

REPORT OF EXAMINATION
OF THE
CALIFORNIA MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

Filed on April 26, 2021

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Oakland, California
April 20, 2021

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA MUTUAL INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office is located at 650 San Benito Street, Suite 250, Hollister, California 95024.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2014. This examination covered the period from January 1, 2015 through December 31, 2019.

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 Company'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 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.

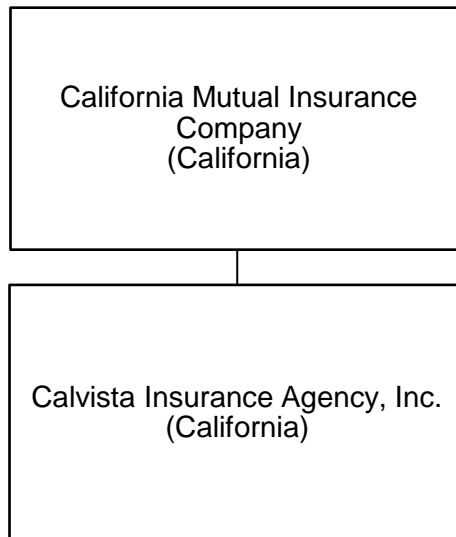
This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination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

COMPANY HISTORY

The Company was incorporated under the laws of the state of California as the Farmers Mutual Fire Insurance Company of San Benito County and commenced operations on September 20, 1920. The Company changed its name to Mid-State Mutual Insurance Company in 1989. On September 8, 2006, the Company received approval to change its name to California Mutual Insurance Company.

MANAGEMENT AND CONTROL

The Company is a mutual insurer owned by its policyholders. It had 1,698 policyholders as of December 31, 2019. The Company has a wholly-owned insurance agency subsidiary, Calvista Insurance Agency, Inc. (Calvista). The following chart shows the relationship between the Company and Calvista as of December 31, 2019.



The affairs of the Company are under the direction of the President and Chief Executive Officer along with a seven to nine members of the board of directors. All operations are conducted through the Company's headquarters in Hollister, California. Following are members of the board and principal officers of the Company serving at December 31, 2019:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Ken Bettencourt Gilroy, California	Owner/Broker Ridgemark Realty
Ray Borzini ^(a) Salinas, California	Business Development Officer 1 st Capital Bank, Salinas
Connie Glosser Hollister, California	Certified Public Accountant Connie Glosser Accounting Services
Don Marcus Hollister, California	Owner Marcus Building Systems
Steve I. Miller Hollister, California	President and Chief Executive Officer California Mutual Insurance Company

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Milo Pearson San Clemente, California	Consultant Insurance Industry
Cheri L. Schmidt Hollister, California	Chief Financial Officer California Mutual Insurance Company
Ed Stephenson ^(b) Hollister, California	Retired Past President of San Benito Bank
John Tobias Hollister, California	Owner Tobias Farms

Principal Officers

<u>Name</u>	<u>Title</u>
Steve I. Miller	President and Chief Executive Officer
Cheri L. Schmidt	Chief Financial Officer
Matt Curley ^(c)	Vice President and Director of Claims

The following changes occurred subsequent to the examination date:

- (a) Effective February 22, 2018, Mr. Borzini was elected to serve on the board replacing Sandy Rose.
- (b) Mr. Stephenson passed away February 27, 2021; the Nominating Committee is currently searching for a qualified candidate.
- (c) The Company's board of directors formally approved Matt Curley as the new Chief Executive Officer effective upon the retirement of Steve Miller.

Intercompany Agreement

Administrative/Facilities Service Agreement: Effective January 17, 2008, the Company entered into an Administrative/Facilities Services Agreement (Agreement) with its subsidiary, Calvista Insurance Agency, Inc. (Calvista). Under the terms of the Agreement, the Company provides administrative and facilities services to Calvista. The administrative services include financial reporting, tax compliance, treasury, budget and cost accounting, payroll, and other various services. Calvista pays the Company for these services and facilities based on time allocations, expense sharing, and actual cost. Pursuant to California Insurance Code Section 1215.5(b)(4) and based on the documents submitted to the Department of Insurance, the Company was authorized to proceed and

execute the Agreement between the Company and Calvista on January 17, 2008. During the examination period, Calvista paid the Company \$260,477, \$440,283, \$317,816, \$370,722, and \$390,604 in 2015, 2016, 2017, 2018, and 2019, respectively.

Under the terms of the Agreement between the Company and Calvista, amounts due from Calvista are to be settled within thirty (30) days of the invoice date. In some instances, it was noted that some settlements were not made within 30 days as required under the approved Agreement. It is recommended that the Company ensure payments are settled within the 30 days of such billings in accordance with the approved Agreement.

TERRITORY AND PLAN OF OPERATION

The Company is only licensed to transact property and casualty insurance business in California. The Company is licensed to write fire, allied lines, farmowners multiple peril, homeowners multiple peril, commercial multiple peril, earthquake, and boiler and machinery.

As of December 31, 2019, the Company reported direct premium written of \$6.959 million, all of which were written in California. The Company's primary lines of business were commercial multiple peril \$5.844 million (84.0%), homeowners multiple peril \$0.699 million (10.0%), boiler and machinery \$0.182 million (2.6%), and fire \$0.174 million (2.5%). The remaining \$0.06 million or 0.9% was spread among allied lines, earthquake, and other liability – occurrence.

The Company has approximately 124 active independent agents that generate 96% of the premiums. The remaining 4% was homeowners and dwelling fire premiums written directly through the Company.

REINSURANCE

Assumed

The Company is a member of Mutual Reinsurance Bureau (MRB), which is a reciprocal catastrophic pool. The Company assumes up to a 1.65% share of \$45 million (\$742,500) of property catastrophic insurance from MRB.

The Company assumes director and officer's liability insurance from NAMIC Insurance Company (NAMICO). As a member of the National Association of Mutual Insurance Companies (NAMIC), the Company is required to participate as a condition of obtaining and maintaining insurance through the NAMICO program. The Company's participation is 0.32041%, with a limit of 50% on the first \$1 million and 85% on the next \$ 4 million.

Ceded

The following is a summary of the principal reinsurance agreements in force as of December 31, 2019:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Multi-Line Excess of Loss:	All reinsurers named are authorized.		
Property business classified as Fire, Allied Lines, Inland Marine, Homeowners (Section 1), Commercial Multiple Peril (Section 1) and Earthquake - Casualty business Classified as Homeowners (Section II), Farmowners (Section II), Commercial Multiple Peril (Section II), and Dwelling Fire (liability coverages)	<u>Applicable to all 3 layers:</u>		
First Layer	Guy Carpenter 55%	\$250,000 per occurrence	100% of \$750,000 xs \$250,000

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Second Layer Casualty Clash	Schedule of Reinsurers: Renaissance Re 35% Hannover Re 20% General Re 45%	\$1,000,000 per occurrence \$2,000,000 per occurrence	100% of \$1,000,000 xs \$1,000,000 100% of \$2,000,000 xs \$2,000,000 (Casualty Business Only)
<u>Property Excess of Loss:</u>			
Property business classified as Fire, Allied Lines, Inland Marine, Homeowners (Section 1), Commercial Multiple Peril (Section 1) and Earthquake Property – Per Risk XOL	Guy Carpenter 55% Gen Re 45%	\$2,000,000 per occurrence	100% of \$5,000,000 xs \$2,000,000
<u>Property Catastrophe Excess of Loss</u>			
Property business classified as Fire, Allied Lines, Inland Marine, Homeowners (Section 1), Commercial Multiple Peril (Section 1) and Earthquake Property – Per Catastrophe XOL	<u>Applicable to all three layers:</u>		
First Layer	Guy Carpenter 100%	\$600,000 per occurrence	100% of \$1,400,000 xs \$600,000
Second Layer	Schedule of Reinsurers: American Ag 25% Arch Re 30% Mutual Re 10% Renaissance Re 35%	\$2,000,000 per occurrence	100% of \$2,000,000 xs \$2,000,000
Third Layer		\$4,000,000 per occurrence	100% of \$7,000,000 xs \$4,000,000
Fourth Layer	Mutual Re 100%	\$11,000,000 per occurrence	100% of \$4,000,000 xs \$11,000,000
<u>Excess of Loss – Casualty Facultative</u>			
Commercial Multiple Peril	Gen Re 100%	\$2,000,000 per risk	Reinsurer's limits are determined on treaty by treaty basis
<u>Excess of Loss – Property Facultative</u>			
Commercial Multiple Peril	Swiss Re 100%	\$6,000,000 per risk	Reinsurer's limits are determined on treaty by treaty basis
<u>Equipment Breakdown</u>			
Commercial Multiple Peril	Hartford Steam Boilers Inspection and Insurance Company	\$0	100% not to exceed \$25,000,000 per accident, anyone policy

<u>Employment Practices Liability</u>			
Commercial Multiple Peril	Hartford Steam Boilers Inspection and Insurance Company	\$0	100% not to exceed \$1,000,000
<u>Equipment Breakdown and Line Service</u>			
Homeowners Service Line	Hartford Steam Boilers Inspection and Insurance Company	\$0	100% not to exceed - per accident, per policy Homeowners - \$50,000 Service Line - \$10,000
<u>Cyber Liability and Data Compromise</u>			
Commercial Multiple Peril	Hartford Steam Boilers Inspection and Insurance Company	\$0	Data Compromise: 100% not to exceed - \$250,000 annual aggregate per policy. Cyber Coverage: 100% not to exceed - \$100,000 annual aggregate per policy.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2014
through December 31, 2019

Statement of Financial Condition
as of December 31, 2019

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 8,157,434	\$	\$ 8,157,434	
Common stocks	5,609,635	320,000	5,289,635	
Cash and short-term investments	2,483,216		2,483,216	
Investment income due and accrued	80,431		80,431	
Premiums and considerations:				
Uncollected premiums and agents balances	338,828	3,617	335,210	
Deferred premiums, agents balances, installments booked	940,239		940,239	
Reinsurance:				
Amount recoverable from reinsurers	343		343	
Funds held by or deposited with reinsured companies	84,103		84,103	
Current federal and foreign income tax recoverable and interest there on	20,581		20,581	
Receivables from parent, subsidiaries, and affiliates	78,445		78,445	
Aggregate write-ins for other than invested assets	420,960	5,000	415,960	
Total assets	<u>\$ 18,217,215</u>	<u>\$ 328,671</u>	<u>\$ 17,888,598</u>	

Liabilities, Surplus and Other Funds

	<u>Current Year</u>	<u>Notes</u>
Losses	\$ 988,763	(1)
Loss adjustment expenses	271,625	(1)
Commissions payable, contingent commissions and other similar charges	482,807	
Other expenses	(6,045)	
Taxes, licenses and fees	34,901	
Net deferred tax liability	229,817	
Unearned premiums	3,337,408	
Advance premium	27,146	
Ceded reinsurance premiums payable	<u>274,984</u>	
Total liabilities	5,641,406	
Unassigned funds (surplus)	<u>12,247,192</u>	
Surplus as regards policyholders	<u>12,247,192</u>	
Total liabilities, Surplus, and other funds	<u>\$ 17,888,598</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2019

Underwriting Income

Premium earned	\$	4,749,331
Deductions:		
Losses	\$	1,396,182
Loss expenses incurred		937,288
Other underwriting expenses incurred		<u>2,564,785</u>
Total underwriting deductions		<u>4,898,255</u>
Net underwriting loss		(148,924)

Investment Income

Net investment income earned	\$	155,149
Net realized capital gain		<u>419,903</u>
Net investment gain		575,051

Other Income

Net loss from agents' or premium balances charged off (amount recovered \$776 amount charged off \$0)	\$	(776)
Finance and service charges not included in premiums		5,150
Aggregate write-ins for miscellaneous income		<u>153</u>
Total other income		<u>4,527</u>
Net income before federal and foreign income taxes incurred		430,655
Federal and foreign income taxes incurred		<u>(34,137)</u>
Net income	\$	<u>464,792</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018	\$	11,213,690
Net income	\$	464,792
Change in net unrealized capital gains		708,518
Change in net deferred income tax		(136,836)
Change in nonadmitted assets		<u>(2,972)</u>
Change in surplus as regards policyholders for the year		<u>1,033,502</u>
Surplus as regards policyholders, December 31, 2019	\$	<u>12,247,192</u>

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2014 through December 31, 2019

Surplus as regards policyholders, December 31, 2014			\$ 10,872,817
	Gain in Surplus	Loss in Surplus	
Net income	\$ 1,023,668	\$	
Change in net unrealized capital gains	333,223		
Change in net deferred income tax	16,053		
Change in nonadmitted assets	1,431		
Total gains and losses	\$ 1,374,375	\$	
Net increase in surplus as regards policyholders			1,374,375
Surplus as regards policyholders, December 31, 2019			\$ 12,247,192

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Senior Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2019 prepared by the Company's independent actuary and concurred with the actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2019, were reasonable and have been accepted for the purposes of this examination.

SUBSEQUENT EVENTS

On March 4, 2021, the Company's Board of Directors formally approved Matt Curley as the new Chief Executive Officer effective upon the retirement of Steve Miller later this year.

The COVID-19 pandemic has continued to develop throughout 2020 and 2021, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of this report, the Company has not experienced significant operational nor financial impact primarily due to the Company's ability to have staff work remotely and maintain the usual level of service. During 2020, the Company saw improvements in net premiums written, losses incurred, and investments as compared to 2019 results. However, the Company has been subject to business interruption litigation due to the closure of the businesses as a result of government mandates related to COVID-19. The California Assembly Bill 743 proposal, related to business interruption coverage for COVID-19, may have future implications to the Company.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Intercompany Agreement – Administrative/Facilities Services Agreement (Page 4): It is recommended that the Company ensure payments are settled within the 30 days of such billings in accordance with the approved Administrative/Facilities Services Agreement between the Company and Calvista Insurance Agency, Inc.

Previous Report of Examination

None

ACKNOWLEDGMENT

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

Respectfully submitted,

_____/S/_____

Vicky Au-Yeung
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

_____/S/_____

Kyo Chu, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California