REPORT OF EXAMINATION
OF THE

CALIFORNIA AUTOMOBILE
INSURANCE COMPANY

AS OF
DECEMBER 31, 2010

Filed December 29, 2011

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Los Angeles, California
October 28, 2011

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA AUTOMOBILE INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 4484 Wilshire Boulevard, Los Angeles, California, 90010. The Company's statutory home office and main administrative office is located at 555 West Imperial Highway, Brea, California 92821.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2010. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The Oklahoma Department of Insurance conducted the examination of American Mercury Insurance Company concurrently with the examination of the Company and its three California domiciled affiliates: Mercury Casualty Company, Mercury Insurance Company, and California General Underwriters Insurance Company, Inc.

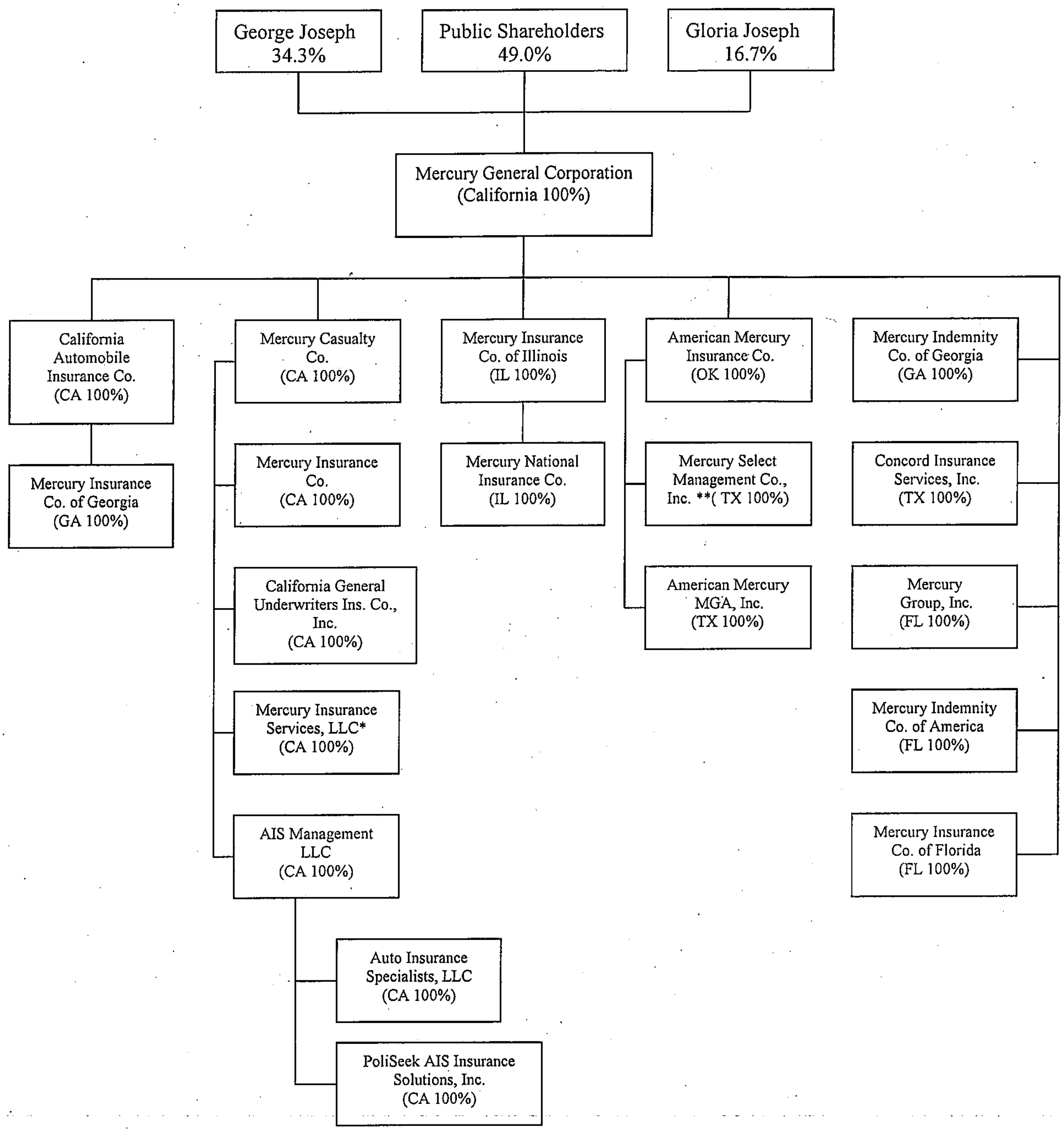
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; statutory deposits; and sales and advertising.

COMPANY HISTORY

Ordinary cash dividends paid by the Company to its parent, Mercury General Corporation (MGC), totaled $6,000,000, and $13,000,000 for the years 2009 and 2010, respectively.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Mercury General Corporation (MGC), a publicly traded insurance holding company. The controlling stockholders, George Joseph and Gloria Joseph, own 34.3% and 16.7%, respectively, of MGC's stock with the remaining 49.0% held by public shareholders. The following organizational chart depicts the Company's relationship within the holding company system:



* Mercury Insurance Services, LLC manages and controls Mercury County Mutual Insurance Company, a Texas County Mutual Insurer, through a Management agreement.

** Mercury Select Management Company, Inc. is Attorney-in-fact for American Mercury Lloyds Insurance Company, a Texas Lloyds plan Insurer.

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, 2010:

Directors

Name and Residence	Principal Business Affiliation
Nathan Bessin Los Angeles, California	Senior Partner J. Arthur Greenfield & Company
Bruce A. Bunner Fernandina Beach, Florida	Retired President Financial Structures, Ltd.
Michael D. Curtius Carlsbad, California	Executive Consultant Mercury General Corporation
Richard E. Grayson Murrieta, California	Retired Senior Vice President Union Bank
George Joseph Los Angeles, California	Chairman of the Board Mercury General Corporation
Martha E. Marcon Glendale, California	Retired Partner KMPG LLP
Donald P. Newell Pinehurst, North Carolina	Retired Partner Law Firm of Latham & Watkins LLP
Donald R. Spuehler Los Angeles, California	Retired Partner Law Firm of O'Melveny & Meyers, LLP
Gabriel Tirador Tustin, California	President and Chief Executive Officer Mercury General Corporation

Principal Officers

Name	Title
Gabriel Tirador	President and Chief Executive Officer
Theodore R. Stalick	Vice President, Chief Financial Officer, and Treasurer
Judith A. Walters	Secretary

Name	Title
Christopher W. Graves	Vice President

Management Agreements:

Management Agreement: Since January 1, 2001, the Company has been party to a management agreement with Mercury Insurance Services, LLC (MIS), a subsidiary of Mercury Casualty Company (MCC). Under the terms of this agreement, MIS performs underwriting and loss adjustment services for the MGC group of companies. The management fee is based on actual incurred expenses. The underwriting portion of the management fee is allocated between the Company and its affiliates based upon their proportionate share of direct premiums written. The fee for allocated loss adjustment expenses is based on actual payments by MIS for claims on policies issued by the Company. The unallocated loss adjustment expenses portion of the management fee is allocated between the Company and its affiliates based upon their proportionate share of net losses incurred. The Company incurred management fees of $35,749,000, $31,182,000, and $26,618,000 during the years 2008, 2009, and 2010, respectively. Approval of the agreement was granted by the California Department of Insurance (CDI) on January 1, 2001.

Service Agreement: Since January 17, 2005, the Company has been party to a service agreement with MCC and Mercury Insurance Company (MIC). Under the terms of this agreement, MCC collects all premiums and pays claims, commissions, and return premiums on behalf of the Company and MIC. MCC does not charge for these services as there are no additional incurred costs for the provider. Approval of the agreement was granted by the CDI on January 11, 2005.

Tax Allocation Agreement: Since January 1, 1983, the Company and various affiliates have been parties to a consolidated federal income tax agreement with the ultimate parent, MGC. Under the terms of this agreement, the tax liability of the Company and its affiliates are computed as if each entity filed a separate stand-alone return with current credit for net losses incurred by the insurance subsidiaries to the extent it can be used in the current consolidated return. Taxes paid by the Company totaled $3,500,000, $5,471,000, and $4,384,000 for the years 2008, 2009, and 2010, respectively. The agreement was not subject to prior approval by the CDI due to the effective date of the agreement.

Furniture and Equipment Rental Agreement: Since January 1, 1993, the Company has been party to a furniture and equipment rental agreement with MCC. Rental charges are predicated upon the depreciation of the assets utilized. Rental charges paid to MCC totaled $1,501,000, $1,238,000, and $1,359,000 for the years 2008, 2009, and 2010, respectively. The agreement was not subject to prior approval by the CDI due to the effective date of the agreement.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company was licensed to write various property and casualty coverages solely in California.

Writings are limited to private passenger automobile liability and physical damage. During 2010, the Company wrote $103.2 million of direct premiums in California. Business is distributed and marketed through a network of approximately 1,100 appointed independent agents. Branch offices are maintained in Anaheim, Brea, Camarillo, Folsom, Gilroy, Los Angeles, Rancho Cucamonga, San Diego, and Valencia.

REINSURANCE

Assumed

The Company did not assume reinsurance during the period covered by this examination.

Ceded

The Company did not cede reinsurance during the period covered by this examination.

ACCOUNTS AND RECORDS

Section 44 of the Statement of Statutory Accounting Principles Number 65 eliminated the requirement to record the excess statutory reserves. In conjunction therewith, the California Legislature passed Assembly Bill 2002, which eliminated the minimum reserve requirement effective January 1, 2011. Accordingly, the Company did not report the applicable excess statutory reserves (Schedule P Penalty) as of December 31, 2010. If the reporting requirement were still in effect, the calculated liability would have been $6,853,000. The Company did report the applicable excess of statutory over statement reserves as of December 31, 2009 in the amount of $11,746,000.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2010

Underwriting and Investment Exhibit for the Year Ended December 31, 2010

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2010

Statement of Financial Condition
as of December 31, 2010

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 146,540,207	$	$ 146,540,207	
Common stocks	22,526,433		22,526,433	
Cash and short-term investments	(394,338)		(394,338)	
Other invested assets	678,799	17,954	660,845	
Investment income due and accrued	2,013,348		2,013,348	
Premiums, and agents' balances in course of collection	4,766,785	87,770	4,679,015	
Premiums, agents' balances and installments booked but deferred and not yet due	12,633,775		12,633,775	
Current federal and foreign income tax recoverable and interest thereon	1,072,573		1,072,573	
Net deferred tax asset	2,527,045	480,199	2,046,846	
Aggregate write-ins for other than invested assets	349,901		349,901	
Total assets	$ 192,714,528	$ 585,923	$ 192,128,605	

Liabilities, Surplus and Other Funds

			Notes
Losses and loss adjustment expenses		$ 39,060,132	(1)
Commissions payable, contingent commissions and other similar charges		1,383,125	
Other expenses		105,775	
Taxes, licenses and fees		91,089	
Unearned premiums		23,982,201	
Advance premiums		426,538	
Payable to parent, subsidiaries and affiliates		804,099	
Aggregate write-ins for liabilities		61,966	
Total liabilities		65,914,925	
Common capital stock	$ 5,000,000		
Gross paid in and contributed surplus	19,777,923		
Unassigned funds (surplus)	101,435,757		
Surplus as regards policyholders		126,213,680	
Total liabilities, surplus and other funds		$ 192,128,605	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2010

Statement of Income

Underwriting Income		
Premiums earned		$ 109,626,014
Deductions:		
Losses and loss adjustment expenses incurred	$ 77,651,916	
Other underwriting expenses incurred	28,670,471	
Total underwriting deductions		106,322,387
Net underwriting gains		3,303,627
Investment Income		
Net investment income earned	$ 8,285,303	
Net realized capital loss	(397,937)	
Net investment gain		7,887,366
Other Income		
Net gain from agents' or premium balances charged off (amount recovered $8,049 amount charged off $4,722)	$ 3,327	
Finance and service charges not included in premium	6,487,614	
Total other income		6,490,941
Net income after capital gains tax and before federal income taxes		17,681,934
Federal income taxes incurred		3,649,371
Net income		$ 14,032,563

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2009		$ 112,173,315
Net income	$ 14,032,563	
Change in net unrealized capital gains	1,390,936	
Change in net deferred income tax	(4,139,125)	
Change in nonadmitted assets	4,009,991	
Dividends to stockholders	(13,000,000)	
Aggregate write-ins for gains in surplus	11,746,000	
Change in surplus as regards policyholders for the year		14,040,365
Surplus as regards policyholders, December 31, 2010		$ 126,213,680

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2010

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2007 per Examination			$ 102,493,014
Net income	$ 37,045,970	$	
Change in net unrealized capital gains	1,850,832		
Change in net deferred income tax		3,077,619	
Change in nonadmitted assets	966,483		
Dividends to stockholders		19,000,000	
Aggregate write-ins for gains and losses in surplus	5,935,000		
Total gains and losses	$ 45,798,285	$ 22,077,619	
Net increase in surplus as regards policyholders			23,720,666
Surplus as regards policyholders, December 31, 2010, per Examination			$ 126,213,680

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based upon a review conducted by a Casualty Actuary from the California Department of Insurance, the Company's reserves for losses and loss adjustment expenses as of December 31, 2010 were found to be reasonably stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

The previous examination report did not contain any comments or recommendations.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

______/S/__________________
David A. Fischman, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California