

REPORT OF EXAMINATION
OF THE
CALIFORNIA MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2014

Filed on April 28, 2016

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San Francisco, California
March 25, 2016

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA MUTUAL INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 650 San Benito Street, Suite 250, Hollister, California 95024.

SCOPE OF EXAMINATION

We have performed our single state examination of the Company. The previous examination of the Company was made as of December 31, 2010. This examination covers the period from January 1, 2011 through December 31, 2014.

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.

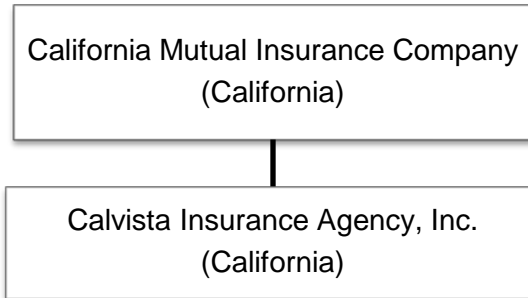
This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

COMPANY HISTORY

The Company was incorporated under the laws of the state of California as the Farmers Mutual Fire Insurance Company of San Benito County and commenced operations on September 20, 1920. The Company changed its name to Mid-State Mutual Insurance Company in 1989. On September 8, 2006, the Company received approval to change its name to California Mutual Insurance Company.

MANAGEMENT AND CONTROL

The Company is a mutual insurer with 1,916 policyholders as of December 31, 2014. The Company has a wholly-owned insurance agency subsidiary, Calvista Insurance Agency, Inc. (Calvista). The following chart shows the relationship between the Company and Calvista at December 31, 2014.



Management of the Company is vested in an eight member board of directors elected annually. As of December 31, 2014, the directors and principal officers were as follows:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Ken Bettencourt Gilroy, California	Owner/Broker Ridgemark Realty
Connie Glosser Hollister, California	Certified Public Accountant United Genetics
Don Marcus Hollister, California	President Marcus Building Systems
Steve I. Miller Hollister, California	President and Chief Executive Officer California Mutual Insurance Company
James E. Rollins ^(a) Hollister, California	Retired Owner Maxim Electronics
Sandy Rose Hollister, California	Retired Insurance Broker and Lead Director Sandy Rose Insurance Agency
Cheri L. Schmidt Hollister, California	Chief Financial Officer California Mutual Insurance Company
Ed Stephenson Hollister, California	Secretary California Mutual Insurance Company

^(a) James E. Rollins retired and was replaced by Milo Pearson in April 2015.

Principal Officers

<u>Name</u>	<u>Title</u>
Steve I. Miller	President and Chief Executive Officer
Cheri Schmidt	Chief Financial Officer
Ed Stephenson	Secretary

Management Agreements

Administrative Services Agreement: The Company entered into an Administrative Services Agreement with its subsidiary, Calvista Insurance Agency, Inc. (Calvista), effective January 17, 2008. Under the terms of the Agreement, the Company provides administrative and facilities services to Calvista. The administrative services include financial reporting, tax compliance, treasury, budget and cost accounting, payroll, and other various services. Calvista pays the Company for these services and facilities based on time allocations, expense sharing, and actual cost. The California Department of Insurance authorized the Company to proceed and execute this Agreement on January 17, 2008.

TERRITORY AND PLAN OF OPERATION

The Company is only licensed to transact property and casualty insurance business in California. The Company is licensed to write fire, allied lines, farm owners multiple peril, homeowners multiple peril, commercial multiple peril, earthquake, and boiler & machinery.

As of December 31, 2014, the Company reported total direct premiums written of \$4.3 million. The Company's written premium is composed of 75% commercial multiple peril lines and 25% homeowners and dwelling fire lines. The Company has approximately 110 active independent insurance agents that generate 93% of the premiums. The remaining 7% is homeowner and dwelling fire premiums written directly.

REINSURANCE

Assumed

The Company assumes 1.65% of a reciprocal catastrophe pool from Mutual Reinsurance Bureau.

Ceded

The following is a summary of principal reinsurance agreements in-force as of December 31, 2014:

<u>Type of Contract</u>	<u>Line(s) of Business</u>	<u>Authorized Reinsurer(s) and Participation</u>	<u>Company's Retention</u>	<u>Reinsurer's Limits</u>
Multi-Line Excess of Loss:				
First Layer	Property business classified as Fire, Allied Lines, Inland Marine, Homeowners (Section 1), Commercial Multiple Peril (Section 1) and Earthquake - Casualty business Classified as Homeowners (Section II), Farmowners (Section II), Commercial Multiple Peril (Section II), and Dwelling Fire (liability coverages)	Mutual Reinsurance Bureau (MRB) 50% Maiden Reinsurance North American 50%	\$250,000 per occurrence	100% of \$750,000 xs \$250,000
Second Layer	Property business classified as Fire, Allied Lines, Inland Marine, Homeowners (Section 1), Commercial Multiple Peril (Section 1) and Earthquake - Casualty business Classified as Homeowners (Section II), Farmowners (Section II), Commercial Multiple Peril (Section II), and Dwelling Fire (liability	Mutual Reinsurance Bureau (MRB) 50% Maiden Reinsurance North American 50%	\$1,000,000 per occurrence	100% of \$1 million xs \$1 million

Type of Contract	Line(s) of Business coverages)	Authorized Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
Casualty Clash	Casualty business Classified as Homeowners (Section II), Farmowners (Section II), Commercial Multiple Peril (Section II), and Dwelling Fire (liability coverages)	Mutual Reinsurance Bureau (MRB) 50% Maiden Reinsurance North American 50%	\$2,000,000 per occurrence	100% of \$1,000,000 xs \$2,000,000 (Casualty Business Only)
Property per Risk Excess of Loss	Property business classified as Fire, Allied Lines, Inland Marine, Homeowners (Section 1), Commercial Multiple Peril (Section 1) and Earthquake	Mutual Reinsurance Bureau (MRB) 25% Maiden Reinsurance North American 75%	\$4,000,000 per occurrence	100% of \$4,000,000 xs \$2,000,000
Property Catastrophe Excess of Loss:				
First Layer	Property business classified as Fire, Allied Lines, Inland Marine, Homeowners (Section 1), Commercial Multiple Peril (Section 1) and Earthquake	Mutual Reinsurance Bureau (MRB)100%	\$600,000 per occurrence	95% of \$1,400,000 xs \$600,000
Second Layer	Property business classified as Fire, Allied Lines, Inland Marine, Homeowners (Section 1), Commercial Multiple Peril (Section 1) and Earthquake	Mutual Reinsurance Bureau (MRB)100%	\$2,000,000 per occurrence	95% of \$2,000,000 xs \$2,000,000
Third Layer	Property business classified as Fire, Allied Lines, Inland Marine, Homeowners (Section 1), Commercial Multiple Peril (Section 1) and Earthquake	Mutual Reinsurance Bureau (MRB)100%	\$4,000,000 per occurrence	100% of \$3,000,000 xs \$4,000,000
Equipment Breakdown	Commercial Multi-Peril	Hartford Steam Boiler Inspection and Insurance Company	\$0	100% not to exceed \$25,000,000 per accident, per policy
Equipment Breakdown and Line Service	Homeowners	Hartford Steam Boiler Inspection and Insurance Company	\$0	100% not to exceed - per accident, per policy Homeowners - \$50,000 Service Line - \$10,000

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, 2014. There were no examination adjustments made to surplus as a result of the examination. The accompanying comments to the amounts reported in the financial statements should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2014

Underwriting and Investment Exhibit for the Year Ended December 31, 2014

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2014

Statement of Financial Condition
as of December 31, 2014

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 8,257,946	\$	\$ 8,257,946	
Common stocks	4,382,472	320,000	4,062,472	
Cash and short-term investments	1,063,535		1,063,535	
Other invested assets	8,715		8,715	
Investment income due and accrued	79,971		79,971	
Uncollected premiums and agents' balances in course of collection	260,175	2,568	257,607	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	353,267		353,267	
Amount recoverable from reinsurers	5,255		5,255	
Other amounts receivable under reinsurance contracts	61,500		61,500	
Guaranty funds receivable or on deposit	35,184		35,184	
Furniture and equipment	2,481	2,481		
Receivable from parent, subsidiaries, and affiliates	53,962		53,962	
Aggregate write-ins for other than invested assets	<u>160,969</u>	<u>5,000</u>	<u>155,969</u>	
Total assets	<u>\$ 14,725,432</u>	<u>\$ 330,049</u>	<u>\$ 14,395,383</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 687,715	(1)
Loss adjustment expenses			155,671	(1)
Commissions payable, contingent commissions and other similar charges			248,079	
Other expenses			37,809	
Taxes, licenses and fees			13,425	
Current federal and foreign income taxes			9,106	
Net deferred tax liability			245,869	
Unearned premiums			2,080,994	
Advance premiums			26,566	
Ceded reinsurance premiums payable			<u>17,332</u>	
Total liabilities			3,522,566	
Unassigned funds (surplus)		<u>10,872,817</u>		
Surplus as regards policyholders			<u>10,872,817</u>	
Total liabilities, surplus and other funds			<u>\$ 14,395,383</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2014

Statement of Income

Underwriting Income

Premiums earned		\$ 3,263,119
Deductions:		
Losses	\$ 1,060,155	
Loss expenses incurred	524,323	
Other underwriting expenses incurred	<u>1,990,639</u>	
Total underwriting deductions		<u>3,575,117</u>
Net underwriting loss		(311,998)

Investment Income

Net investment income earned	\$ 165,679	
Net realized capital gain	<u>340,025</u>	
Net investment gain		505,704

Other Income

Net loss from agents' or premium balances charged off	\$ (306)	
Finance and service charges not included in premiums	10,009	
Aggregate write-ins for miscellaneous income	<u>3,635</u>	
Total other income		<u>13,338</u>
Net income before federal and foreign income taxes		207,044
Federal and foreign income taxes incurred		<u>41,092</u>
Net income		<u>\$ 165,952</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2013		\$ 10,756,086
Net income	\$ 165,952	
Change in net unrealized capital gains	(111,228)	
Change in net deferred income tax	48,460	
Change in nonadmitted assets	<u>13,547</u>	
Change in surplus as regards policyholders for the year		<u>116,731</u>
Surplus as regards policyholders, December 31, 2014		<u>\$ 10,872,817</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2010 through December 31, 2014

Surplus as regards policyholders, December 31, 2010			\$ 9,691,325
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 1,223,713	\$	
Change in net unrealized capital gains	27,057		
Change in net deferred income tax	14,332		
Change in nonadmitted assets	<u> </u>	<u>(83,610)</u>	
Total gains and losses	<u>\$ 1,265,102</u>	<u>\$ (83,610)</u>	
Net increase in surplus as regards policyholders			<u>1,181,492</u>
Surplus as regards policyholders, December 31, 2014, per Examination			<u>\$ 10,872,817</u>

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, 2014 prepared by the Company's independent actuary and concurred with the actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2014 were reasonable and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Reinsurance (Page 5): It was recommended that the Company revise its reinsurance agreements to comply with California Code of Regulations, Title 10, Chapter 5, Article 3, Section 2303.13(b). The Company is now in compliance.

Preferred Stock (Page 10): It was recommended that the Company comply with the National Association of Insurance Commissioners Securities Valuations Office (NAIC SVO) filing guidelines as stated in the Purposes and Procedures Manual of the NAIC SVO or maintains documentation for filing as provisionally exempt if the preferred stock meets the criteria. The Company is now in compliance.

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,

/S/

Vicky Au-Yeung
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

/S/

Ber Vang, CFE, AES, CISA
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California