REPORT OF EXAMINATION
OF THE
CALIFORNIA CASUALTY INDEMNITY EXCHANGE
AS OF
DECEMBER 31, 2013

Filed January 5, 2015

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San Francisco, California
December 3, 2014

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA CASUALTY INDEMNITY EXCHANGE

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

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Exchange. The previous examination of the Exchange was made as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2013. 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 Exchange's financial condition, to identify prospective risks, and to obtain information about the Exchange, 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 Exchange were considered in accordance with the risk-focused examination process.

The examination was a coordinated examination with the Oregon Insurance Division. California is the lead state for this coordinated examination. The examination was conducted concurrently with the Exchange's four subsidiaries, California Casualty Insurance Company, California Casualty & Fire Insurance Company, California Casualty General Insurance Company of Oregon, and California Casualty Compensation Insurance Company. Collectively, the insurers in the group are referred to as the California Casualty Group (Group).

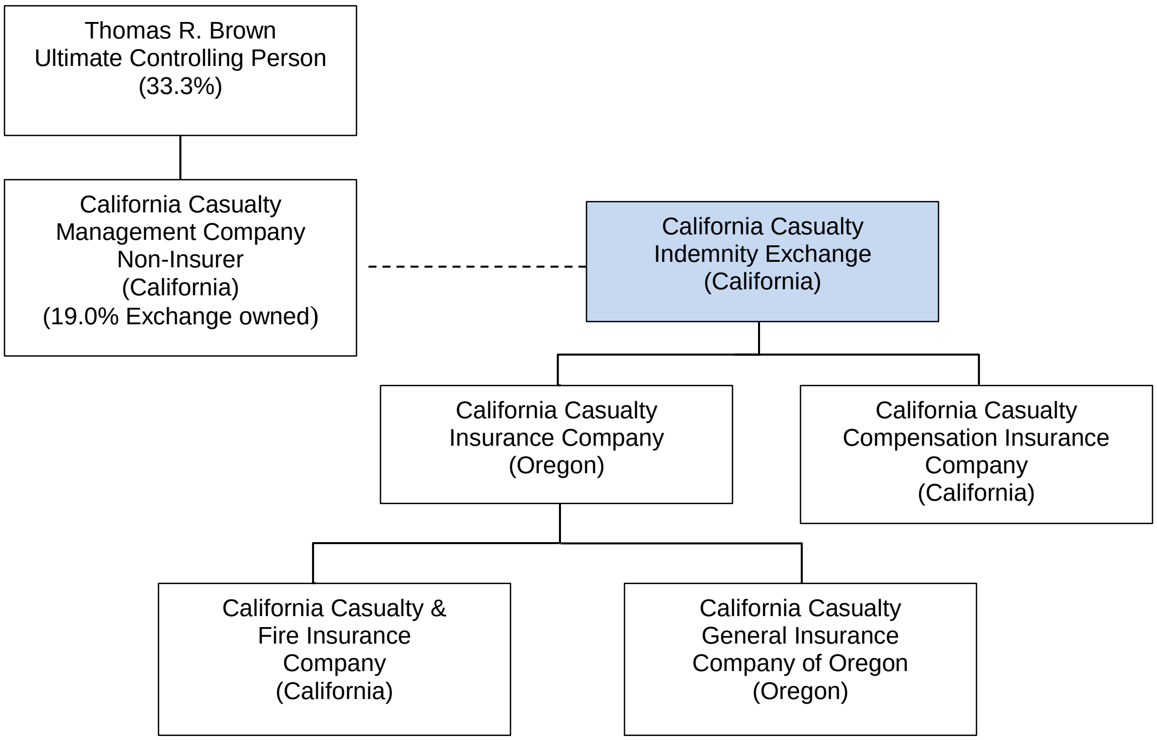
In addition to those items specifically commented upon in this report, other phases of the Exchange's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of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

EXCHANGE HISTORY

On May 1, 2012, California Casualty Insurance Company (CCIC), a subsidiary of the Exchange, re-domesticated from California to Oregon. The re-domestication was approved by the California Department of Insurance on April 27, 2012 and Oregon Insurance Division on June 5, 2012.

MANAGEMENT AND CONTROL

The Exchange is a member of an insurance holding company system of which the California Casualty Management Company (CCMC) is appointed as the attorney-in-fact for the Exchange. As of December 31, 2013, Thomas Runnels Brown owned or controlled 33.3% of the Class A voting common stock of CCMC. The following organizational chart depicts the Exchange's relationship within the holding company system (all ownership is 100% unless otherwise noted):



The operations and affairs of the Exchange are subject to the supervision and control of a seventeen-member Advisory Board in conformance with the Underwriters Agreement. A listing of the members of the Advisory Board and principal officers serving on December 31, 2013 follows:

Advisory Board

Name and Location	Principal Business Affiliation
Jennifer L. Aaker, Ph.D Lafayette, California	General Atlantic Professor of Marketing Graduate School of Business, Stanford University
Carl B. Brown (**) Palo Alto, California	Chief Executive Officer California Casualty Management Company
Jonathan A. Brown Fair Oaks, California	Retired

Advisory Board (continued)

Name and Location	Principal Business Affiliation
John E. Cahill, Jr. Kentfield, California	Chairman and Chief Executive Officer Cahill Contractors, Inc.
William R. Dahlman (*) Studio City, California	Retired
Wayne S. Diviney Clifton, Virginia	Retired
Carolyn E. Doggett Belmont, California	Retired
Jon H. Hamm El Dorado Hills, California	Chief Executive Officer California Association of Highway Patrolmen
Barbara E. Kerr Riverside, California	Retired
Ellen D. Levy Atherton, California	Managing Director Silicon Valley Connect
Michael G. McPherson Silver Spring, Maryland	Chief Financial Officer National Education Association
Edward G. Phoebus III Silver Spring, Maryland	President and Chief Executive Officer NEA's Member Benefits Corporation
Heather S. Schafer Millersville, Maryland	Executive Director National Volunteer Fire Fighters Council
Lynne F. Siegel Portland, Oregon	Principal Strategies for Philanthropy
Thomas H. Tongue Portland, Oregon	Partner Dunn Carney Allen Higgins & Tongue LLP
Joseph L. Volponi (**) San Mateo, California	President California Casualty Management Company

Advisory Board (continued)

Name and Location	Principal Business Affiliation
Suzanne M. Zimmer Golden, Colorado	Assistant Executive Director Colorado Education Association

(*) Effective April 1, 2014, Karen M. Padovese was appointed as a member of the Advisory Board of Directors to replace William R. Dahlman.

(**) Per the Bylaws of the Advisory Board, Carl B. Brown and Joseph L. Volponi cannot vote on matters that come before the Advisory Board while serving as officers of CCMC.

Officers of the Advisory Board

Name	Title
Carl B. Brown	Chairman of the Advisory Board
Lynne F. Siegel (*)	Secretary

(*) Effective March 17, 2014, Jonathan A. Brown replaced Lynne F. Siegel as Secretary.

Attorney-In-Fact

The principal officers of the attorney-in-fact (CCMC) at December 31, 2013 were as follows:

Name	Title
Carl B. Brown	Chief Executive Officer
Joseph L. Volponi	President
Michael A. Ray	Executive Vice President, Chief Financial Officer and Treasurer
James R. Englese	Secretary
Michael D. Bower	Executive Vice President
Jackie A. Gatlin	Executive Vice President

Intercompany Agreements

Underwriters Agreement: The Exchange is managed by California Casualty Management Company (CCMC) under an Underwriters Agreement (Agreement). Under the terms of the Agreement, CCMC is paid a monthly fee of up to 125% of expenses incurred on the services performed by CCMC on behalf of the Exchange. An annual incentive fee of up to 10% of the California Casualty Group's calendar year pre-tax income, calculated after giving effect to such incentive, may also be paid to CCMC. There was no incentive fee paid during the examination period. The Agreement was revised on October 6, 1993 and approved by the California Department of Insurance (CDI) on November 12, 1993.

Tax Allocation Agreement: Effective January 1, 1992, the Exchange entered into a Tax Allocation Agreement entitled "California Casualty Group Tax Allocation Agreement" (Tax Agreement) with its subsidiaries: California Casualty Insurance Company, California Casualty & Fire Insurance Company, California Casualty General Insurance Company of Oregon and California Casualty Compensation Insurance Company (Group). On January 1, 1999, this Tax Agreement was restated as the "Tax Allocation Agreement California Casualty Indemnity Exchange and Subsidiaries" and was submitted to the CDI pursuant to California Insurance Code (CIC) Section 1215.5(b)(4) on March 26, 2008. The CDI did not disapprove the Tax Agreement on March 24, 2009. The review and determination was made pursuant to CIC Section 1215.5(b) only. Under the terms of this restated Tax Agreement, the consolidated federal income tax liability of the Exchange and 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 companies.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Exchange is licensed to transact property and casualty insurance in all states except Michigan and New Jersey. The Exchange is also licensed in the District of Columbia.

Direct premiums written during 2013 totaled $234.5 million. The majority of the business was written in California (61.8%), Pennsylvania (6.1%), Colorado (5.5%), and Maryland (3.0%) with the remaining 23.6% written in the other states and territories that the Exchange is licensed. The Exchange's principal lines of business written during 2013 were private passenger auto liability (37.3%), auto physical damage (33.5%), and homeowners multiple peril (28.2%). The remaining 1% of premiums written was in earthquake, inland marine, workers' compensation, fire, and allied lines.

The Exchange has no employees. California Casualty Management Company (CCMC), the attorney-in-fact for the Exchange, has 687 employees. Many of them perform services for the Exchange in accordance with the Underwriters Agreement. CCMC conducts operations from its home office in San Mateo, California. The Exchange and its subsidiaries (Group) have branch offices in Colorado Springs, Colorado; Leawood, Kansas; and Glendale, Arizona. The three branch offices provide claims, corporate services, customer service, information technology, marketing, sales and underwriting support. Under the terms of a separate management agreement with CCMC, the other companies in the Group share with the Exchange management, facilities, sales, and underwriting and claims personnel.

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

REINSURANCE

Pooling

Effective January 1, 2011, a revised pooling agreement was approved by the California Department of Insurance (CDI) on August 30, 2010 pursuant to California Insurance Code Section 1215.5(b)(3) and the Oregon Insurance Division. This revised pooling agreement was amended to clarify that only the Exchange may purchase non-affiliate reinsurance contracts, and each subsidiary's direct premiums and direct paid losses and expenses are ceded to the Exchange. Under the terms of this agreement, each participating affiliate cedes 100% of its direct and assumed business to the Exchange. Personal lines of business are pooled separately from workers' compensation and miscellaneous commercial lines of business, which are in run-off. Under this revised pooling agreement, the personal lines of business are 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 of business.

All workers' compensation and miscellaneous commercial lines direct and assumed business are retroceded 100% to California Casualty Compensation Insurance Company (CCCIC). The Group discontinued writing workers' compensation business in 1997, except for domestic workers' compensation coverage under homeowner's policies. Effective January 1, 2001, CCCIC entered into an adverse loss development retrocessional cover with XL Re, Ltd., of Hamilton, Bermuda, covering workers' compensation claims with dates of injury on or before December 31, 1998.

Assumed

The Exchange is the only insurer in the pool that assumed business from non-affiliates. Effective September 1, 2013, the Exchange assumed an immaterial amount of $46,719 in gross premiums from Princeton Excess & Surplus Lines Insurance Company under a certificate covering a single policy. The Exchange also has immaterial assumed reserves in run-off from Lumberman's Mutual Casualty Company.

Ceded

Effective January 1, 2000, CCIC, CCFIC, CCGIC and the Exchange (Group) entered into a 15-year quota-share reinsurance agreement with Fireman's Fund Insurance Company (FFIC) on the Group's personal lines of business. Under the terms of this agreement, for the first five years of the treaty, the Group cedes 20% of the personal lines written premiums and losses, and earned a ceding commission equal to 20% of the underwriting expenses. For the subsequent ten years of the treaty, the Group cedes 30% of the written premiums and losses and earns a ceding commission equal to 30% of underwriting expenses. The Exchange had been notified by FFIC that the agreement would be terminated after year end 2014.

The following is a summary of principal reinsurance agreement in-force as of December 31, 2013:

Type of Contract	**Line(s) of Business**	**Reinsurer(s) and Participation**	**Company's Retention**	**Reinsurer's Limits**
Catastrophe Excess of Loss				
1st Layer Excess of Loss	Property	Authorized: General Reinsurance Company (20%) Munich Re America (6.25%) Underwriters at Lloyd's, London (3.75%)	$10 million excess of $10 million per occurrence, excess of $10 million otherwise recoverable	$10 million per occurrence excess of $10 million, $20 million maximum annual limit

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
2nd Layer Excess of Loss	Property	Authorized: General Reinsurance Company (25%) Munich Re America (17.50%) Swiss Re America Corporation (8%) Underwriters at Lloyd's, London (7.5%) Unauthorized: Renaissance Re (2%) XL Re Ltd. (10%)	\$20 million excess of \$20 million per occurrence	\$20 million per occurrence excess of \$20 million, \$40 million maximum annual limit
3rd Layer Excess of Loss	Property	Authorized: General Reinsurance Company (35%) Munich Re America (20%) Swiss Re America Corporation (8%) Underwriters at Lloyd's, London (5%) Unauthorized: Renaissance Re (4%) XL Re Ltd. (8%)	\$40 million excess of \$40 million per occurrence	\$40 million per occurrence excess of \$40 million, \$80 million maximum annual limit

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, 2009 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	$ 190,722,801	$	$ 190,722,801	
Common stocks	213,025,237	502,307	212,522,930	
Cash and short-term investments	3,892,101		3,892,101	
Investment income due & accrued	1,568,341		1,568,341	
Uncollected premiums and agents' balances in course of collection	1,194,075	90,353	1,103,722	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	133,828,009		133,828,009	
Amount recoverable from reinsurers	8,638,207		8,638,207	
Current federal and foreign income tax recoverable and Interest thereon	588,726		588,726	
Furniture and equipment, including health care delivery assets	34,400	34,400		
Receivables from parent, subsidiaries and affiliates	18,927,710		18,927,710	
Aggregate write-ins for other than invested assets	325,074	283,074	42,000	
Total assets	$ 572,744,681	$ 910,134	$ 571,834,547	
Liabilities, Surplus and Other Funds				
Losses			$ 51,944,535	(1)
Reinsurance payable on paid losses and loss adjustment expenses			9,840,995	
Loss adjustment expenses			19,994,349	(1)
Other expenses (excluding taxes, licenses and fees)			361,551	
Taxes, licenses and fees (excluding federal and foreign income taxes)			892,635	
Current federal and foreign income taxes			695,883	
Unearned premiums			80,894,915	
Advance premium			1,149,501	
Ceded reinsurance premiums payable			48,317,573	
Amounts withheld or retained by company for account of others			2,455,915	
Payable to parent, subsidiaries and affiliates			18,587,372	
Aggregate write-ins for liabilities			243,008	
Total liabilities			235,378,232	
Unassigned funds (surplus)		$ 336,456,315		
Surplus as regards policyholders			336,456,315	
Total liabilities, surplus and other funds			$ 571,834,547	

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

Statement of Income

Underwriting Income		
Premiums earned		$ 155,404,645
Deductions:		
Losses incurred	$ 95,353,077	
Loss expenses incurred	28,034,378	
Other underwriting expenses incurred	46,615,232	
Total underwriting deductions		170,002,687
Net underwriting loss		(14,598,042)
Investment Income		
Net investment income earned	$ 7,048,564	
Net realized capital gains	6,766,212	
Net investment gain		13,814,776
Other Income		
Net loss from agents' or premium balances charged off	$ (704,464)	
Finance and service charges not included in premiums	1,442,191	
Total other income		737,727
Net income before federal and foreign income taxes incurred		(45,539)
Federal and foreign income taxes incurred		(2,663,809)
Net income		$ 2,618,270

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		$ 319,983,150
Net income	$ 2,618,270	
Change in net unrealized capital gains	8,380,083	
Change in net deferred income tax	3,646,495	
Change in nonadmitted assets	1,828,317	
Change in surplus as regards policyholders for the year		16,473,165
Surplus as regards policyholders, December 31, 2013		$ 336,456,315

Reconciliation of Surplus as Regards Policyholders from December 31, 2009 through December 31, 2013

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2009, per Examination			$ 327,140,909
Net income	$ 9,747,033	$	
Change in net unrealized capital gains	7,433,873		
Change in net deferred income tax		8,654,169	
Change in nonadmitted assets	8,793,366		
Aggregate write-ins for losses in surplus		8,004,697	
Total gains and losses	$ 25,974,272	$ 16,658,866	
Net increase in surplus as regards policyholders			9,315,406
Surplus as regards policyholders, December 31, 2013, per Examination			$ 336,456,315

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2013 prepared by the Exchange's actuary and concurred with the actuary's conclusion that the Exchange's loss and loss adjustment expense reserves as of December 31, 2013 are reasonable and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Exchange's officers and California Casualty Management Company's employees during the course of this examination.

Respectfully submitted,

Li S. Lim, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California