

REPORT OF EXAMINATION
OF THE
CAMICO MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2022

A handwritten signature in blue ink, appearing to read 'D. DeFina', is positioned above the filing date.

Filed on February 20, 2024

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Oakland, California
February 15, 2024

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CAMICO MUTUAL INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's home office is located at 1800 Gateway Drive, Suite 200, San Mateo, California 94404.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2019. This examination covered the period of January 1, 2020 through December 31, 2022.

This 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 included identifying and evaluating significant risks that could cause the Company'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 includes 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 an adjustment was identified during the course of the

examination, the impact of such adjustment would 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 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.

COMPANY HISTORY

The Company is a mutual insurer owned by its policyholders, who are all certified public accountants (CPA). The Company has been providing professional liability coverage for accountants since 1986 and is endorsed and sponsored by eighteen CPA state societies and accounting associations.

MANAGEMENT AND CONTROL

The Company has one wholly-owned subsidiary, CAMICO Services, Inc. The following organizational chart depicts the companies within the holding company system as of December 31, 2022 (all ownership is 100%).

CAMICO Mutual Insurance Company (California) CAMICO Services, Inc. (California)

The ten-member board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2022:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Carmen J. Aguiar, CPA Bellevue, Washington	Chief Executive Officer The Aguiar Group
Andrew M. Eassa, CPA, CVA Syracuse, New York	Chairman of the Board Retired
Robert P. Evans, CPA, CISA Fort Worth, Texas	President The Schieffer Group
Deborah D. Lambert, CPA, CGMA, CPCU ⁽¹⁾ Arlington Heights, Illinois	Retired
Bryan C. Polster, CPA Las Vegas, Nevada	Retired
Carolyn C. Riticher, CPA Waleska, Georgia	Retired
Ricardo R. Rosario, CPA, CGMA San Mateo, California	President and Chief Executive Officer CAMICO Mutual Insurance Company
Timothy J. Summers Santa Clara, California	President Aegis Specialty Insurance Services
James Sunseri Quincy, Washington	Retired
Stephen M. Tatone, CPA Lake Oswego, Oregon	Partner Emeritus Aldrich Services LLP

Principal Officers

<u>Name</u>	<u>Title</u>
Ricardo R. Rosario	President and Chief Executive Officer
Jay H. Stewart ⁽²⁾	Treasurer and Chief Financial Officer
Suzanne M. Holl	Senior Vice President of Loss Prevention Services and Secretary

⁽¹⁾ Deborah D. Lambert retired from the Board of Directors, effective June 14, 2023. Greg Regan was nominated to fill the vacancy, effective June 13, 2023

⁽²⁾ Effective April 5, 2023, Jay H. Stewart retired from the Company. Michael A. Ray was hired as Treasurer and Chief Financial Officer on February 20, 2023

Management Agreements

Cost Allocation and Reimbursement Agreement: Effective February 24, 1995, the Company entered into a Cost Allocation and Reimbursement Agreement (Agreement) with its subsidiary, CAMICO Services, Inc. (CSI). Pursuant to the Agreement, the Company agrees to provide CSI with services, which may include but are not limited to, general corporate management, investment advice, strategic planning, product development, computer services, advertising, marketing, and other related operational and administrative services. The Agreement provides for reimbursement to the Company on a cost allocation/reimbursement basis, in accordance with generally accepted accounting principles. The Agreement was not subject to prior approval as it pre-dates the California Department of Insurance's (CDI) prior approval requirement. Total fees reimbursed to the Company for services rendered to CSI under this Agreement in 2020, 2021, and 2022 were \$4,543,111, \$5,044,395, and \$5,319,966, respectively.

Tax Allocation Agreement: Effective June 19, 1996, the Company entered into a Tax Allocation Agreement (Agreement) with CSI. The Agreement provides for the federal tax returns of the parties to be filed on a consolidated basis. Allocation is based on separate company return calculations with fair compensation to the parties for use of net operating losses, alternative minimum tax, or tax credits that are used to reduce the consolidated federal income tax liability of the group. The Agreement was not subject to prior approval as the agreement pre-dates the CDI's prior approval requirement. The federal income tax incurred by the Company was zero in 2020 and 2021, and \$287,031 in 2022.

TERRITORY AND PLAN OF OPERATION

The Company provides professional liability insurance on a claims-made and occurrence basis and employment practices liability insurance to certified public accountants. The Company also offers first party cybersecurity liability coverage, CyberCPA, as an endorsement to its professional liability policies. The Company specializes in providing coverage for small to medium-sized accounting practices with limited or no Securities and Exchange Commission engagements, initial public offering involvement, or large company audit work. An extended reporting period coverage endorsement is provided for

policyholders who die, become disabled, or retire. Business is distributed utilizing agency, direct, and eBusiness channels.

CAMICO Services, Inc. (CSI) is a licensed insurance brokerage and a wholly owned subsidiary of the Company. Effective October 1, 2014, CSI entered into an agreement to operate as an agent with Berkley Alliance Managers (BAM). This partnership with BAM allows the Company and CSI to offer policies and services to the CPA community with limits in excess of \$2 million. In return, BAM pays CSI a commission from which covers acquisition, underwriting, claims services, and general operating costs. This agreement was renewed twice on January 1, 2018 and on January 1, 2021, and expires December 31, 2025.

Effective June 29, 2020, the Company and CSI entered into a Renewal Rights Purchase Agreement (Agreement) with CPA Mutual Insurance Company of America Risk Retention Group (CPA Mutual), a risk retention group domiciled in Vermont. In this agreement, CPA Mutual sold to the Company the renewal rights of its Accountants Professional Liability Insurance program in force on the date of the agreement. Under the agreement, the Company has the exclusive right to negotiate with insureds, brokers, and agents for renewals of the policies, effective January 1, 2021. As consideration for the sale of the renewal rights, the Company pays CPA Mutual a percentage of net premiums received during the calendar years 2020 through 2023. The percentage was 7.5% for 2020 and 2021, 5.0% for 2022, and 2.5% for 2023.

As of December 31, 2022, the Company is licensed in 50 states and the District of Columbia. The Company wrote business in all the states except Wyoming, with majority of the direct premiums written in California (48.1%). Direct premiums written during 2022 totaled \$35.8 million which was comprised of other liability - occurrence (3.7%) and other liability – claims-made (96.3%).

REINSURANCE

Assumed

The Company did not assume any reinsurance during the examination period.

Ceded

The following is a summary of principal reinsurance agreements in effect as of December 31, 2022:

Type of Contract	Reinsurer(s) Participation	Company's Retention	Reinsurer's Limit
Contingency Excess of Loss	<u>Authorized:</u> Various Lloyd's Syndicates (50%) Hannover Ruck SE (25%) The Cincinnati Insurance Company (5%) Convex Re Limited (5%) <u>Unauthorized:</u> Chaucer Insurance Company DAC (15%)	\$2 million each and every claim, each and every policy	\$5.0 million in excess of \$2.0 million each and every claim, each and every policy. The liability of the reinsurer shall not exceed \$125 thousand each claim with respect to potential claim expenses.
Loss Ratio Protection Cover	<u>Authorized:</u> Renaissance Reinsurance U.S. Inc. (40%) Validus Re America o/b/o Validus Reinsurance (Switzerland) Ltd. (20%) The Cincinnati Insurance Company (5%) <u>Unauthorized:</u> Hannover Re (Ireland) DAC (35%)	68.0% of subject written premium	Over and above an initial ultimate net loss equal to 68.0% of the subject written premium, subject to a limit of liability to the reinsurer of an amount of ultimate net loss equal to 25.0% of the subject written premium.

Type of Contract	Reinsurer(s) Participation	Company's Retention	Reinsurer's Limit
Employment Practices Liability Quota Share	<u>Authorized:</u> General Reinsurance Corporation	50.0% of each net loss under each policy	50.0% of each net loss under each policy, not to exceed 50.0% of the policy limit. Limits of liability of the Company with respect to any one policy not to exceed \$1 million each claim with a \$2 million aggregate limit.
Cyber Liability Quota Share	<u>Authorized:</u> General Reinsurance Corporation	50.0% share of all cyber liability business	50.0% of the ultimate net loss subject to a limit of liability of the reinsurer of \$10.0 million with respect to all ultimate net losses.

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, 2022. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements reported by the Company.

Statement of Financial Condition as of December 31, 2022

Underwriting and Investment Exhibit for the Year Ended December 31, 2022

Reconciliation of Surplus as Regards Policyholders from December 31, 2019
through December 31, 2022

Statement of Financial Condition
as of December 31, 2022

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 84,629,831	\$	\$ 84,629,831	
Common stocks	4,032,576		4,032,576	
Cash, cash equivalents, and short-term investments	4,375,376		4,375,376	
Other invested assets	1,456,702		1,456,702	
Investment income due and accrued	559,290		559,290	
Uncollected premiums and agents' balances in the course of collection	4,834,873	64,263	4,770,610	
Amounts recoverable from reinsurers	651,899		651,899	
Net deferred tax asset	2,305,299	64,263	2,060,812	
Guaranty fund receivable or on deposit	14,542		14,542	
Electronic data processing equipment and software	373,940	25,982	347,958	
Furniture and equipment, including health care delivery assets	315,751	315,751		
Receivables from parent, subsidiaries and affiliates	1,685,748		1,685,748	
Aggregate write-ins for other than invested assets	826,035	737,311	88,724	
	<hr/>		<hr/>	
Total assets	\$ 106,061,863	\$ 1,387,794	\$ 104,674,069	
	<hr/>		<hr/>	
 <u>Liabilities, Surplus, and Other Funds</u>				<u>Notes</u>
Losses			\$ 19,959,725	(1)
Loss adjustment expenses			15,334,597	(1)
Other expenses			6,625,619	
Taxes, licenses, and fees			193,385	
Current federal and foreign income taxes			287,031	
Unearned premiums			11,414,969	
Advance premiums			3,844,685	
Ceded reinsurance premiums payable (net of ceding commissions)			323,445	
Funds held by company under reinsurance treaties			9,779	
Amounts withheld or retained by company for account of others			2,279,042	
Remittances and items not allocated			646,205	
Provision for reinsurance			67,800	
			<hr/>	
Total liabilities			58,752,323	
Surplus note		\$ 8,000,000		(2)
Unassigned funds (surplus)		37,921,746		
			<hr/>	
Surplus as regards policyholders			45,921,746	
			<hr/>	
Total liabilities, surplus, and other funds			\$ 104,674,069	
			<hr/>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2022

Statement of Income

Underwriting Income

Premiums earned		\$ 32,002,337
Deductions:		
Losses incurred	\$ 10,379,958	
Loss adjustment expenses incurred	8,584,510	
Other underwriting expenses incurred	13,036,110	
Aggregate write-ins for underwriting deductions	<u>(39,114)</u>	
Total underwriting deductions		<u>31,961,464</u>
Net underwriting gain		40,873

Investment Income

Net investment income earned	\$ 1,363,766	
Net realized capital gains	<u>47,104</u>	
Net investment gain		1,410,870

Other Income

Net loss from agents' or premium balances charged off	\$ (3,461)	
Aggregate write-ins for miscellaneous income	<u>3,700</u>	
Total other income		<u>239</u>
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		1,451,982
Federal and foreign income taxes incurred		<u>274,510</u>
Net income		<u>\$ 1,177,472</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2021		\$ 46,398,406
Net income	\$ 1,177,472	
Change in net unrealized capital losses	(342,705)	
Change in net deferred income tax	6,641	
Change in nonadmitted assets	(252,668)	
Change in provision for reinsurance	(65,400)	
Change in surplus notes	<u>(1,000,000)</u>	
Change in surplus as regards policyholders for the year		<u>(476,660)</u>
Surplus as regards policyholders, December 31, 2022		<u>\$ 45,921,746</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2019 through December 31, 2022

Surplus as regards policyholders, December 31, 2019			\$ 43,549,818
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 5,677,449	\$	
Change in net unrealized capital gains or (losses)	185,108		
Change in net deferred income tax		881,034	
Change in nonadmitted assets		541,795	
Change in surplus notes		2,000,000	
Change in provision in reinsurance		67,800	
Total gains and losses	<u>\$ 5,862,557</u>	<u>\$ 3,490,629</u>	
Net increase in surplus as regards policyholders			<u>2,371,928</u>
Surplus as regards policyholders, December 31, 2022			<u>\$ 45,921,746</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses and Unearned Premiums (Death, Disability and Retirement)

A Casualty Actuary from the California Department of Insurance (CDI) reviewed the Analysis of Unpaid Loss and Loss Adjustment Expenses (LAE) as of December 31, 2022, and the Provision for Future Utilization of Death, Disability and Retirement (DD&R) as of December 31, 2022 prepared by the Company's independent actuary and concurred with the actuary's conclusion that the Company's reserves for Loss, LAE, and DD&R as of December 31, 2022 were reasonable and have been accepted for purposes of this examination.

(2) Surplus Note

In June 2005, the Company issued the surplus note in the amount of \$10,000,000 to First Tennessee Bank, N.A and Preferred Term Securities XVII, Ltd. Under the terms of the surplus note, the Company pays quarterly interest at a fixed annual rate of 7.65% for the first five years or until June 03, 2010, and quarterly interest at 3-month LIBOR plus 3.15% from July 1, 2010 until maturity at June 03, 2035. The Company made a principal repayment of \$1,000,000 each in 2021 and 2022 towards the surplus note. The repayments were approved by the CDI. The surplus note balance at December 31, 2022 was \$8,000,000.

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 employees during the course of this examination.

Respectfully submitted,

Christian Mitterholzer, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

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