

REPORT OF EXAMINATION
OF THE
CALIFORNIA CASUALTY COMPENSATION
INSURANCE COMPANY

AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed June 20, 2011

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San Francisco, California
May 6, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Business Regulation
Division of Insurance
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV-Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

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

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA CASUALTY COMPENSATION INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office, located at 1900 Alameda de las Pulgas, San Mateo, California 94403.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. 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

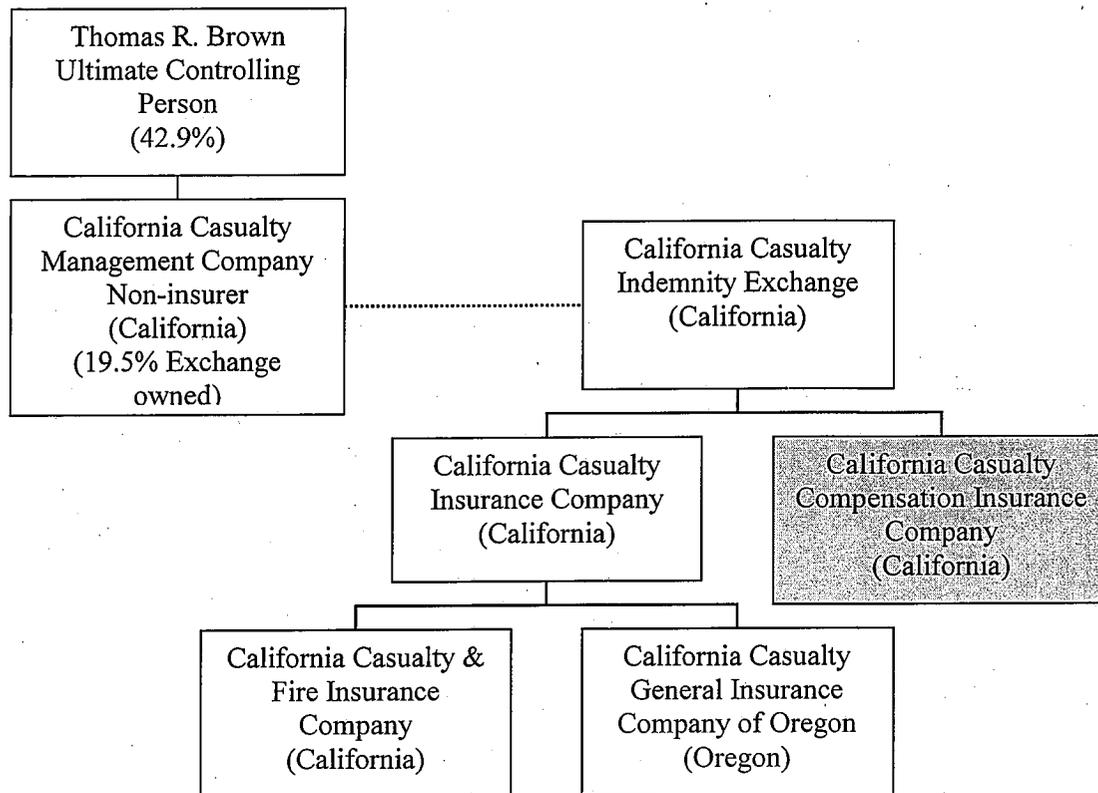
assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, 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 Company's parent, California Casualty Indemnity Exchange, the Company's affiliate, California Casualty Insurance Company and its two subsidiaries, California Casualty & Fire Insurance Company, and California Casualty General Insurance Company of Oregon. These insurers are collectively referred to as the California Casualty Group (Group) hereinafter.

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: company history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; accounts and records; loss experience; and sales and advertising.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system which is controlled by the California Casualty Management Company (CCMC), as the attorney-in-fact for the California Casualty Indemnity Exchange (Exchange). As of December 31, 2009, Thomas Runnels Brown owned or controlled 43.4% of the Class A voting common stock of CCMC. The following is an abridged organizational chart showing the relationship of the Company in the holding company system:



() all ownership is 100% unless otherwise noted.*

The Board of Directors manages the business and affairs of the Company. Following are members of the Board of Directors and the principal officers of the Company serving as of December 31, 2009:

Board of Directors

Name and Residence

Principal Business Affiliation

David A. Aaker*
Orinda, California

Retired
University of California, Berkeley

James D. Altman
Menlo Park, California

Retired
Johnson & Higgins of California

Jonathan A. Brown
Fair Oaks, California

President
Association of Independent Colleges and
Universities

Name and Residence

Principal Business Affiliation

John E. Cahill, Jr.
Kentfield, California

Chairman and Chief Executive Officer
Cahill Contractors, Inc.

William R. Dahlman
Studio City, California

President and Chief Executive Officer
Employers Group

Wayne S. Diviney
Clifton, Virginia

Retired
National Education Association

Carolyn E. Doggett
Belmont, California

Executive Director
California Teachers Association

Jon H. Hamm
El Dorado Hills, California

Executive Manager
California Association of Highway Patrolmen

Richard W. Johnson
Santa Barbara, California

Retired
California Teachers Association

Michael G. McPherson
Silver Spring, Maryland

Chief Financial Officer
National Education Association

George G. C. Parker
Portola Valley, California

Professor of Finance
Stanford University Graduate School of
Business

Edward G. Phoebus III
Silver Spring, Maryland

Vice President
National Education Association Member
Benefits

Lynne F. Siegel
Portland, Oregon

Retired
Oregon Education Association

Thomas H. Tongue, Esq
Portland, Oregon

Dunn Carney Allen Higgins & Tongue LLP

Suzanne M. Zimmer
Golden, Colorado

Assistant Executive Director
Colorado Education Association

**Retired 1/20/2010 and replaced by Jennifer L. Aaker, Lafayette, CA (General Atlantic Professor of Marketing, Graduate School of Business, Stanford University)*

Principal Officers

<u>Name</u>	<u>Title</u>
Carl B. Brown	President
Michael A. Ray	Chief Financial Officer
James M. Sevey	Secretary
George G. C. Parker	Chairman of the Board

Intercompany Agreements

The Company is managed by California Casualty Management Company (CCMC) under a management agreement effective January 1, 1994. Under the agreement, CCMC has the power to conduct, control and supervise the complete insurance activities of the Company. As compensation for the services performed, CCMC is paid a monthly fee of up to 125% of expenses incurred on behalf of the Company. In addition, the Company pays CCMC an annual incentive fee not to exceed 10% of the Group's calendar year pre-tax income. Pursuant to California Insurance Code (CIC) Section 1215.5, this agreement was submitted to the California Department of Insurance (CDI) and approved on November 12, 1993.

Effective January 1, 1999, the California Casualty Indemnity Exchange (Exchange) entered into an amended tax allocation agreement with the other insurers in the Group. Under this agreement, the consolidated federal income tax liability of the Group is allocated to each company in proportion to each company's share of taxable income, computed on a separate company basis. The Exchange is responsible for filing and making all tax payments on behalf of the Group. The tax allocation agreement was submitted to the CDI pursuant to CIC Section 1215.5(b)(4) on March 26, 2008. The CDI did not disapprove the agreement entitled "Tax Allocation Agreement California Casualty Indemnity Exchange and Subsidiaries" as of March 24, 2009. This review and determination was made pursuant to CIC Section 1215.5(b) only.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact multiple lines of property and casualty insurance only in State of California. The Company did not write any direct business during the examination period.

All of the workers' compensation and miscellaneous commercial business for the Group has been in run-off since October of 1997 and retroceded to the Company (See "REINSURANCE").

The manager of the insurance operations of the Company, California Casualty Management Company (CCMC), conducts the Company's run-off business from its home office in San Mateo, California, except for claims handling. In accordance with the terms of the retroactive reinsurance agreement with XL Re Ltd., (See "REINSURANCE"), CCMC entered into a claims servicing contract with GAB Robins North America, Inc. (GAB Robins) of Parsippany, New Jersey, dated July 15, 2001. All of the workers' compensation claims on business previously written by the Group are serviced out of the Ontario, California office of GAB Robins.

REINSURANCE

Pooling Agreement

A revised pooling agreement was approved by the California Department of Insurance (CDI) and Oregon Division of Insurance (ODOI) effective January 1, 2006. Under the terms of the agreement, the companies cede 100% of their direct business to the California Casualty Indemnity Exchange (Exchange). The agreement also includes a provision whereby personal lines insurance business is retroceded to, and assumed by, California Casualty Insurance Company (CCIC), California Casualty & Fire Insurance Company (CCFIC) and California Casualty General Insurance Company of Oregon (CCGIC) according to their respective pooling percentages of 8%, 10% and 12%. The Exchange retains 70% of the pooled personal lines business. All workers' compensation and miscellaneous commercial lines direct and assumed business are in run-off and are retroceded 100% to the Company. A newly revised pooling

agreement was approved by the CDI and ODOI, effective January 1, 2011. No changes were made to the pooling percentages. The revisions to the agreement consist of provisions mandated by AM Best & Company for the Group to maintain its "A-" rating.

Assumed

The Company did not assume any reinsurance other than from the pooling agreement discussed above.

Ceded

The Company entered into a retroactive reinsurance agreement with XL Re, LTD, Hamilton, Bermuda (XL Re) effective January 1, 2001. The purpose of the agreement was to cede 100% of the ultimate net loss paid or payable by the Company on Workers' Compensation and Employer's Liability losses for policies with dates of injury on or before December 31, 1998 and issued by the Company and all other insurers through the Group pooling agreement. The maximum limit to be ceded to XL Re is \$110 million and a sub-limit of \$15 million for 1987 and prior injury dates. The placement slip entered into prior to the formal agreement calls for California Casualty Management Company to contract with GAB Robins, or an acceptable alternative third party administrator, for claims handling of the subject losses. Pursuant to California Insurance Code Section 1011(c), the CDI approved the agreement on October 22, 2001.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the year ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders from December 31, 2006
through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

<u>Assets</u>	<u>Ledger and Non-ledger Assets</u>	<u>Non- Admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$62,984,115	\$	\$62,984,115	
Cash and short-term investments	648,526		648,526	
Investment income due & accrued	716,002		716,002	
Premiums and agents' balances in course of collection	134,318		134,318	
Reinsurance recoverable	1,531,826		1,531,826	
Net deferred tax asset	50,424	28,586	21,838	
Receivable from parent, subsidiaries and affiliates	4,045,392		4,045,392	
Aggregate write-ins for other than invested assets	<u>148,000</u>		<u>148,000</u>	
 Total assets	 <u>\$70,258,603</u>	 <u>\$ 28,586</u>	 <u>\$70,230,017</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$27,917,503	(1)
Reinsurance payable on paid losses and loss adjustment expenses			199,947	
Loss adjustment expenses			3,236,134	(1)
Other expenses			5,935	
Taxes, licenses and fees			9,372	
Current federal and foreign income taxes			148,900	
Unearned premiums			238,612	
Amounts withheld or retained by company for account of others			178,161	
Payable to parent, subsidiaries and affiliates			4,119,953	
Aggregate write-ins for liabilities			<u>(29,377,856)</u>	
 Total liabilities			 6,676,663	
Aggregate write-in for special surplus funds		\$15,795,604		
Common capital stock		2,600,000		
Gross paid in and contributed surplus		26,800,000		
Unassigned funds		<u>18,357,750</u>		
 Surplus as regards policyholders			 <u>63,553,354</u>	
 Total liabilities, surplus and other funds			 <u>\$70,230,017</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income

Premiums earned		\$ 452,480
Deductions:		
Losses incurred	\$ 2,331,683	
Loss expenses incurred	519,266	
Other underwriting expenses incurred	<u>67,089</u>	
Total underwriting deductions		<u>2,918,038</u>
Net underwriting loss		(2,465,559)

Investment Income

Net investment income earned	\$ 2,477,262	
Net realized capital losses	<u>43,713</u>	
Net investment gain		2,520,975

Other Income

Net gain from agents' or premium balances charged off	\$ 104,137	
Aggregate write-ins for miscellaneous income	<u>2,000,000</u>	
Total other income		<u>2,104,137</u>
Net income before federal income taxes		2,159,553
Federal income taxes incurred		<u>784,369</u>
Net income		<u>\$ 1,375,184</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		\$62,112,243
Net income	\$ 1,375,184	
Change in deferred income tax	94,513	
Change in nonadmitted assets	<u>(28,586)</u>	
Change in surplus as regards policyholders for the year		<u>1,441,111</u>
Surplus as regards policyholders, December 31, 2009		<u>\$63,553,354</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

Surplus as regards policyholders, December 31, 2006, per Examination			\$58,599,962
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 5,068,422	\$	
Change in net deferred income tax		86,444	
Change in nonadmitted assets	<u> </u>	<u>28,586</u>	
Totals	<u>\$ 5,068,422</u>	<u>\$ 115,030</u>	
Net increase in surplus as regards policyholders			<u>4,953,392</u>
Surplus as regards policyholders, December 31, 2009, per Examination			<u>\$63,553,354</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the California Department of Insurance, the Group's loss and loss adjustment expense reserves as of December 31, 2009 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

NONE

Prior Report of Examination

Corporate Records (Page 6): It was recommended that the Company's Board of Director's meeting minutes reflect the fact that the directors were informed of the receipt of the report of examination pursuant to California Insurance Code (CIC) Section 753. The Company is now in compliance.

Payable to Parent, Subsidiaries and Affiliates (Page 12): It was recommended that the Group try to settle intercompany balances within the timeframe described in the intercompany pooling agreement. The Group is now in compliance.

Losses and Loss Adjustment Expenses (Page 12): It was recommended that the Company comply with CIC Section 11558. The Company is now in compliance.

ACKNOWLEDGMENT

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

Respectfully submitted,

/S/

Wayne Leiran, CFE
Examiner-In-Charge
Contract Examiner
Department of Insurance
State of California