

REPORT OF EXAMINATION
OF THE
CALIFORNIA GENERAL UNDERWRITERS
INSURANCE COMPANY, INC
AS OF
DECEMBER 31, 2010

Filed December 29, 2011

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Los Angeles, California
October 28, 2011

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA GENERAL UNDERWRITERS INSURANCE COMPANY, INC.

(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

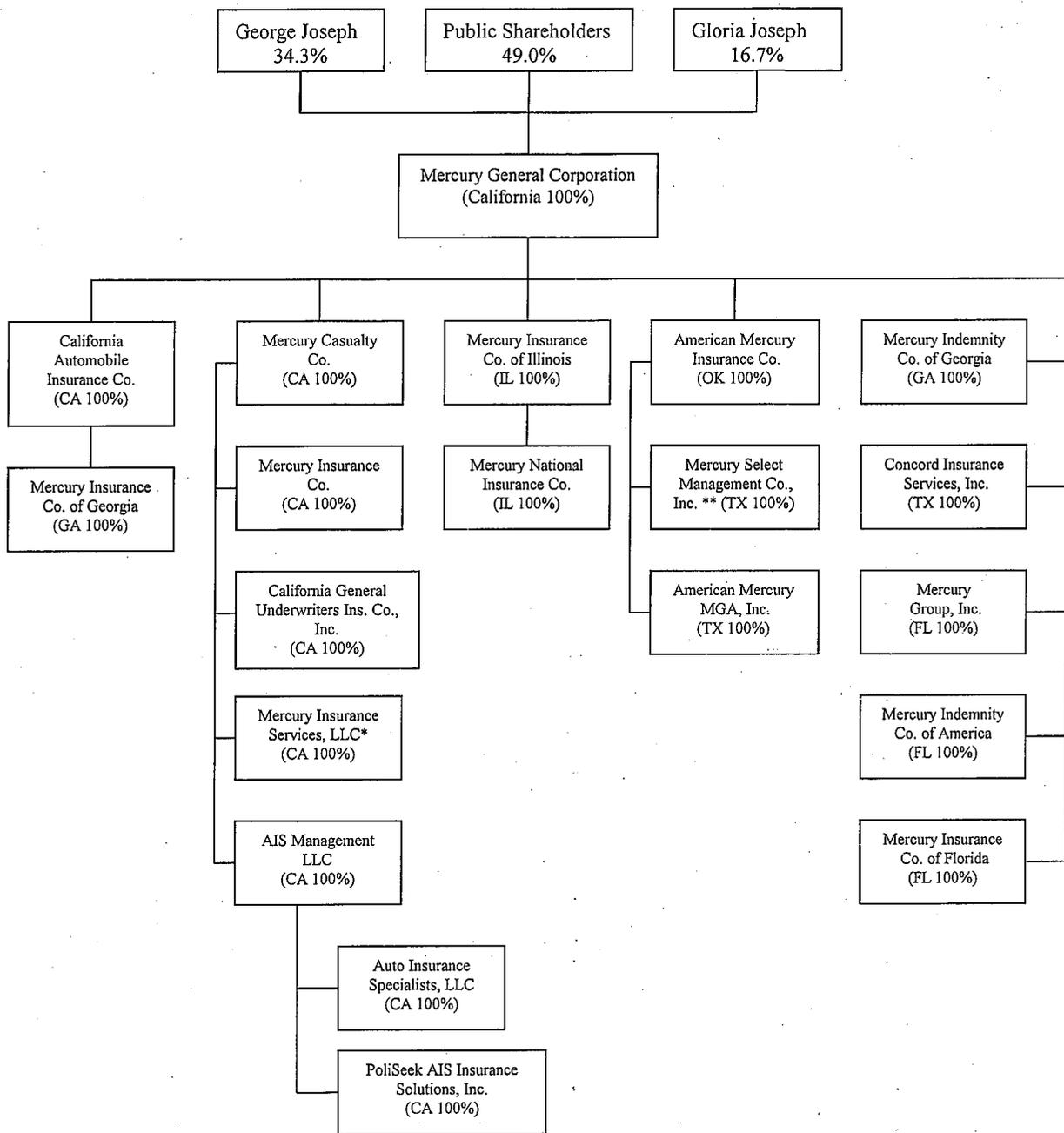
The previous examination of the Company was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2010. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The 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 Oklahoma Department of Insurance conducted the examination of American Mercury Insurance Company concurrently with the examination of the Company and its three California domiciled affiliates: Mercury Casualty Company, Mercury Insurance Company, and California Automobile 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: company history; corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; statutory deposits; and sales and advertising.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Mercury Casualty Company (MCC). MCC in turn, 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 organizational chart depicts the Company's relationship within the holding company system:



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

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

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, 2010:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Nathan Bessin Los Angeles, California	Senior Partner J. Arthur Greenfield & Company
Bruce A. Bunner Fernandina Beach, Florida	Retired President Financial Structures, Ltd.
Michael D. Curtius Carlsbad, California	Executive Consultant 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 KMPG 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

Principal Officers

<u>Name</u>	<u>Title</u>
Stephanie G. Behnke	President and General Manager
Theodore R. Stalick	Vice President, Chief Financial Officer, and Treasurer
Judith A. Walters	Secretary
Christopher W. Graves	Vice President
Qian Li	Vice President

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 MCC. Under the terms of this agreement, MIS performs underwriting and loss adjustment services for the 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 Company only incurred management fees of \$3,780 in 2010. Approval of the agreement was granted by the California Department of Insurance (CDI) on January 1, 2001.

Tax Allocation Agreement: Since January 1, 1983, the Company and various affiliates have been parties to a consolidated federal income tax 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. Intercompany tax balances were found to be settled in accordance with the terms of the agreement. Taxes paid by the Company totaled \$160,000, \$374,000, and \$623,000 for the years 2008, 2009, and 2010 respectively. The agreement was not subject to prior approval by the CDI due to the effective date of the agreement.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a multiple line casualty insurer in California. As depicted within the reinsurance section below, the Company's operations are limited to business assumed from Mercury Casualty Company (MCC).

REINSURANCE

Assumed

Since July 1, 1999, the Company has been party to a 100% quota share agreement with Mercury Casualty Company (MCC), under which the Company assumes the fleet automobile policy written by MCC for substantially all vehicles owned by affiliates.

Ceded

During the period under review, the Company did not cede any business.

ACCOUNTS AND RECORDS

Section 44 of the Statement of Statutory Accounting Principles Number 65 eliminated the requirement to record the excess statutory reserves. In conjunction therewith, the California Legislature passed Assembly Bill 2002, which eliminated the minimum reserve requirement effective January 1, 2011. Accordingly, the Company did not report the applicable excess statutory reserves (Schedule P Penalty) as of December 31, 2010. If the reporting requirement were still in effect, the calculated liability would have been \$407,000. The Company did report the applicable excess of statutory over statement reserves as of December 31, 2009 in the amount of \$363,000.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2010

Underwriting and Investment Exhibit for the Year Ended December 31, 2010

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2010

Statement of Financial Condition
as of December 31, 2010

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 15,900,499	\$ 15,900,499	
Cash and short-term investments	1,809,080	1,809,080	
Investment income due and accrued	290,331	290,331	
Current federal and foreign income tax recoverable and interest thereon	74,084	74,084	
Total assets	<u>\$ 18,073,994</u>	<u>\$ 18,073,994</u>	
 <u>Liabilities, Surplus and Other Funds</u>			
Losses and loss adjustment expenses		\$ 125,733	(1)
Reinsurance payable on paid loss and loss adjustment expenses		5,568	
Other expenses		24,272	
Net deferred tax liability		92,410	
Unearned premiums		1,314	
Payable to parent, subsidiaries and affiliates		<u>4,356</u>	
Total liabilities		253,653	
Common capital stock	\$ 4,000,000		
Gross paid in and contributed surplus	3,500,000		
Unassigned funds (surplus)	<u>10,320,341</u>		
Surplus as regards policyholders		<u>17,820,341</u>	
Total liabilities, surplus and other funds		<u>\$ 18,073,994</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2010

Statement of Income

Underwriting Income

Premiums earned		\$ 459,610
Deductions:		
Losses and loss adjustment expenses incurred	\$ 71,483	
Other underwriting expenses incurred	<u>415,631</u>	
Total underwriting deductions		<u>487,114</u>
Net underwriting loss		(27,504)

Investment Income

Net investment income earned	\$ 1,025,785	
Net realized capital gain	<u>822,042</u>	
Net investment gain		<u>1,847,827</u>
Net income after capital gains tax and before all other federal and foreign income taxes		1,820,323
Federal and foreign income taxes incurred		<u>101,243</u>
Net income		<u>\$ 1,719,080</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2009		\$ 15,832,832
Net income	\$ 1,719,080	
Change in net deferred income tax	(188,329)	
Change in nonadmitted assets	93,758	
Aggregate write-ins for gains and losses in surplus	<u>363,000</u>	
Change in surplus as regards policyholders for the year		<u>1,987,509</u>
Surplus as regards policyholders, December 31, 2010		<u>\$ 17,820,341</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2010

Surplus as regards policyholders,
 December 31, 2007 per Examination \$ 14,178,367

	Gain in Surplus	Loss in Surplus	
Net income	\$ 3,415,750	\$	
Change in net deferred income tax		208,637	
Change in nonadmitted assets	87,861		
Aggregate write-ins for gains in surplus	347,000		
Total gains and losses	\$ 3,850,611	\$ 208,637	

Net increase in surplus as regards policyholders 3,641,974

Surplus as regards policyholders,
 December 31, 2010, per Examination \$ 17,820,341

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, the Company's reserves for losses and loss adjustment expenses as of December 31, 2010 were found to be reasonably stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

The previous examination report did not contain any comments or recommendations.

ACKNOWLEDGEMENT

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

Respectfully submitted,

/S/

David A. Fischman, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California