REPORT OF EXAMINATION
OF THE
PACIFIC PROPERTY AND CASUALTY COMPANY
AS OF
DECEMBER 31, 2015

Filed on June 23, 2017

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Los Angeles, California
April 30, 2017

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

PACIFIC PROPERTY AND CASUALTY COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 1949 East Sunshine, Springfield, Missouri 65899. The Company's statutory home office and main administrative office is located at 1975 Hamilton Avenue, Suite 33, San Jose, California 95125.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2010. This examination covered the period from January 1, 2011 through December 31, 2015.

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.

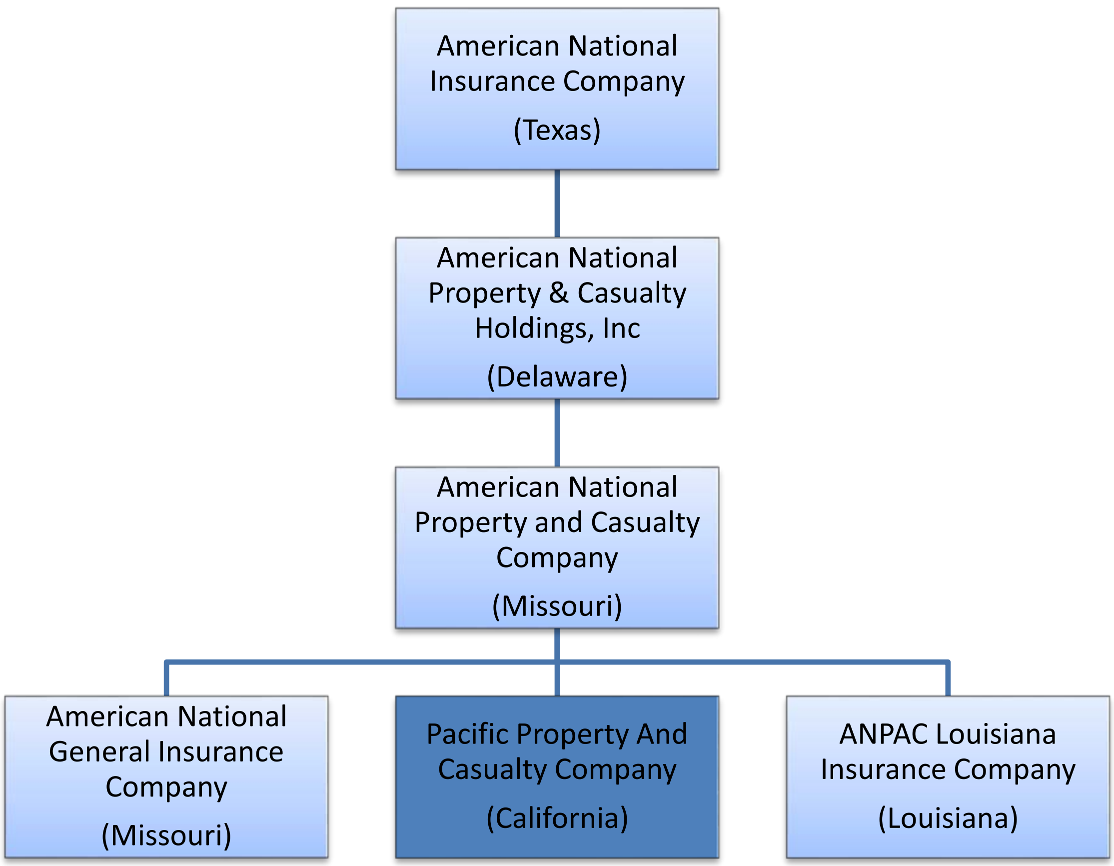
This was a coordinated examination with Missouri as the facilitating state of the property and casualty subgroup of American National Insurance Company. The examination was conducted concurrently with the examinations of other insurance entities in the holding company group, including American National Property And Casualty Company, American National General Insurance Company, and ANPAC Louisiana Insurance Company. California and Louisiana are participating states in this subgroup exam.

COMPANY HISTORY

The Company was incorporated in California on December 28, 1995 for the purpose of writing California property and casualty business that consists of fire, allied lines, homeowners multiple peril, commercial multiple peril, inland marine, earthquake, other liability, private passenger auto liability, commercial auto liability, and auto physical damage. It commenced business on October 1, 2000. Paid-in capital is $2,600,000, which consists of 25,000 common shares with a par value of $104 per share. The Company has 25,000 shares authorized and outstanding, which are owned by the immediate parent, American National Property And Casualty Company.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of American National Property And Casualty Company, a Missouri domiciled company. The ultimate controlling entity is American National Insurance Company, a Texas domiciled company. The following abridged organizational chart depicts the Company's relative position within the holding company structure. All ownership is 100%.



The nine members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2015:

Directors

Name and Location	Principal Business Affiliation
Michele M. Bartkowski Albany, New York	Senior Vice President, Chief Financial Officer, and Treasurer American National Property and Casualty Company (ANPAC) and its insurance subsidiaries
Scott C. Campbell Springfield, Missouri	Executive Vice President and Chief Marketing Officer, Multiple Line ANPAC and its insurance subsidiaries
James L. Flinn Springfield, Missouri	Senior Vice President, Personal Lines Actuarial, and Chief P&C Risk Officer ANPAC and its insurance subsidiaries
Jeffrey A. Mills Springfield, Missouri	Executive Vice President and Chief Claims Officer ANPAC and its insurance subsidiaries
Gregory V. Ostergren Springfield, Missouri	Chairman of the Board, President, and Chief Executive Officer ANPAC and its insurance subsidiaries
Stuart M. Paulson Springfield, Missouri	Senior Vice President, Operations Counsel, and Assistant Secretary ANPAC and its insurance subsidiaries
Shannon L. Smith Springfield, Missouri	Executive Vice President and Chief Agencies Officer, Multiple Line ANPAC and its insurance subsidiaries
Victoria M. Stanton Albany, New York	Executive Vice President, General Counsel, and Secretary ANPAC and its insurance subsidiaries

Name and Location	Principal Business Affiliation
Timothy A. Walsh Galveston, Texas	Senior Executive Vice President and Chief Operating Officer, Multiple Line ANPAC and its insurance subsidiaries

Principal Officers

Name	Title
Gregory V. Ostergren	Chairman of the Board, President, and Chief Executive Officer
Timothy A. Walsh	Senior Executive Vice President and Chief Operating Officer, Multiple Line
Scott C. Campbell	Executive Vice President and Chief Marketing Officer, Multiple Line
Jeffrey A. Mills	Executive Vice President and Chief Claims Officer
Shannon L. Smith	Executive Vice President and Chief Agencies Officer, Multiple Line
Victoria M. Stanton	Executive Vice President, General Counsel, and Secretary
Michele M. Bartkowski	Senior Vice President, Chief Financial Officer, and Treasurer
James L. Flinn	Senior Vice President, Personal Lines Actuarial and Chief P&C Risk Officer
Deborah A. Foell	Senior Vice President, Application Development and Support, Multiple Line
Matthew R. Ostiguy	Senior Vice President, Commercial Lines Research and Development
Stuart M. Paulson	Senior Vice President, Operations Counsel, and Assistant Secretary
Gregory E. Eck	Vice President, Finance

Management Agreements

Service Agreement: The Company is a party to a Service Agreement with its parent, American National Property And Casualty Company (ANPAC). Under the terms of the agreement, ANPAC provides or causes to be provided for the Company's benefit, a broad range of services and facilities. The agreement specifies that reimbursement for accounting services will be based on the actual cost, while reimbursement for all other facilities and services will be on a cost allocation basis. The agreement has been in force since January 31, 1996. For 2011, 2012, 2013, 2014, and 2015, fees paid by the Company under this agreement were $4,220,066, $3,700,239, $3,059,458, $7,521,015, and $6,331,700, respectively. This agreement was approved by the California Department of Insurance (CDI) on September 27, 2005.

For 2011, 2012, 2013, 2014, and 2015, the Company paid $53,934, $0, $8,709, $68,494, and $10,716, respectively, in fees directly to American National Insurance Company (ANICO) for services provided by ANICO. Although the Company asserts that these services were covered under the Service Agreement with ANPAC, it is recommended that the Company prospectively enter into a service agreement with ANICO and submit it to the CDI for approval in accordance with California Insurance Code (CIC) Section 1215.5(b)(4). This is a repeat finding from the prior examination.

Tax Sharing Agreement: The Company is a party to the American National Insurance Company Consolidated Tax Sharing Agreement, effective January 1, 2008. For purposes of calculating the earnings and profits of each of the members, the consolidated federal income tax liability of the affiliated group is apportioned among the members in accordance with the method set forth in the Internal Revenue Code Section 1552 and Treasury Regulations Sections 1.1502-33(d)(2) and 1.1552-1(a) (the "Wait and See Method"). The agreement was approved by the CDI on August 5, 2016.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2015, the Company was licensed to transact multiple lines of property and casualty insurance in California. In 2015, the Company wrote $40 million of direct premiums. The principal lines of business written were private passenger auto liability, $13.0 million or 32.5%; automobile physical damage, $10.2 million or 25.5%; homeowners multiple peril, $11.8 million or 29.5%; and allied lines, $2.5 million or 6.25%. The remainder of the direct premiums written totaled $2.5 million or 6.25%, and was composed of fire, other liability, inland marine, earthquake, and commercial lines.

REINSURANCE

Assumed

The Company has no reinsurance assumed.

Ceded

The following is a summary of the principal ceded reinsurance treaties in-force as of December 31, 2015:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Multiple Line Excess of Loss			
Excess Casualty Clash First Layer	Hannover Rueck (40%) Lloyds Syndicates (46.25%) Catlin Insurance Company Ltd. (5%) QBE Reinsurance Corp (3.75%) Everest Reinsurance Company (5%)	$6 million per occurrence	$4 million excess $6 million, per occurrence, not to exceed $8 million. Acts of Terrorism $4 million aggregate Toxic Mold $4 million annual limit
Second Layer	Lloyds Syndicates (75%) Catlin Insurance Company Ltd. (10%) QBE Reinsurance Corp (3%) Everest Reinsurance Company (2%)	$10 million per occurrence	$10 million excess $10 million, per occurrence, not to exceed $20 million for all occurrences. Acts of Terrorism - $10 million aggregate Toxic Mold $10 million annual limit

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
	Safety National Casualty Corp (10%)		
Third Layer	Hannover Rueck (20%) Lloyds Syndicates (58%) Platinum Underwriters Reinsurance, Inc (10%) Catlin Insurance Company Ltd. (8%) QBE Reinsurance Corp (2%) Everest Reinsurance Company (2%)	$20 million per occurrence	$20 million excess $20 million, per occurrence, not to exceed $40 million. Acts of Terrorism - $20 million in aggregate Toxic Mold $20 million annual limit
Fourth Layer	Hannover Rueck (3.6367%) Lloyds Syndicates (39.09%) Platinum Underwriters Reinsurance, Inc (3.6366%) Catlin Insurance Company Ltd. (3.6367%) Safety National Casualty Corp (50%)	$40 million per occurrence	$20 million excess $40 million, per occurrence, not to exceed $40 million. Acts of Terrorism - $20 million in aggregate Toxic Mold $20 million annual limit
<u>Excess Multiple Line</u>	Swiss Reinsurance America Corporation (65%) SCOR Reinsurance Company (20%) AXIS Reinsurance Company (7.5%) QBE Reinsurance Corporation (7.5%)	$1 million per loss/risk	$5 million excess $1 million, per loss/risk, not to exceed $10 million for all risks; Workers Compensation $20 million in aggregate
<u>Excess Per Risk</u>	Lloyds Syndicates (60%) Amlin Bermuda Ltd. (30%) Hannover Rueck (10%)	$6 million per loss/risk	$14 million excess $6 million, per loss/risk, not to exceed $14 million per occurrence or $49 million for all occurrences during contract term. Acts of Terrorism - $14 million in aggregate Toxic Mold $14 million annual limit
<u>**Property Catastrophe Excess of Loss**</u>			
Property Catastrophe Excess of Loss Earthquake	Tokio Millennium Re Ltd. (5%) Amlin Bermuda Ltd. (15%) Sompo Japan Insurance Inc. (17.5%) Lloyds Syndicates (62.5%)	$10 million of ultimate net loss arising out of each loss occurrence	$25 million excess $10 million, ultimate net loss, not to exceed $25 million per occurrence or $50 million for all occurrences during contract term
Property Catastrophe Excess of Loss (TX/OK/AR)	Hiscox Insurance Company (Bermuda) Ltd. (7.6449%) Tokio Millennium Re Ltd. (5%) Amlin Bermuda Ltd. (4.4447%) Lloyds Syndicates (46.9458%) Aquilo/Cat/Co (obo Hannover Rueck) (2.6346%)	$10 million of ultimate net loss arising out of each loss occurrence, plus 33.33% of $25 million excess of $10 million	66.67% of $25 million excess of $10 million, ultimate net loss, not to exceed $25 million per occurrence or $50 million for all occurrences during contract term
Property Catastrophe Excess of Loss (Southeastern States) (LA/AL/MS/GA/NC/SC)	Catlin Insurance Company Ltd. (3.8197%) DaVinci Reinsurance Ltd. (1.5279%)	$10 million of ultimate net loss arising out of each loss occurrence,	66.67% of $25 million excess of $10 million, ultimate net loss, not to exceed $25 million per occurrence or $50 million for all

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
	Hiscox Insurance Company (Bermuda) Ltd. (6.1116%) Renaissance Reinsurance Ltd. (2.2918%) Amlin Bermuda Ltd. (11.4592%) Lloyds Syndicates (41.4598%)	plus 33.33% of $25 million excess of $10 million	occurrences during contract term
Property Catastrophe Excess of Loss (Northeastern States) (CT/DE/DC/ME/MD/MA/NH/NJ/NY/PA/RI/VT/VA/WV)	Employers Mutual Casualty Company (1.4415%) Odyssey America Reinsurance Corporation (2.5226%) QBE Reinsurance Corporation (3.6038%) Hiscox Insurance Company (Bermuda) Ltd. (5.4057%) R&V Versicherung AG (10.433%) Amlin Bermuda Ltd. (4.8074%) Lloyds Syndicates (38.456%)	$10 million of ultimate net loss arising out of each loss occurrence, plus 33.33% of $25 million excess of $10 million	66.67% of $25 million excess of $10 million, ultimate net loss, not to exceed $25 million per occurrence or $50 million for all occurrences during contract term
Property Catastrophe Excess (American National) (Excludes hurricane losses in coastal states and earthquake losses)	Lloyds Syndicates (22.5%) Tokio Millennium Re Ltd. (5%) Amlin Bermuda Ltd. (3%)	$10 million of ultimate net loss plus 69.5% of $25 million excess of $10 million	30.5% of $25 million excess $10 million, ultimate net loss, not to exceed $25 million per occurrence or $50 million for all occurrences during contract term
Property Catastrophe Excess (American National) (Excludes hurricane losses in coastal states and earthquake losses)	Lloyds Syndicate (26.375%) Amlin Bermuda Ltd. (7.5%) Tokio Millennium Re Ltd. (6.3375%) Aquilo/CatCo (fronted by Tokio) (5%)	$15 million of ultimate net loss plus 54.7875% of $20 million excess of $15 million	45.2125% of $20 million excess $15 million, ultimate net loss, not to exceed $20 million per occurrence or $40 million for all occurrences during contract term
Property Catastrophe Excess of Loss-1st Corporate Layer	Lloyds Syndicates and 13 domestic, foreign and alien companies (total 97.5%)	$35 million of ultimate net loss plus 2.5% of $65 million excess of $35 million	97.5% of $65 million excess $35 million, loss/losses/one event, not to exceed $65 million per occurrence or $130 million for all occurrences during contract term
Property Catastrophe Excess of Loss-2nd Corporate Layer	Lloyds Syndicates and 23 domestic, foreign and alien companies (total 97.5%)	$100 million of ultimate net loss plus 2.5% of $100 million excess of $100 million	97.5% of $100 million excess $100 million, loss/losses/one event, not to exceed $100 million per occurrence or $200 million for all occurrences during contract term
Property Catastrophe Excess of Loss-3rd Corporate Layer	Lloyds Syndicates and 23 domestic, foreign and alien companies (total 100%)	$200 million of ultimate net loss	$300 million excess $200 million, loss/losses/one event, not to exceed $300 million per occurrence or $600 million for all occurrences during contract term
Property Catastrophe Aggregate	Employers Mutual Casualty Company (0.25%) Lloyds Syndicates (55.85%) Collateralised Re Ltd (30%) R&V Versicherung AG (9.4%) Taiping Reinsurance Co Ltd. (2%)	$90 million of ultimate net loss plus 2.5% of $30 million excess of $90 million	97.5% of $30 million excess $90 million; subject loss is first $10 million of each internally declared catastrophe that exceeds $5 million

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property Catastrophe Top & Drop Excess	Aeolus Reinsurance Ltd. (85.7143%) Twelve Capital (14.2857%)	$100 million of ultimate net loss, or $5 million of ultimate net loss arising out of each occurrence, plus $45 million Annual Aggregate Deductible	Not to exceed $35 million per any one loss occurrence nor shall it exceed $35 million in all during the term of the contract

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, 2015. 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, 2015

Underwriting and Investment Exhibit for the Year Ended December 31, 2015

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2015

Statement of Financial Condition
as of December 31, 2015

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	68,991,769		68,991,769	
Cash and short-term investments	2,255,452		2,255,452	
Investment income due and accrued	711,115		711,115	
Uncollected premiums and agents' balances in course of collection	408,410	321	408,089	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,855,140		5,855,140	
Amounts recoverable from reinsurers	853,583		853,583	
Net deferred tax asset	1,331,426		1,331,426	
Receivables from parent, subsidiaries and affiliates	110,161		110,161	
Aggregate write-ins for other than invested assets	143,267		143,267	
Total assets	$ 80,660,323	$ 321	$ 80,660,002	
Liabilities, Surplus and Other Funds				
Losses			$ 15,776,873	(1)
Loss adjustment expenses			4,368,927	(1)
Commissions payable, contingent commissions and other similar charges			1,180,394	
Other expenses			17,494	
Taxes, licenses and fees			71,728	
Current federal and foreign income taxes			63,992	
Unearned premiums			14,600,285	
Advance premiums			449,617	
Ceded reinsurance premiums payable			2,391	
Remittances and items not allocated			(11,795)	
Payable to parent, subsidiaries and affiliates			700,231	
Aggregate write-ins for liabilities			257,227	
Total liabilities			37,477,364	
Common capital stock		$ 2,600,000		
Gross paid-in and contributed surplus		7,400,000		
Unassigned funds (surplus)		33,182,638		
Surplus as regards policyholders			43,182,638	
Total liabilities, surplus and other funds			$ 80,660,002	

Underwriting and Investment Exhibit for the Year Ended December 31, 2015

Statement of Income

Underwriting Income		
Premiums earned		$ 37,926,093
Deductions:		
Losses incurred	$ 23,295,990	
Loss adjustment expenses incurred	5,565,699	
Other underwriting expenses incurred	9,199,222	
Total underwriting deductions		38,060,911
Net underwriting loss		(134,818)
Investment Income		
Net investment income earned	$ 2,267,612	
Net realized capital losses	(13,172)	
Net investment gain		2,254,440
Other Income		
Net loss from agents' or premium balances charged off	$ (55,648)	
Finance and service charges not included in premiums	38,108	
Total other loss		(17,540)
Net income before federal income taxes		2,102,082
Federal income taxes incurred		336,994
Net income		$ 1,765,088

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2014		$ 41,312,263
Net income	$ 1,765,088	
Change in net deferred income tax	102,101	
Change in nonadmitted assets	3,312	
Aggregate write-ins for losses in surplus	(126)	
Change in surplus as regards policyholders for the year		1,870,375
Surplus as regards policyholders, December 31, 2015		$ 43,182,638

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2015

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2010			$ 29,844,846
Net income	$ 13,614,557	$	
Net unrealized capital losses		(497,224)	
Change in net deferred income tax	185,102		
Change in nonadmitted assets	54,395		
Aggregate write-ins for losses in surplus		(19,038)	
Total gains and losses	$ 13,854,054	$ (516,262)	
Net increase in surplus as regards policyholders			13,337,792
Surplus as regards policyholders, December 31, 2015			$ 43,182,638

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2015 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control - Management Agreements – Service Agreement (Page 6): It is recommended that the Company prospectively enter into a service agreement with American National Insurance Company and submit it to the California Department of Insurance for approval in accordance with California Insurance Code (CIC) Section 1215.5(b)(4). The Company has agreed to do so. This is a repeat finding from the prior examination.

Previous Report of Examination

Management and Control - Management Agreements – Service Agreement (Page 5): It was recommended that the Company execute the service agreement and submit it to the CDI for approval in accordance with CIC Section 1215.5(b)(4). The Company has agreed to comply with this recommendation.

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/__________________________

Jack Ho, CFE, CISA, AES
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

__/S/__________________________

Don Woo, CFE
Bureau Chief
Department of Insurance
State of California