

REPORT OF EXAMINATION
OF THE
CALIFORNIA CASUALTY & FIRE
INSURANCE COMPANY
AS OF
DECEMBER 31, 2017

FILED: MARCH 12, 2019

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San Francisco, California
January 28, 2019

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA CASUALTY & FIRE INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 1875 South Grant Street, San Mateo, California 94402.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2013. This examination covered the period from January 1, 2014 through December 31, 2017.

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, 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. 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.

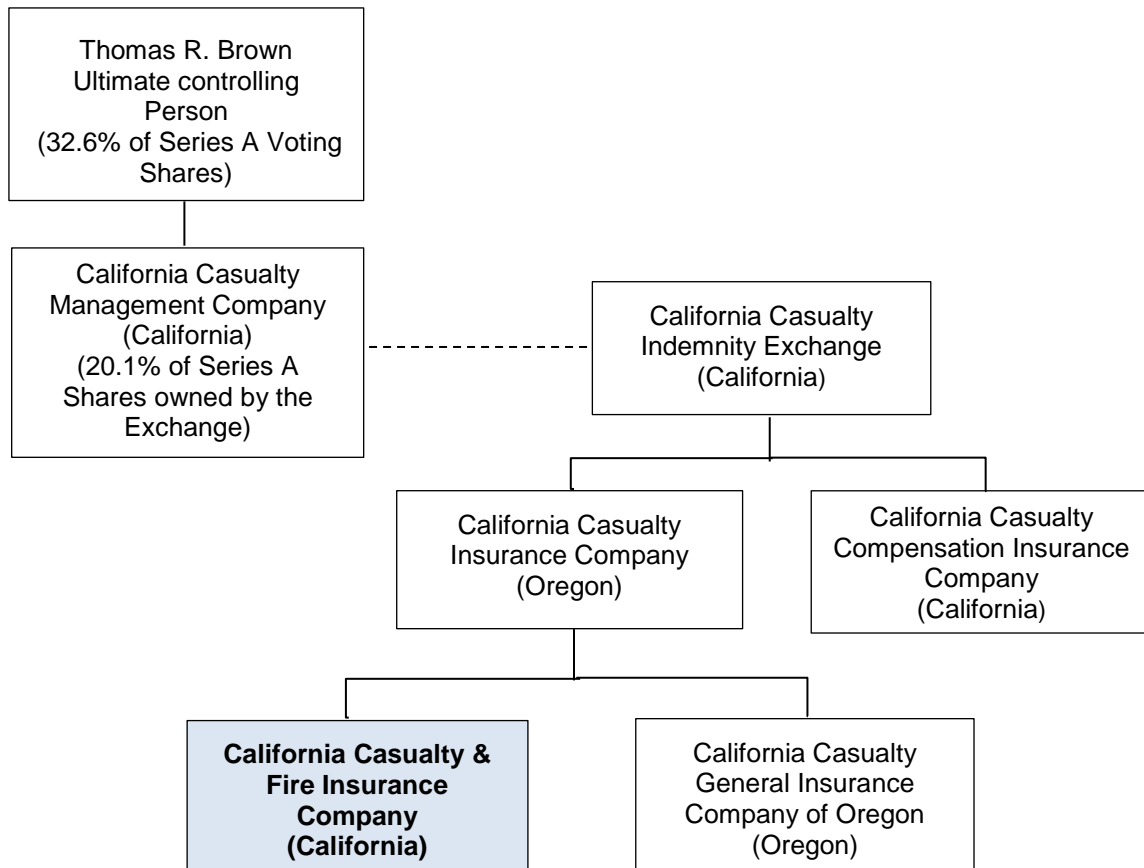
This examination report includes findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination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

This was a coordinated examination with California as the lead state of the California Casualty Group. The examination was conducted concurrently with the examinations of the Company's parent, California Casualty Indemnity Exchange (California), its immediate parent, California Casualty Insurance Company (Oregon), and affiliates, California Casualty Compensation Insurance Company (California), and California Casualty General Insurance Company of Oregon (Oregon). The Oregon Insurance Division participated in the examination.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system which is controlled by the California Casualty Management Company (CCMC) as the attorney-in-fact for California Casualty Indemnity Exchange (Exchange). As of December 31, 2017, Thomas R. Brown owned or controlled 32.6% of the Class A voting common stock of CCMC.

The following organizational chart depicts the Company's relationship within the holding company system at December 31, 2017 (all ownership is 100% unless otherwise noted):



The fourteen members of the Board of Directors, who are elected annually, oversee the business and affairs of the Company. The following are members of the Board and principal officers of the Company serving at December 31, 2017:

Board of Directors

Name and Location

Principal Business Affiliation

Jonathan A. Brown ^(A)
Fair Oaks, California

Retired
Association of Independent Colleges and
Universities

Wayne S. Diviney
Clifton, Virginia

Retired
National Education Association

Carolyn E. Doggett ^(B)
Belmont, California

Retired
California Teachers Association

Board of Directors (continued)

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Jose A. Gomez San Marino, California	Educator, University Administrator California State University, Los Angeles
Jon H. Hamm El Dorado Hills, California	Labor Union Executive California Association of Highway Patrolmen
Mitchell E. Hornecker Portland, Oregon	Business Consultant Modoc Consulting
Barbara E. Kerr Riverside, California	Retired California Teachers Association
Leona S. Lindner Washington, D.C.	Chief Marketing Officer National Education Association's Member Benefits Corporation
Michael G. McPherson Silver Spring, Maryland	Chief Financial Officer National Education Association
Karen M. Padovese Fairfield, California	Chief Executive Officer GeoVera Holdings, Inc.
Edward G. Phoebus III Silver Spring, Maryland	President and Chief Executive Officer National Education Association Member Benefits Corporation
Heather S. Schafer Millersville, Maryland	Executive Director National Volunteer Fire Council
Thomas M. Tongue Portland, Oregon	Attorney Scheabe, Williamson, & Wyatt
Suzanne M. Zimmer ^(A) Golden, Colorado	Assistant Executive Director Colorado Education Association

The following changes in management and Board occurred subsequent to the examination date:

- (A) Jonathan A. Brown and Suzanne M. Zimmer became emeritus members effective June 25, 2018, and October 12, 2018, respectively. The Company is in the process recruiting replacements.

- (B) Effective January 1, 2018, Karen B. Kyhn has been appointed as a member of the Advisory Board, replacing Carolyn E. Doggett.

Principal Officers

<u>Name</u>	<u>Title</u>
Carl B. Brown	President
Michael A. Ray	Chief Financial Officer
James R. Inglese	Secretary
Wayne S. Diviney	Chairman of the Board

Intercompany Agreements

Management Agreement: The Company is managed by California Casualty Management Company (CCMC) under a Management Agreement (Agreement), effective January 1, 1994. Under the terms of the Agreement, CCMC has the power to conduct, control and supervise the complete insurance activities of the Company. As compensation for the services performed, CCMC is paid a monthly fee of up to 125% of expenses incurred on behalf of the Company. In addition, the Company pays CCMC an annual incentive fee not to exceed 10% of the California Casualty Group's calendar year pre-tax income. This Agreement was approved by the California Department of Insurance (CDI) on November 12, 1993 pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). There was no incentive fee paid during the examination period. The total fees paid by the Company under this Agreement were: \$11,718,563 in 2014, \$12,161,334 in 2015, \$11,715,798 in 2016, and \$11,603,108 in 2017.

Tax Allocation Agreement: Effective January 1, 1992, the Company entered into a tax allocation agreement entitled "California Casualty Group Tax Allocation Agreement" (Tax Agreement) with California Casualty Indemnity Exchange (Exchange), California Casualty Insurance Company, California Casualty Compensation Insurance Company, and California Casualty General Insurance Company of Oregon. On January 1, 1999, this Tax Agreement was restated as the "Tax Allocation Agreement California Casualty Indemnity Exchange and Subsidiaries" and was submitted to the CDI pursuant to CIC

Section 1215.5(b)(4) on March 26, 2008. The CDI did not disapprove the agreement as of March 24, 2009. The review and determination was made pursuant to CIC Section 1215.5(b) only. Under the terms of this restated Tax Agreement, the consolidated federal income tax liability is allocated to each company in proportion to each company's share of taxable income, computed on a separate company basis. The Exchange is responsible for filing and making all tax payments on behalf of its subsidiaries.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company is licensed to transact property and casualty insurance in the following seventeen states:

Arizona	Missouri	Oregon
California	Nebraska	Utah
Illinois	Nevada	Washington
Iowa	New Jersey	Wisconsin
Kansas	New Mexico	Wyoming
Kentucky	Ohio	

In 2017, the entire total direct premiums written of \$17.3 million was written in New Jersey. Premiums by lines of business during 2017 were as follows: private passenger auto liability (51.8%), auto physical damage (30.9%), homeowners multiple peril (17.1%), and inland marine (0.2%).

California Casualty Management Company (CCMC), as the manager of the Company, provides services for the Company under the Management Agreement. CCMC has 670 employees, many of whom perform services for the Company in accordance with the Management Agreement. CCMC conducts operations from its home office in San Mateo, California. CCMC also has service centers at Colorado Springs, Colorado; Leawood, Kansas; and Glendale, Arizona. Those three service centers provide claims, corporate services, customer service, information technology, marketing, sales and underwriting support. In addition, CCMC provides production and operating facilities pursuant to the provisions of the Management Agreement.

The Company is a personal lines insurer that provides private passenger automobile and homeowners insurance to members of affinity groups involved in education, law enforcement, and public safety professions. Personal lines business is produced directly by CCMC's employees who are licensed insurance agents. The agents receive a salary and are eligible for varying levels of incentive compensation depending upon their position and their production.

REINSURANCE

Pooling

A revised Intercompany Pooling Agreement (Agreement), effective January 1, 2011, was approved by the California Department of Insurance (CDI) on August 30, 2010 pursuant to California Insurance Code Section 1215.5(b)(3). This revised Agreement was amended to clarify that only the Company's ultimate parent, California Casualty Indemnity Exchange (Exchange), may purchase non-affiliate reinsurance contracts and each subsidiary's direct premiums and direct paid loss and loss adjustment expenses are ceded to the Exchange. Under the terms of this Agreement, each participating insurer cedes 100% of its direct and assumed business to the Exchange. The pooled personal lines business is then retroceded to California Casualty Insurance Company (CCIC), the Company and California Casualty General Insurance Company of Oregon (CCGIC), according to their respective pooling percentages of 8%, 10%, and 12%. The Exchange retains 70% of the pooled personal lines business. All workers' compensation and miscellaneous commercial lines direct and assumed business are retroceded 100% to California Casualty Compensation Insurance Company (CCCIC).

Assumed

The Company did not assume any reinsurance other than from the pooling agreement discussed above.

Ceded

Effective January 1, 2000, the Company, CCIC, CCGIC and the Exchange (Group) entered into a 15-year quota-share reinsurance agreement with Fireman's Fund Insurance Company (FFIC) covering the Group's personal lines of business. Under the terms of this agreement, for the first five years of the treaty, the Group ceded 20% of the personal lines written premiums and losses, and earned a ceding commission equal to 20% of the underwriting expenses. For the subsequent ten years of the treaty, the Group ceded 30% of the written premiums and losses and earned a ceding commission equal to 30% of underwriting expenses. This agreement was terminated, effective December 31, 2014.

The following is a summary of principal reinsurance agreement in-force as of December 31, 2017:

Type of Contract	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
Property Catastrophe Excess of Loss			
1 st Layer	<u>Authorized:</u> General Reinsurance Company (42.5%) Munich Re America (20%) Swiss Re America Corporation (7.5%) Renaissance Reinsurance LTD. (5.0%) Underwriters at Lloyd's, London (5.0%) <i>Note: The Exchange retained the remaining 20%.</i>	\$20 million per occurrence	\$20 million excess of \$20 million per occurrence, subject to \$40 million maximum annual limit
2 nd Layer	<u>Authorized:</u> General Reinsurance Company (45.5%) Munich Re America (20%) Swiss Re America Corporation (7.5%) Renaissance Reinsurance LTD. (12.0%) Underwriters at Lloyd's, London (5.0%) <i>Note: The Exchange retained the remaining 10%.</i>	\$40 million per occurrence	\$35 million excess of \$40 million per occurrence, subject to \$70 million maximum annual limit

FINANCIAL STATEMENTS.

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2017. The accompanying comments to the amounts reported in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders from December 31, 2013
through December 31, 2017

Statement of Financial Condition
as of December 31, 2017

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 37,984,787	\$	\$ 37,984,787	
Cash and short-term investments	100,889		100,889	
Investment income due & accrued	266,205		266,205	
Uncollected premiums and agents' balances in course of collection	184,466	12,202	172,265	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	24,078,806		24,078,806	
Amount recoverable from reinsurers	1,465,804		1,465,804	
Receivables from parent, subsidiaries and affiliates	3,767,722		3,767,722	
Aggregate write-ins for other than invested assets	<u>217,760</u>	<u>68,907</u>	<u>148,852</u>	
Total assets	<u>\$ 68,066,440</u>	<u>\$ 81,109</u>	<u>\$ 67,985,330</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 12,778,362	(1)
Reinsurance payable on paid losses and loss adjustment expenses			3,134,800	
Loss adjustment expenses			3,394,720	(1)
Other expenses (excluding taxes, licenses and fees)			48,146	
Taxes, licenses and fees (excluding federal and foreign income taxes)			158,805	
Current federal and foreign income taxes (Including \$(3,576) on realized capital gains (losses))			489	
Unearned premiums			18,206,067	
Advance premium			163,267	
Ceded reinsurance premiums payable			8,641,536	
Amounts withheld or retained by company for account of others			538,675	
Payable to parent, subsidiaries and affiliates			4,764,416	
Aggregate write-ins for liabilities			<u>74,798</u>	
Total liabilities			51,904,083	
Common Capital Stock		\$ 2,600,000		
Gross paid-in and contributed surplus		16,432,079		
Unassigned funds (surplus)		<u>(2,950,832)</u>		
Surplus as regards policyholders			<u>16,081,247</u>	
Total liabilities, surplus and other funds			<u>\$ 67,985,330</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income

Premiums earned		\$ 35,229,145
Deductions:		
Losses incurred	\$ 25,762,594	
Loss expenses incurred	5,386,608	
Other underwriting expenses incurred	<u>9,352,753</u>	
Total underwriting deductions		<u>40,501,955</u>
Net underwriting loss		(5,272,810)

Investment Income

Net investment income earned	\$ 925,805	
Net realized capital gains	<u>4,975</u>	
Net investment gain		930,780

Other Income

Net loss from agents' or premium balances charged off	\$ (101,017)	
Finance and service charges not included in premiums	<u>185,864</u>	
Total other income		<u>85,846</u>
Net income before federal and foreign income taxes		(4,257,183)
Federal and foreign income taxes incurred		<u>(46,028)</u>
Net loss		<u>\$ (4,211,155)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		\$ 20,309,271
Net loss	\$ (4,211,155)	
Change in non-admitted assets	<u>(16,869)</u>	
Change in surplus as regards policyholders for the year		<u>(4,228,024)</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 16,081,247</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2013 through December 31, 2017

Surplus as regards policyholders, December 31, 2013, per Examination			\$ 27,068,877
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net loss	\$ 0	\$ 10,959,868	
Change in non-admitted assets	<u> </u>	<u>27,762</u>	
Total gains and losses	<u>\$ 0</u>	<u>\$ 10,987,630</u>	
Net decrease in surplus as regards policyholders			<u>(10,987,630)</u>
Surplus as regards policyholders, December 31, 2017, per Examination			<u>\$ 16,081,247</u>

SUBSEQUENT EVENTS

In November 2018, the Camp and Woolsey fires had a major impact on California Casualty Group (Group). The Camp Fire is the deadliest and most destructive fire in California history. As of December 31, 2018, the Group reported a gross loss of \$41,868,000 and a net loss of \$20,018,000 from the Camp and Woolsey fires. Under the Intercompany Pooling Agreement, the Company assumes 10% of the pooled personal lines business. As such, the Company's share of the net loss was \$2,001,800.

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2017 prepared by the Company's actuary and concurred with the actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2017 are 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 California Casualty Management Company's employees during the course of this examination.

Respectfully submitted,

_____/S/_____

Mei Gu, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

_____/S/_____

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