

REPORT OF EXAMINATION
OF THE
CAMICO MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2007

Participating State
and Zone:

California

Filed December 19, 2008

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San Francisco, California
December 5, 2008

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition (EX4) Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, Zone IV-Western
Superintendent of Insurance
New Mexico Insurance Division
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

CAMICO MUTUAL INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 1235 Radio Road, Redwood City, California 94065.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2007. The examination was conducted pursuant to the National Association of Insurance Commissioners' (NAIC) plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, and an evaluation of assets and a determination of liabilities as of December 31, 2007, as deemed necessary under the circumstances.

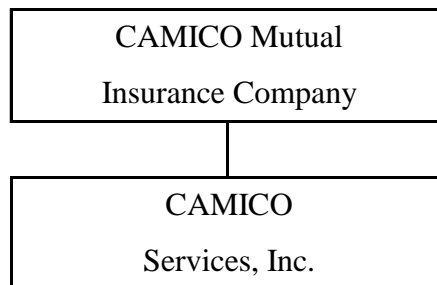
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

COMPANY HISTORY

The Company issued a surplus note in the amount of \$10 million in June 2005 to help finance its national expansion efforts. The note was approved by the California Department of Insurance (CDI) and requires prior approval before quarterly interest or principal payment is made. All payments have been approved by the CDI to date. The interest rate is fixed at 7.65% for 5 years and LIBOR + 3.15% thereafter. The maturity date of the note is June 2035.

MANAGEMENT AND CONTROL

The Company is a mutual insurance company owned by certified public accountants (CPA). It has one wholly-owned subsidiary, CAMICO Services, Inc. (CSI). Both companies are California corporations. CSI provides loss prevention services to non-insureds and operates as a licensed agent offering certain coverages to the Company's policyholders that are underwritten by other insurance carriers. The following chart shows the companies within the holding company system as of December 31, 2007:



The Company is managed by a twelve-member board of directors, who are elected for a term of three years. A listing of the members of the board and principal officers serving on December 31, 2007 follows:

Board of Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Louis J. Barbich Bakersfield, California	Managing General Partner Barbich, Longcrier, Hooper & King
Robert E. Carne El Cajon, California	CPA and Partner McKay, Carne, Buniva & Lazarus, LLP
John A. Dodsworth Los Altos, California	President and Chief Executive Officer CAMICO Mutual Insurance Company
Andrew M. Eassa Syracuse, New York	CPA and President Firley, Moran, Freer & Eassa, PC
Robert P. Evans Fort Worth, Texas	CPA and Partner Sproles, Woodard, LLP
Victor I. McCarty Long Beach, California	Retired CPA
John W. Meara Mission Hills, Kansas	CPA and Partner Meara, King & Company, PC
Robert G. Nuber Seattle, Washington	CPA and Chairman Clark Nuber, Professional Services
Bryan C. Polster Los Altos Hills, California	CPA and Managing Partner Frank Rimerman & Company, LLP
Carolyn C. Riticher Dunwoody, Georgia	CPA and Principal Windham Brannon, PC
James Sunseri Novato, California	President and Chief Executive Officer Norcal Mutual Insurance Company
Stuart M. Weinstein Walnut Creek, California	CPA and Partner Rooney, Ida, Nolt & Ahern Accountancy Corporation

Principal Officers

<u>Name</u>	<u>Title</u>
John A. Dodsworth	President, CEO
Ricardo R. Rosario	Secretary, Executive Vice President
Stuart E. Olson	Treasurer, Executive Vice President, CFO
Gail Dennis	Vice President, Underwriting
Stephen W. Dixon	Vice President, Human Resources
Suzanne M. Holl	Vice President, Loss Prevention
Michael La Mothe	Vice President, Finance
Sandra A. Maker	Vice President, Marketing
Chris Piety	Vice President, Claims
Jagdeep Randhawa	Vice President, Information Technology
Scott M. Webber	Vice President, E-Commerce

Inter-Company 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 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 provides professional liability insurance on a claims-made basis to certified public accounting firms. It specializes in providing coverage for small (up to \$500,000 in revenue) to medium-sized (\$500,000 to \$10 million in revenue) certified public accounting practices with limited or no Securities and Exchange Commission engagements, initial public offerings or large company audit work. The Company also provides coverage for approximately 25% of the nation's top 100 accounting firms. Extended reporting endorsement (ERE) coverage is available on an occurrence basis to policyholders who die, become disabled or retire. In 2007, the Company began offering Employment Practices Liability Insurance (EPLI) as a compliment to its professional liability program. EPLI premiums are approximately 1% of total premiums. Policies are written directly (56%) and through approximately 80 licensed agents (44%).

As of December 31, 2007, the Company was licensed in the District of Columbia and all states except: Alaska, Hawaii, Montana, Vermont, and Wyoming. Direct premiums in 2007 were \$76,018,485. The top three states for written premium in 2007 were California \$35,097,825 (46%), New York \$3,566,635 (5%) and Virginia \$3,459,543 (5%).

REINSURANCE

Assumed

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

Ceded

The Company was covered under the following multiple layers of excess of loss contracts at December 31, 2007:

<u>Type of Contract</u>	<u>Reinsurers</u>	<u>Company Retention</u>	<u>Reinsurer's Maximum Limits</u>
Casualty Excess of Loss	<u>Authorized, Approved or Accredited:</u> Munich Reinsurance America, Inc. – 20.0% Lloyd's Syndicate # 2623 – 16.2% Hannover Ruckversicherungs-Aktiengesellschaft – 10.0% AXIS Reinsurance Company – 10.0% Lloyd's Syndicate # 4472 – 10.0% Aspen Insurance UK Limited – 10.0% Lloyd's Syndicate # 2000 – 7.50% The Toa Reinsurance Company of America – 5.0% Lloyd's Syndicate # 0623 - 3.80% <u>Unauthorized:</u> AmerInst Insurance Group, Ltd. – 2.50% Total 95.0%	\$1.0 million per claim, plus 5% of \$4.0 million excess of \$1.0 million	95% of \$4.0 million per claim
Facultative Casualty Excess of Loss	General Reinsurance Corporation – 100%	\$5.0 million	\$5.0 million
Casualty Contingency Excess of Loss (XPL/ECO)	Various Lloyd's Syndicates – 100%	\$5.0 million	\$10.0 million
Employment Practices Liability Quota Share	General Reinsurance Corporation – 100%	50.0% of each net loss under each policy	50.0% of each net loss under each policy
Whole Account Aggregate Excess of Loss	Hannover Reinsurance (Ireland) Ltd. – 100% (Unauthorized)	The greater of \$34.2 million or 60% loss ratio	The greater of \$18.1 million or 31.75% loss ratio

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2007

Underwriting and Investment Exhibit for the Year Ended December 31, 2007

Reconciliation of Surplus as Regards Policyholders from December 31, 2003
through December 31, 2007

Statement of Financial Condition
as of December 31, 2007

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 138,523,730	\$	\$ 138,523,730	
Preferred stocks	279,805		279,805	
Common stocks	10,301,871		10,301,871	
Cash, cash equivalents and short-term investments	1,622,473		1,622,473	
Other invested assets	3,656,725		3,656,725	
Investment income due and accrued	1,500,627		1,500,627	
Uncollected premiums and agents' balances in the course of collection	6,807,683	77,499	6,730,184	
Amounts recoverable from reinsurers	668,827		668,827	
Current federal and foreign income tax recoverable	533,167		533,167	
Net deferred tax asset	3,694,968	719,720	2,975,248	
Guaranty funds receivable or on deposit	107,844		107,844	
Electronic data processing equipment and software	1,932,710	1,552,613	380,097	
Furniture and equipment	138,576	138,576		
Receivable from parent, subsidiaries, and affiliates	6,052		6,052	
Aggregate write-ins for other than invested assets	<u>1,154,834</u>	<u>579,128</u>	<u>575,707</u>	
Total assets	<u>\$ 170,929,892</u>	<u>\$ 3,067,536</u>	<u>\$ 167,862,356</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 46,723,780	(1)
Loss adjustment expenses			29,409,605	(1)
Other expenses (excluding taxes, licenses and fees)			7,847,498	
Taxes, licenses and fees (excluding federal and foreign income taxes)			428,897	
Unearned premiums			17,928,524	
Advance premiums			4,042,562	
Ceded reinsurance premiums payable			9,877,869	
Funds held by company under reinsurance treaties			121,787	
Amounts withheld or retained by company for account of others			43,374	
Remittances and items not allocated			450,759	
Payable for securities			<u>10,172</u>	
Total liabilities			116,884,827	
Surplus notes		\$10,000,000		
Unassigned funds (surplus)		<u>40,977,529</u>		
Surplus as regards policyholders			<u>50,977,529</u>	
Total liabilities, surplus and other funds			<u>\$ 167,862,356</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2007

Statement of Income

Underwriting Income

Premiums earned		\$ 56,462,235
Deductions:		
Losses incurred	\$ 20,152,601	
Loss expenses incurred	24,411,215	
Other underwriting expenses incurred	17,088,851	
Aggregate write-ins for underwriting deductions	<u>(22,762)</u>	
Total underwriting deductions		<u>61,629,905</u>
Net underwriting loss		(5,167,670)

Investment Income

Net investment income earned	\$ 5,872,495	
Net realized capital gain	<u>476,397</u>	
Net investment gain		6,348,892

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>(139,895)</u>	
Total other income		<u>(139,895)</u>
Net income before dividends to policyholders and federal income taxes		1,041,327
Dividends to policyholders		26,260
Federal income taxes incurred		<u>189,304</u>
Net income		<u>\$ 825,763</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006		\$ 50,175,769
Net income	\$ 825,763	
Change in net unrealized capital losses	224,944	
Change in net deferred income tax	642,139	
Change in nonadmitted assets	<u>(891,086)</u>	
Change in surplus as regards policyholders for the year		<u>801,760</u>
Surplus as regards policyholders, December 31, 2007		<u>\$ 50,977,529</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2007

Surplus as regards policyholders, December 31, 2003, per Examination			\$ 31,951,006
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 6,397,296	\$	
Change in net unrealized capital gains	1,558,485		
Change in net deferred income tax	1,138,887		
Change in nonadmitted assets		314,244	
Change in surplus notes	10,000,000		
Aggregate write-ins for losses in surplus	<u>246,099</u>		
Total gains and losses	<u>\$19,340,767</u>	<u>\$ 314,244</u>	
Net increase in surplus as regards policyholders			<u>19,026,523</u>
Surplus as regards policyholders, December 31, 2007, per Examination			<u>\$ 50,977,529</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2007 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Accounts and Records (Page 8): It was recommended that the Company review its claims procedures to ensure that claims are opened on a timely basis and that reported losses are recognized in the proper reporting period. Testing results for this examination indicated claims were opened on a timely basis.

Comments on Financial Statement Items – Unearned Premiums (Page 13): The following recommendations were made in regards to the extended reporting endorsement (ERE) policy reserve, which is part of the unearned premium reserve:

- To include adjusting and other expenses into the calculation of the ERE reserve.
- To use a discount rate no higher than the yield on United States Treasury obligations.
- To include the age of current policyholders in the ERE reserving model.
- To commission a new study to update the ERE reserving model.

The Company satisfactorily addressed each of the recommendations in a special actuarial study done in 2006 of the ERE reserve as of December 31, 2005.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the officers and employees of CAMICO Mutual Insurance Company during the course of this examination is gratefully acknowledged.

Respectfully submitted,

/S/

Isabel Spiker, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California