REPORT OF EXAMINATION
OF THE
CSE SAFEGUARD INSURANCE COMPANY
AS OF
DECEMBER 31, 2018

Filed on March 19, 2020

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San Francisco, California
January 16, 2020

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CSE SAFEGUARD INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 2121 North California Boulevard, Walnut Creek, California 94596.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2014. This examination covered the period of January 1, 2015 through December 31, 2018. 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. The 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

Capitalization

The Company is authorized to issue 3,000 shares of common stock with a par value of $4 thousand per share. As of December 31, 2018, there were 850 shares issued and outstanding.

The Company received capital contributions in the amount of $5 million in 2017 and $8.3 million in 2018 from its immediate parent, Civil Service Employees Insurance Company. The Company accounted for this contribution as additional paid-in capital on its balance sheet.

Dividends

The Company paid cash dividends to its immediate parent, Civil Service Employees Insurance Company (CSEICO), in the amount of $967 thousand in 2015 and $188 thousand in 2016. The Company did not pay any cash dividends to CSEICO in 2017 and 2018.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system (CSE Insurance Group), of which Covéa Coopérations is the ultimate controlling entity. The following abridged organizational chart depicts the inter-relationship of the companies as of December 31, 2018 (all ownership is 100% unless otherwise noted):

MMA IARD Assurances Mutuelles (France) [21.53%]
MMA Vie Assurance Mutuelles (France) [11.80%]
Garantie Mutuelle des Fonctionnaires/GMF (France) [18.80%]
Assurances Mutuelles de France (France) [14.54%]
MAAF Assurances (France) [33.16%]
MAAF Sante (France) [0.17%]
    Covéa Coopérations (France)
        Covéa Lux (Luxembourg)
        GMF Financial Services Corporation (Delaware)
            CSE Insurance Services, Inc. (California)
            Civil Service Employees Insurance Company (California)
                CSE Safeguard Insurance Company (California)

The seven members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal offices of the Company serving at December 31, 2018:

Directors

Name and Location	Principal Business Affiliation
David A. Brinker Tucson, Arizona	Retired Executive Vice President CSE Insurance Group
Fancois Josse Paris, France	Senior Vice President, Head of International Covéa Coopérations
Thomas A. Kelly West Linn, Oregon	Retired Senior Vice President Towers Watson, Inc.
Bertrand A. LeFebvre Paris, France	Senior Vice President, Group Internal Audit Covéa Coopérations
Marcus H. Linden El Dorado Hills, California	President and Chief Executive Officer CSE Insurance Group
Pierre Michel Paris, France	Executive Vice President, International and Reinsurance Covéa Coopérations
Dominique Salvy[a] Paris, France	Senior Vice President, International Covéa Coopérations

Principal Officers

Name	Title
Marcus H. Linden	President and Chief Executive Officer
Neeraj Juneja	Executive Vice President and Chief Financial Officer
Angela Grant[b]	Acting Secretary

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

(a) Dominique Salvy resigned from the Board effective April 5, 2019. Fäiza Lefevre and Reuben Jeffrey were appointed to serve on the Board on that same date.
(b) Angela Grant was appointed to serve as General Counsel and Corporate Secretary on April 4, 2019.

Management Agreements

Cost Sharing Agreement: Effective January 1, 2018, the Company entered into a new Cost Sharing Agreement (Agreement) with its immediate parent, Civil Service Employees Insurance Company (CSEICO). This Agreement replaced the Cost Sharing Agreement that expired on December 31, 2017. The Agreement identifies certain services that are delegated by the Company to CSEICO and compensation for the services provided. These services include: claims and underwriting services, taxes, accounting, reinsurance and other functional support. During the examination, the Company did not submit the new Agreement with the California Department of Insurance (CDI) for pre-approval pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). It is recommended that the Company file the Agreement with the CDI pursuant to CIC Section 1215.5(b)(4).

Tax Allocation Agreement: Effective January 1, 1990, the Company entered into a Tax Allocation Agreement (Agreement) to file federal income taxes on a consolidated basis with its holding company, GMF Financial Services Corporation (GMFF), and other affiliates. On January 1, 2011, a revised Agreement was executed that provides for a consolidated tax return to be filed by GMFF with each company being responsible for its share of the taxes, computed on a separate company basis. The revised Agreement was approved by the CDI on October 8, 2015.

TERRITORY AND PLAN OF OPERATION

The Company’s operations are conducted jointly with its immediate parent, Civil Service Employees Insurance Company, at its home office in Walnut Creek, California. As of

December 31, 2018, the Company was licensed to write private passenger automobile liability and physical damage, homeowners multiple peril, and commercial multiple peril insurance in the following states:

Arizona	Idaho	Utah
California	Nevada	Washington
Colorado	Oregon	

Of the Company’s 2018 direct premiums written of $152.7 million, 79.3% was written in California, 19.6% in Utah, and 1.1% in Nevada. Business is written through approximately 370 independent agents, general agents, and one managing general agent.

Effective August 2019, the Company discontinued writing new commercial multiple peril policies (commercial policies). In December 2019, the Company began non-renewing its existing commercial policies.

Managing General Agency Agreement

The Company entered into a Managing General Agency Agreement (Agreement) with United Underwriters, Inc. (United) of Provo, Utah, effective July 1, 2005. Pursuant to the Agreement, United provides marketing, underwriting, premium collection and billing, policy processing, binding authority, and claims settlement for business produced in Utah. United produced $29.1 million of the Company’s total direct written premiums in 2018.

REINSURANCE

Intercompany

Aggregate Stop Loss Reinsurance Contract: Effective January1, 2018, the Company entered into an Aggregate Stop Loss Reinsurance Contract (Contract) with an affiliate, Covéa Lux. Pursuant to the Contract, the Company will retain and be liable for losses, excluding loss adjustment expenses, occurring during the period from January 1, 2018 through December 31, 2018, in an amount of aggregate ultimate net loss equal to 62% of its subject net earned premium for that period. Covéa Lux will be liable for an amount of aggregate ultimate net loss not to exceed 11% of the subject net earned premium of the Company for that period. For the reinsurance provided, the Company will pay Covéa Lux a 7.143% gross rate (5% net rate net of ceding commission) of its subject net earned premium for the term of the Contract. The Contract went into effect on January 1, 2018 and expired on December 31, 2018.

Subsequent to the examination date, the Company entered into a new Aggregate Stop Loss Reinsurance Contract (Contract) with Covéa Lux. The Contract went into effect on January 1, 2019 and expired on December 31, 2019. Pursuant to the Contract, the Company will retain and be liable for $90.0 million of aggregate ultimate net loss and allocated loss adjustment expenses not to exceed $40.0 million under Layer 1. Under Layer 2, the Company will be liable for an amount of aggregate ultimate net loss and allocated loss adjustment expenses not to exceed $25.0 million, in excess of $130.0 million. Layer 2 will be triggered as soon as 90% of the capacity of Layer 1 is used.

Excess of Loss Aggregate Reinsurance Contract: Effective July 1, 2018, the Company entered into an Excess of Loss Aggregate Reinsurance Contract (Contract) with Covéa Lux. Pursuant to the Contract, the Company will retain and be liable for $37.0 million of aggregate ultimate net loss and allocated loss adjustment expenses and Covéa Lux will be liable for an amount of aggregate ultimate net loss and allocated loss adjustment expenses not to exceed $35.0 million, in excess of $37.0 million. The Company will pay Covéa Lux a flat premium of $13.0 million that will be held by the Company and deposited into a funds withheld account. The Contract went into effect on July 1, 2018 and expired on December 31, 2019.

Reinsurance Pooling Contract: Effective January 1, 2018, the Company entered into a Reinsurance Pooling Contract (Contract) with its immediate parent, Civil Service Employees Insurance Company (CSEICO). This Contract replaced the Reinsurance Pooling Contract that was in effect since January 1, 2014. The Contract provides for the pooling and distribution of premiums, losses, loss adjustment and underwriting expenses between the parties. Pursuant to the Contract, the Company will cede 100% of its net writings (after non-affiliated reinsurance) to CSEICO, which in turn will retrocede 33.3% of the combined net writings of both companies to the Company. The Contract authorizes CSEICO to (1) collect and receive all premiums, (2) adjust and pay all losses, (3) obtain reinsurance, and (4) develop policy forms, establish rates, and accept or cancel risks.

The Company did not file the Aggregate Stop Loss Reinsurance Contracts, Excess of Loss Aggregate Reinsurance Contract and Reinsurance Pooling Contract with the California Department of Insurance (CDI) prior to execution as required under California Insurance Code (CIC) Section 1215.5(b)(3). It is recommended that the Company file all intercompany reinsurance agreements with the CDI pursuant to CIC Section 1215.5(b)(3).

Assumed

The Company did not assume any reinsurance during the examination period other than from the intercompany pool pursuant to the Reinsurance Pooling Contract detailed above.

Ceded

Other than the intercompany pooling, reinsurance is placed by the Company for itself and CSE Safeguard Insurance Company. Listed below are the principal treaties, coverages, retentions, and limits in effect as of December 31, 2018:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Multi Line Reinsurance			
Property (Per Risk)	All Authorized: Employers Mutual Cas. Co. (12.5%); Hannover Rueck SE (30%); Mapfre Re (10%); Munich Re America (20%); SCOR Re.	$500 thousand	$5 million with an aggregate limit of $20 million. $10 million limit for Acts of Terrorism.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Multi Line Reinsurance			
	(15%); Toa Re of America (12.5%)		
Property (Per Occurrence)	All Authorized: Employers Mutual Cas. Co. (12.5%); Hannover Rueck SE (30%); Mapfre Re (10%); Munich Re America (20%); SCOR Re (15%); Toa Re of America (12.5%)	$3 million	$10 million with an aggregate limit of $20 million. $10 million limit for Acts of Terrorism.
Casualty (ECO/XPL/LAE/WC Clash Cover Only)	All Authorized: Employers Mutual Cas. Co. (12.5%); Hannover Rueck SE (30%); Mapfre Re (10%); Munich Re America (20%); SCOR Re (15%); Toa Re of America (12.5%)	$500 thousand per event	$6.5 million with an aggregate limit of $20 million. $10 million limit for Acts of Terrorism.
Excess of Loss Property Catastrophe Excess of Loss First Layer	Authorized: (Aquilo) Hannover Rueck SE (20.0%); Lloyd's 2001 (20%); Munich Re America, Inc. (20.0%); and three others. Unauthorized America Ag. Ins. Co. (435%); MS Amlin AG (15.0%); Shelter Mutual Ins. Co. (2.0%) and two others.	$5 million	$7.5 million
Second Layer	Authorized: (Aquilo) Hannover Rueck SE (20.0%); Lloyd's 2001 (20%); Mapfre Re (10.0%); and two others. Unauthorized: Hannover Re, Ltd. (4.0%); MS Amlin AG (15.0%); R+V	$12.5 million	$7.5 million

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Multi Line Reinsurance			
	Versicherung AG (17.5%) and four others		
Third Layer	Authorized: (Aquilo) Hannover Rueck SE (10.0%); Lloyd's 2001 (20%), Mapfre Re (10.0%) and two others Unauthorized: Hannover Re, Ltd. (11.5%); MS Amlin AG (15.0%); R+V Versicherung AG (17.5%); and six others	$20 million	$30 million
Fourth Layer	Authorized: (Aquilo) Hannover Rueck SE (2.0%); Lloyd's 2001 (20%); Mapfre Re (7.0%) and two others Unauthorized: Hannover Re, Ltd. (27.0%); MS Amlin AG (12.5%); R+V Versicherung AG (12.25%); and six others	$50 million	$70 million

ACCOUNTS AND RECORDS

Unclaimed Property

A review was made of the Company's unclaimed property filings with the California State Controller's Office (SCO). California Code of Civil Procedure (CCP) Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532 – Unclaimed Property Law requires that all tangible personal property located in the State of California, that is held or owing in the ordinary course of business, and has remained unclaimed by the owner for more than three years after it became payable or distributable, is escheated to the SCO.

The Company did not file unclaimed property notices and remittance reports with payments to the SCO during the examination period. It is recommended that the Company escheat unclaimed property to the SCO and implement procedures to ensure compliance with CCP Sections 1530 and 1532. The Company agreed with the finding and filed unclaimed property notices to the SCO subsequent to the examination date.

FINANCIAL STATEMENTS

The following 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, 2018The 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, 2018

Underwriting and Investment Exhibit for the Year Ended December 31, 2018

Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2018

Statement of Financial Condition
as of December 31, 2018

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 79,086,157	$	$ 79,086,157	
Cash and short-term investments	5,561,065		5,561,065	
Investment income due and accrued	570,486		570,486	
Premiums and agents' balances in course of collection	2,786,858	402,265	2,384,593	
Premiums , agents' balances and installments booked but deferred and not yet due (including $0 earned but unbilled premiums)	7,055,082		7,055,082	
Amount recoverable from reinsurers	1,492,880		1,492,880	
Net deferred tax asset	4,883,161	2,777,076	2,106,085	
Receivables from parent, subsidiaries and affiliates	11,115,621		11,115,621	
Aggregate write-ins for other than invested assets	593,335	504,946	88,389	
Total assets	$ 113,144,645	$ 3,684,287	$ 109,460,358	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 30,603,429	(1)
Loss adjustment expenses		6,257,281	(1)
Commissions payable, contingent commissions and other similar charges		739,410	
Other expenses		72,852	
Taxes, licenses and fees		182,987	
Current federal and foreign income taxes		(18,684)	
Unearned premiums		31,929,599	
Advance premiums		2,196,496	
Ceded reinsurance premiums payable		408,744	
Funds held by company under reinsurance treaties		1,461,835	
Amounts withheld or retained by company for account of others		1,067,672	
Aggregate write-ins for liabilities		(101,660)	
Total liabilities		74,799,961	
Common capital stock	$ 3,400,000		
Gross paid-in and contributed surplus	24,993,333		
Unassigned funds (surplus)	6,267,065		
Surplus as regards policyholders		34,660,398	
Total liabilities, surplus and other funds		$ 109,460,359	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2018

Statement of Income

Underwriting Income			
Premiums earned		$ 54,280,358	
Deductions:			
Losses	$ 35,316,134		(1)
Loss expenses incurred	8,639,052		
Other underwriting expenses incurred	20,285,248		
Total underwriting deductions		64,240,434	
Net underwriting loss		(9,960,076)	
Investment Income			
Net investment income earned	$ 1,874,600		
Net realized capital losses	(73,213)		
Net investment gain		1,801,387	
Other income			
Finance and service charges not included in premiums	1,137,186		
Aggregate write-ins for miscellaneous income	(1,003,895)		
Total other income		133,291	
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		(8,025,398)	
Federal and foreign income taxes incurred		(118,362)	
Net loss		$ (7,907,036)	

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2017		$ 33,756,074	
Net loss	$ (7,907,036)		
Change in unrealized capital losses	(32,228)		
Change in net deferred income tax	622,079		
Change in nonadmitted assets	(1,527,468)		
Surplus adjustments: Paid-in	8,333,333		(2)
Aggregate write-ins for losses in surplus	1,415,651		
Change in surplus as regards policyholders for the year		904,331	
Surplus as regards policyholders, December 31, 2018		$ 34,660,405	

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2014 through December 31, 2018

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2014			$ 39,556,912
Net loss	$	$ 16,458,425	
Change in unrealized capital losses		36,341	
Change in net deferred income tax		705,800	
Change in nonadmitted assets		1,290,591	
Surplus adjustments: paid-in	13,333,333		
Dividends to stockholders		1,154,334	
Aggregate write-ins for gains and losses in surplus	1,415,651		
Total gains and losses	$ 14,748,984	$ 19,645,491	
Net decrease in surplus as regards policyholders			(4,896,507)
Surplus as regards policyholders, December 31, 2018			$ 34,660,405

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2018 were found to be reasonably stated and have been accepted for the purpose of this examination.

(2) Surplus Adjustments: Pain-in

The Company received a capital contribution in the amount of $8.3 million in 2018 from its immediate parent, Civil Service Employees Insurance Company. The Company accounted for this contribution as additional paid-in capital.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements – Cost Sharing Agreement (Page 5): It is recommended that the Company file its Cost Sharing Agreement with the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

Reinsurance – Intercompany (Page 7): It is recommended that the Company file all intercompany reinsurance agreements with the CDI pursuant to CIC Section 1215.5(b)(3).

Accounts and Records – Unclaimed Property (Page 10): It is recommended that the Company escheat unclaimed property to the State Controller's Office (SCO) and implement procedures to ensure compliance with California Code of Civil Procedure Sections 1530 and 1532. The Company agreed with the finding and filed unclaimed property notices to the SCO subsequent to the examination date.

Previous Report of Examination

Management and Control – Company Filings (Page 15): It was recommended that the Company comply with CIC Section 1215.4(b)(6) in future Insurance Holding Company System Annual Registration Filings. The Company is now in compliance.

Accounts and Records – Information Systems Controls (Page 15): It was recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls. The Company indicated that it would continue to make the appropriate changes to strengthen its information systems controls.

Accounts and Records – Vehicle Fraud Assessment (Page 15): It was recommended that the Company identify insured vehicles by their unique vehicle identification numbers to comply with California Code of Regulation (CCR), Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62(b). It was also recommended that the Company retain an Automobile Assessment File to comply with CCR, Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62(d). The Company is now in compliance.

Accounts and Records – Claims Practices (Page 15): It was recommended that the Company use a depreciation schedule that applies depreciation based on age and condition to comply with CCR Title 10, Chapter 5, Subchapter 7.5, Article I, Section 2695.9(f). 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/________________________

Donavan Han, CFE
Examiner-In-Charge
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___/S/________________________

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