

REPORT OF EXAMINATION
OF THE
COMMERCIAL CASUALTY
INSURANCE COMPANY

AS OF
DECEMBER 31, 2008

Participating State
and Zone:

California

Filed November 23, 2009

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Los Angeles, California
October 2, 2009

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition 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

COMMERCIAL CASUALTY INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 100 First Stamford Place, Stamford, Connecticut, 06902-6745. As of December 31, 2008, the Company's statutory home office was located at 818 West Seventh Street, Los Angeles, California 90017, and on September 23, 2009 it relocated to 27200 Tourney Road, Suite 360, Valencia, California 91355. Its main administrative office is located at 3024 Harney Street, Omaha, Nebraska 68131.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2008. The examination was made pursuant to the National Association of Insurance Commissioners' 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 within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2008, as deemed necessary under the circumstances.

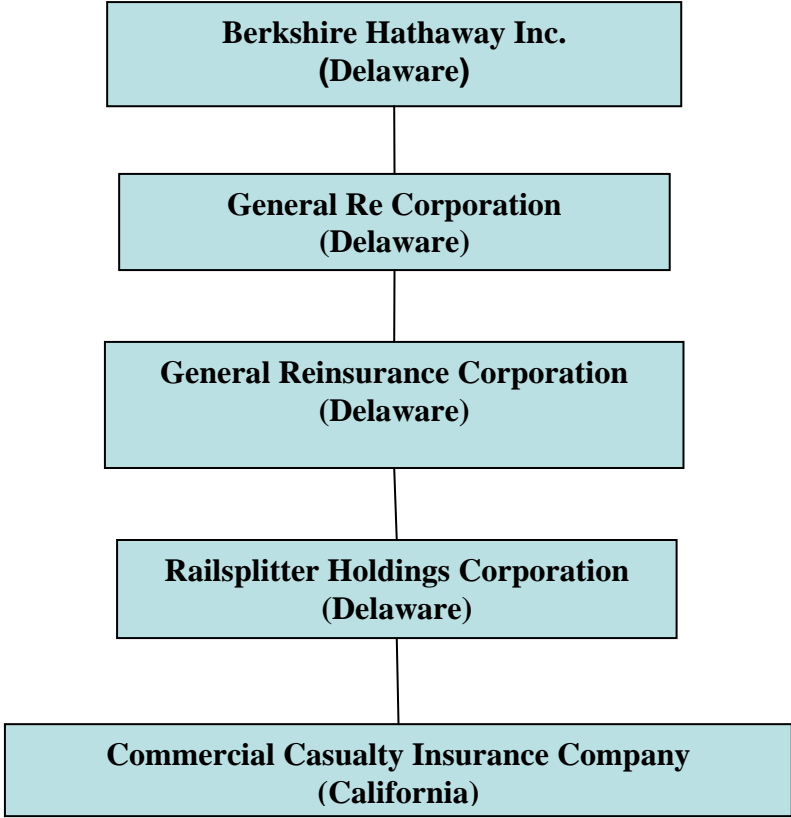
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans;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

COMPANY HISTORY

Prior to the October 30, 2008, the Company was a wholly-owned subsidiary of Folksamerica Holding Company, Inc. (FHC), with White Mountains Insurance Group, Ltd. (White Mountains) being the ultimate parent. On October 30, 2008, the Company became a wholly-owned subsidiary of Railsplitter Holdings Corporation (Railsplitter), a newly created and wholly-owned subsidiary of White Mountains. On October 31, 2008, Railsplitter and its subsidiaries, including the Company, became subsidiaries of General Reinsurance Corporation (GRC), a Delaware insurance company pursuant to an Exchange Agreement by and among GRC, GRC's ultimate parent, Berkshire Hathaway Inc., White Mountains, and Railsplitter.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parents, depicts the Company's relationship within the holding company system:



(*) all ownership is 100%

Management of the Company is vested in a five-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2008 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Erika B. Duffy Fairfield, Connecticut	Vice President and Secretary Finial Reinsurance Company
Dale D. Geistkemper Omaha, Nebraska	Treasurer and Controller National Indemnity Company
Forrest N. Krutter Greenwich, Connecticut	Senior Vice President and Secretary National Indemnity Company
Joseph R. Liuzzi Media, Pennsylvania	Vice President Berkshire Hathaway Reinsurance Division
Brian G. Snover Stamford, Connecticut	Vice President and General Counsel Berkshire Hathaway Reinsurance Division

Principal Officers

<u>Name</u>	<u>Title</u>
Forrest N. Krutter	President
Dale D. Geistkemper	Treasurer
Erika B. Duffy	Secretary
Joseph R. Liuzzi	Vice President
James R. May, Jr.	Controller
Brian G. Snover	Vice President

Management Agreements

Intercompany Services Agreement: The Company entered into an Intercompany Services Agreement with its affiliate, Resolute Management Inc. (RMI), effective November 1, 2008. Under the terms of the agreement, RMI provides the Company with accounting, claims and underwriting services. Reimbursement for the services provided by RMI is based on actual costs incurred. This agreement was reported to the California Department of Insurance (CDI) on November 11, 2008, and there was no objection. No fees were paid under this agreement in 2008.

Intercompany Services Agreement: The Company entered into an Intercompany Services Agreement with its affiliates, National Liability & Fire Insurance Company (NL&F) and National Indemnity Company (NICO), effective November 1, 2008. Under the terms of the agreement, NL&F and NICO provide the Company with accounting, claims, and underwriting services. Reimbursement for the services provided by NL&F and NICO is based on actual costs incurred. The agreement was reported to the CDI on October 30, 2008, and there was no objection. In 2008, the Company paid NICO \$61,259 under this agreement.

Consolidated Tax Allocation Agreement: The Company entered into a Consolidated Federal Income Tax Allocation Agreement with its ultimate parent company, Berkshire Hathaway Inc. (BHI) and many other affiliates, effective November 1, 2008. The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the consolidated group. In addition, a complementary method is used which results in reimbursement by profitable affiliates to loss affiliates for tax benefits generated by loss affiliates. In the event any company incurs a net operating loss in a future year in which the group reports consolidated taxable income, such company will be entitled to reimbursement (from other profitable members of the group) for the income tax benefits attributable to the loss. All federal income taxes allocated to each company for the current and preceding year may be recoverable in the event future net operating losses are reported both for that

company and on a consolidated basis for the group, dependent upon the magnitude of such losses. The agreement was reported to the CDI on November 25, 2008, and there was no objection.

Investment Services Agreement: On January 20, 2009, the Company entered into an Investment Services Agreement with NICO, with an effective date of November 1, 2008. Under the terms of the agreement, NICO provides investment management services to the Company. The reimbursement for services provided to the Company is based on the actual costs incurred by the NICO. This agreement was reported to the CDI on November 11, 2008, and there was no objection. No fees were paid under this agreement in 2008.

Previous Agreements: Prior to October 31, 2008, the Company's ultimate parent was the White Mountains Insurance Group, Ltd. (White Mountains). Under the White Mountains organizational structure, the Company had the following agreements in place: an expense allocation agreement, an investment management agreement, and a consolidated tax allocation agreement. Under the expense allocation agreement, the Company paid the following fees to White Mountains; \$551,852 in 2006, \$540,000 in 2007, and \$450,000 in 2008. There were no fees paid under the investment management agreement during the examination period.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2008, the Company was licensed to transact multiple lines of property and casualty insurance in the following 34 states and the District of Columbia:

Alabama	Idaho	Mississippi	Pennsylvania
Arizona	Illinois	Missouri	South Dakota
Arkansas	Indiana	Montana	Tennessee
California	Iowa	Nebraska	Texas
Colorado	Kansas	Nevada	Utah
Delaware	Kentucky	New Mexico	Virginia
Florida	Maryland	North Carolina	Wisconsin
Georgia	Massachusetts	Oklahoma	
Hawaii	Michigan	Oregon	

Although it is licensed to write multiple lines of property and casualty insurance business, prior to 2003, the Company only wrote workers' compensation insurance. The majority of its business written was in California and Nevada. In November 2003 the Company's ultimate parent, Sierra Health Services announced the sale of the Company to Folksamerica Holding Company, Inc. (Folksamerica). Folksamerica then announced that it would place the Company into run-off. Under the terms of the sales agreement the Company voluntarily ceased writing business as of December 31, 2003 in all states with the exception of Nevada. The Company ceased writing in Nevada in April of 2004, after which the Company was placed into run-off in 2004.

The current business plan is to continue the run-off of the Company, with no prospective plans to begin underwriting operations or write direct business in any of its licensed states. As of December 31, 2008, the Company had 1,209 open workers' compensation claims, with total loss and loss adjustment expense reserves of \$118.7 million.

LOSS EXPERIENCE

The following is a summary of the Company's reported net operating results, net income and surplus as regards policyholders for the examination period and 2009:

Year	Net Operating Gain or (Loss)	Net Income	Surplus as Regards Policyholders
2006	\$ (935,693)	\$ 6,546,366	\$ 47,422,374
2007	7,470,781	17,528,375	66,255,541
2008	(6,797,065)	2,626,064	66,590,054
2009 (2 nd Qtr)	(379,162)	3,452,080	71,112,758

As noted in the above table, the Company reported net operating losses in 2006 and 2008, and during the first half of 2009. The unfavorable operating results reported are directly related to the expenses associated with the run-off business of the Company, and the fact that the Company has minimal annual premiums earned. In 2006 and 2007 the net incurred losses and loss adjustment expenses attributable to insured events of prior years decreased as a result of re-estimations of unpaid losses and loss adjustment expenses primarily for accident years 1998 through 2004. The Company has reported net income and increased its surplus balance in each year of the examination period, and during the first half of 2009, primarily due to investment income despite the unfavorable operating results of 2006, 2008, and the first half of 2009.

REINSURANCE

Assumed

With the exception of some immaterial amounts of assumed liabilities associated with mandatory participation in workers' compensation pools, the Company has no assumed reinsurance. In conjunction with the mandatory pools, the Company reported assets held by or deposited with reinsured companies of \$1.4 million as of year-end 2008.

Ceded

Although there were no reinsurance treaties in force as of year-end 2008, material reinsurance recoverables were due under the terms of the following agreements in run-off:

Effective January 1, 1989, the Company entered into an excess of loss reinsurance agreement with General Reinsurance Corporation to provide coverage for its workers' compensation claims. The Company's retention levels varied by accident year from \$100,000 to \$500,000 and its maximum policy limits varied from \$5 million to \$10 million. As of December 31, 2008, reinsurance recoverables of \$42.3 million were due to the Company under the terms of this run-off agreement.

Effective July 1, 1998, the Company entered into a quota share reinsurance agreement with Travelers Indemnity Company of Illinois (Travelers). The agreement expired on June 30, 2000, however, the Company elected to continue ceding premiums and losses under this agreement on a run-off basis for all policies in-force on June 30, 2000. The agreement covers workers' compensation claims below \$500,000 per occurrence. Under the terms of the agreement, the Company ceded 30% of the first \$10,000 of each and every loss occurrence, 75% of the next \$40,000 and 100% of the next \$450,000 of its losses and loss adjustment expenses. As of December 31, 2008, reinsurance recoverables of \$54.4 million were due to the Company under the terms of this run-off agreement.

The agreement with Travelers contains both retroactive and prospective reinsurance coverage. The Company bifurcated this agreement to give effect to the different accounting treatments. The retroactive portion of the agreement was recorded in accordance with the Statements of Statutory Accounting Principles, No. 62. As of year-end 2008, the Company reported reinsurance recoverables on unpaid losses and loss adjustment expenses of \$4.8 million as an aggregate write-in contra-liability for the retroactive portion of the agreement. In addition, the Company maintained a special surplus account associated with the retroactive portion of the agreement of \$3.2 million. The Company can transfer special surplus to unassigned funds once the amount of ceded paid losses and loss adjustment expenses recovered exceeds the total consideration paid to the reinsurer.

Effective January 1, 2000, the Company entered into a reinsurance contract with National Union Fire Insurance Company to provide unlimited coverage for workers' compensation claims in excess of \$500,000 per occurrence. This contract expired on December 31, 2002 and the Company elected to

extend coverage to policies in force at December 31, 2002. As of December 31, 2008, reinsurance recoverables of \$53.0 million were due the Company under the terms of this run-off agreement.

Effective January 1, 2003, the Company entered into reinsurance agreements that covered new and renewal policies effective on and after January 1, 2003. Reinsurers covering the 2003 treaty included GE Reinsurance Corporation which was later sold and became Swiss Reinsurance America Corp (Swiss), Aspen Reinsurance UK Limited (Aspen) and Hannover Ruck Verischerungs (Hannover). These agreements have reduced coverage limits and exclusions for terrorist acts. The Company retains the first \$500,000 per occurrence with a \$20,000,000 per occurrence maximum. The agreement also includes a provision that the Company must meet an annual aggregate deductible limit before it can begin to recover losses from Aspen. As of December 31, 2008, the Company retained \$390,042 of incurred losses in excess of \$500,000 to satisfy the aggregate deductible. The maximum aggregate deductible, which applies to 32.5% of all losses \$500,000 excess of \$500,000, is \$682,069. As of December 31, 2008, reinsurance recoverables of \$2.5 million were due the Company under the terms of this run-off agreement.

As of the examination date, and under the terms of the above ceded reinsurance agreements, the Company reported total reinsurance recoverables of \$152.2 million or 229% of reported surplus.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Underwriting and Investment Exhibit for the Year Ended December 31, 2008

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2008

Statement of Financial Condition
as of December 31, 2008

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 150,170,256	\$	\$ 150,170,256	
Cash and short-term investments	23,388,452		23,388,452	
Receivable for securities	18,534		18,534	
Investment income due and accrued	834,392		834,392	
Reinsurance:				
Amounts recoverable from reinsurance	3,167,731		3,167,731	
Funds held by or deposited with reinsured companies	1,437,923		1,437,923	
Net deferred tax asset	9,478,933	9,478,933	0	
Aggregate write-ins for other than invested assets	<u>3,141,319</u>	<u> </u>	<u>3,141,319</u>	
 Total assets	 <u>\$ 191,637,540</u>	 <u>\$ 9,478,933</u>	 <u>\$ 182,158,607</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 106,170,979	(1)
Loss adjustment expenses			12,552,974	(1)
Other expenses			1,325,819	
Current federal and foreign income taxes			250,555	
Provision for reinsurance			89,438	
Payable to parent, subsidiaries and affiliates			61,259	
Aggregate write-ins for liabilities			<u>(4,882,471)</u>	
 Total liabilities			 115,568,553	
Aggregate write-ins for special surplus funds		\$ 3,173,607		
Common capital stock		3,000,000		
Gross paid-in and contributed surplus		53,253,594		
Unassigned funds (surplus)		<u>7,162,853</u>		
 Surplus as regards policyholders			 <u>66,590,054</u>	
 Total liabilities, surplus and other funds			 <u>\$ 182,158,607</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2008

Statement of Income

<u>Underwriting Income</u>		
Premiums earned		\$ 1,253
Deductions:		
Losses incurred	\$ 1,809,473	
Loss expense incurred	4,347,417	
Other underwriting expenses incurred	<u>641,428</u>	
Total underwriting deductions		<u>6,798,318</u>
Net underwriting loss		(6,797,065)
<u>Investment Income</u>		
Net investment income earned	\$ 6,962,167	
Net realized capital losses	<u>(169,896)</u>	
Net investment gain		6,792,271
<u>Other Income</u>		
Aggregate write-ins for miscellaneous income	<u>\$ 1,481,240</u>	
Total other income		<u>1,481,240</u>
Net income before federal income taxes		1,476,446
Federal income taxes incurred		<u>(1,149,618)</u>
Net income		<u>\$ 2,626,064</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2007		\$ 66,255,541
Net income	\$ 2,626,064	
Change in net unrealized capital gains	156,558	
Change in net deferred income tax	(2,804,112)	
Change in nonadmitted assets	445,441	
Change in provision for reinsurance	<u>(89,438)</u>	
Change in surplus as regards policyholders		<u>334,513</u>
Surplus as regards policyholders, December 31, 2008		<u>\$ 66,590,054</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2008

Surplus as regards policyholders, December 31, 2005, per Examination		\$ 41,413,456		
	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;">Gain in Surplus</td> <td style="text-align: center; border-bottom: 1px solid black;">Loss in Surplus</td> </tr> </table>	Gain in Surplus	Loss in Surplus	
Gain in Surplus	Loss in Surplus			
Net income	\$26,700,805	\$		
Change in net unrealized capital gains	423,319			
Change in net deferred income tax		11,415,187		
Change in nonadmitted assets	9,533,136			
Change in provision for reinsurance		65,477		
Aggregate write-ins for gains in surplus	2			
Totals	<u>\$ 36,657,262</u>	<u>\$ 11,480,664</u>		
Net increase in surplus as regards policyholders for the examination		<u>25,176,598</u>		
Surplus as regards policyholders, December 31, 2008, per Examination		<u>\$ 66,590,054</u>		

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on the analysis by a Casualty Actuary from the California Department of Insurance, the Company's December 31, 2008 reserves for losses and loss adjustment expenses were determined to be reasonably stated.

According to the Company and based on a 2004 Transition Services Agreement (TSA) between the Company and its former ultimate parent, Sierra Health Services Inc (SHS), SHS is responsible for the costs to administer all of the Company's workers' compensation claims until they are fully run off. The TSA was entered into and was part of the terms of the sale of the Company to its current owner. Based on the terms of the TSA, the Company believes it has no further liability for the costs of adjusting its workers' compensation claims. Confirmations sent to SHS as part of the prior examination disclosed that SHS contracted with a third-party administrator to service the Company's claims through 2019.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Losses and Loss Adjustment Expenses (Page 15): It was recommended that the Company not enter into future material transactions without prior notice and, if applicable, approval from the California Department of Insurance. In reviewing the Company's material transactions, it appears that the Company has complied with this recommendation.

ACKNOWLEDGEMENT

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

Respectfully submitted,

/S/

Samuel J. Salzman, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California