

REPORT OF EXAMINATION  
OF THE  
CALIFORNIA CASUALTY COMPENSATION INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2013

Filed January 5, 2015

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San Francisco, California  
December 3, 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 CASUALTY COMPENSATION INSURANCE COMPANY**

(hereinafter referred to as the Company) at its home office located at 1900 Alameda de las Pulgas, San Mateo, California 94403.

**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, 2009. This examination covers the period from January 1, 2010 through December 31, 2013. 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. 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

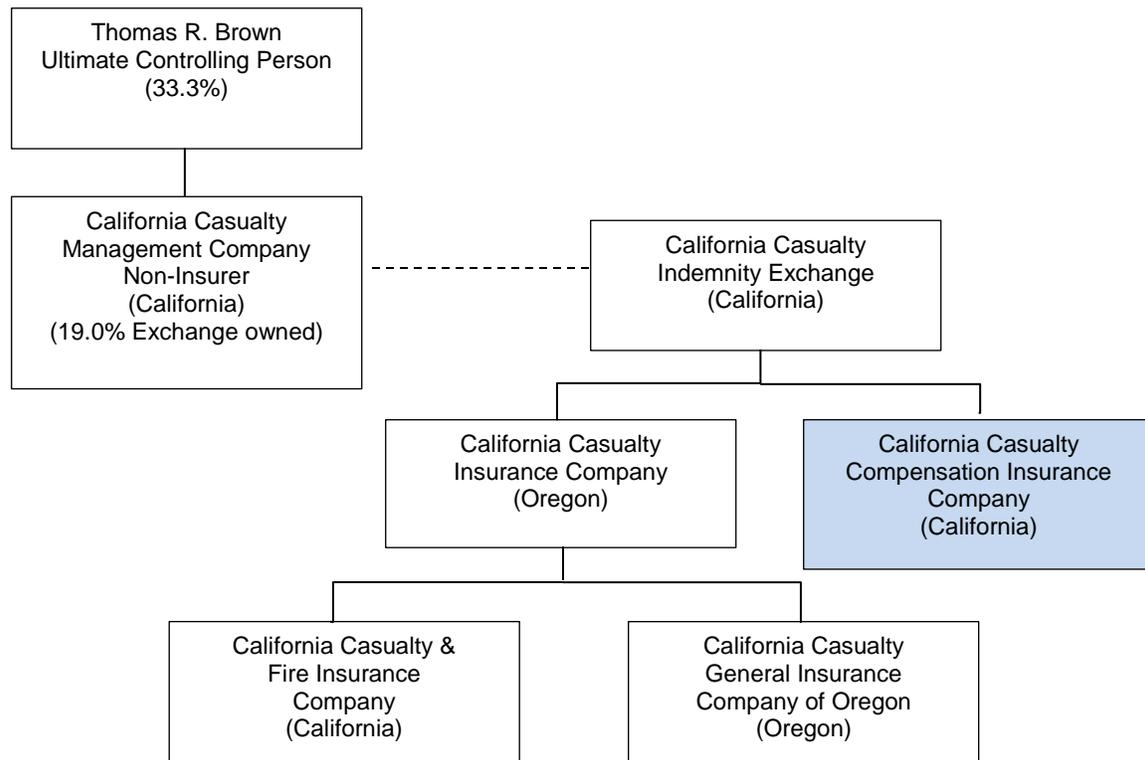
the Company were considered in accordance with the risk-focused examination process.

The examination was a coordinated examination with the Oregon Insurance Division. California is the lead state for this coordinated examination. The examination was conducted concurrently with the Company's parent, California Casualty Indemnity Exchange, and the Company's affiliate, California Casualty Insurance Company and its two subsidiaries, California Casualty & Fire Insurance Company and California Casualty General Insurance Company of Oregon. Collectively, the insurers in the group are referred to as the California Casualty Group (Group).

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: company history; corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; accounts and records; and statutory deposits.

### 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 the California Casualty Indemnity Exchange (Exchange). As of December 31, 2013, Thomas Runnels Brown owned or controlled 33.3% of the Class A voting common stock of CCMC. The following organizational chart depicts the Company's relationship within the holding company system (all ownership is 100% unless otherwise noted):



A fifteen-member Board of Directors manages the business and affairs of the Company. A listing of the members of the Board of Directors and principal officers serving on December 31, 2013 follows:

#### Board of Directors

##### Name and Location

##### Principal Business Affiliation

Jennifer L. Aaker, Ph.D  
Lafayette, California

General Atlantic Professor of Marketing  
Graduate School of Business, Stanford  
University

Jonathan A. Brown  
Fair Oaks, California

Retired

John E. Cahill, Jr.  
Kentfield, California

Chairman and Chief Executive Officer  
Cahill Contractors, Inc.

Board of Directors (continued)

| <u>Name and Location</u>                           | <u>Principal Business Affiliation</u>                                      |
|--|--|
| William R. Dahlman (**)<br>Studio City, California | Retired  |
| Wayne S. Diviney<br>Clifton, Virginia              | Retired  |
| Carolyn E. Doggett<br>Belmont, California          | Retired  |
| Jon H. Hamm<br>El Dorado Hills, California         | Chief Executive Officer<br>California Association of Highway<br>Patrolmen  |
| Barbara E. Kerr<br>Riverside, California           | Retired  |
| Ellen D. Levy<br>Atherton, California              | Managing Director<br>Silicon Valley Connect                                |
| Michael G. McPherson<br>Silver Spring, Maryland    | Chief Financial Officer<br>National Education Association                  |
| Edward G. Phoebus III<br>Silver Spring, Maryland   | President and Chief Executive Officer<br>NEA's Member Benefits Corporation |
| Heather S. Schafer<br>Millersville, Maryland       | Executive Director<br>National Volunteer Fire Fighters Council             |
| Lynne F. Siegel (*)<br>Portland, Oregon            | Principal<br>Strategies for Philanthropy                                   |
| Thomas H. Tongue<br>Portland, Oregon               | Partner<br>Dunn Carney Allen Higgins & Tongue LLP                          |
| Suzanne M. Zimmer<br>Golden, Colorado              | Assistant Executive Director<br>Colorado Education Association             |

## Principal Officers

| <u>Name</u>            | <u>Title</u>                          |
|------------------------|---------------------------------------|
| Carl B. Brown          | President                             |
| Michael A. Ray         | Chief Financial Officer and Treasurer |
| James R. Englese       | Secretary                             |
| William R. Dahlman (*) | Chairman of the Board                 |

(\*) Effective March 17, 2014, Lynne F. Siegel replaced William R. Dahlman as Chair of the Board.

(\*\*) On April 1, 2014, Karen M. Padovese was appointed as a member of the Board of Directors to replace William R. Dahlman.

## 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. There was no incentive fee paid during the examination period. 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).

Tax Allocation Agreement: Effective January 1, 1992, the Company's parent, California Casualty Indemnity Exchange (Exchange), entered into a tax allocation agreement entitled "California Casualty Group Tax Allocation Agreement" (Tax Agreement) with the Company and its subsidiaries: California Casualty Insurance Company, California Casualty & Fire 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 California Insurance Code (CIC) Section 1215.5(b)(4) on March 26, 2008. The CDI did not disapprove the Tax Agreement on 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 of the Group 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 the Group.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company is licensed to transact property and casualty insurance only in California. The Company did not write any direct business during the examination period.

All of the workers' compensation and miscellaneous commercial business for the California Casualty Group has been in run-off since October of 1997 and retroceded to the Company (See "REINSURANCE").

The Company's run-off business is managed by California Casualty Management Company (CCMC) from the Company's home office in San Mateo, California. Pursuant to the terms of the retroactive reinsurance agreement with XL Re Ltd., (See "REINSURANCE"), the claims related to the run-off business are serviced by GAB Robins North America, Inc. (GAB Robins) of Parsippany, New Jersey, under a claims services agreement dated July 15, 2001 between CCMC and GAB Robins. Effective 2011, Gallagher Bassett Services, Inc. (Gallagher Bassett) of Itasca, Illinois bought GAB Robins and all of the workers' compensation claims are now serviced by Gallagher Bassett in Rancho Cucamonga, California.

## REINSURANCE

### Pooling

Effective January 1, 2011, a revised pooling agreement was approved by the California Department of Insurance (CDI) on August 30, 2010 pursuant to California Insurance Code Section 1215.5(b)(3) and the Oregon Insurance Division. This revised pooling agreement was amended to clarify that only the California Casualty Indemnity Exchange (Exchange) may purchase non-affiliate reinsurance contracts, and each subsidiary's direct premiums and direct paid losses and expenses are ceded to the Exchange. Under the terms of this agreement, each participating affiliate cedes 100% of its direct and assumed business to the Exchange. Personal lines of business are pooled separately from workers' compensation and miscellaneous commercial lines of business, which are in run-off. Under this revised pooling agreement, personal lines of business is retroceded to and assumed by California Casualty Insurance Company (CCIC), California Casualty & Fire Insurance Company (CCFIC) 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 of business. All workers' compensation and miscellaneous commercial lines direct and assumed business are retroceded 100% to the Company.

### Assumed

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

### Ceded

The Company entered into a retroactive reinsurance agreement with XL Re, Ltd., of Hamilton, Bermuda (XL Re) effective January 1, 2001. The purpose of the agreement was to cede 100% of the ultimate net loss paid or payable by the Company on Workers'

Compensation and Employer's Liability losses for policies with dates of injury on or before December 31, 1998 and issued by the Company and all other insurers through the pooling agreement. The maximum limit to be ceded to XL Re is \$110 million and a sub-limit of \$15 million for 1987 and prior injury dates. The placement slip entered into prior to the formal agreement calls for California Casualty Management Company to contract with an acceptable third party administrator, for claims handling of the subject losses. Pursuant to California Insurance Code Section 1011(c), the CDI approved the agreement on October 22, 2001.

### 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, 2009  
through December 31, 2013

Statement of Financial Condition  
as of December 31, 2013

| <u>Assets</u>   | <u>Ledger and<br/>Nonledger<br/>Assets</u> | <u>Assets Not<br/>Admitted</u> | <u>Net Admitted<br/>Assets</u> | <u>Notes</u> |
|---|--|--------------------------------|--------------------------------|--------------|
| Bonds   | \$ 65,776,525                              | \$                             | \$ 65,776,525                  |              |
| Cash and short-term investments                                       | 1,031,831                                  |                                | 1,031,831                      |              |
| Receivables for securities  | 1,875                                      |                                | 1,875                          |              |
| Investment income due & accrued                                       | 338,041                                    |                                | 338,041                        |              |
| Uncollected premiums and agents' balances in<br>course of collection  | 49,409                                     |                                | 49,409                         |              |
| Amount recoverable from reinsurers                                    | 3,025,204                                  |                                | 3,025,204                      |              |
| Net deferred tax asset  | 41,268                                     |                                | 41,268                         |              |
| Receivables from parent, subsidiaries and affiliates                  | 1,732,354                                  |                                | 1,732,354                      |              |
| Aggregate write-ins for other than invested assets                    | <u>148,000</u>                             |                                | <u>148,000</u>                 |              |
| <b>Total assets</b>   | <b><u>\$ 72,144,507</u></b>                | <b><u>\$</u></b>               | <b><u>\$ 72,144,507</u></b>    |              |
| <br><u>Liabilities, Surplus and Other Funds</u>                       |  |                                |                                |              |
| Losses  |  |                                | \$ 22,400,221                  | (1)          |
| Reinsurance payable on paid losses and loss adjustment expenses       |  |                                | 78,001                         |              |
| Loss adjustment expenses  |  |                                | 4,248,586                      | (1)          |
| Other expenses (excluding taxes, licenses and fees)                   |  |                                | 12,927                         |              |
| Taxes, licenses and fees (excluding federal and foreign income taxes) |  |                                | 12,590                         |              |
| Current federal and foreign income taxes                              |  |                                | 69,472                         |              |
| Unearned premiums   |  |                                | 245,695                        |              |
| Amounts withheld or retained by company for account of others         |  |                                | 178,161                        |              |
| Payable to parent, subsidiaries and affiliates                        |  |                                | 1,710,328                      |              |
| Aggregate write-ins for liabilities                                   |  |                                | <u>(25,033,931)</u>            | (2)          |
| <b>Total liabilities</b>  |  |                                | <b>3,922,050</b>               |              |
| Aggregate write-ins for special surplus funds                         |  | \$ 18,795,604                  |                                |              |
| Common capital stock  |  | 2,600,000                      |                                |              |
| Gross paid in and contributed surplus                                 |  | 26,800,000                     |                                |              |
| Unassigned funds (surplus)  |  | <u>20,026,853</u>              |                                |              |
| <b>Surplus as regards policyholders</b>                               |  |                                | <b><u>68,222,457</u></b>       |              |
| <b>Total liabilities, surplus and other funds</b>                     |  |                                | <b><u>\$ 72,144,507</u></b>    |              |

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

Statement of Income

Underwriting Income

|                                      |               |                  |
|--------------------------------------|---------------|------------------|
| Premiums earned                      |               | \$ 462,856       |
| Deductions:                          |               |                  |
| Losses incurred                      | \$ 1,174,701  |                  |
| Loss expenses incurred               | 978,181       |                  |
| Other underwriting expenses incurred | <u>67,949</u> |                  |
| Total underwriting deductions        |               | <u>2,220,831</u> |
| Net underwriting loss                |               | (1,757,975)      |

Investment Income

|                              |                 |           |
|------------------------------|-----------------|-----------|
| Net investment income earned | \$ 1,408,367    |           |
| Net realized capital losses  | <u>(39,002)</u> |           |
| Net investment gain          |                 | 1,369,365 |

Other Income

|  |                     |                   |
|--|---------------------|-------------------|
| Aggregate write-ins for miscellaneous income       | \$ <u>1,500,000</u> |                   |
| Total other income                                 |                     | <u>1,500,000</u>  |
| Net income before federal and foreign income taxes |                     | 1,111,390         |
| Federal and foreign income taxes incurred          |                     | <u>381,802</u>    |
| Net income   |                     | <u>\$ 729,588</u> |

Capital and Surplus Account

|   |              |                      |
|---|--------------|----------------------|
| Surplus as regards policyholders, December 31, 2012     |              | \$ 67,483,782        |
| Net income  | \$ 729,588   |                      |
| Change in net deferred income tax                       | <u>9,087</u> |                      |
| Change in surplus as regards policyholders for the year |              | <u>738,675</u>       |
| Surplus as regards policyholders, December 31, 2013     |              | <u>\$ 68,222,457</u> |

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2009 through December 31, 2013

|   |                            |                            |                      |
|---|----------------------------|----------------------------|----------------------|
| Surplus as regards policyholders, December 31, 2009,<br>per Examination |                            |                            | \$ 63,553,354        |
|   | <u>Gain in<br/>Surplus</u> | <u>Loss in<br/>Surplus</u> |                      |
| Net income  | \$ 4,649,673               | \$                         |                      |
| Change in net deferred income tax                                       |                            | 9,156                      |                      |
| Change in nonadmitted assets  | <u>28,586</u>              |                            |                      |
| Total gains and losses  | <u>\$ 4,678,259</u>        | <u>\$ 9,156</u>            |                      |
| Net increase in surplus as regards policyholders                        |                            |                            | <u>4,669,103</u>     |
| Surplus as regards policyholders, December 31, 2013,<br>per Examination |                            |                            | <u>\$ 68,222,457</u> |

## 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, 2013 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, 2013 are reasonable and have been accepted for purposes of this examination.

### (2) Aggregate Write-Ins for Liabilities

Aggregate write-ins for liabilities as of December 31, 2013 included \$25 million in ceded retroactive reinsurance reserves related to the retroactive reinsurance agreement with XL Re, Ltd., as mentioned in the "Reinsurance – Ceded" section of this examination report.

## 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,

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Li S. Lim, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California