

REPORT OF EXAMINATION
OF THE
CAMICO MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2015

Filed on May 11, 2017

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San Francisco, California
April 21, 2017

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CAMICO MUTUAL INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 1800 Gateway Drive, Suite 300, San Mateo, California 94404.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The last examination covered the period from January 1, 2008 through December 31, 2011. This examination covers the period from January 1, 2012 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. The examination also includes identifying and evaluating significant risks that could cause the Company'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.

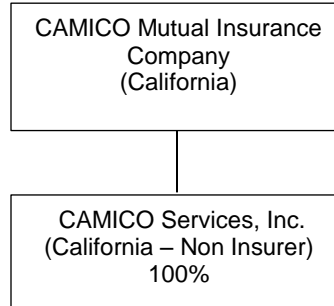
This examination report includes findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination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

COMPANY HISTORY

During the examination period, the Company contributed a total of \$3,800,000 in capital to its wholly-owned subsidiary, CAMICO Services, Inc. (CSI), doing business as CAMICO Insurance Services. The Company contributed an additional \$1,000,000 in capital to CSI in 2016.

MANAGEMENT AND CONTROL

The Company is a mutual insurance company owned by its policyholders, who are all certified public accountants (CPA). It has one wholly-owned subsidiary, CAMICO Services, Inc. (CSI). CSI is a licensed agent. The following organizational chart shows the companies within the holding company system as of December 31, 2015:



Management of the Company is vested in a ten-member board of directors elected annually. Following are members of the board and principal officers of the Company serving at December 31, 2015:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Louis J. Barbich, CPA, MBA Bakersfield, California	Shareholder Barbich Hooper King Dill Hoffman Accountancy Corporation
John A. Dodsworth, CPA (inactive) San Mateo, California	Retired
Andrew M. Eassa, CPA/ABV, CVA East Syracuse, New York	Principal Firley, Moran, Freer & Eassa, CPA, P.C.
Robert P. Evans, CPA, CISA Fort Worth, Texas	President Schieffer Group Management Company
Deborah D. Lambert, CPA, CGMA, CPCU Arlington Heights, Illinois	Partner Johnson Lambert LLP
Bryan C. Polster, CPA, MBA Palo Alto, California	Chairman of Board of Partners Frank Rimerman & Co., LLP
Carolyn C. Riticher, CPA, CVA Atlanta, Georgia	Principal Windham Brannon, P.C.
Ricardo R. Rosario, CPA, CFE San Mateo, California	President and Chief Executive Officer CAMICO Mutual Insurance Company
James Sunseri San Francisco, California	Retired

Name and Location

Principal Business Affiliation

Stuart M. Weinstein, CPA^(a)
South San Francisco, California

Retired

Principal Officers

Name

Title

Ricardo R. Rosario

President and Chief Executive Officer

Jay H. Stewart

Treasurer and Chief Financial Officer

Suzanne M. Holl

Secretary and Assistant Treasurer

(a) Stuart Weinstein retired from the Company's board on June 14, 2016 and was replaced by Carmen Aguiar.

Management Agreements

Cost Allocation and Reimbursement Agreement: The Company entered into a Cost Allocation and Reimbursement Agreement with its subsidiary, CAMICO Services, Inc. (CSI), on February 24, 1995. Services provided by the Company include, but are not limited to, general corporate management, investment advice, strategic planning, product development, computer services, advertising, and marketing. The agreement provides for reimbursement to the Company on a cost allocation/reimbursement basis. The agreement was not subject to prior approval by the California Department of Insurance (CDI) because the agreement pre-dated the prior approval requirement.

Tax Allocation Agreement: The Company is party to a Tax Allocation Agreement dated June 19, 1996 with its subsidiary, CSI. The agreement provides for the federal tax returns of the parties to be filed on a consolidated basis. Allocation is based on separate company return calculations with fair compensation to the parties for use of net operating losses, alternative minimum tax, or tax credits that are used to reduce the consolidated federal income tax liability of the group. The agreement was not subject to prior approval by the CDI because the agreement pre-dated the prior approval requirement.

TERRITORY AND PLAN OF OPERATION

The Company is licensed and provides certified public accountants (CPA) with professional liability (PL) insurance and employment practices liability insurance (EPLI) in 45 states, plus the District of Columbia, on a claims-made and occurrence basis. The states where the Company was not licensed were: Alaska, Hawaii, Montana, Vermont, and Wyoming. The Company insures certified public accounting firms with limited Securities and Exchange Commission engagements, initial public offerings or large company audit work. In 2015, the Company began offering first party cyber liability coverage, CyberCPA, as an opt out endorsement to its professional liability policies. The Company also provides extended reporting period coverage endorsement for policyholders who die, become disabled or retired. Effective October 1, 2014, policies over \$2,000,000 are serviced by CAMICO Services, Inc. and insured with Berkley Alliance Managers, formerly known as Berkley Design Professional Underwriters, an operating unit of Berkley Insurance Company.

The Company is endorsed and sponsored by 16 CPA state societies. The Company distributes its products utilizing independent agencies, direct and eBusiness channels. As of December 31, 2015, the Company provided PL and EPLI coverage to 26,972 owners and professionals, with total staff of 34,574. Total direct premium written in 2015 was \$35,461,544. The top three states for written premium in 2015 were California \$16,942,134 (48%), Maryland \$2,245,911 (6%), and Washington \$1,425,395 (4%).

REINSURANCE

Assumed

The Company did not assume any reinsurance during the examination period.

Ceded

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

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
<p><u>Casualty:</u> Loss Ratio Protection Cover Reinsurance</p>	<p><u>Authorized:</u> Tokio Millennium Re AG, US Branch – 40% Endurance Reinsurance Company of America – 10%</p> <p><u>Unauthorized:</u> JRG Reinsurance Company Limited – 20%</p> <p><i>*30% of the coverage was not placed with reinsurers.</i></p>	<p>100% of the aggregate ultimate net loss below 70% and above 95% of the subject written premium.</p>	<p>Aggregate ultimate net loss for 25% of the subject written premium over and above the initial ultimate net loss of 70% of the subject written premiums. Subject written premium shall not exceed \$40 million.</p>
<p>Casualty Excess of Loss – First Excess</p>	<p><u>Authorized:</u> Aspen Insurance UK Limited – 10.91% Lloyd's Underwriter Syndicate No. 0033 – 4.09%</p> <p><u>Unauthorized:</u> JRG Reinsurance Company Limited – 5%</p> <p><i>*80% of the coverage was not placed with reinsurers.</i></p>	<p>\$250 thousand of ultimate net loss for each and every claim, each and every policy.</p>	<p>Ultimate net loss for \$750 thousand in excess of \$250 thousand, each and every claim, and each and every policy, subject to a limit of liability for all claims of \$16 million from July 1, 2015 to July 1, 2016.</p>

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Casualty Excess of Loss – Second Excess	<p><u>Authorized:</u> Aspen Insurance UK Limited – 10.91% Lloyd's Underwriter Syndicate No. 0033 – 4.09%</p> <p><u>Unauthorized:</u> JRG Reinsurance Company Limited – 5%</p> <p><i>*80% of the coverage was not placed with reinsurers.</i></p>	80% of ultimate net loss for \$1 million in excess of \$1 million, inclusive of supplemental defense limits not to exceed \$1 million	Ultimate net loss for \$1 million in excess of \$1 million, inclusive of supplemental defense limits not to exceed \$1 million, subject to a limit of liability for all claims of \$8 million from July 1, 2015 to July 1, 2016.
Contingency Excess of Loss	10 various Great Britain and Bermuda domiciled reinsurers. 90% participation by authorized reinsurers and 10% participation by an unauthorized reinsurer.	\$2 million each and every claim, each and every policy.	Ultimate net loss over and above an initial net loss of \$2 million, each and every claim, each and every policy (or over and above the underlying reinsurance coverage for Directors and Officers Liability policies, Employment Practices Liability policies and Vicarious Liability policies), subject to a limit of liability to the Reinsurer of \$4 million, each and every claim, each and every policy. Also not to exceed potential claim expenses of \$125 thousand for each claim.
Employment Practices Liability Quota Share	<u>Authorized:</u> Gen Re – 100%	50% of each net loss under each policy.	50% of each net loss under each policy, not to exceed 50% of the policy limit, subjected to a maximum limit of \$1 million per claim and \$2 million aggregate limit.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Cyber Liability Quota Share	<u>Authorized:</u> Lloyd's Underwriter Syndicate No. 0510 KLN – 26.67% Lloyd's Underwriter Syndicate No. 1729 DUW – 10% Lloyd's Underwriter Syndicate No. 1880 TMK – 53.33% Lloyd's Underwriter Syndicate No. 4020 ARK – 10%	None	100% share of all cyber liability business, subject to a maximum limit of \$50 thousand per claim and an aggregate limit of liability based on the size of the firm. Maximum aggregate limit of liability of \$250 thousand for firm size of up to 200 professionals.

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 financial statements should be considered an integral part of the financial statements. No examination adjustments were made to the financial statements 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, 2011
through December 31, 2015

Statement of Financial Condition
as of December 31, 2015

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 71,928,283	\$	\$ 71,928,283	(1)
Common stocks	1,301,786		1,301,786	
Cash, cash equivalents and short-term investments	139,466		139,466	
Other invested assets	989,497		989,497	
Investment income due & accrued	464,599		464,599	
Uncollected premiums and agents' balances in course of collection	4,558,642	4,878	4,553,764	
Amount recoverable from reinsurers	1,277,604		1,277,604	
Current federal and foreign income tax recoverable and interest thereon	34,943		34,943	
Net deferred tax asset	7,008,892	1,892,495	5,116,397	
Guaranty funds receivable or on deposit	64,419		64,419	
Electronic data processing equipment and software	493,582	144,611	348,971	
Furniture and equipment	39,870	39,870	0	
Receivables from parent, subsidiaries and affiliates	908,334		908,334	
Aggregate write-ins for other than invested assets	<u>546,096</u>	<u>428,017</u>	<u>118,078</u>	
Total assets	<u>\$ 89,756,011</u>	<u>\$ 2,509,870</u>	<u>\$ 87,246,141</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 15,178,735	(2)
Loss adjustment expenses			13,630,600	(2)
Other expenses (excluding taxes, licenses and fees)			4,740,261	
Taxes, licenses and fees (excluding federal and foreign income taxes)			116,455	
Borrowed money			689,585	(1)
Unearned premiums			10,794,020	
Advance premium			3,674,327	
Ceded reinsurance premiums payable			(3,638,766)	
Funds held by company under reinsurance treaties			828,089	
Amounts withheld or retained by company for account of others			40,858	
Remittances and items not allocated			788,244	
Provision for reinsurance			<u>106,131</u>	
Total liabilities			46,948,540	
Surplus Notes		\$ 10,000,000		
Unassigned funds (surplus)		<u>30,297,601</u>		
Surplus as regards policyholders			<u>40,297,601</u>	
Total liabilities, surplus and other funds			<u>\$ 87,246,141</u>	

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

Statement of Income

Underwriting Income

Premiums earned		\$ 30,169,371
Deductions:		
Losses incurred	\$ 7,550,127	
Loss adjustment expenses incurred	11,965,442	
Other underwriting expenses incurred	9,691,664	
Aggregate write-in for underwriting deductions	<u>(48)</u>	
Total underwriting deductions		<u>29,207,185</u>
Net underwriting gain		962,186

Investment Income

Net investment income earned	\$ 935,519	
Net realized capital gain	<u>107,100</u>	
Net investment gain		1,042,619

Other Income

Net loss from agents' or premium balances charged off	\$ (2,338)	
Aggregate write-ins for miscellaneous income	<u>(343,758)</u>	
Total other income		<u>(346,096)</u>
Net income		<u>\$ 1,658,709</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2014		\$ 39,191,917
Net income	\$ 1,658,709	
Change in net unrealized capital gain or (losses)	(727,878)	
Change in net deferred income tax	(602,970)	
Change in nonadmitted assets	788,554	
Change in provision for reinsurance	<u>(10,731)</u>	
Change in surplus as regards policyholders for the year		<u>1,105,684</u>
Surplus as regards policyholders, December 31, 2015		<u>\$ 40,297,601</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2011 through December 31, 2015

Surplus as regards policyholders, December 31, 2011, per Examination			\$ 37,426,397
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 5,435,794	\$	
Change in net unrealized capital losses		3,559,338	
Change in net deferred income tax	1,892,488		
Change in nonadmitted assets		1,331,200	
Change in provision for reinsurance	200,241		
Aggregate write-ins for gains in surplus	<u>233,219</u>		
Total gains and losses	<u>\$ 7,761,742</u>	<u>\$ 4,890,538</u>	
Net increase in surplus as regards policyholders			<u>2,871,204</u>
Surplus as regards policyholders, December 31, 2015, per Examination			<u>\$ 40,297,601</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds and Borrowed Money

Effective June 1, 2013, the Company arranged a secured \$10,000,000 revolving line of credit with Union Bank at a rate of 2.5% with a LIBOR option. The rate was increased to 2.75% effective December 16, 2015. This line of credit expires on May 31, 2018. The Company pledged bonds with a par value of \$10,116,267 as security for the line of credit. The Company reported an outstanding balance of \$689,585 and interest expense of \$31,802 on the line of credit as of December 31, 2015.

(2) Losses and Loss Adjustment Expenses

A Senior Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2015 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, 2015 were reasonable and have been accepted for purposes of this examination.

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 Company's officers and employees during the course of this examination.

Respectfully submitted,

/S/ _____

Jack Lee, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

/S/ _____

Ber Vang, CFE, AES, CISA
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California