REPORT OF EXAMINATION
OF THE

CALIFORNIA CASUALTY
INDEMNITY EXCHANGE

AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed June 20, 2011

TABLE OF CONTENTS

San Francisco, California
May 6, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Business Regulation
Division of Insurance
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV-Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

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

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA CASUALTY INDEMNITY EXCHANGE

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

SCOPE OF EXAMINATION

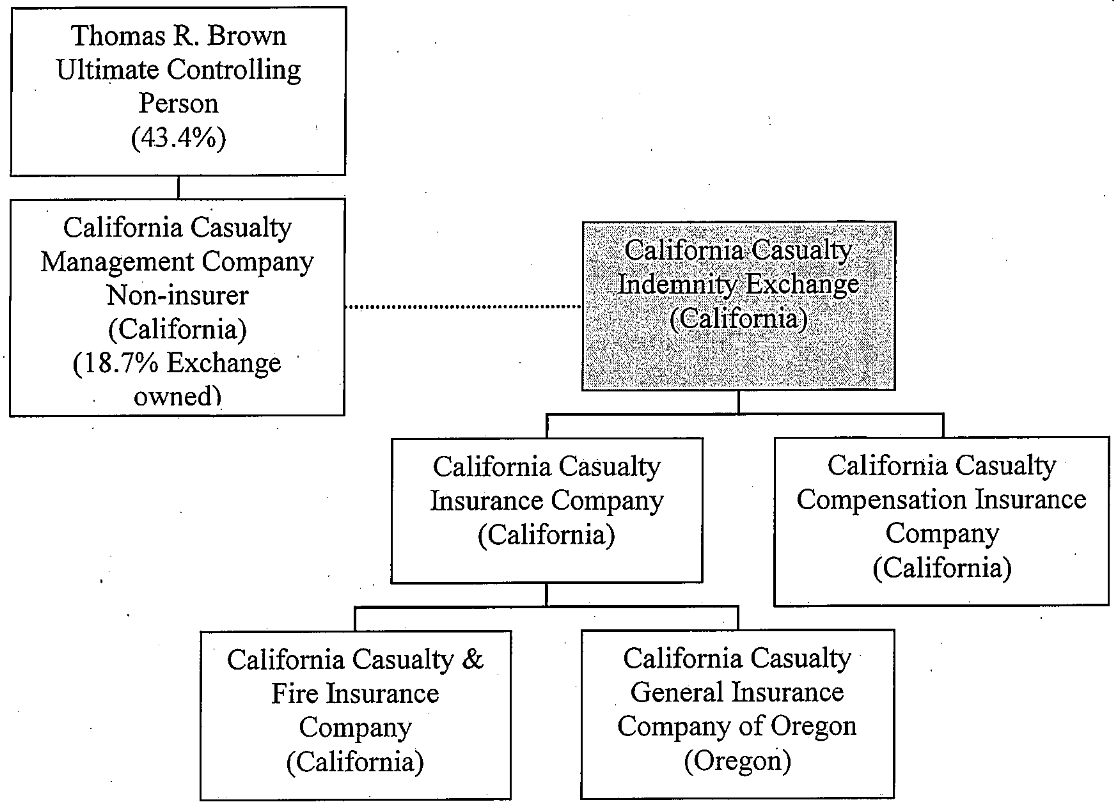
The previous examination of the Exchange was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Exchange's financial condition, to identify prospective risks, and to obtain information about the Exchange, 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 Exchange were considered in accordance with the risk-focused examination process.

The examination was a coordinated examination and was conducted concurrently with the Exchange's four subsidiaries, California Casualty Insurance Company, California Casualty General Insurance Company of Oregon, California Casualty & Fire Insurance Company, and California Casualty Compensation Insurance Company. These insurers are collectively referred to as the California Casualty Group (Group) hereinafter.

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

MANAGEMENT AND CONTROL

The Exchange is a member of an insurance holding company system of which the California Casualty Management Company (CCMC) controls the Exchange as the attorney-in-fact. As of December 31, 2009, Thomas Runnels Brown owned or controlled 43.4% of the Class A voting common stock of CCMC. The following is an abridged organizational chart showing the relationship of the Exchange in the holding company system:



(*) all ownership is 100% unless otherwise noted.

The operations and affairs of the Exchange are subject to the supervision and control of a seventeen-member Advisory Board in conformance with the Underwriters Agreement. A listing of the members of the Advisory Board serving on December 31, 2009 follows:

<u>Advisory Board</u>

Name and Residence	Principal Business Affiliation
David A. Aaker* Orinda, California	Retired University of California, Berkley
James D. Altman Menlo Park, California	Retired Johnson & Higgins of California
Carl B. Brown** Palo Alto, California	President and Chief Executive Officer California Casualty Management Company

Name and Residence	Principal Business Affiliation
Jonathan A. Brown Fair Oaks, California	President Association of Independent Colleges and Universities
John E. Cahill, Jr. Kentfield, California	Chairman and Chief Executive Officer Cahill Contractors, Inc.
William R. Dahlman Studio City, California	President and Chief Executive Officer Employers Group
Wayne S. Diviney Clifton, Virginia	Retired National Education Association
Carolyn E. Doggett Belmont, California	Executive Director California Teachers Association
Jon H. Hamm El Dorado Hills, California	Executive Manager California Association of Highway Patrolmen
Wayne R. Johnson Santa Barbara, California	Retired California Teachers Association
Michael G. McPherson Silver Spring, Maryland	Chief Financial Officer National Education Association
George G. C. Parker Portola Valley, California	Distinguished Professor of Finance Stanford University, Graduate School of Business
Edward G. Phoebus III Silver Spring, Maryland	Vice President National Education Association Member Benefits
James M. Sevey** Los Altos, California	Executive Vice President and General Counsel California Casualty Management Company
Lynne F. Siegel Portland, Oregon	Retired Oregon Education Association
Thomas H. Tongue, Esq. Portland, Oregon	Dunn Carney Allen Higgins & Tongue LLP
Suzanne M. Zimmer Golden, Colorado	Assistant Executive Director Colorado Education Association

**Retired January 20, 2010 and replaced by Jennifer L. Aaker, Lafayette, CA (General Atlantic Professor of Marketing, Graduate School of Business, Stanford University)*

***Per the Bylaws of the Advisory Board, Carl B. Brown and James M. Sevey cannot vote on matters that come before the Advisory Board while serving as officers of CCMC.*

Officers of the Advisory Board

Name	Title
Carl B. Brown	Chairman of the Advisory Board
Lynne Siegel	Secretary

Attorney-In-Fact

Pursuant to the Underwriters Agreement made by the subscribers of the Exchange, CCMC is appointed as attorney-in-fact of the Exchange. The principal officers of the attorney-in-fact at December 31, 2009, were as follows:

Name	Title
Carl B. Brown	President and Chief Executive Officer
Michael A. Ray	Chief Financial Officer and Treasurer
James M. Sevey	Secretary

Intercompany Agreements

The Exchange is managed by California Casualty Management Company (CCMC) under an Underwriters Agreement. Under this agreement, CCMC is paid a monthly fee of up to 125% of expenses incurred by CCMC on behalf of the Exchange. An annual incentive fee of up to 10% of the California Casualty Group's calendar year pre-tax income, calculated after giving effect to such incentive, may also be paid to CCMC. The agreement (version dated October 6, 1993) was reviewed and approved by the California Department of Insurance (CDI) on November 12, 1993.

Effective January 1, 1999, the Exchange entered into an amended tax allocation agreement with the other insurers in the California Casualty Group. Under this 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. The tax allocation agreement was submitted to the CDI pursuant to California Insurance Code (CIC) Section 1215.5(b)(4) on March 26, 2008. The CDI not disapprove the agreement entitled "Tax Allocation Agreement California Casualty Indemnity Exchange and Subsidiaries" as of March 24, 2009. This review and determination was made pursuant to CIC Section 1215.5(b) only.

TERRITORY AND PLAN OF OPERATION

The Exchange is licensed to transact multiple lines of property and casualty business in all states except Michigan and New Jersey. The Exchange is also licensed in the District of Columbia.

Direct written premiums in 2009 were $244 million. California accounted for 63% of the total direct written premium. Direct written premiums for the next five states were Pennsylvania 5.0%, Colorado 4.4%, Maryland 3.0%, Nevada 2.7% and New Mexico 2.4%. In 2009, the principal direct lines of business written were auto liability, auto physical damage and homeowners multiple peril accounting for 38%, 35%, and 26% of total direct written premiums, respectively.

The Exchange has no employees. California Casualty Management Company (CCMC), the attorney-in-fact for the Exchange, has approximately 650 employees, many of whom perform services for the Exchange in accordance with the Underwriters Agreement. CCMC conducts operations from its home office in San Mateo, California and three service centers, providing comprehensive claims, underwriting, marketing, sales, and administrative services. CCMC provides production and operating facilities pursuant to the provisions of the Underwriters Agreement. Under the terms of a separate management agreement with CCMC, the other companies in the Group share with the Exchange management, facilities, sales, and underwriting and loss adjustment personnel.

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

REINSURANCE

Pooling Agreement

A revised pooling agreement was approved by the California Department of Insurance (CDI) and Oregon Division of Insurance (ODOI) effective January 1, 2006. Under the terms of the agreement, the companies cede 100% of their direct business to the Exchange. The agreement also includes a provision whereby personal lines insurance 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 business. All workers' compensation and miscellaneous commercial lines direct and assumed business are in run-off and are retroceded 100% to California Casualty Compensation Insurance Company (CCCIC). A newly revised pooling agreement was approved by the CDI and ODOI, effective January 1, 2011. No changes were made to the pooling percentages. The revisions to the agreement consist of provisions mandated by AM Best & Company for the Group to maintain its "A-" rating.

Assumed

The Exchange is the only insurer in the pool that assumes business from non-affiliates. During 2009, the Exchange assumed an immaterial amount of premiums under a facultative certificate covering a single policy. The Exchange also has immaterial assumed reserves in run-off from Lumbermen's Mutual Casualty Company.

Ceded

Effective January 1, 2000, CCIC, CCFIC, CCGIC and the Exchange (Companies) entered into a 15-year quota-share reinsurance agreement with Fireman's Fund Insurance Company (FFIC) on the Companies' personal lines of business. Under the terms of this agreement, for the first five years of the treaty, the Companies cede 20% of personal lines written premiums and losses, and earn a ceding commission equal to 20% of the underwriting expenses. For the subsequent ten years of the treaty, the Companies cede 30% of the written premiums and losses and earn a ceding commission equal to 30% of underwriting expenses.

The Exchange had the following additional reinsurance agreements in effect at December 31, 2009:

Type of Contract	Line of Business	Reinsurer's Name	Exchange's Retention	Reinsurer's Limits
Catastrophe Excess of Loss 1st Layer Excess of Loss	Property	Authorized Underwriter's at Lloyd's, London – 10.5% General Reinsurance Company – 15% Swiss Reins America Corporation – 10% Munich Reinsurance America, Inc. – 7.5% Unauthorized XL Re, Ltd. – 12.5% Mapfre Re – 7.5% Renaissance Reinsurance, Ltd. – 2%	\$20 million plus 35% of \$10 million excess of \$20 million per occurrence. The contract requires the Exchange to retain a minimum of 5% but the Exchange chose to retain 35%.	65% of \$10 million per occurrence excess of \$20 million, \$20 million annual aggregate

Type of Contract	Line of Business	Reinsurer's Name	Exchange's Retention	Reinsurer's Limits
2nd Layer Excess of Loss	Property	Authorized Underwriter's at Lloyd's, London – 11% General Reinsurance Company – 15% Swiss Reins America Corporation – 10% Munich Reinsurance America, Inc. – 10% Unauthorized XL Re, Ltd. – 10% Mapfre Re – 10% Renaissance Reinsurance, Ltd. – 4%	\$30 million plus 30% of \$20 million excess of \$30 million per occurrence	70% of \$20 million per occurrence excess of \$30 million, \$40 million annual aggregate
3rd Layer Excess of Loss	Property	Authorized Underwriter's at Lloyd's, London – 8.5% General Reinsurance Company – 10% Swiss Reins America Corporation – 10% Munich Reinsurance America, Inc. – 12.5% Unauthorized XL Re, Ltd. – 7.5% Mapfre Re – 15% Renaissance Reinsurance, Ltd. – 4% Hannover Re (Bermuda), LTD. – 5% American Agricultural Insurance Co – 2.5%	\$50 million plus 25% of \$40 million excess of \$50 million per occurrence	75% of \$40 million per occurrence excess of \$50 million, \$80 million annual aggregate

The Group discontinued writing workers' compensation business in 1997, except for domestic workers' compensation coverage under homeowner's policies. Under the pooling agreement, all workers' compensation and miscellaneous commercial business in force are retroceded to CCCIC. Effective January 1, 2001, CCCIC entered into an adverse loss development cover with XL Re, Ltd., of Hamilton, Bermuda, covering workers' compensation claims with dates of injury on or before December 31, 1998.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the year ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders from December 31, 2006 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

Assets	Ledger and Non-ledger Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Bonds	$179,031,681	$	$179,031,681	
Common stocks	210,901,540		210,901,540	
Cash and short-term investments	2,323,669		2,323,669	
Investment income due & accrued	1,570,592		1,570,592	
Premiums and agents' balances in course of collection	1,050,914	97,486	953,428	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	125,128,908		125,128,908	
Reinsurance recoverables	5,911,345	109,526	5,801,819	
Current federal income tax recoverable	438,335		438,335	
Net deferred tax asset	8,025,239	1,535,672	6,489,567	
Guaranty funds receivable	506		506	
Furniture and equipment	34,400	34,400		
Receivables from parent, subsidiaries and affiliates	26,104,222		26,104,222	
Aggregate write-ins for other than invested assets	1,084,336	284,642	799,694	
Total assets	$561,605,687	$ 2,061,726	$559,543,961	

Liabilities, Surplus and Other Funds

Losses			$ 57,405,543	(1)
Reinsurance payable on paid losses and loss adjustment expenses			2,969,018	
Loss adjustment expenses			18,704,722	(1)
Other expenses			451,746	
Taxes, licenses and fees			648,703	
Current federal and foreign income taxes			101,256	
Unearned premiums			77,341,372	
Advance premiums			869,947	
Ceded reinsurance premiums payable			45,487,470	
Amounts withheld or retained by company for account of others			2,744,163	
Payable to parent, subsidiaries and affiliates			25,312,360	
Aggregate write-ins for liabilities			366,752	
Total liabilities			$232,403,052	
Unassigned funds		$327,140,909		
Surplus as regards policyholders			327,140,909	
Total liabilities, surplus and other funds			$559,543,961	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income		
Premiums earned		$153,778,459
Deductions:		
Losses incurred	$ 90,421,473	
Loss adjustment expenses incurred	26,524,926	
Other underwriting expenses incurred	41,721,552	
Total underwriting deductions		158,667,952
Net underwriting loss		(4,889,492)
Investment Income		
Net investment income earned	$ 8,686,213	
Net realized capital gains	2,248,506	
Net investment gain		10,934,718
Other Income		
Net loss from agents' balances or premium balances charged off	$ (761,800)	
Finance and service charges not included in premiums	1,621,779	
Total other income		859,978
Net income before federal income taxes		6,905,205
Federal income taxes incurred		1,088,462
Net income		$ 5,816,743

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		$304,684,380
Net income	$ 5,816,743	
Change in net unrealized capital gains	13,241,572	
Change in deferred income tax	(732,749)	
Change in nonadmitted assets	4,130,963	
Change in surplus as regards policyholders for the year		22,456,529
Surplus as regards policyholders, December 31, 2009		$327,140,909

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

Surplus as regards policyholders, December 31, 2006, per Examination			$305,728,207
	Gain in Surplus	Loss in Surplus	
Net income	$19,003,515	$	
Change in net unrealized capital gains	6,285,955		
Change in net deferred income tax		2,192,842	
Change in nonadmitted assets		1,683,926	
Totals	$25,289,470	$3,876,768	
Net increase in surplus as regards policyholders			21,412,702
Surplus as regards policyholders, December 31, 2009, per Examination			$327,140,909

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the California Department of Insurance, the Exchange's loss and loss adjustment expense reserves as of December 31, 2009 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

Prior Report of Examination

Premiums and Agents' Balances, Deferred Premiums, and Advance Premiums (Page 14): It was recommended that the Exchange comply with Statement of Statutory Accounting Principle No. 53, paragraph 13. The Exchange is now in compliance.

Reinsurance Recoverables (Page 14): It was recommended that the Exchange ensure that letters of credit reported in Schedule F Part 5 accurately reflect such amounts actually held so that this schedule will not be misleading. The Exchange is now in compliance.

Losses and Loss Adjustment Expenses (Page 14): It was recommended that the Exchange comply with California Insurance Code Section 11558. The Exchange is now in compliance.

Payable to Parent, Subsidiaries and Affiliates (Page 14): It was recommended that the Group try to settle intercompany balances within the timeframe described in the intercompany pooling agreement. The Group is now in compliance.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Exchange's officers and California Casualty Management Company's employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Wayne Leiran, CFE
Examiner-In-Charge
Contract Examiner
Department of Insurance
State of California