

REPORT OF EXAMINATION
OF THE
CALIFORNIA CASUALTY & FIRE
INSURANCE COMPANY

AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed June 20, 2011

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION	1
MANAGEMENT AND CONTROL:.....	2
Intercompany Agreements.....	5
TERRITORY AND PLAN OF OPERATION	6
REINSURANCE:	7
Pooling Agreement.....	7
Assumed	7
Ceded.....	7
FINANCIAL STATEMENTS:.....	10
Statement of Financial Condition as of December 31, 2009.....	11
Underwriting and Investment Exhibit for the Year Ended December 31, 2009	12
Reconciliation of Surplus as Regards Policyholders from December 31, 2006 through December 31, 2009	13
COMMENTS ON FINANCIAL STATEMENT ITEMS:	14
Losses and Loss Adjustment Expenses	14
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	14
Current Report of Examination	14
Prior Report of Examination	14
ACKNOWLEDGMENT	15

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 & FIRE 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

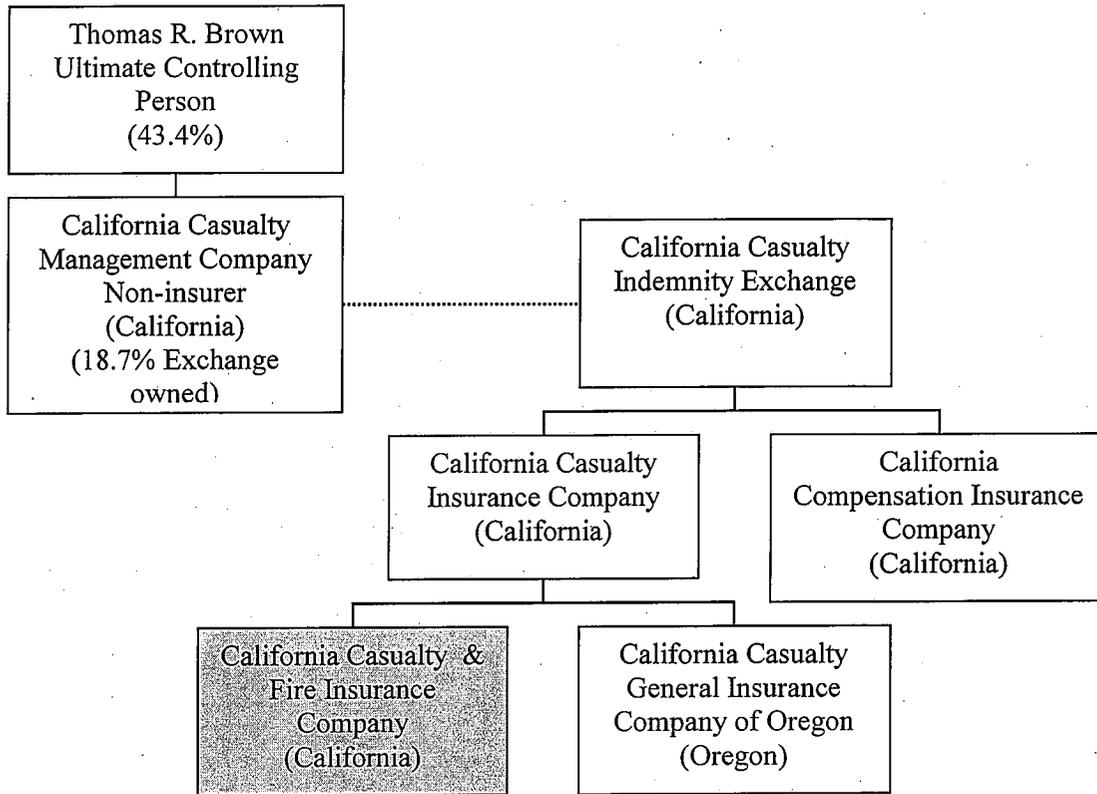
assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, 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 Insurance Company, its parent, California Casualty Indemnity Exchange, and two affiliates, California Casualty General Insurance Company of Oregon and California Casualty Compensation Insurance Company. 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 at December 31, 2009:

Board of Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
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 Marie 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 Allen Ray	Chief Financial Officer
James Michael 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

At December 31, 2009, the Company is licensed to transact multiple lines of property and casualty insurance in the states of Arizona, California, Illinois, Iowa, Kansas, Kentucky, Missouri, Nebraska, Nevada, New Jersey, New Mexico, Ohio, Oregon, Utah, Washington, Wisconsin, and Wyoming.

The Company began writing premiums in New Jersey in 2009 after several years of not writing any direct business. Of the \$2.2 million direct premium written in 2009, \$1.3 was for auto liability and \$0.6 million was for auto physical damage.

The manager of the insurance operations of the Company, California Casualty Management Company (CCMC), provides services for the Company under the management agreement. CCMC has approximately 650 employees, many of whom perform services for the Company in accordance with a management agreement. CCMC conducts operations from its home office in San Mateo, California and three service centers, providing comprehensive claims, underwriting, marketing, sales and administrative services. CCMC provides production and operating facilities pursuant to the provisions of the management agreement.

The Group is a highly specialized personal lines insurer that provides private passenger automobile and homeowners insurance to members of affinity groups primarily involved in education, law enforcement and public safety. Personal lines business is produced directly through licensed insurance agents, who are employees of CCMC. The agents receive a salary and are eligible for varying levels of incentive compensation depending upon their position and their production.

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), the Company 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 California Casualty Compensation Insurance Company (CCCIC). 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

Effective January 1, 2000, CCIC, the Company, CCGIC and the Exchange (Companies) entered into a 15-year quota-share reinsurance agreement with Fireman's Fund Insurance Company (FFIC) on the Companies' personal lines of business. Under the terms of this agreement, for the first five years of the treaty, the Companies cede 20% of personal lines written premiums and losses, and earn a ceding commission equal to 20% of the underwriting expenses. For the subsequent ten years of the treaty, the Companies cede 30% of the written premiums and losses

and earn a ceding commission equal to 30% of underwriting expenses. This contract is perpetual but it may be terminated without cause by either party no sooner than January 1, 2015.

The Company had the following additional reinsurance agreements in effect at December 31, 2009:

<u>Type of Contract</u>	<u>Line of Business</u>	<u>Reinsurer's Name</u>	<u>Exchange's Retention</u>	<u>Reinsurer's Limits</u>
Catastrophe Excess of Loss				
1 st Layer Excess of Loss	Property	<u>Authorized</u> Underwriter's at Lloyd's, London – 10.5% General Reinsurance Company – 15% Swiss Reins America Corporation – 10% Munich Reinsurance America, Inc. – 7.5% <u>Unauthorized</u> XL Re, Ltd. – 12.5% Mapfre Re – 7.5% Renaissance Reinsurance, Ltd. – 2%	\$20 million plus 35% of \$10 million excess of \$20 million per occurrence. The contract requires the Exchange to retain a minimum of 5% but the Exchange chose to retain 35%.	65% of \$10 million per occurrence excess of \$20 million, \$20 million annual aggregate
2 nd Layer Excess of Loss	Property	<u>Authorized</u> Underwriter's at Lloyd's, London – 11% General Reinsurance Company – 15% Swiss Reins America Corporation – 10% Munich Reinsurance America, Inc. – 10% <u>Unauthorized</u> XL Re, Ltd. – 10% Mapfre Re – 10% Renaissance Reinsurance, Ltd. – 4%	\$30 million plus 30% of \$20 million excess of \$30 million per occurrence	70% of \$20 million per occurrence excess of \$30 million, \$40 million annual aggregate
3 rd Layer Excess of Loss	Property	<u>Authorized</u> Underwriter's at Lloyd's, London – 8.5% General Reinsurance Company – 10% Swiss Reins America Corporation – 10% Munich Reinsurance America, Inc. – 12.5%	\$50 million plus 25% of \$40 million excess of \$50 million per occurrence	75% of \$40 million per occurrence excess of \$50 million, \$80 million annual aggregate

<u>Type of Contract</u>	<u>Line of Business</u>	<u>Reinsurer's Name</u>	<u>Exchange's Retention</u>	<u>Reinsurer's Limits</u>
		<u>Unauthorized</u>		
		XL Re, Ltd. – 7.5%		
		Mapfre Re – 15%		
		Renaissance Reinsurance, Ltd. – 4%		
		Hannover Re (Bermuda), LTD. – 5%		
		American Agricultural Insurance Co – 2.5%		

The Group discontinued writing workers' compensation business in 1997, except for domestic workers' compensation coverage under homeowner's policies. Under the pooling agreement, all workers' compensation and miscellaneous commercial business in force are retroceded to CCCIC. Effective January 1, 2001, CCCIC entered into an adverse loss development cover with XL Re, Ltd., of Hamilton, Bermuda, covering workers' compensation claims with dates of injury on or prior to December 31, 1998.

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	\$36,687,246	\$	\$36,687,246	
Cash and short-term investments	551,692		551,692	
Investment income due & accrued	292,763		292,763	
Premiums and agents' balances in course of collection	132,290	13,927	118,364	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	13,687,297		13,687,297	
Reinsurance recoverables	184,869	15,647	169,222	
Current federal and foreign income tax recoverable And interest thereon	36,561		36,561	
Net deferred tax asset	1,044,002	123,563	920,439	
Guaranty funds receivable	72		72	
Receivables from parent, subsidiaries and affiliates	7,201,562		7,201,562	
Aggregate write-ins for other than invested assets	<u>154,905</u>	<u>40,663</u>	<u>114,242</u>	
Total assets	<u>\$59,973,259</u>	<u>\$ 193,799</u>	<u>\$59,779,460</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 8,200,791	(1)
Reinsurance payable on paid losses and loss adjustment expenses			655,572	
Loss adjustment expenses			2,672,103	(1)
Commissions payable, contingent commissions and other similar charges				
Other expenses			56,614	
Taxes, licenses and fees			92,672	
Unearned premiums			11,048,767	
Advance premiums			124,278	
Ceded reinsurance premiums payable			290,939	
Amounts withheld or retained by company for account of others			392,023	
Payable to parent, subsidiaries and affiliates			8,302,312	
Aggregate write-ins for liabilities			<u>53,122</u>	
Total liabilities			31,889,193	
Common capital stock		\$ 2,600,000		
Gross paid-in and contributed surplus		16,432,079		
Unassigned funds		<u>8,858,188</u>		
Surplus as regards policyholders			<u>27,890,267</u>	
Total liabilities, surplus and other funds			<u>\$59,779,460</u>	

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

Statement of Income

Underwriting Income

Premiums earned \$21,968,352

Deductions:

Losses incurred \$12,917,353
Loss expenses incurred 3,789,278
Other underwriting expenses incurred 5,960,231

Total underwriting deductions 22,666,863

Net underwriting loss (698,511)

Investment Income

Net investment income earned \$ 1,662,076
Net realized capital losses (130,312)

Net investment gain 1,531,763

Other Income

Net loss from agents' balances or premium balances charged off \$ (108,829)
Finance and service charges not included in premiums 231,687

Total other income 122,858

Net income before federal income taxes 956,110

Federal income taxes incurred 288,967

Net income \$ 667,143

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008 \$27,238,028

Net income \$ 667,143
Change in deferred income tax (16,129)
Change in nonadmitted assets 1,225

Change in surplus as regards policyholders for the year 652,239

Surplus as regards policyholders, December 31, 2009 \$27,890,267

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

Surplus as regards policyholders, December 31, 2006, per Examination			\$25,161,556
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 2,903,371	\$	
Change in net deferred income tax		259,574	
Changed in nonadmitted assets	<u>84,914</u>		
Totals	<u>\$ 2,988,285</u>	<u>\$ 259,574</u>	
Net increase in surplus as regards policyholders			<u>2,728,711</u>
Surplus as regards policyholders, December 31, 2009, per Examination			<u>\$27,890,267</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.

Premiums and Agents' Balances, Deferred Premiums, and Advance Premiums (Page 14): It was recommended that the Company comply with Statement of Statutory Accounting Principles No. 53, paragraph 13. The Company is now in compliance.

Losses and Loss Adjustment Expenses (Page 14): It was recommended that the Company comply with CIC Section 11558. The Company is now in compliance.

Payable to Parent, Subsidiaries and Affiliates (Page 15): 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.

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