REPORT OF EXAMINATION

OF THE

CALIFORNIA CASUALTY INDEMNITY EXCHANGE

AS OF

DECEMBER 31, 2021

Filed on January 5, 2023

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Oakland, California
November 29, 2022

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA CASUALTY INDEMNITY EXCHANGE

(hereinafter also referred to as the Exchange). The Exchange's home office is located at 1875 South Grant Street, Suite 800, San Mateo, California 94402.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Exchange. The previous examination of the Exchange was as of December 31, 2017. This examination covered the period from January 1, 2018 through December 31, 2021.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Exchange's financial condition, assess corporate governance, identify current and prospective risks, 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 Exchange 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 Exchange's financial statements.

This examination report includes significant findings of fact and general information about the Exchange and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Exchange.

This was a coordinated examination with California as the lead state of the California Casualty Group (CCG). It was conducted concurrently with the Exchange's four insurance subsidiaries: California Casualty & Fire Insurance Company (California), California Casualty Compensation Insurance Company (California), Califonia Casualty Insurance Company (Oregon), and California Casualty General Insurance Company of Oregon (Oregon). The Oregon Department of Consumer and Business Services, Division of Financial Regulation participated in the examination.

EXCHANGE HISTORY

The Exchange is a reciprocal insurance exchange that was formed and began writing business on January 1, 1914. The Exchange is ultimately owned by its subscribers, all of whom are policyholders. Each subscriber (policyholder) must first join and become a subscriber to buy insurance from the Exchange. The subscriber to the Exchange approves a written Underwriters Agreement that appoints California Casualty Management Company (CCMC) to perform all insurance-related functions on the subscriber's behalf. Under California law, an insurance exchange is considered an insurer, while each subscriber is an insured.

Capital Contribution

In 2020, the Exchange paid a capital contribution of $24.5 million in bonds to its subsidiary, California Casualty Insurance Company. The purpose of the capital contribution was to reallocate capital among the companies within CCG to reduce the net written premiums to surplus ratio across all companies from over 4.0 to 1, to less than 3.0 to 1. Pursuant to California Insurance Code (CIC) Section1215.1(b) and CIC Section 1215.5(b)(1), the capital contribution was treated as an investment transaction in subsidiary and is not subject to prior approval filing with the California Department of Insurance.

MANAGEMENT AND CONTROL

The Exchange is a member of an insurance holding company system of which the California Casualty Management Company (CCMC) manages the Exchange as the attorney-in-fact. As of December 31, 2021, Thomas R. Brown owned or controlled 32.65% of the Class A voting stock common stock of CCMC.

The following organizational chart depicts the Company's relationship within the holding company system at December 31, 2021 (all ownership is 100% unless otherwise indicated):

Thomas R. Brown
- California Casualty Management Company (California)*

California Casualty Indemnity Exchange (California)
- California Casualty Compensation Insurance Company (California)
- California Casualty Insurance Company (Oregon)
  - California Casualty and Fire Insurance Company (California)
  - California Casualty General Insurance Company of Oregon (Oregon)

*Thomas R. Brown owns 32.65% and the Exchange owns 20.15% of Series A Voting Shares of CCMC, respectively. CCMC has no ownership interest in the insurers in CCG. CCMC's affiliation is through an Underwriters Agreement with the Exchange and management agreements with the other insurers in CCG.

The operations and affairs of the Exchange are subject to the supervision and control of a thirteen-member Advisory Board in conformance with the Underwriters Agreement. The following is a listing of the members of the Advisory Board and principal officers serving on December 31, 2021:

Advisory Board

Name and Location	Principal Business Affiliation
Carl B. Brown Palo Alto, California	Executive Chairman California Casualty Management Company
Micaela C. Cichocki San Bernardino, California	Teacher San Bernardino City Unified School District
Wayne S. Diviney Clifton, Virginia	Retired National Education Association
Jose A. Gomez Pasadena, California	Educator, University Administrator California State University, Los Angeles
Jon H. Hamm Placerville, California	Retired California Association of Highway Patrolmen
Mitchell E. Hornecker Portland, Oregon	Owner Modoc Consulting, LLC
Karen B. Kyhn Moreno Valley, California	Retired California Teachers Association
Leona S. Lindner Washington, District of Columbia	Chief Marketing Officer National Education Association's Member Benefits Corporation
Michael G. McPherson Silver Spring, Maryland	Chief Financial Officer National Education Association
Robert R. Nicolay [a] Westlake, Ohio	Chief Executive Officer California Casualty Management Company
Karen M. Padovese San Rafael, California	Retired GeoVera Holdings, Inc.

Name and Location	Principal Business Affiliation
Edward G. Phoebus, III Silver Spring, Maryland	Chief Executive Officer National Education Association's Member Benefits Corporation
Thomas M. Tongue Lake Oswego, Oregon	Attorney Schwabe, Williamson and Wyatt, P.C.

Principal Officers

Name	Title
Robert R. Nicolay [(a)]	President and Chief Executive Officer
Michael A. Ray	Executive Vice President and Chief Financial Officer
Joseph C. Muenzen [(b)]	Senior Vice President Underwriting and Product Management and Secretary

The following changes in management occurred subsequent to the examination date:

(a) Jonathan D. Adkisson was appointed President and Chief Executive Officer effective June 1, 2022. Robert R. Nicolay remains as a director.

(b) Joseph C. Muenzen left the Company on March 30, 2022 due to a leadership reorganization. John J. Allen, Legal Counsel, filled in for the secretary position on March 31, 2022 and left the Company on August 4, 2022. Carl B. Brown is the interim Secretary of the Company.

Management Agreements

Management Agreement: The Exchange is managed by California Casualty Management Company (CCMC) under an Underwriters Agreement (Agreement). Under the terms of the Agreement, CCMC has the power to conduct, control and supervise the complete insurance activities of the Exchange. CCMC is paid a monthly fee of up to 125% of expenses incurred on the services performed by CCMC on behalf of the Exchange. In addition, the Exchange agrees to pay CCMC an annual incentive fee not to exceed 10% of the Exchange's calendar year pre-tax income. The Agreement was revised on October 6, 1993 and approved by the California Department of Insurance (CDI) on November 12, 1993. There was no incentive fee paid in 2018, 2019, and 2021. In 2020, CCMC charged an incentive fee of 10%, which was included in the management fee. The total fees paid by the Exchange under this Agreement were: $84,153,218 in 2018, $87,040,955 in 2019, $93,249,612 in 2020, and $87,598,596 in 2021.

Tax Allocation Agreement: Effective January 1, 1992, the Exchange entered into a tax allocation agreement entitled “California Casualty Group Tax Allocation Agreement” (Tax Agreement) with its subsidiaries: California Casualty Compensation Insurance Company, California Casualty Insurance Company, California Casualty & Fire Insurance Company, and California Casualty General Insurance Company of Oregon. On January 1, 1999, this Tax Agreement was restated as the “Tax Allocation Agreement California Casualty Indemnity Exchange and Subsidiaries” and was submitted to the CDI pursuant to California Insurance Code (CIC) Section 1215.5(b)(4) on March 26, 2008. The CDI did not disapprove the agreement as of March 24, 2009. The review and determination was made pursuant to CIC Section 1215.5(b) only. Under the terms of this restated Tax Agreement, the consolidated federal income tax liability of the Exchange and its subsidiaries is allocated to each company in proportion to each company’s share of taxable income, computed on a separate company basis. The Exchange is responsible for filing and making all tax payments on behalf of its subsidiaries. The total federal income taxes incurred by the Exchange under this Agreement were: $(484,389) in 2018, $(88,299) in 2019, $(192,902) in 2020, and $(224,413) in 2021.

<u>Related Party Transactions</u>

Office Building Lease: Effective May 24, 2018, the Exchange is a guarantor on the lease between California Casualty Management Company (CCMC) (lessee) and Oak Street Real Estate Capital (lessor) for the property located at 1650 Telstar Drive, Colorado Springs, Colorado 80920. This lease was approved by the CDI on February 12, 2020 pursuant to CIC Section 1215.5(b)(5). CCMC has sold this property and leased it back from Oak Street Real Estate Capital for 12 years. The primary purpose of the transaction was to raise approximately $20 million for CCMC. As of year end 2021, the remaining amount of rent payments due over 9 years is approximately $14.7 million. If CCMC is unable to honor its future payments, then the Exchange would be liable to pay these obligations. CCMC Management believes there is no scenario that would trigger this event for the Exchange. The annual lease costs for the property is approximately $1.7 million or 1.3% of CCMC's average expenses over the next five years.

Promissory Note (Revolving Line of Credit): On March 27, 2020, the Exchange extended to CCMC a revolving line of credit of $5 million with 3% interest accruing on the outstanding principal balance. The term of the note ends March 4, 2023. In May 2020, CCMC borrowed $1.5 million and repaid the amount, including interest of $15,435 in September 2020. As of December 31, 2021, there was no outstanding balance on the line of credit. On February 18, 2022, CCMC drew $4,500,000 on their line of credit with the Exchange. The line of credit bears interest at an annual rate of 3%. The entire principal balance was paid back to the Exchange on August 3, 2022 along with $61,812 in interest. Pursuant to CIC Section 1215.5(b)(1), this transaction did not require a filing with the Department as the loan amount was below the filing threshold of lesser of 3% of the Exchange's admitted assets or 25% of surplus.

TERRITORY AND PLAN OF OPERATION

The Exchange is a personal lines insurer that provides private passenger automobile and homeowners insurance to members of affinity groups involved in education, law enforcement, and public safety professions. Personal lines business is produced directly by California Casualty Management Company's (CCMC) employees who are licensed insurance agents.

As of December 31, 2021, the Exchange is licensed to transact property and casualty insurance in all states except Michigan and New Jersey, and the District of Columbia. The Exchange's business is focused on personal lines, which includes private passenger automobile and homeowners coverages. Effective January 1, 2017, workers compensation coverage for domestic workers is included under the homeowners multiple peril line of business.

The Exchange has no employees. CCMC, the attorney-in-fact for the Exchange, performs all business functions on behalf of the Exchange in accordance with the Underwriters Agreement. CCMC conducts operations from its home office in San Mateo, California.

CCMC also has service centers at Colorado Springs, Colorado; Leawood, Kansas; and Glendale, Arizona. These service centers provide claims, corporate services, customer service, information technology, marketing, as well as sales and underwriting support. In addition, CCMC provides production and operating facilities pursuant to the provisions of the Underwriters Agreement.

REINSURANCE

Pooling

Effective January 1, 2011, a revised Intercompany Pooling Agreement (Agreement) was approved by the California Department of Insurance (CDI) on August 30, 2010 pursuant to California Insurance Code Section 1215.5(b)(3). This revised Agreement was amended to clarify that only the Exchange may purchase non-affiliate reinsurance contracts and each subsidiary's direct premiums and direct paid loss and loss adjustment expenses are ceded to the Exchange. Under the terms of this agreement, each participating insurer cedes 100% of its direct and assumed business to the Exchange. Personal lines of business are pooled separately from workers' compensation and miscellaneous commercial lines business, which are in run-off. Under this revised Agreement, personal lines business is retroceded to and assumed by California Casualty Insurance Company (CCIC), California Casualty & Fire Insurance Company (CCFIC), and California Casualty General Insurance Company of Oregon (CCGIC) according to their respective pooling percentages of 8%, 10%, and 12%. The Exchange retains 70% of the pooled personal lines of business.

All workers' compensation and miscellaneous commercial lines direct and assumed business are retroceded 100% to California Casualty Compensation Insurance Company (CCCIC). The California Casualty Group (CCG) discontinued writing workers' compensation business in 1997, except for domestic workers' compensation coverage under homeowner's policies, which are included in the personal lines of business described above.

Assumed

The Exchange did not assume any reinsurance business other than from the pooling agreement discussed above.

Ceded

Effective January 1, 2000, CCIC, CCFIC, CCGIC, and the Exchange, collectively known as the California Casualty Group (CCG) entered into a 15-year Quota Share Reinsurance Agreement with Fireman's Fund Insurance Company (FFIC) covering the CCG's personal lines of business. Under the terms of this agreement, for the first five years of the treaty, CCG ceded 20% of the personal lines written premiums and losses. Effective January 1, 2005 through December 31, 2014, CCG ceded 30% of the written premiums and losses to FFIC. This agreement was cancelled on a run-off basis effective January 1, 2015, with immaterial reinsurance recoverable balances for paid and unpaid losses during the examination period.

The following is a summary of principal reinsurance agreement in-force as of December 31, 2021:

Type of Contract	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Property Catastrophe Excess of Loss Contract First Layer	Authorized: Lloyd's Underwriters (21.25%) Munich Reinsurance America, Inc. (8.5%) Convex Insurance UK Limited (3.75%) Axis Reinsurance Company (2.5%) Swiss Reinsurance Company Ltd. (2.5%) DaVinci Reinsurance Ltd. (2%) Hannover Ruck SE (2%) Renaissance Reinsurance Ltd. (2%) Unauthorized: Hannover Re (Bermuda) Ltd. (8.5%) American Agricultural Insurance Company (5%) Note: CCIE retained the remaining 42%.	$10 million each occurrence	$10 million excess of $10 million each occurrence, subject to maximum annual limit of $20 million
Second Layer	Authorized: Lloyd's Underwriters (35.25%) SCOR Reinsurance Company (15%) Munich Reinsurance America, Inc. (8.5%) Arch Reinsurance Ltd. (7.5%) Convex Insurance UK Limited (2.5%) Swiss Reinsurance Company Ltd. (2.5%) Hannover Ruck SE (2.5%) American Standard Insurance Company of Wisconsin (2%) Partner Reinsurance Company Ltd. (1.5%) Validus Reinsurance, Ltd. (1%) Unauthorized: Hannover Re (Bermuda) Ltd. (12.75%) American Agricultural Insurance Company (5%) Peak Reinsurance Company Ltd. (4%)	$20 million each occurrence	$20 million excess of $20 million each occurrence, subject to maximum annual limit of $40 million

Type of Contract	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Third Layer	Authorized: Lloyd's Underwriters (21.5%) SCOR Reinsurance Company (14%) Munich Reinsurance America, Inc. (8.5%) Arch Reinsurance Ltd. (7.5%) Odyssey Reinsurance Company (7.5%) Shelter Mutual Insurance Company (6%) Axis Reinsurance Company (5%) Swiss Reinsurance Company Ltd. (2.5%) Houston Casualty Company (2.25%) Hannover Ruck SE (2%) American Standard Insurance Compayn of Wisconsin (2%) Partner Reinsurance Company Ltd. (1.5%) Validus Reinsurance, Ltd. (1%) Unauthorized: Hannover Re (Bermuda) Ltd. (12.75%) Peak Reinsurance Company Ltd. (4%) American Agricultural Insurance Company (2%)	$40 million each occurrence	$40 million excess of $40 million each occurrence, subject to maximum annual limit of $80 million

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Exchange with the California Department of Insurance for the period ending December 31, 2021. The accompanying comments to the amounts in the annual statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 230,965,694	$	$ 230,965,694	
Common stocks	147,930,942		147,930,942	
Cash, cash equivalents, and short-term investments	2,808,010		2,808,010	
Other invested assets	2,813,662		2,813,662	
Receivables for securities	1,304,032		1,304,032	
Investment income due and accrued	1,064,545		1,064,545	
Uncollected premiums and agents' balances in the course of collection	1,171,867	85,113	1,086,755	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	156,497,808		156,497,808	
Amounts recoverable from reinsurers	7,841,620		7,841,620	
Current federal and foreign income tax recoverable and interest thereon	141,170		141,170	
Furniture and equipment	34,400	34,400		
Receivables from parent, subsidiaries and affiliates	48,016,361		48,016,361	
Aggregate write-ins for other than invested assets	868,029	856,583	11,444	
Total assets	$ 601,458,140	$ 976,096	$ 600,482,044	

Liabilities, Surplus, and Other Funds			Notes
Losses		$ 105,217,597	(1)
Reinsurance payable on paid loss and loss adjustment expenses		4,695,002	
Loss adjustment expenses		19,088,320	(1)
Other expenses		585,730	
Taxes, licenses and fees		643,177	
Unearned premiums		140,652,181	
Advance premiums		1,654,468	
Ceded reinsurance premiums payable		59,968,358	
Amounts withheld or retained by company for account of others		5,714,173	
Payable to parent, subsidiaries and affiliates		45,457,772	
Payable for securities		3,118	
Aggregate write-ins for liabilities		219,902	
Total liabilities		383,899,798	
Unassigned funds (surplus)	$ 216,582,246		
Surplus as regards policyholders		216,582,246	
Total liabilities, surplus, and other funds		$ 600,482,044	

Underwriting and Investment Exhibit
for the Year Ended Dcember 31, 2021

Statement of Income

Underwriting Income		
Premiums earned		$ 274,900,518
Deductions:		
Losses incurred	$ 176,276,210	
Loss adjustment expenses incurred	32,354,409	
Other underwriting expenses incurred	74,571,653	
Total underwriting deductions		283,202,272
Net underwriting loss		(8,301,754)
Investment Income		
Net investment income earned	$ 4,792,630	
Net realized capital gains	35,163,130	
Net investment gain		39,955,760
Other Income		
Net loss from agents' or premium balances charged off	$ (329,565)	
Finance and service charges not included in premiums	1,150,064	
Total other income		820,500
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		32,474,506
Federal and foreign income taxes incurred		(9,571,574)
Net income		$ 42,046,080

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		$ 208,878,951
Net income	$ 42,046,080	
Change in net unrealized capital losses	(27,193,301)	
Change in net deferred income tax	(7,111,850)	
Change in nonadmitted assets	(37,634)	
Change in surplus as regards policyholders for the year		7,703,295
Surplus as regards policyholders, December 31, 2021		$ 216,582,246

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

	Gain in Surplus	Loss in Surplus		Notes
Surplus as regards policyholders, December 31, 2017			$ 241,588,846	
Net income	$ 54,843,155	$		
Change in net unrealized capital losses		88,567,306		
Change in net deferred income tax		3,228,309		
Change in nonadmitted assets		373,930		
Cumulative effect of changes in accounting principles	12,319,790			
Total gains and losses	$ 67,162,945	$ 92,169,545		
Net decrease in surplus as regards policyholders			(25,006,600)	
Surplus as regards policyholders, December 31, 2021			$ 216,582,246	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2021 prepared by the Exchange's actuary and concurred with the actuary's conclusion that the Exchanges's loss and loss adjustment expense reserves as of December 31, 2021 were reasonable and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

In 2022, the California Casualty Group (CCG) rolled out a re-organization of its leadership structure; the goal is to create an organizational structure that enables CCG to grow, build up surplus strength and be sustainable. Jonathan D. Adkisson, President and Chief Executive Officer; and Mark D. Pitchford, Executive Vice President and Chief Marketing Officer joined CCG on June 1, 2022 and July 25, 2022, respectively. They will be leading CCG to develop a new corporate strategy and make changes toward growth and profitability.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Exchange's officers and California Casualty Management Company's employees during the course of this examination.

Respectfully submitted,

Chiu, Sam
Digitally signed by Chiu, Sam
Date: 2023.01.05 09:18:23 -08'00'

Sam Chiu, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Li Lim
Digitally signed by Li Lim
Date: 2023.01.05 09:45:55 -08'00'

Li Lim, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California