REPORT OF EXAMINATION
OF THE

CALIFORNIA CASUALTY
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 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

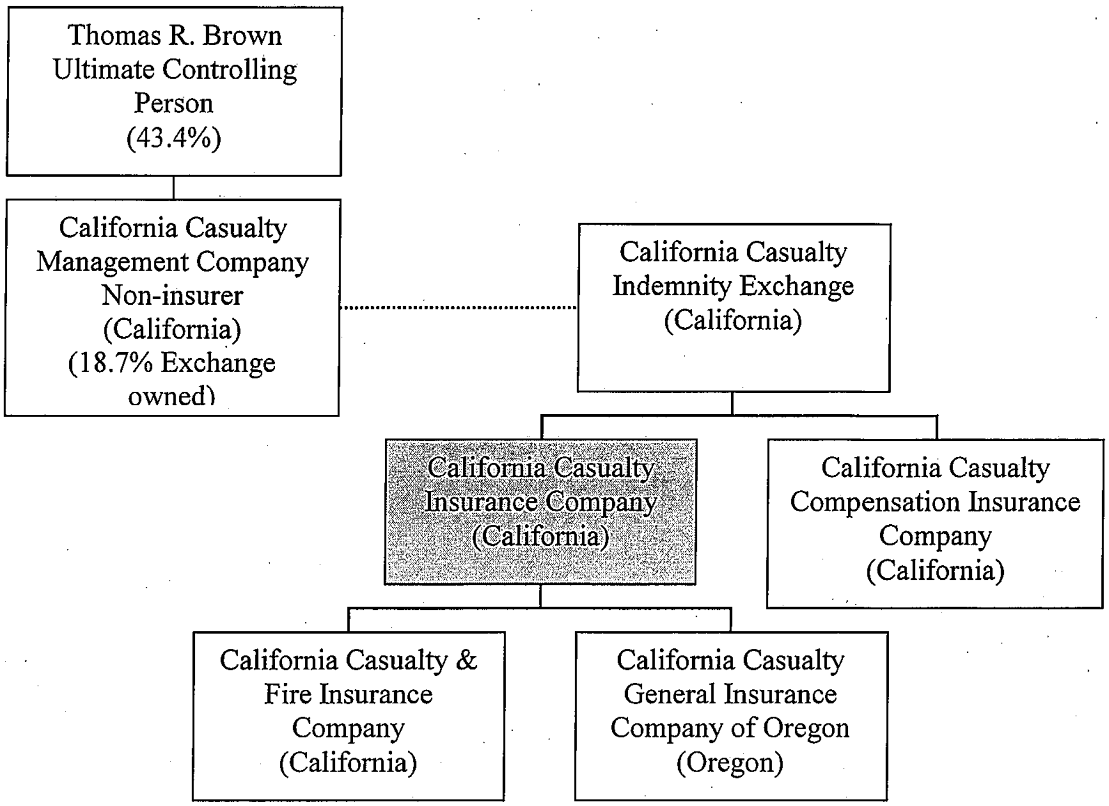
The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The 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 Compensation Insurance Company, and the Company's two subsidiaries, California Casualty General Insurance Company of Oregon and California Casualty & Fire Insurance Company. These insurers are collectively referred to hereinafter as the California Casualty Group (Group).

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

Principal Officers

Name	Title
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

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

Premiums are written primarily in Florida with 99.0% of the total direct premiums written in 2009. The remainder of the written premium is spread among ten states. Total direct premiums written by the Company has increased from $12.6 million in 2006 to $16.0 million 2009. In 2009, the principal direct lines of business written were auto liability and auto physical damage which accounted for 67% and 32% of total direct written premiums, respectively.

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, the Company, 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 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, the Company, CCFIC, 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. The 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:

Type of Contract	Line of Business	Reinsurer's Name	Exchange's Retention	Reinsurer's Limits
Catastrophe Excess of Loss				
1st Layer Excess of Loss	Property	Authorized Underwriter's at Lloyd's, London – 10.5% General Reinsurance Company – 15% Swiss Reins America Corporation – 10% Munich Reinsurance America, Inc. – 7.5% Unauthorized 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
2nd Layer Excess of Loss	Property	Authorized Underwriter's at Lloyd's, London – 11% General Reinsurance Company – 15% Swiss Reins America Corporation – 10% Munich Reinsurance America, Inc. – 10% Unauthorized 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
3rd Layer Excess of Loss	Property	Authorized 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

Type of Contract	Line of Business	Reinsurer's Name	Exchange's Retention	Reinsurer's Limits
		Unauthorized 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

Assets	Ledger and Non-ledger Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Bonds	$ 35,162,919	$	$ 35,162,919	
Common stocks	61,416,897		61,416,897	
Cash and short-term investments	334,394		334,394	
Investment income due & accrued	334,227		334,227	
Premiums and agents' balances in course of collection	140,571	11,141	129,430	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	17,773,582		17,773,582	
Reinsurance recoverables	1,170,170	12,517	1,157,653	
Current federal and foreign income tax recoverable and interest thereon	60,020		60,020	
Net deferred tax asset	825,135	95,435	729,700	
Guaranty funds receivable	58		58	
Receivables from parent, subsidiaries and affiliates	3,295,180		3,295,180	
Aggregate write-ins for other than invested assets	123,924	32,530	91,394	
Total assets	$120,637,077	$ 151,623	$120,485,454	

Liabilities, Surplus and Other Funds				
Losses			$ 6,560,633	(1)
Reinsurance payable on paid losses and loss adjustment expenses			524,457	
Loss adjustment expenses			2,137,683	(1)
Other expenses			45,291	
Taxes, licenses and fees			74,137	
Unearned premiums			8,839,014	
Advance premiums			99,423	
Ceded reinsurance premiums payable			8,013,939	
Amounts withheld or retained by company for account of others			313,619	
Payable to parent, subsidiaries and affiliates			4,255,870	
Aggregate write-ins for liabilities			42,498	
Total liabilities			30,906,564	
Common capital stock		$ 2,600,000		
Gross paid-in and contributed surplus		6,753,818		
Unassigned funds		80,225,072		
Surplus as regards policyholders			89,578,890	
Total liabilities, surplus and other funds			$120,485,454	

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

Statement of Income

Underwriting Income		
Premiums earned		$17,574,681
Deductions:		
Losses incurred	$10,333,883	
Loss expenses incurred	3,031,420	
Other underwriting expenses incurred	4,768,173	
Total underwriting deductions		18,133,476
Net underwriting loss		(558,795)
Investment Income		
Net investment income earned	$ 1,647,019	
Net realized capital gains	22,499	
Net investment gain		1,669,518
Other Income		
Net loss from agents' balances or premium balances charged off	$ (87,063)	
Finance and service charges not included in premiums	185,344	
Total other income		98,281
Net income before federal income taxes		1,209,004
Federal income taxes incurred		316,139
Net income		$ 892,865

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		$87,108,970
Net income	$ 892,865	
Change in net unrealized capital gains or losses	1,596,138	
Change in deferred income tax	(12,856)	
Change in nonadmitted assets	(6,227)	
Change in surplus as regards policyholders for the year		2,469,920
Surplus as regards policyholders, December 31, 2009		$89,578,890

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

Surplus as regards policyholders, December 31, 2006, per Examination			$78,367,309
	Gain in Surplus	Loss in Surplus	
Net income	$ 5,080,313	$	
Change in net unrealized capital gains	6,372,672		
Change in net deferred income tax		403,338	
Change in nonadmitted assets	161,934		
Totals	$11,614,919	$ 403,338	
Net increase in surplus as regards policyholders			11,211,581
Surplus as regards policyholders, December 31, 2009, per Examination			$89,578,890

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 Principle No. 53, paragraph 13. The Company is now in compliance.

Reinsurance Recoverables (Page 14): It was recommended that the Company ensure that letters of credit reported in Schedule F Part 5 accurately reflect such amounts actually held so that this schedule will not be misleading. 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