, with legislation passed in 2010 to privatize SCF to a mutual insurer, management adopted a new business model which has taken into consideration these changes to SCF's legal structure and underwriting objectives.

In anticipation of this business model, management initiated a series of changes, including an updated mutual company underwriting philosophy, along with claims management initiatives intended to bring improvement in the combined ratio and improvement in the book of business.

Although premium growth has slowed in recent years due to changes in risk selection and market conditions, the group has expanded its distribution channel to include independent agents. The group has also enhanced its loss control efforts which should assist in

Operating Performance (Continued...)

improving results going forward. Results going forward should also benefit from the protection afforded by the adverse loss development cover, the increased use of medical review services, as well as, favorable legislation including evidence based medical treatment and the authority to settle supportive medical maintenance benefits. Furthermore, the group's significant market share in Arizona and the benefits of having been the state fund for 88 years prior to its privatization in 2013, should lead to improved underwriting results over time given its extensive data base and growing use of predictive analytic modeling tools.

CopperPoint's investment portfolio has historically provided the group with a steady stream of income. Despite the sustained low interest rate environment, investment yields have increased throughout the recent five-year period. Realized capital gains have contributed substantially to the group's total investment performance given the group's level of equity holdings which remains somewhat elevated relative to the industry composite. Although reinvestment yields trail the industry composite over the recent five year period, the group's invested asset base has increased steadily. As a result, CopperPoint's net investment income will likely remain the earnings driver going forward.

Business Profile

CopperPoint Insurance Group is the state's leading provider of workers' compensation coverage in Arizona. CPM's brand is highly recognized generating a strong presence within the Arizona business community. Alaska National is the leading writer of workers' compensation in the state of Alaska, and is number two in the state in commercial auto liability premiums written. The combined enterprise would have generated 90.7% of premiums from WC, 3.3% from Commercial Auto Liability, 3.1% from CMP, 1.0% from Other Liability and 0.9% from Auto Physical Damage as of YE 2018.

CPIC's acquisition of ANIC significantly increases the enterprises geographic footprint and enhances its goal of becoming a top-tier western regional commercial insurance company.

In 2016, CPIC was a monoline worker's compensation insurance company writing substantially all of its business in Arizona. The acquisition of Pacific Compensation Insurance Company in December 2017 allowed CPIC to expand its direct writing capabilities of worker's compensation insurance to California. During 2018, CPIC expanded its direct writing capabilities to Nevada, Utah, Colorado and New Mexico.

ANIC is currently licensed in 26 states with significant presence in Alaska, California, Washington, Idaho and Oregon. These states represented approximately $248 million of ANIC's written premium in 2018 with Alaska contributing nearly $110 million of premium.

Product diversification- CPIC's acquisition of ANIC provides product diversification in two respects. First, a distinguishing characteristic of ANIC's workers compensation product offering is focused on loss sensitive, large deductible/retrospectively rated products. CPIC has no capabilities in this area today. The ability to write retrospectively rated products will provide the organization with a competitive advantage within the workers' compensation market. Second, ANIC's existing premium base includes approximately $70 million of non-workers compensation commercial lines premium. This platform significantly enhances CPIC's commercial lines capabilities and accelerates its ability to deliver these products and services to its distribution partners and markets.

Collectively, the geographic and product diversification benefits from the acquisition of ANIC enhance CPIC's business profile and are reflected in the rating.

CopperPoint currently provides workers' compensation insurance outside Arizona through a fronting arrangement that is reinsured by CopperPoint. Beginning in late 2016, CopperPoint began offering other commercial insurance products to its existing workers' compensation customers. CPM writes all policy sizes and a broad array of industry class codes. CPM intends to continue to expand in western states with workers compensation.

The acquisition of PacificComp permitted CopperPoint Insurance Group to write CA premiums in PacificComp, with the remaining states, NM, NV, UT and CO, written in CopperPoint companies.

The National Council on Compensation Insurance (NCCI) files workers' compensation insurance rates with the Arizona Department of Insurance (AZDOI). The AZDOI can accept, reject or modify the NCCI recommendations. Once the rates are approved by the AZDOI, insurers can request a deviation from filed rates. Manual rates are the same for all insurance companies, but premium is always affected by a company's application of credits, debits, and discounts, as well as the employers' experience modifier.

Arizona has a competitive market for workers' compensation insurance and, since 1968, has an assigned risk plan available for employers that are unable to obtain coverage in the "voluntary" market. An employer that is refused coverage by two or more insurers may obtain coverage in the assigned risk plan.

Since workers' compensation premium is based on payroll, the workers' compensation industry was severely impacted by the recession. In addition, much of the payroll that was reduced or eliminated was in the contracting industry, which generally receives

Business Profile (Continued...)

higher rates and develops higher premium. As available business was reduced, competition among carriers increased, impacting pricing levels. Between the market peak in 2007 and its low point in 2010, market premium declined by 42%. Growth since 2010 has been assisted by the hardening market, as well as by NCCI rate increases.

Enterprise Risk Management

The group has developed a formalized ERM program whereby an ERM Committee comprised of the CEO, Chief Risk Officer and other executives is responsible for the development, execution and monitoring of all ERM related activities. This ERM Committee reports directly into the Board of Directors and serves as the review and guidance authority responsible for ensuring ERM principles and activities are instilled in CPM's business processes. The ERM Committee reviews CPM's risks in conjunction with corporate strategies and predetermined risk tolerances and determines the level of action and monitoring of risks. The group maintains a comprehensive internal governance structure to ensure a proper level of oversight and capability.

The group's ERM program is divided into Strategic, Operational, Financial and Compliance with risk owners assigned to all major risks identified. The ERM team and risk owners are responsible for analyzing / quantifying these risks / opportunities in order to determine the appropriate course of action to mitigate the risk or pursue the opportunity.

Reinsurance Summary

From an enterprise standpoint, protection is in place on the structured excess of loss program with protection on subject losses up to $95.64 million, subject to an annual aggregate deductible of $21.97 million, inclusive of a loss corridor of $11.21 million retained by CopperPoint Insurance Company. The workers' compensation excess of loss program provides coverage up to $100 million for PacificComp in multiple layers, excess the $5mm retention. CopperPoint is included in the excess of loss program, although only participates on the $70 million excess $30 million layer.

During 2013, CopperPoint (when it was known as SCF Arizona) entered a reinsurance contract that protects surplus from adverse development. The adverse development cover (ADC) protects the group's reserves, on a limited basis, from 2012 and prior and benefits its risk based capital position. The ADC cover was used to wall off development of legacy claims. The protection limits the uncertainty of medical and other inflation on legacy reserves, covering adverse development for accident years 2012 and prior. The contract provides broad coverage, while allowing CopperPoint to retain control over all claims. The contract provides $850mm in coverage up to $2.953b, in excess of the company retention of $2.10bb.

Coverage for commercial lines is in place in two layers up to $3.0 million, subject to $500k retention. Property facultative protection is in place in the amount of $7.0 million excess $3.0 million.

An umbrella quota share provides 75% protection on losses up to $2.0 million, with 100% protection on losses up to $5.0 million.

PacificComp also has an intercompany reinsurance arrangement in place with an affiliate, AIHL Re, which covers adverse development of net losses and ALAE in excess of the company's carried reserves and also provides stop-loss coverage for PacificComp's excessive net losses through accident year 2017.

Financial Statements

Balance Sheet	9-Months 2019 USD (000)	%	Year End - December 31 2018 USD (000)	%	2017 USD (000)	%
Cash and Short Term Investments	266,393	6.5	237,252	6.0	152,428	3.8
Bonds	2,739,898	66.6	2,769,113	69.5	2,793,010	69.4
Preferred and Common Stock	461,707	11.2	414,812	10.4	555,726	13.8
Other Invested Assets	346,378	8.4	297,263	7.5	266,254	6.6
Total Cash and Invested Assets	3,814,376	92.7	3,718,441	93.3	3,767,418	93.6
Premium Balances	113,351	2.8	97,374	2.4	112,660	2.8
Net Deferred Tax Asset	10,460	0.3	18,821	0.5	7,625	0.2
Other Assets	176,094	4.3	150,331	3.8	138,678	3.4
Total Assets	4,114,282	100.0	3,984,967	100.0	4,026,382	100.0
Loss and Loss Adjustment Expense Reserves:						
Net Reported Loss Reserves*	969,129	23.6	961,072	24.1	1,004,215	24.9
Net INBR Loss Reserves*	1,300,171	31.6	1,084,730	27.2	1,068,865	26.5
Net LAE Reserves	...	...	243,889	6.1	236,240	5.9
Total Net Loss and LAE Reserves	2,269,300	55.2	2,289,691	57.5	2,309,319	57.4
Net Unearned Premiums	114,139	2.8	99,140	2.5	98,532	2.4
Other Liabilities	131,763	3.2	96,063	2.4	151,665	3.8
Total Liabilities	2,515,202	61.1	2,484,893	62.4	2,559,516	63.6
Unassigned Surplus	1,580,838	38.4	1,480,498	37.2	1,445,509	35.9
Other Surplus	18,242	0.4	19,577	0.5	21,356	0.5
Total Policyholders' Surplus	1,599,080	38.9	1,500,074	37.6	1,466,865	36.4
Total Liabilities and Surplus	4,114,282	100.0	3,984,967	100.0	4,026,382	100.0

Source: BestLink® - Best's Financial Suite

* Interim reserves balances include LAE.

Last Update
January 06, 2020

Identifiers
AMB #: 018724

This company is a data record that AM Best utilizes to represent the AM Best Consolidated financials for the Property/Casualty business of AMB#: 044179 CopperPoint Mutual Insurance Holding Company.

AMB#: 014958 CopperPoint Insurance Company has been assigned as the AMB Group Lead for this consolidation and should be used to access name, address, or other contact information for this AM Best Consolidated Group.

Financial Data Presented

See LINK for details of the entities represented by the data presented in this report.

CopperPoint Insurance Group

Operations

Domiciled: Arizona, United States

Business Type: Property/Casualty
Organization Type: Mutual
Marketing Type: Broker

Best's Credit Ratings

Rating Relationship

This group represents an AM Best Rating Unit. In our opinion, companies under this Rating Unit have an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

Best's Credit Rating Effective Date: December 17, 2019

Rating rationale and credit analysis can be found in the Best's Credit Report for AMB# 018724 - CopperPoint Insurance Group.

		Best's Credit Ratings	
AMB#	**Rating Unit Members**	**Financial Strength Rating**	**Long-Term Issuer Credit Rating**
014225	CopperPoint American Ins Co	A	a
013986	CopperPoint Casualty Ins Co	A	a
013987	CopperPoint General Ins Co	A	a
014226	CopperPoint Indemnity Ins Co	A	a
014958	CopperPoint Insurance Company	A	a
014227	CopperPoint National Ins Co	A	a
013813	CopperPoint Premier Ins Co	A	a
013988	CopperPoint Western Ins Co	A	a
022107	MountainPoint Insurance Co	A	a
012572	Pacific Compensation Ins Co	A	a

History

CPMIC is the mutual insurer created when legislation directed the privatization of SCF. SCF was established in 1925, and later took on the trade name "SCF Arizona". CPMIC used "SCF Arizona" as its trade name until early 2014, but transitioned solely to CopperPoint Mutual Insurance Company in 2014.

Prior to the privatization, SCF had been under state oversight since its creation, had been self-funding since 1938, and was exempt from federal corporate income tax. SCF's mission was to provide a ready market of workers' compensation insurance for Arizona's employers at the lowest possible cost. SCF was under the direct supervision of a Governor-appointed Board of Directors. Additionally, the Governor annually appointed the chairman of the Board from among its members.

In 2006, SCF created CopperPoint Premier Insurance Company, a subsidiary insurer offering better pricing for policyholders with larger annual premiums and strong safety records. Because the AZDOI permits a single deviation from filed rates for each insurance company, six additional stock subsidiary insurance companies were established between 2008-2010 to price for risk assumed: CopperPoint American Insurance Company, CopperPoint Western Insurance Company, CopperPoint Indemnity Insurance Company, CopperPoint General Insurance Company, CopperPoint National Insurance Company and CopperPoint Casualty Insurance Company. All new and renewal risks are underwritten and coverage is placed with a company in the group that best matches its risk profile. Risks with better experience are placed in companies with more favorable deviations. Poorer risks are placed in companies with less favorable deviations, or are declined.

In 2010, the Arizona legislature enacted a law privatizing SCF. SCF's Board of Directors formed CPMIC. Effective January 1, 2013, all of the assets and liabilities of SCF vested in CPMIC and SCF ceased to exist. Privatization benefited the state since the state, apart from regulation, had little connection to or influence over SCF operationally or financially but was exposed to legislative costs and economic risks associated with the activities of SCF. Becoming a private mutual company provided CPMIC with governance that is by a Board elected by the company's policyholders, and provided the opportunity to diversify its business model from the one-line, one-state model that SCF's state enabling law had required. Following privatization, the CPMIC board was elected by policyholders in June of 2013 and is subject to an annual election. The organization's President and CEO reports to the Board of Directors and is responsible for daily operations. The President and CEO is also an elected member of the CPMIC Board of Directors. CPMIC is subject to federal corporate income tax. Most employees are located at corporate headquarters in Phoenix. Like all insurance carriers in Arizona, companies within the group are regulated by the AZDOI and the ICA, which administers Arizona workers' compensation laws.

In 2013, CopperPoint Premier Insurance Company entered into a Stock Purchase Agreement to purchase 100% of the common stock of Citation Insurance Company, a California domiciled property and casualty insurer licensed in seven western states. Citation has been inactive since 2000 and prior to close, all of Citation's liabilities were transferred to and assumed by an affiliate of the seller. At closing, Citation's balance sheet contained only investments and capital that supported those investments. The purchase was completed on January 2, 2014 in the amount of $12.8 million. In March 2014, Citation was re-domiciled to the state of Arizona and renamed MountainPoint Insurance Company.

Best's Credit Rating Methodology | Disclaimer | Best's Credit Rating Guide