

REPORT OF EXAMINATION
OF THE
CAMICO MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

Filed on May 13, 2021

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Oakland, California
April 30, 2021

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) with its home office 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, 2015. This examination covers the period from January 1, 2016 through December 31, 2019.

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 findings of fact and general information about the Company and its financial condition. There may 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

Capital Contribution

The Company contributed capital to its subsidiary, CAMICO Services, Inc. in amount of \$1.0 million in 2016 and \$1.0 million in 2017.

MANAGEMENT AND CONTROL

The Company is a mutual insurance company owned by its policyholders, who are all certified public accountants. The Company has one wholly-owned subsidiary, CAMICO Services, Inc. The following organizational chart shows the companies within the holding company system as of December 31, 2019 (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, 2019:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Carmen J. Aguiar, CPA Bellevue, Washington	Chief Executive Officer The Aguiar Group
John A. Dodsworth, CPA ^(a) San Mateo, California	Retired
Andrew M. Eassa, CPA/ABV, CVA East Syracuse, New York	Principal Firley, Moran, Freer & Eassa, CPA, P.C.
Robert P. Evans, CPA, CISA Fort Worth, Texas	President Schieffer Group Management Company
Deborah D. Lambert, CPA, CGMA, CPCU Arlington Heights, Illinois	Retired
Bryan C. Polster, CPA, MBA Palo Alto, California	Chairman of the Board Frank, Rimerman & Co., LLP
Carolyn Riticher, CPA, CVA Atlanta, Georgia	Retired
Ricardo R. Rosario, CPA, CFE San Mateo, California	President and Chief Executive Officer CAMICO Mutual Insurance Company
Timothy J. Summers Sunnyvale, California	President Aegis Specialty Insurance Services
James Sunseri San Francisco, California	Retired

Principal Officers

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

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

- (a) John A. Dodsworth retired from the Company's board on June 17, 2020. Stephen M. Tatone was elected to the Company's board on November 30, 2020.

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 2016, 2017, 2018, and 2019 were \$5,920,630, \$4,371,686, \$4,301,186 and \$4,269,382, 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 on the group. The Agreement was not subject to prior approval as it pre-dates the CDI's prior approval requirement.

TERRITORY AND PLAN OF OPERATION

The Company is licensed and provides certified public accountants (CPA) with professional liability (PL) insurance and employment practices liability insurance (EPLI)

in 46 states, plus the District of Columbia, on a claims-made and occurrence basis. The only states the Company was not licensed in as of December 31, 2019 were: Hawaii, Montana, Vermont, and Wyoming.

During 2020, the Company was approved for licenses in Hawaii, Montana and Vermont. The license for Wyoming is still pending.

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. In May 2015, the Company began issuing cyber liability endorsements to its professional liability policies.

The Company has the endorsement of eighteen state CPA societies and/or associations. Roughly three quarters of its business is marketed by home office staff using direct response, direct mail, internet based leads, and affinity group marketing. The Company also maintains a nationwide distribution system of approximately 85 professional agents which produces roughly one quarter of its business. In 2019, the Company's direct premiums of \$30.9 million were written in the following top three states: 51.9% in California followed by 4.3% in Washington and 4.2% in New York.

The Company has a wholly owned subsidiary, CAMICO Services, Inc., dba CAMICO Insurance Services (CIS), which operates as an agent intermediary providing insurance products for CPA firms underwritten by other insurance companies. Effective January 1, 2018, CIS entered into an agreement to operate as an agent with Berkley Alliance Managers (BAM) to provide professional liability coverage for accountants in excess of \$2.0 million. In addition to serving as the agent, CIS provides underwriting, loss prevention, and claims services for these policies. Under this business model, the Company only underwrites policies with limits of liability of \$2.0 million or less, while policies with limits of liability greater than or equal to \$2.0 million are underwritten by BAM.

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, 2019:

<u>Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Contingency Excess of Loss	<p><u>Authorized:</u> Aspen Insurance, UK, (11.47%), Lloyd's Underwriter Syndicate (Lloyd's) No. 0033 HIS (5.30%), Lloyd's No. 0609 AUW (10.50%) and eight other reinsurers</p> <p><u>Unauthorized:</u> XL Bermuda Ltd (9.00%)</p>	\$2.0 million each and every claim, each and every policy	<p>\$5.0 million in excess of \$2.0 million each and every claim, each and every policy</p> <p>The liability of the reinsurer shall not exceed \$125 thousand each claim with respect to potential claim expenses</p>
Loss Ratio Protection Cover	<p><u>Authorized:</u> Renaissance Re (40.0%) and Validus Reinsurance (Switzerland) Ltd. (15.0%)</p> <p><u>Unauthorized:</u> JRG Reinsurance Company Limited (10.0%) and Hannover RE (Ireland) DAC (35.0%)</p>	67.0% of the subject written premium	Over and above an initial ultimate net loss equal to 67.0% 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
Employment Practices Liability Quota Share	<p><u>Authorized:</u> General Reinsurance Corporation (100%)</p>	50.0% ultimate net loss	<p>50.0% of each net loss under each policy, not to exceed 50.0% of the policy limit</p> <p>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</p>

<u>Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Cyber Liability Quota Share	<u>Authorized:</u> General Reinsurance Corporation (100%)	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 and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments to the amounts reported 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, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2015 through December 31, 2019

Statement of Financial Condition
as of December 31, 2019

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 80,428,544	\$	\$ 80,428,544	
Cash, cash equivalents and short-term investments	2,693,606		2,693,606	
Other invested assets	1,244,752		1,244,752	
Investment income due and accrued	524,685		524,685	
Uncollected premium and agents' balances in the course of collection	3,899,497	5,399	3,894,098	
Amount recoverable from reinsurers	52,281		52,281	
Current federal and foreign income tax recoverable and interest thereon	27,490		27,490	
Net deferred tax asset	3,186,335	231,701	2,954,634	
Guaranty funds receivable or on deposit	9,088		9,088	
Electronic data processing equipment and software	77,881	31,764	46,117	
Receivable from parent, subsidiaries and affiliates	1,089,310		1,089,310	
Aggregate write-ins for other than invested assets	688,227	577,135	111,091	
	<hr/>	<hr/>	<hr/>	
Total assets	\$ 98,391,829	\$ 846,000	\$ 97,545,830	
	<hr/>	<hr/>	<hr/>	
<u>Liabilities, Surplus, and Other Funds</u>				<u>Notes</u>
Losses			\$ 19,520,734	(1)
Loss adjustment expenses			14,815,168	(1)
Other expenses			5,061,584	
Taxes, licenses and fees			83,763	
Unearned premiums			9,254,903	
Advance premiums			3,756,522	
Ceded reinsurance premiums payable			4,135	
Funds held by company under reinsurance treaties			40,279	
Amounts withheld or retained by company for account of others			54,980	
Remittances and items not allocated			713,943	
Payable for securities			690,000	
			<hr/>	
Total liabilities			53,996,012	
Surplus notes		\$ 10,000,000		(2)
Unassigned funds (surplus)		33,549,818		
		<hr/>		
Surplus as regards policyholders			43,549,818	
			<hr/>	
Total liabilities, surplus, and other funds			\$ 97,545,830	
			<hr/>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2019

State of Income

Underwriting Income

Premiums earned		\$ 28,550,370
Deductions:		
Losses incurred	\$ 9,583,375	
Loss adjustment expenses incurred	8,286,740	
Other underwriting expenses incurred	11,731,904	
Aggregate write-ins for underwriting deductions	<u>(566)</u>	
Total underwriting deductions		<u>29,601,452</u>
Net underwriting loss		(1,051,082)

Investment Income

Net investment income earned	\$ 1,152,906	
Net realized capital gain	<u>523,008</u>	
Net investment gain		1,675,915

Other income

Net loss from agents' or premium balances charged off	\$ (2,519)	
Aggregate write-ins for miscellaneous income	<u>(262,239)</u>	
Total other income		<u>(264,758)</u>
Federal and foreign income taxes incurred		<u>(26,198)</u>
Net income		<u>\$ 386,273</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		\$ 42,644,278
Net income	\$ 386,273	
Change in net unrealized capital gains	416,976	
Change in net deferred income tax	(110,749)	
Change in nonadmitted assets	84,040	
Change in provision for reinsurance	<u>129,000</u>	
Change in surplus as regards policyholders for the year		<u>905,540</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 43,549,818</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2015 through December 31, 2019

Surplus as regards policyholders, December 31, 2015			\$ 40,297,601
	Gain in Surplus	Loss in Surplus	
Net income	\$ 6,760,408	\$	
Change in unrealized capital gains		1,455,635	
Change in net deferred income tax		3,822,557	
Change in nonadmitted assets	1,663,870		
Change in provision for reinsurance	106,131		
Total gains and losses	\$ 8,530,409	\$ 5,278,192	
Net increase in surplus as regards policyholders			<u>3,252,217</u>
Surplus as regards policyholders, December 31, 2019			<u>\$ 43,549,818</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

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

A Casualty Actuary from the California Department of Insurance (CDI) reviewed the Summary of Estimated Unpaid Indemnity (Losses) and Loss Adjustment Expense (LAE) as of December 31, 2019, and the Provision for Future Utilization of Death, Disability and Retirement (DD&R) Benefit as of December 31, 2019 prepared by the Company's independent actuary, and concurred that the Company's reserves for Losses, LAE, and DD&R as of December 31, 2019 are reasonable and have been accepted for the purpose of this examination.

(2) Surplus Notes

In June 2005, the Company issued a 30-year surplus note with Preferred Term Securities XVII, Ltd. And First Tennessee Bank N.A. for \$10.0 million. The surplus note calls for the Company to pay quarterly interest at the London Bank Offered Rate (LIBOR) plus 3.15% with principal due in June 2035. Payments of interest and principal can only be made from surplus and require pre-approval from the CDI.

SUBSEQUENT EVENTS

A novel strain of coronavirus (COVID-19) was detected and reported to World Health Organization (WHO) in December 2019. Since then, it has spread around the world, resulting in business and social disruption. The outbreak was declared a Public Health Emergency of International Concern by the WHO on January 30, 2020. The pandemic has triggered unprecedented government mandates and health and safety measures which have significantly impacted the U.S. and global financial markets, in particular, U.S. publically traded equity securities, and impacts on yields and interest rates in the U.S. bond market. As the pandemic still unfolds, it is too early to draw any definite conclusions as to its overall impact to the Company at this time.

Effective January 1, 2021, the Company reached an agreement with CPA Mutual Insurance Company of America (CPA Mutual) to transfer its Accountants Professional Liability Insurance program to the Company as policies renew. CPA Mutual's member service and sales team will join the Company and will continue servicing CPA Mutual's accounts during the transition. CPA Mutual will also continue to service open claims filed with CPA Mutual using the same claims team and assist with the transition.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgement is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

_____/S/_____

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Senior Insurance Examiner, Specialist
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_____/S/_____

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