REPORT OF EXAMINATION

OF THE

CALIFORNIA INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

FILED ON MAY 17, 2019

TABLE OF CONTENTS

PAGE

SCOPE OF EXAMINATION 1

SUMMARY OF SIGNIFICANT FINDINGS: 2
  Stipulated Consent Cease and Desist Order 2

COMPANY HISTORY 3

MANAGEMENT AND CONTROL: 5
  Management Agreements 6

TERRITORY AND PLAN OF OPERATION 8

REINSURANCE: 10
  Intercompany 10
  Assumed 11
  Ceded 11

FINANCIAL STATEMENTS: 12
  Statement of Financial Condition as of December 31, 2017 13
  Underwriting and Investment Exhibit for the Year Ended December 31, 2017 14
  Reconciliation of Surplus as Regards Policyholders from December 31, 2013 through December 31, 2017 15

COMMENTS ON FINANCIAL STATEMENT ITEMS: 16
  Losses and Loss Adjustment Expenses 16

SUBSEQUENT EVENTS 16

SUMMARY OF COMMENTS AND RECOMMENDATIONS: 16
  Current Report of Examination 16
  Previous Report of Examination 17

ACKNOWLEDGMENT 18

Sacramento, California
April 04, 2019

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 10805 Old Mill Road, Omaha, Nebraska 68154.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2013. This examination covered the period from January 1, 2014 through December 31, 2017.

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 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.

This was a coordinated examination with California as the lead state of the Applied Underwriters, Inc. subgroup of Berkshire Hathaway, Inc. It was conducted concurrently with other insurance entities in the holding company group, including Applied Underwriters Captive Risk Assurance Company, Inc., Continental Indemnity Company, Illinois Insurance Company, Pennsylvania Insurance Company and Texas Insurance Company. The following states participated on the examination: Iowa and Texas.

SUMMARY OF SIGNIFICANT FINDINGS

Stipulated Consent Cease and Desist Order

Pursuant to the Stipulated Consent Cease and Desist Order (Consent Order) adopted by California Insurance Commissioner Dave Jones on September 6, 2016, the Company and Applied Underwriters Captive Risk Assurance Company, Inc. (AUCRA) agreed to apply modified Loss Development Factors (LDFs) that were agreed upon by actuaries from the California Department of Insurance (CDI), the Company and AUCRA, to any California policy issued in connection with a Reinsurance Participation Agreement (RPA), in force as of July 1, 2016. During the examination, the examination team determined that the Company and ACURA did not apply the agreed upon LDFs to some cancelled and/or expired California policies in accordance with the Consent Order. The Company and AUCRA contend that the error was inadvertent.

In response to the above finding, the Company agreed to make the necessary changes to those affected policies, to comply with the Consent Order. However, the Company indicated that changing the LDFs to comply with the Consent Order might have a negative impact to some of its policies, as the Consent Order LDFs can be higher or lower than the Company's LDFs depending on the age bracket of the claim. In order to prevent any adverse impact to policyholders, the Company proposed to immediately use the lower of the Company's LDFs and Consent Order LDFs.

The CDI agreed with the Company's proposal and also recommended that the Company enter into a new agreement with the CDI that stipulates that the lower of the Company's LDFs and the Consent Order LDFs will be applied to active RPAs moving forward.

Additional information regarding the Consent Order can be found under the Company History Section of the Examination Report.

COMPANY HISTORY

On September 6, 2016, California Insurance Commissioner Dave Jones adopted a Stipulated Consent Cease and Desist Order (Consent Order) that found the Reinsurance Participations Agreement (RPA) issued with worker's compensation insurance sold by the Company and Applied Underwriters Captive Risk Assurance Company, Inc. (AUCRA) was illegal and void because it was an unfiled and unapproved collateral agreement that was not filed with the California Worker's Compensation Insurance Bureau (WCIRB) and the California Department of Insurance (CDI) in accordance with California Insurance Code Sections 11658 and 11735 and California Code of Regulations, Title 10, Sections 2218 and 2268.

Within the Consent Order, the Company and AUCRA agreed to cease and desist from issuing new RPAs or renewing existing RPAs issued in connection with a California policy until the RPA has been submitted to the WCIRB and the CDI.

The Consent Order also stated the following:

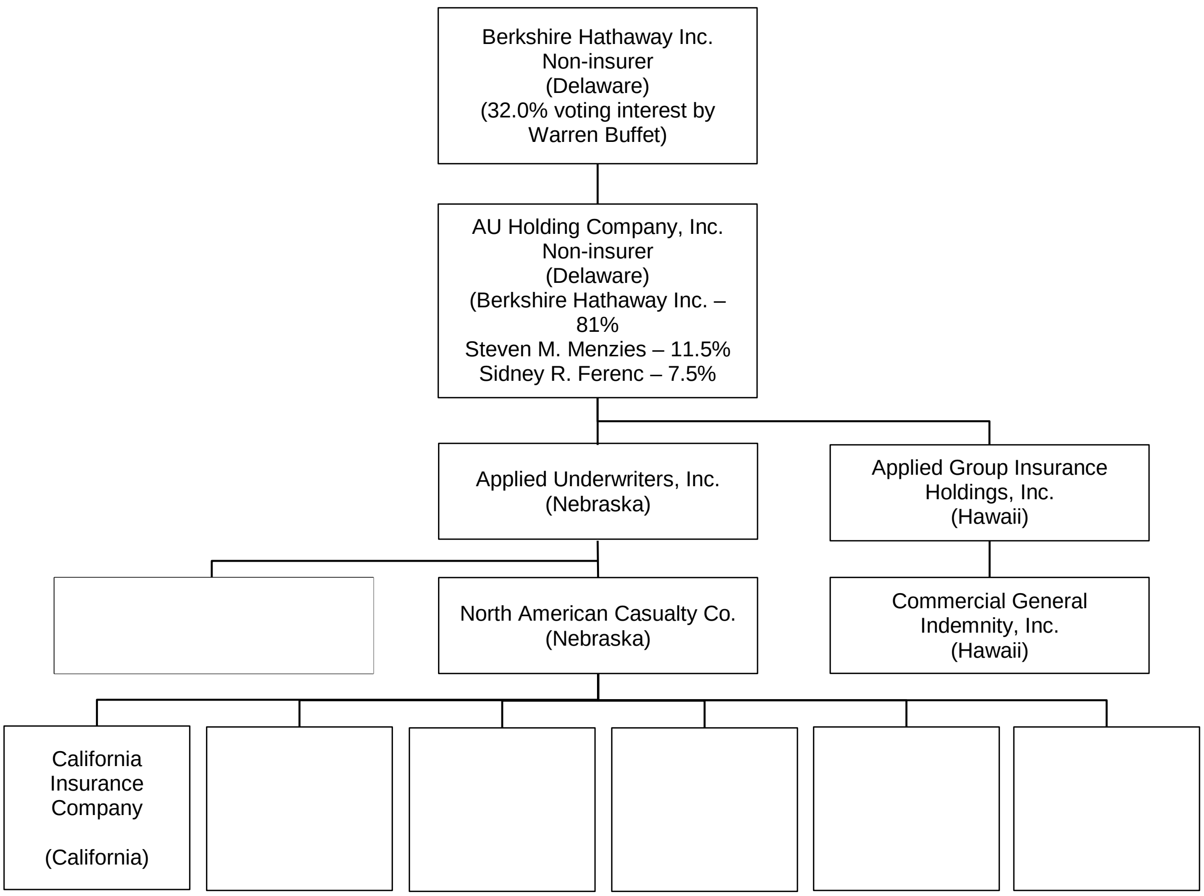
1. The Company may renew a policy issued in connection with an RPA in force as of July 1, 2016;
2. Arbitrations under either an RPA that is currently an in-force RPA or a past RPA entered into or issued in California will take place in California;
3. CIC and AUCRA will not apply run-off loss development factors (LDFs) to any policy at any time, including upon termination, cancellation or nonrenewal of the RPA or insurance policy;
4. The Company and AUCRA will apply modified LDFs that were agreed upon by actuaries from the CDI, the Company and AUCRA to those policies.

The Consent Order only applies to policies and RPAs covering loss exposures in California, claims arising within locations in California and California workers. The Consent Order did not prevent the Company from issuing standalone guaranteed cost policies that have been submitted to the WCIRB and the CDI, and which have not been disapproved.

The Company and AUCRA have since filed an amended RPA with the CDI, which was approved by the Commissioner under a Settlement Agreement between the CDI, the Company and AUCRA on June 7, 2017.

MANAGEMENT AND CONTROL

The Company is a member of the Berkshire Hathaway Inc. insurance holding company system. The following abridged organizational chart is limited to the entities the Company had interrelationships with during the examination period within the holding company system. All ownership is 100% unless otherwise noted:



(*) On July 31, 2014, North American Casualty Co. acquired control of Texas Insurance Company (formerly Optimum Property & Casualty Insurance Company) through the purchase of 100 percent of the issued and outstanding stock for $4.4 million. The Texas Insurance Department approved this purchase on July 11, 2014.

The five members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2017:

Directors

Name and Location	Principal Business Affiliation
Sidney R. Ferenc Highland Beach, Florida	Chairman of the Board Applied Underwriters, Inc.
Jon M. McCright Cedar Rapids, Iowa	Attorney Lynch Dallas, P.C.
Steven M. Menzies Omaha, Nebraska	President and Chief Executive Officer Applied Underwriters, Inc.
Jeffrey A. Silver Omaha, Nebraska	Executive Vice President, Secretary, and General Counsel Applied Underwriters, Inc.
Marc M. Tract Brookville, New York	Attorney Katten, Muchin, Rosenmann LLP

Principal Officers

Name	Title
Sidney R. Ferenc	Chairman of the Board
Steven M. Menzies	President, Chief Executive Officer, and Treasurer
Jeffrey A. Silver	Executive Vice President, Secretary, and General Counsel

Management Agreements

Management Services Agreement: Effective July 26, 2005, the Company entered into a Management Services Agreement (Agreement) with Applied Underwriters, Inc. (AUI). Under the terms of the Agreement, AUI agrees to provide all underwriting, investment, administrative, actuarial, and claim services to the Company at actual cost. This Agreement was approved by the California Department of Insurance (CDI) on June 25, 2008. Total fees paid by the Company under this Agreement in 2014, 2015, 2016 and 2017 were $35,518,054, $37,710,512, $40,969,153 and $43,163,965, respectively.

Claim Service Agreement: Effective June 1, 2005, the Company entered into a Claim Service Agreement (Agreement) with Applied Risk Services, Inc. (ARS). Under the terms of the Agreement, ARS agrees to provide all claim-adjusting services to the Company, and the Company agrees to reimburse ARS for all reasonable and necessary expenses incurred in connection with adjusting workers' compensation claims. This Agreement was approved by the CDI on June 25, 2008. Since January 2009, the Company has been paying losses and loss adjustment expenses directly. As a result, the Company did not reimburse ARS for any losses and loss adjustment expenses paid under this Agreement during the examination period.

Agency Agreement: Effective June 1, 2005, the Company entered into an Agency Agreement (Agreement) with ARS. Under the terms of the Agreement, ARS receives premium from policyholders and pays commissions to brokers on behalf of the Company. For this service, the Company reimburses ARS for the actual commissions paid to brokers and agents who write workers' compensation insurance for the Company. The Agreement was approved by the CDI on June 25, 2008. Total commissions reimbursed by the Company under this Agreement in 2014, 2015, 2016 and 2017 were $30,140,541, $29,782,735, $31,262,096 and $25,015,027, respectively.

Tax Allocation Agreement: Effective May 29, 2006, the Company entered into a Consolidated Federal Income Tax Allocation Agreement (Agreement) with its ultimate parent company, Berkshire Hathaway Inc. The Agreement calls for each company to be responsible for no more than the amount which would be paid as if filing a separate return. The Agreement was approved by the CDI on February 10, 2010.

TERRITORY AND PLAN OF OPERATION

The Company's operations are conducted jointly with its affiliates at its administrative office in Omaha, Nebraska. As of December 31, 2017, the Company was licensed to transact workers' compensation, employment practices liability insurance (other liability claims made), employment practices liability insurance (write-in), and surety and warranty lines of business in the following 26 states:

Alaska	Arizona	California
Indiana	Idaho	Illinois
Hawaii	Connecticut	Georgia
Maryland	Iowa	Kansas
Nevada	Missouri	Montana
North Carolina	New Jersey	New York
Pennsylvania	North Dakota	Oregon
Virginia	Texas	Utah
Washington	Wisconsin	

In 2017, approximately 96.6% of the business written was workers' compensation. Of the $302.9 million in direct premiums written, approximately 86.4% was written in California, with the remaining 13.6% written in the other 25 licensed states.

The Company predominantly writes workers' compensation in California and employment practices liability coverages for the SolutionOne, CoverStar, EquityComp, JumboGC, and Premier Exclusive products through its affiliated licensed insurance agent, Applied Risk Services, Inc. (ARS). The products are sold through independent brokers with most of the business written in conjunction with payroll services that is administered by another affiliate, Applied Underwriters, Inc. (AUI), under a separate agreement with policyholders.

The Company offers a risk sharing plan, known as a Reinsurance Participation Agreement (RPA), that is available to all non-guaranteed cost workers' compensation products offered above which provides a profit sharing distribution for policyholders who have good loss experience. Risk sharing components are accounted for through segregated cell accounts and reinsured with the Company's affiliate company, Applied Underwriters Captive Risk Assurance Company, Inc. (AUCRA).

SolutionOne is described as an integrated package targeted to small and medium sized businesses that includes: workers' compensation insurance, employment practices liability insurance, payroll processing services, risk management features, and other employer extended coverages in blue-collar industries with annual workers' compensation premiums of $5,000 to $400,000. Approximately 39% of the Company's book of business in 2017 was SolutionOne.

In 2017, the Company launched CoverStar, a workers' compensation only product that provides a guaranteed cost policy for insureds with annual premiums of $5,000 to $200,000. The Company's target industries are similar to but slightly broader than that of SolutionOne, including more lower-base rate classes. The Company did not write any CoverStar business in 2017.

EquityComp is a specialty workers' compensation product with risk sharing features targeted to medium sized businesses with annual workers' compensation premiums of $250,000 to $2,000,000, but does not include payroll processing services. The EquityComp product is sold with a RPA through the Company's affiliate, AUCRA. AUCRA then enters into a RPA with the insured in order to form a segregated protected cell by which the insured shares in a portion of the premiums and losses under the policy. AUCRA acts as a facilitator and also bears risk thereon for premiums and losses between the Company and the insured's protected cell. Approximately 37% of the Company's book of business in 2017 was EquityComp.

In 2016, the Company launched JumboGC, a guaranteed cost workers' compensation product that provides coverage for insureds with annual premiums of $200,000 to $2,000,000 and beyond with few capacity and concentration restrictions. The product targets industries that are similar to those of EquityComp and SolutionOne. Approximately 25% of the Company's book of business in 2017 was JumboGC.

The Premier Exclusive product is a mono-line workers' compensation product offered to employers who do not want to have payroll services but independently provides electronic payroll information monthly to the Company. This product allows appointed agents greater flexibility to service insureds that would otherwise not qualify for SolutionOne. The Company did not write any Premier Exclusive business in 2017.

REINSURANCE

Intercompany

Restated Intercompany Pooling Agreement: On January 1, 2013, the Company entered into a Restated Intercompany Pooling Agreement (Agreement) with affiliates Continental Indemnity Company, Illinois Insurance Company and Pennsylvania Insurance Company. This Agreement was superseded by a Second Restated Intercompany Pooling Agreement, effective January 1, 2015, whereby affiliate Texas Insurance Company was added. The Agreement was approved by the California Department of Insurance (CDI) on January 14, 2015.

The following table illustrates each participant's pooled share as of December 31, 2017:

Company	State of Domicile	Pooling Share
California Insurance Company	CA	70.0%
Continental Indemnity Company	IA	15.0%
Illinois Insurance Company	IA	5.0%
Pennsylvania Insurance Company	IA	5.0%
Texas Insurance Company	TX	5.0%
Pool Total		100.0%

Master Facultative Reinsurance Agreement: Effective July 1, 2005, the Company and Applied Underwriters Captive Risk Assurance Company, Inc. (AUCRA) entered into a Master Facultative Reinsurance Agreement (Agreement) whereby premiums and losses of the profit sharing workers' compensation policies from EquityComp and SolutionOne are ceded to AUCRA under a segregated cell arrangement. The Agreement was approved by the CDI on June 25, 2008.

This Agreement was originally executed as a Quota Share Reinsurance Agreement with AUCRA-BV, AUCRA's former name in the British Virgin Islands. With Addendum 3 executed on August 21, 2007, this Agreement was changed into a Master Facultative Reinsurance Agreement, whereby the Company ceded losses under each segregated cell account above a stated attachment point, up to a maximum as set forth in the participating clients' (policyholders') proposal. With Addendum 5 executed on January 15, 2012, this Agreement changed all references from AUCRA-BV to AUCRA, an Iowa domiciled company.

Assumed

As a member of the National Workers' Compensation Reinsurance Pool, the Company is responsible, on an assumed reinsurance basis, for the actual financial results of the assigned risk policies reinsured through the various pooling mechanisms. The amount of reinsurance assumed from pools and associations was immaterial at December 31, 2017.

Ceded

The following is a summary of the principal ceded reinsurance treaties in-force as of December 31, 2017:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Workers' Compensation Quota Share Reinsurance Contract (CoverStar)	Authorized Munich Re America, Arch Re, Everest Re, Cincinnati Insurance, Chubb Re and Odyssey Re Unauthorized None	15.0% up to $1.0 million, each and every loss occurrence	85.0% up to $1.0 million, each and every loss occurrence
Terrorism Excess of Loss	Authorized Arch Re, Cincinnati Insurance, Munich Re American, Munich Re Company Odyssey and 14 Lloyd's of London Syndicates. Unauthorized Allied World Assurance, Ascot Bermuda, Endurance Re, Hannover Re (Bermuda), MS Amlin AG and Tokio Millennium Re.	$100 million, each and every loss occurrence	$400 million in excess of $100 million, each and every loss occurrence

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, 2017. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders from December 31, 2013 through December 31, 2017

Statement of Financial Condition
as of December 31, 2017

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 590,507,290	$	$ 590,507,290	
Preferred stocks	105,000		105,000	
Common stocks	128,766,570		128,766,570	
Cash and short-term investments	202,877,432		202,877,432	
Investment income due and accrued	2,420,445		2,420,445	
Premiums, agents' balances and installments booked but deferred and not yet due (including $1,500 earned but unbilled premiums)	46,031,286	150	46,031,136	
Amount recoverable from reinsurers	20,398,897		20,398,897	
Current federal and foreign income tax recoverable and interest thereon	6,003,445		6,003,445	
Guaranty funds receivable or on deposit	20,728,361		20,728,361	
Receivables from parent, subsidiaries and affiliates	743,786		743,786	
Aggregate write-ins for other than invested assets	2,937,354	127,591	2,809,763	
Total assets	$ 1,021,519,866	$ 127,741	$ 1,021,392,125	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 264,352,308	(1)
Reinsurance payable on paid loss and loss adjustment expenses		16,577,264	
Loss adjustment expenses		50,450,390	(1)
Commissions payable, contingent commissions and other similar charges		4,266,655	
Other expenses		881,957	
Taxes, licenses and fees		1,547,557	
Net deferred tax liability		6,080,340	
Unearned Premiums		3,465,611	
Ceded reinsurance premiums payable		24,641,670	
Funds held by company under reinsurance treaties		22,589,500	
Remittances and items not allocated		6,673	
Payable to parent, subsidiaries and affiliates		2,576,173	
Aggregate write-ins for liabilities		1,358,356	
Total liabilities		398,794,454	
Common capital stock	$ 4,000,000		
Gross paid-in and contributed surplus	54,060,000		
Unassigned funds (surplus)	564,537,671		
Surplus as regards policyholders		622,597,671	
Total liabilities, surplus and other funds		$ 1,021,392,125	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income		
Premiums earned		$ 308,333,542
Deductions:		
Losses incurred	$ 123,486,724	
Loss adjustment expenses incurred	30,756,153	
Other underwriting expenses incurred	67,430,362	
Total underwriting deductions		221,673,239
Net underwriting gain		86,660,303
Investment Income		
Net investment income earned	$ 9,146,361	
Net realized capital gain	32,837,714	
Net investment gain		41,984,075
Other Income		
Finance and service charges not included in premium	$ 40,371	
Aggregate write-ins for miscellaneous income	(318,720)	
Total other income		(278,349)
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		128,366,029
Federal and foreign income taxes incurred		31,139,248
Net income		$ 97,226,681

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		$ 528,664,515
Net income	$ 97,226,681	
Change in net unrealized capital gains	10,580,489	
Change in net deferred income tax	(14,073,113)	
Change in nonadmitted assets	199,099	
Change in surplus as regards policyholders for the year		93,933,156
Surplus as regards policyholders, December 31, 2017		$ 622,597,671

Reconciliation of Surplus as Regards Policyholders
from December 31, 2013 through December 31, 2017

Surplus as regards policyholders, December 31, 2013			$ 317,357,442
	Gain in Surplus	Loss in Surplus	
Net income	$ 306,305,643	$	
Net unrealized capital gains	16,650,103		
Change in net deferred income tax		17,927,206	
Change in nonadmitted assets	211,689		
Total gains and losses	$ 323,167,435	$ 17,927,206	
Net increase in surplus as regards policyholders			305,240,229
Surplus as regards policyholders, December 31, 2017			$ 622,597,671

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2017 were found to be reasonably stated and have been accepted for the purpose of this examination.

SUBSEQUENT EVENTS

On December 27, 2018, the Company declared a dividend to be paid to its immediate parent, North American Casualty Co., in the amount of $97.0 million. The dividend amount fell below a threshold that would require prior approval from the California Department of Insurance in accordance with California Insurance Code Section 1215.5(g).

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Summary of Significant Findings - (Page 2): It is recommended that the Company enter into a new agreement with the California Department of Insurance that stipulates that the lower of the Company's LDFs and the Consent Order LDFs will be applied to all California policies issued in connection with a Reinsurance Participation Agreement (RPA), in force as of July 1, 2016. It is also recommended that the Company apply the new set of LDFs to California policies with active RPAs moving forward.

Previous Report of Examination

Accounts and Records - Information Systems Controls - (Page 17): It was recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information systems controls. The Company indicated that it would continue to make the appropriate changes to strengthen its information systems controls.

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/____________________

Donavan C. Han, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

________/S/___________________

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