

REPORT OF EXAMINATION  
OF THE  
CALIFORNIA GENERAL UNDERWRITERS  
INSURANCE COMPANY, INC  
AS OF  
DECEMBER 31, 2013

Filed April 13, 2015

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Los Angeles, California  
January 23, 2014

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

**CALIFORNIA GENERAL UNDERWRITERS INSURANCE COMPANY, INC**

(hereinafter also referred to as the Company) at the primary location of its books and records, 4484 Wilshire Boulevard, Los Angeles, California, 90010. The Company's statutory home office and main administrative office is located at 555 West Imperial Highway, Brea, California 92821.

**SCOPE OF EXAMINATION**

The previous examination of the Company was made as of December 31, 2010. This examination covers the period from January 1, 2011, through December 31, 2013. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination was a coordinated examination and was conducted concurrently with the Florida Department of Financial Services, Georgia Office of Insurance and Safety Fire Commission, and Illinois and Texas Departments of Insurance. The affiliated California domiciled entities reviewed as part of this examination include Mercury Casualty Company, Mercury Insurance Company, and California Automobile Insurance Company; the Florida domiciled entities Mercury Insurance Company of Florida and Mercury Indemnity Company of America; the Georgia domiciled entities Mercury Insurance Company of Georgia and Mercury Indemnity Company of Georgia; the Illinois domiciled entities Mercury Insurance Company of Illinois and Mercury National Insurance Company; and the Texas domiciled entities Mercury County Mutual Insurance Company and American Mercury Lloyds Insurance Company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; and statutory deposits.

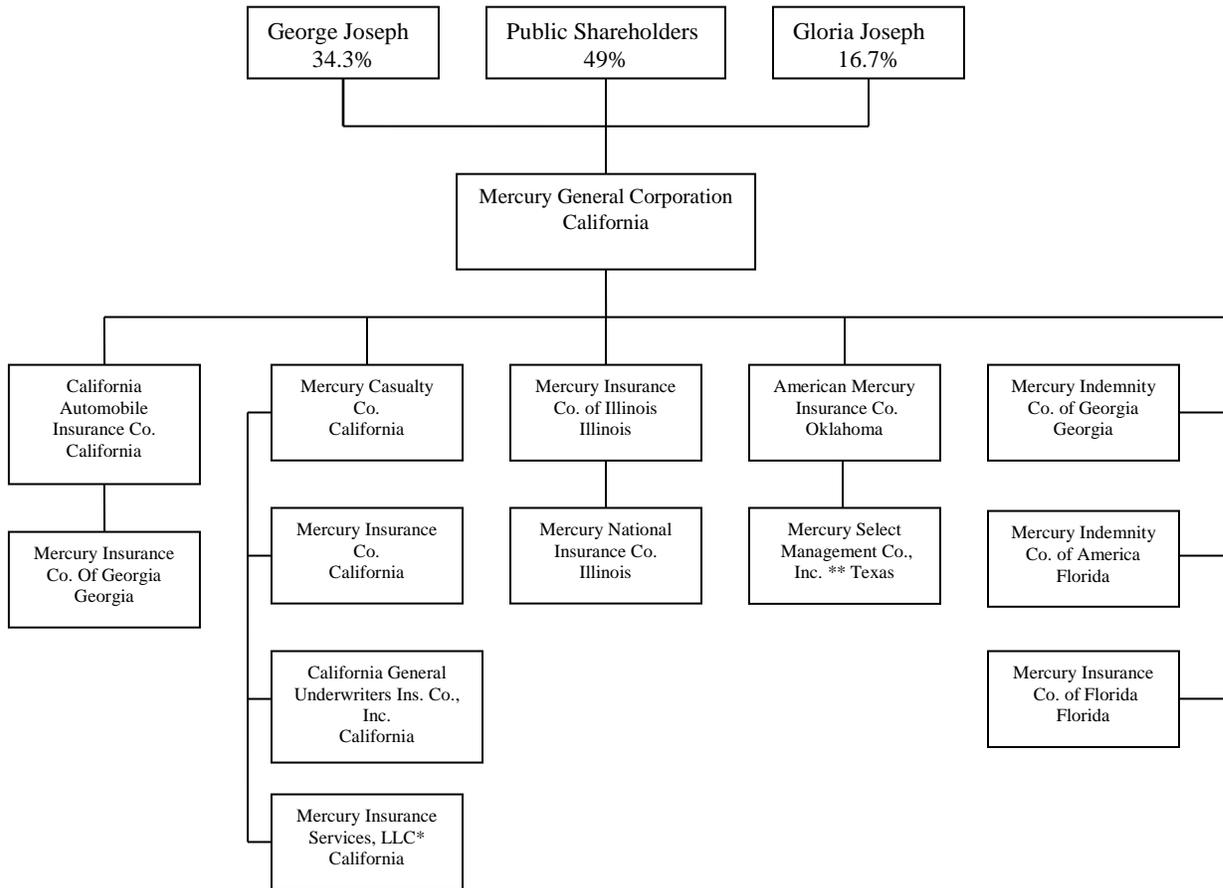
### COMPANY HISTORY

The Company was incorporated in California on April 15, 1985, as Mercury General Insurance Company (MGIC). The name was changed from MGIC to California General Underwriters Insurance Company, Inc. on December 29, 1988. The Company is a wholly-owned subsidiary of Mercury Casualty Company (MCC). MCC in turn, is a wholly-owned subsidiary of Mercury General Corporation, a publicly traded insurance holding company.

### MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Mercury Casualty Company (MCC). MCC in turn, is a wholly-owned subsidiary of Mercury General Corporation (MGC), a publicly traded insurance holding company. The controlling stockholders, George

Joseph and Gloria Joseph, own 34.3% and 16.7%, respectively, of MGC's stock with the remaining 49.0% held by public shareholders. The following abridged organizational chart depicts the Company's interrelationship within the holding company system at December 31, 2013 (all ownership is 100% unless otherwise noted):



\* Mercury Insurance Services, LLC manages and controls Mercury County Mutual Insurance Company, a Texas County Mutual Insurer.

\*\*Mercury Select Management Company, Inc. is the Attorney-in-fact for American Mercury Lloyds Insurance Company, a Texas Lloyds plan Insurer.

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, 2013:

## Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Bruce A. Bunner Fernandina Beach, Florida	Retired President Financial Structures, Ltd.
Michael D. Curtius Carlsbad, California	Executive Consultant Mercury General Corporation
Christopher W. Graves (*) Palos Verdes Peninsula, California	Vice President and Chief Investment Officer Mercury General Corporation
Richard E. Grayson Murrieta, California	Retired Senior Vice President Union Bank
George Joseph Los Angeles, California	Chairman of the Board Mercury General Corporation
Martha E. Marcon Glendale, California	Retired Partner KPMG, LLP
Donald P. Newell Pinehurst, North Carolina	Retired Partner Law Firm of Latham & Watkins, LLP
Donald R. Spuehler Los Angeles, California	Retired Partner Law Firm of O'Melveny & Meyers, LLP
Gabriel Tirador Tustin, California	President and Chief Executive Officer Mercury General Corporation

(\*) On April 27, 2012, Mr. Christopher W. Graves replaced Mr. Nathan Bessin who resigned from the Board of Directors on December 31, 2011. There were no other changes on the Board of Directors during the examination period.

## Principal Officers

<u>Name</u>	<u>Title</u>
Gabriel Tirador	President and Chief Executive Officer
Theodore R. Stalick	Senior Vice President, Chief Financial Officer, and Treasurer
Judith A. Walters	Secretary
Christopher W. Graves	Vice President and Chief Investment Officer

## Management Agreements

Management Agreement: Since January 1, 2001, the Company has been party to a Management Agreement with Mercury Insurance Services, LLC (MIS), a subsidiary of Mercury Casualty Company (MCC). Approval of the Agreement was granted by the California Department of Insurance (CDI) on January 1, 2001. Under the terms of this Agreement, MIS performs underwriting and loss adjustment services for the Mercury General Corporation (MGC) group of companies. The management fee is based on actual incurred expenses. The underwriting portion of the management fee is allocated between the Company and its affiliates based upon their proportionate share of direct premiums written. The fee for allocated loss adjustment expenses is based on actual payments by MIS for claims on policies issued by the Company. The unallocated loss adjustment expenses portion of the management fee is allocated between the Company and its affiliates based upon their proportionate share of net losses incurred. The Agreement was amended, effective October 1, 2013, authorizing MIS to pay certain expense items that were previously reserved to the insurers, including agent commissions and audit fees. The amendment also added a 60-day due date for the payment of management fees, in order to comply with Statement of Statutory Accounting Principle No. 96. Notice of approval was provided on September 25, 2013. The Company incurred management fees of \$18,822, \$44,551, and \$37,516 during the years 2011, 2012, and 2013, respectively.

Tax Allocation Agreement: Since January 1, 1983, the Company and various affiliates

have been parties to a Tax Allocation Agreement with the ultimate parent, MGC. Under the terms of this Agreement, the tax liability of the Company and its affiliates are computed as if each entity filed a separate stand-alone return with current credit for net losses incurred by the insurance subsidiaries to the extent it can be used in the current consolidated return. Taxes paid by the Company totaled \$(263,672), \$62,016, and \$(119,976) for the years 2011, 2012, and 2013, respectively. The Agreement was not subject to prior approval by the CDI due to the effective date of the Agreement.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company is licensed as a multiple line casualty insurer in California. As depicted within the reinsurance section below, the Company's operations are limited to business assumed from Mercury Casualty Company.

### REINSURANCE

#### Assumed

Since July 1, 1999, the Company has been party to a 100% quota share agreement with its parent, Mercury Casualty Company (MCC), under which the Company assumes the fleet automobile policy written by MCC for substantially all vehicles owned by affiliates. Premium assumed by the Company totaled \$487,060, \$415,810, and \$394,720 for the years 2011, 2012, and 2013, respectively.

#### Ceded

During the period under review, the Company did not cede any business.

## ACCOUNTS AND RECORDS

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of this review, several findings were noted in controls over logical security. These findings were presented to the Company along with recommendations to strengthen its controls. The Company should evaluate the recommendations and make appropriate changes to strengthen its information systems controls.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2013

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders from December 31, 2010  
through December 31, 2013

Statement of Financial Condition  
as of December 31, 2013

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 15,665,316	\$ 15,665,316	
Cash and short-term investments	3,867,778	3,867,778	
Investment income due and accrued	<u>248,531</u>	<u>248,531</u>	
 Total assets	 <u>\$ 19,781,625</u>	 <u>\$ 19,781,625</u>	
 <u>Liabilities, Surplus and Other Funds</u>			
Losses and loss adjustment expenses		\$ 465,562	(1)
Reinsurance payable on paid losses and loss adjustment expenses		61,377	
Current federal and foreign income taxes		269,652	
Unearned premiums		1,095	
Payable to parent, subsidiaries and affiliates		<u>7,696</u>	
 Total liabilities		 805,382	
 Common capital stock	 \$ 4,000,000		
Gross paid-in and contributed surplus	3,500,000		
Unassigned funds (surplus)	<u>11,476,243</u>		
Surplus as regards policyholders		<u>18,976,243</u>	
 Total liabilities, surplus and other funds		 <u>\$ 19,781,625</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2013

Statement of Income

Underwriting Income

Premiums earned		\$ 394,764
Deductions:		
Losses and loss expenses incurred	\$ 434,955	
Other underwriting expenses incurred	<u>131,162</u>	
Total underwriting deductions		<u>566,117</u>
Net underwriting loss		(171,353)

Investment Income

Net investment income earned	<u>779,131</u>	
Net investment gain		779,131
Net income before federal and foreign income taxes		607,778
Federal and foreign income taxes incurred		<u>(6,829)</u>
Net income		<u>\$ 614,607</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		\$ 18,361,636
Net income	\$ 614,607	
Change in net deferred income tax	(147,461)	
Change in nonadmitted assets	<u>147,461</u>	
Change in surplus as regards policyholders for the year		<u>614,607</u>
Surplus as regards policyholders, December 31, 2013		<u>\$ 18,976,243</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2010 through December 31, 2013

Surplus as regards policyholders, December 31, 2010 per Examination		\$ 17,820,341
	<u>Gain in Surplus</u>	
Net income	\$ 1,063,492	
Change in net deferred income tax	<u>92,410</u>	
Total gains	<u>\$ 1,155,902</u>	
Net increase in surplus as regards policyholders		<u>1,155,902</u>
Surplus as regards policyholders, December 31, 2013, per Examination		<u>\$ 18,976,243</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

Based upon a review conducted by a Casualty Actuary from the California Department of Insurance, the Company's reserves for losses and loss adjustment expenses as of December 31, 2013, were found to be reasonably stated.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Accounts and Records (Page 7): As the result of the review of the Company's information systems controls, recommendations for improving these controls were presented to the Company. The Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems.

### Previous Report of Examination

There were no comments or recommendations in the previous Report of Examination.

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/\_\_\_\_\_  
Bradley R. Hazelwood, CFE, CPA  
Examiner-In-Charge  
Contractor Insurance Examiner  
Department of Insurance  
State of California