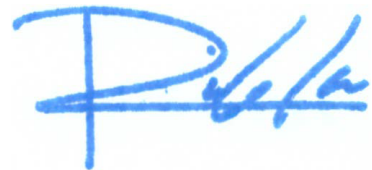


REPORT OF EXAMINATION
OF THE
CALIFORNIA CASUALTY COMPENSATION INSURANCE COMPANY
AS OF
DECEMBER 31, 2021

A handwritten signature in blue ink, appearing to read "P. DeFina", is positioned in the lower right area of the page.

Filed on January 5, 2023

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Oakland, California
November 29, 2022

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 COMPENSATION INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's home office is located at 1875 South Grant Street, Suite 800, San Mateo, California 94402.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2017. This examination covered the period from January 1, 2018 through December 31, 2021.

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, assess corporate governance, identify current and prospective risks, and evaluate 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 significant findings of fact and general information about the Company and its financial condition. There might 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 (CCG). It was conducted concurrently with the examinations of the Company's parent, California Casualty Indemnity Exchange (California), and affiliates, California Casualty Insurance Company (Oregon), California Casualty & Fire Insurance Company (California), and California Casualty General Insurance Company of Oregon (Oregon). The Oregon Department of Consumer and Business Services, Division of Financial Regulation participated in the examination.

COMPANY HISTORY

Capitalization

The Company is authorized to issue 100,000 shares of common stock with par value of \$100 per share. As of December 31, 2021, there were 26,000 shares issued and outstanding.

Extraordinary Dividends

The Company paid an extraordinary dividend of \$48 million to its parent, California Casualty Indemnity Exchange (Exchange), in 2020. This dividend consisted of \$39 million in bonds and \$9 million in cash. The extraordinary dividend was approved by California Department of Insurance on September 28, 2020 pursuant to California Insurance Code Section 1215.5(g). The purpose of the dividend was to reallocate capital among the

companies within the California Casualty Group to reduce the net written premiums to surplus ratio across all companies from over 4.0 to 1 to less than 3.0 to 1.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system which is managed by the California Casualty Management Company (CCMC) as the attorney-in-fact for the Company's parent, California Casualty Indemnity Exchange (CCIE). As of December 31, 2021, Thomas R. Brown owned or controlled 32.65% of the Class A voting stock common stock of CCMC.

The following organizational chart depicts the Company's relationship within the holding company system at December 31, 2021 (all ownership is 100% unless otherwise indicated):

Thomas R. Brown
California Casualty Management Company (California)*
California Casualty Indemnity Exchange (California)
California Casualty Compensation Insurance Company (California)
California Casualty Insurance Company (Oregon)
California Casualty and Fire Insurance Company (California)
California Casualty General Insurance Company of Oregon (Oregon)

*Thomas R. Brown owns 32.65% and CCIE owns 20.15% of Series A Voting Shares of CCMC, respectively. CCMC has no ownership interest in the insurers in CCG. CCMC's affiliation is through an Underwriters Agreement with CCIE and management agreements with the other insurers in CCG.

A twelve-member Board of Directors, who are elected annually, oversees the business and affairs of the Company. The following are members of the board and principal officers of the Company serving at December 31, 2021:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Micaela C. Cichocki San Bernardino, California	Teacher San Bernardino City Unified School District
Wayne S. Diviney Clifton, Virginia	Retired National Education Association
Jose A. Gomez Pasadena, California	Educator, University Administrator California State University, Los Angeles
Jon H. Hamm Placerville, California	Retired California Association of Highway Patrolmen
Mitchell E. Hornecker Portland, Oregon	Owner Modoc Consulting, LLC
Karen B. Kyhn Moreno Valley, California	Retired California Teachers Association
Leona S. Linder Washington, District of Columbia	Chief Marketing Officer National Education Association's Member Benefits Corporation
Michael G. McPherson Silver Spring, Maryland	Chief Financial Officer National Education Association
Robert R. Nicolay ^(a) Westlake, Ohio	Chief Executive Officer California Casualty Management Company
Karen M. Padovese San Rafael, California	Retired GeoVera Holdings, Inc.
Edward G. Phoebus, III Silver Spring, Maryland	Chief Executive Officer National Education Association's Member Benefits Corporation
Thomas M. Tongue Lake Oswego, Oregon	Attorney Schwabe, Williamson and Wyatt, P.C.

Principal Officers

<u>Name</u>	<u>Title</u>
Robert R. Nicolay ^(a)	President and Chief Executive Officer
Michael A. Ray	Executive Vice President and Chief Financial Officer
Joseph C. Muenzen ^(b)	Senior Vice President Underwriting and Product Management and Secretary

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

- (a) Jonathan D. Adkisson was appointed President and Chief Executive Officer effective June 1, 2022. Robert R. Nicolay remains as a director.
- (b) Joseph C. Muenzen left the Company on March 30, 2022 due to a leadership reorganization. John J. Allen, Legal Counsel, filled in for the secretary position on March 31, 2022 and left the Company on August 4, 2022. Carl B. Brown is the interim Secretary of the Company.

Management 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. CCMC is paid a monthly fee of up to 125% of expenses incurred on the services performed by CCMC on behalf of the Company. In addition, the Company agrees to pay CCMC an annual incentive fee not to exceed 10% of the Company'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 by the Company during the examination period. The total fees paid by the Company under this Agreement were: \$172,523 in 2018, \$148,130 in 2019, \$74,621 in 2020, and \$50,268 in 2021.

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 (CCIE), California Casualty & Fire Insurance Company, California Casualty 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 were 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. CCIE is responsible for filing and making all tax payments on behalf of its subsidiaries. The total federal income taxes incurred by the Company under this Agreement were: \$687,386 in 2018, \$0 in 2019, \$269,260 in 2020, and \$112,146 in 2021.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, 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 businesses for the California Casualty Group have been in run-off since October 2017 and retroceded to the Company (See “REINSURANCE” below).

The Company’s run-off business is managed by California Casualty Management Company (CCMC). In accordance with the terms of the retroactive reinsurance agreement with XL Re Ltd., (See “REINSURANCE” below), in July 2001, a third-party claims adjuster, GAB Robins North America Inc. (GAB Robins NA), was contracted to handle the workers’ compensation claims in run-off. In 2010, GAB Robins NA was acquired by Gallagher Bassett Service Inc.

REINSURANCE

Pooling

Effective January 1, 2011, a revised Intercompany Pooling Agreement (Agreement) was approved by the California Department of Insurance (CDI) on August 30, 2010 pursuant to California Insurance Code (CIC) Section 1215.5(b)(3). This revised Agreement was amended to clarify that only the Company's parent, California Casualty Indemnity Exchange (CCIE) may purchase non-affiliate reinsurance contracts and each subsidiary's direct premiums and direct paid loss and loss adjustment expenses are ceded to the CCIE. Under the terms of this agreement, each participating insurer cedes 100% of its direct and assumed business to CCIE. Personal lines of business are pooled separately from workers' compensation and miscellaneous commercial lines business, which are in run-off. The pooled personal lines business is then retroceded to and assumed by California Casualty Insurance Company, California Casualty & Fire Insurance Company, and California Casualty General Insurance Company of Oregon according to their respective pooling percentages of 8%, 10%, and 12%. CCIE 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 business during the examination period.

Ceded

The Company entered into an Adverse Loss Development Retrocession Contract 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 CCG 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 arrangement

called for California Casualty Management Company to contract with an acceptable third-party administrator, for claims handling of the subject losses. Pursuant to CIC Section 1011 (c), the CDI approved the agreement on October 22, 2001.

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, 2021. The accompanying comments to the amounts in the annual 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, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 28,353,487	\$	\$ 28,353,487	
Cash, cash equivalents, and short-term investments	2,281,563		2,281,563	
Receivables for securities	8,395,488		8,395,488	
Investment income due and accrued	177,453		177,453	
Uncollected premiums and agents' balances in the course of collection	1		1	
Receivables from parent, subsidiaries and affiliates	2,259,526		2,259,526	
Aggregate write-ins for other than invested assets	309,325		309,325	
Total assets	\$ 41,776,843	\$	\$ 41,776,843	

Liabilities, Surplus, and Other Funds

				<u>Notes</u>
Losses			\$ 21,398,066	(1)
Reinsurance payable on paid loss and loss adjustment expenses			49,926	
Loss adjustment expenses			4,295,313	(1)
Other expenses			1,870	
Current federal and foreign income taxes			27,249	
Net deferred tax liability			53,346	
Payable to parent, subsidiaries and affiliates			2,291,132	
Aggregate write-ins for liabilities			<u>(14,169,779)</u>	(2)
Total liabilities			13,947,123	
Aggregate write-ins for special surplus funds		\$ 14,169,454		
Common capital stock		2,600,000		
Gross paid-in and contributed surplus		26,800,000		
Unassigned funds (surplus)		<u>(15,739,734)</u>		
Surplus as regards policyholders			<u>27,829,720</u>	
Total liabilities, surplus, and other funds			\$ <u>41,776,843</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned		\$	1
Deductions:			
Losses incurred	\$	(912,101)	
Loss adjustment expenses incurred		1,109,965	
Other underwriting expenses incurred		26,317	
Total underwriting deductions			224,181
Net underwriting loss			(224,180)

Investment Income

Net investment income earned	\$	678,659	
Net realized capital gains		38,835	
Net investment gain			717,494
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes			493,314
Federal and foreign income taxes incurred			101,823
Net income			\$ 391,491

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$	27,431,846
Net income	\$	391,491	
Change in net deferred income tax		6,383	
Change in surplus as regards policyholders for the year			397,874
Surplus as regards policyholders, December 31, 2021		\$	27,829,720

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Surplus as regards policyholders, December 31, 2017			\$ 71,745,804	<u>Notes</u>
	Gain in Surplus	Loss in Surplus		
Net income	\$ 4,118,544	\$		
Change in net deferred income tax		34,628		
Dividend to stockholders		48,000,000		
Total gains and losses	\$ 4,118,544	\$ 48,034,628		
Net decrease in surplus as regards policyholders			(43,916,084)	
Surplus as regards policyholders, December 31, 2021			\$ 27,829,720	

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, 2021 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, 2021 were 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, 2021 included \$14.2 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.

SUBSEQUENT EVENTS

In 2022, the California Casualty Group (CCG) rolled out a re-organization of its leadership structure; the goal is to create an organizational structure that enables CCG to grow, build up surplus strength and be sustainable. Jonathan D. Adkisson, President and Chief Executive Officer; and Mark D. Pitchford, Executive Vice President and Chief Marketing Officer joined CCG on June 1, 2022 and July 25, 2022, respectively. They will be leading CCG to develop a new corporate strategy and make changes toward growth and profitability.

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,

Sam Chiu, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Li Lim, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California