REPORT OF EXAMINATION

OF THE

CALIFORNIA AUTOMOBILE INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

Filed April 13, 2015

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Los Angeles, California
January 23, 2015

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, 2010. This examination covers the period from January 1, 2011, through December 31, 2013. 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 examination was a coordinated examination and was conducted concurrently with the Florida Department of Financial Services, Georgia Office of Insurance and Safety Fire Commission, and Illinois and Texas Departments of Insurance. The affiliated California domiciled insurance entities reviewed as part of this examination include Mercury Casualty Company, Mercury Insurance Company, and California General Underwriters Insurance Company, Inc.; the Florida domiciled entities Mercury Insurance Company of Florida and Mercury Indemnity Company of America; the Georgia domiciled entities Mercury Insurance Company of Georgia and Mercury Indemnity Company of Georgia; the Illinois domiciled entities Mercury Insurance Company of Illinois and Mercury National Insurance Company; and the Texas domiciled insurance entities Mercury County Mutual Insurance Company and American Mercury Lloyds Insurance Company.

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; and statutory deposits.

SUBSEQUENT EVENTS

In March 2006, the California Department of Insurance (CDI) issued an Amended Notice of Non-Compliance (NNC) to an NNC originally issued in February 2004, alleging that Mercury General Corporation (MGC) and its subsidiaries charged rates in violation of Proposition 103. On February 3, 2012, an Administrative Law Judge (ALJ) submitted a proposed decision that dismissed the CDI's allegations that MGC used unlawful rates and recommended it be adopted as the decision of the Insurance Commissioner. In March 2012, the Commissioner rejected the ALJ's proposed decision. MGC challenged the Commissioner's rejection of the decision in the Los Angeles Superior Court. The ALJ held an evidentiary hearing on the noncompliance portion of the 2004 NNC during April 2013. Administrative Law Judge Michael A. Scarlett, of the Office of Administrative

Hearings of the State of California's Department of General Services, submitted his proposed decision on December 8, 2014, finding there were at least 180,000 transactions in which auto policyholders were charged fees that had not been approved by the CDI and recommended the Commissioner impose a fine in the amount of $27,593,562. Pursuant to the provisions of California Insurance Code Section 1858.2, California Government Code Section 11517, and California Code of Regulations, Title 10 Section 2614.24, the California Insurance Commissioner adopted the proposed decision and ordered MGC to pay a fine in the amount of $27,593,562.

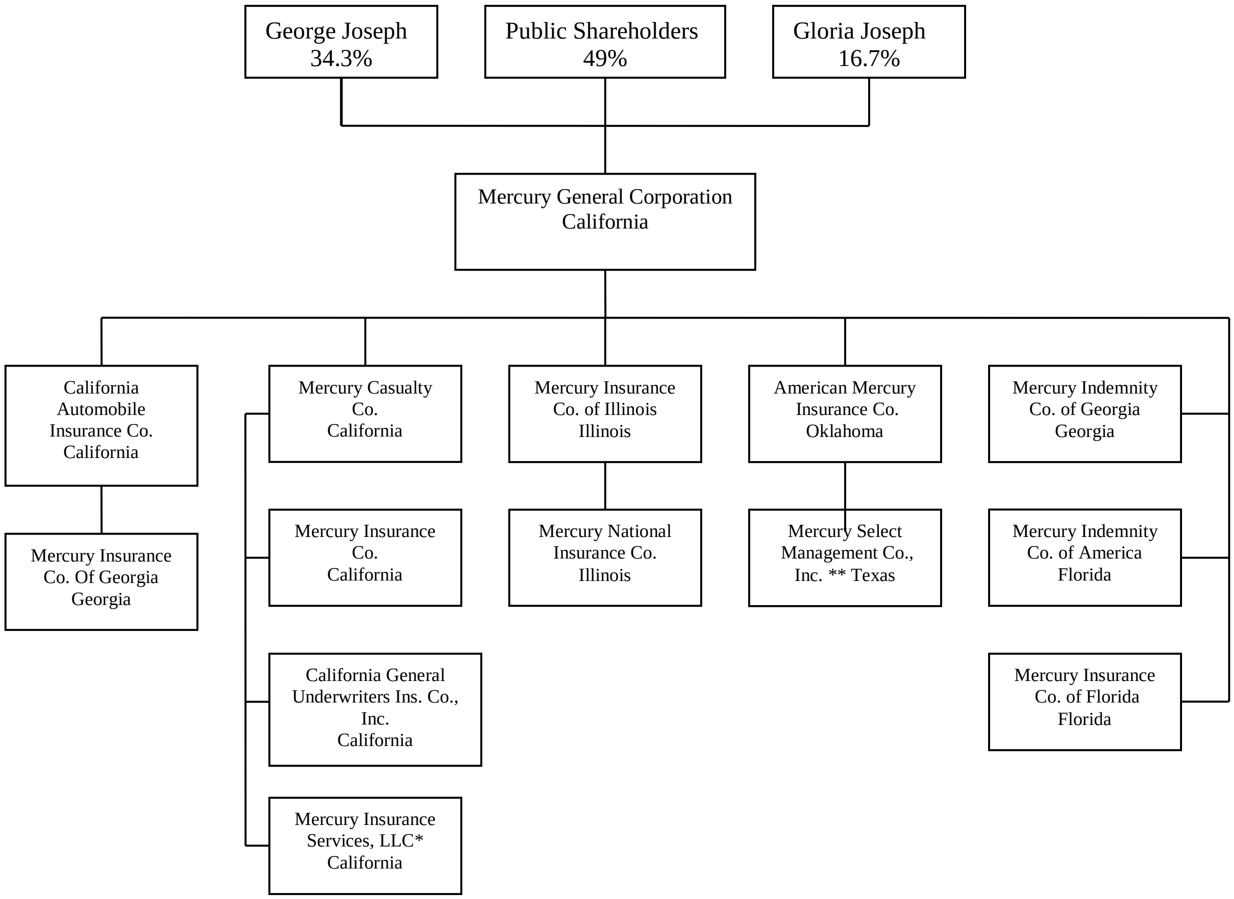
COMPANY HISTORY

The Company was incorporated in California on June 11, 1975, as Mercury Indemnity Company. The Company's changed its name to California Automobile Insurance Company on December 29, 1988.

The Company is a wholly-owned subsidiary of Mercury General Corporation and the parent company of Mercury Insurance Company of Georgia, a Georgia domiciled insurance company.

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 abridged organizational chart depicts the Company's interrelationship within the holding company system at December 31, 2013 (all ownership is 100% unless otherwise noted):



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

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

The nine 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, 2013:

Directors

Name and Location	Principal Business Affiliation
Bruce A. Bunner Fernandina Beach, Florida	Retired President Financial Structures, Ltd.
Michael D. Curtius Carlsbad, California	Executive Consultant Mercury General Corporation
Christopher W. Graves (*) Palos Verdes Peninsula, California	Vice President and Chief Investment Officer 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 KPMG, 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

(*) On April 27, 2012, Mr. Christopher W. Graves replaced Mr. Nathan Bessin who resigned from the Board of Directors on December 31, 2011. There were no other changes on the Board of Directors during the examination period.

Principal Officers

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

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). Approval of the Agreement was granted by the California Department of Insurance (CDI) on January 1, 2001. Under the terms of this Agreement, MIS performs underwriting and loss adjustment services for the Mercury General Corporation (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 agreement was amended, effective October 1, 2013, authorizing MIS to pay certain expense items that were previously reserved to the insurers, including agent commissions and audit fees. The amendment also added a 60-day due date for the payment of management fees, in order to comply with Statement of Statutory Accounting Principle No. 96. Notice of approval was provided on September 25, 2013. The Company incurred management fees of $19,205,757, $27,255,721, and $71,330,868 during the years 2011, 2012, and 2013, respectively.

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 Tax Allocation 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 $(36,557), $3,431,913, and $(2,987,042) for the years 2011, 2012, and 2013, 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 $552,343 for the year 2011. No rents were paid pursuant to this Furniture and Equipment Rental Agreement in 2012 and 2013, and the Agreement was terminated effective August 1, 2013. Notice of termination was provided to the Department in the 2012 Form B Filing Amendment No. 2, filed on August 14, 2013.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was licensed to write various property and casualty coverages solely in California.

During 2011, writings were limited to private passenger automobile liability and physical damage. In April 2012, the Company began writing commercial automobile business in

California. Also, in May 2012, the Company began renewing the California private passenger automobile business its affiliate, Mercury Casualty Company. During 2013, the Company wrote $410,813,797 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 various locations throughout California.

REINSURANCE

Assumed

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

Ceded

The Company did not utilize reinsurance other than a intercompany reinsurance treaty during the period of January 1, 2011, through June 30, 2013.

The Company and three affiliates, Mercury Casualty Company, Mercury Insurance Company, and American Mercury Insurance Company, entered into a Catastrophe Reinsurance Treaty ("Treaty") effective July 1, 2013, through June 30, 2014. The Treaty provides for $100,000,000 coverage on a per occurrence basis after covered catastrophe losses exceed a $100,000,000 retention limit. The Treaty provides coverage for property and automobile physical damage and excludes losses from earthquake, fire following earthquake, and Florida automobile physical damage. The annual premium of $4,250,000 is allocated among the companies based upon their exposure. The Company ceded $15,975 in written premium under this treaty during 2013.

ACCOUNTS AND RECORDS

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of this review, several findings were noted in controls over logical security. These findings were presented to the Company along with recommendations to strengthen its controls. The Company should evaluate the recommendations and make appropriate changes to strengthen its information systems controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2013

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2013

Statement of Financial Condition
as of December 31, 2013

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 215,484,712	$	$ 215,484,712	
Common stocks	21,035,469		21,035,469	
Cash and short-term investments	53,794,963		53,794,963	
Other invested assets	1,270,893		1,270,893	
Receivable for securities	2,327		2,327	
Investment income due and accrued	2,392,018		2,392,018	
Premiums and agents' balances in course of collection	15,230,203	297,664	14,932,539	
Premiums, agents' balances and installments booked but deferred and not yet due (including $0 earned but unbilled premiums)	57,471,742		57,471,742	
Current federal and foreign income tax recoverable	2,145,751		2,145,751	
Receivables from parent, subsidiaries and affiliates	4,375,733		4,375,733	
Total assets	$ 373,203,811	$ 297,664	$ 372,906,147	

Liabilities, Surplus and Other Funds			Notes
Losses and loss adjustment expenses		$ 115,055,857	(1)
Commissions payable, contingent commissions and other similar charges		5,946,090	
Taxes, licenses and fees		6,961,769	(2)
Unearned premiums		118,873,707	
Advance premiums		3,306,017	
Ceded reinsurance premiums payable		3,978	
Remittances and items not allocated		198,549	
Provision for reinsurance		1,000	
Payable to parent, subsidiaries and affiliates		2,697,546	
Total liabilities		253,044,513	
Common capital stock	$ 5,000,000		
Gross paid-in and contributed surplus	19,777,923		
Unassigned funds (surplus)	95,083,711		
Surplus as regards policyholders		119,861,634	
Total liabilities, surplus and other funds		$ 372,906,147	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2013

Statement of Income

Underwriting Income		
Premiums earned		$ 392,782,502
Deductions:		
Losses and loss expenses incurred	$ 315,369,907	
Other underwriting expenses incurred	105,337,448	
Total underwriting deductions		420,707,355
Net underwriting loss		(27,924,853)
Investment Income		
Net investment income earned	8,758,791	
Net realized capital gain	1,068,986	
Net investment gain		9,827,777
Other Income		
Net gain from agents' or premium balances charged off (amount recovered $25,981 amount charged off $23,988)	1,993	
Finance and service charges not included in premiums	7,490,754	
Aggregate write-ins for miscellaneous income	46,404	
Total other income		7,539,151
Net loss before federal and foreign income taxes		(10,557,925)
Federal and foreign income taxes incurred		(4,398,401)
Net loss		$ (6,159,524)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		$ 133,409,235
Net loss	$ (6,159,524)	
Change in net unrealized capital gains	695,083	
Change in net deferred income tax	(8,179,024)	
Change in nonadmitted assets	96,864	
Change in provision for reinsurance	(1,000)	
Change in surplus as regards policyholders for the year		(13,547,601)
Surplus as regards policyholders, December 31, 2013		$ 119,861,634

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2013

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2010 per Examination			$ 126,213,680
Net loss		$ 5,356,675	
Change in net unrealized capital gains	$ 1,296,271		
Change in net deferred income tax		2,578,901	
Change in nonadmitted assets	288,259		
Change in provision for reinsurance		1,000	
Total gains and losses	$ 1,584,530	$ 7,936,576	
Net decrease in surplus as regards policyholders			(6,352,046)
Surplus as regards policyholders, December 31, 2013, per Examination			$ 119,861,634

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 (CDI), the Company's reserves for losses and loss adjustment expenses as of December 31, 2013, were found to be reasonably stated.

(2) Taxes, Licenses, and Fees

California Insurance Code (CIC), Section 1872.8(a) states, in part, that each insurer doing business in the state of California must pay an annual Vehicle Fraud Assessment Fee for each vehicle insured under an insurance policy it issues in California. The fee provides funding for the increased investigation and prosecution of fraudulent automobile insurance claims and automobile theft in the state of California.

During the course of this examination, it was found that the Company inadvertently failed to include commercial and personal property trailers, mobile equipment, and motor homes in the vehicle count when calculating the Vehicle Fraud Assessment Fees. Additional quarterly calculation errors were also noted. The total amount of vehicle fraud assessment fees determined to be due as a result of these errors during the period of January 1, 2011, through September 30, 2014, is $1,647, plus additional late charges assessed based on CIC Section 12995, and is summarized by year as follows:

Year	Fee/Vehicle	Vehicle Count	Amount Due
2011	$0.45	(8,831)	$(3,974)
2012	$0.45	3,904	1,757
2013	$0.45	11,032	4,965
2014	$0.45	(2,446)	(1,101)
	Total	**3,659**	**$1,647**

The Company and the CDI are in the process of settling the assessment fee and the additional late charges. Since the amount was deemed not material, no adjustment was made to the Company's financial statements. The Company advised that it has implemented procedures to assure future compliance with the requirement of CIC Section 1872.8(a).

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 9): As the result of the review of the Company's information systems controls, recommendations for improving these controls were presented to the Company. The Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems.

Previous Report of Examination

There were no comments or recommendations in the previous Report of Examination.

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/____________________
Bradley R. Hazelwood, CFE, CPA
Examiner-In-Charge
Contractor Insurance Examiner
Department of Insurance
State of California