

REPORT OF EXAMINATION
OF THE
CALIFORNIA CASUALTY & FIRE INSURANCE COMPANY
AS OF
DECEMBER 31, 2021

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Filed on January 5, 2023

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Oakland, California
November 29, 2022

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA CASUALTY & FIRE INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's home office is located at 1875 South Grant Street, Suite 800, San Mateo, California 94402.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2017. This examination covered the period from January 1, 2018 through December 31, 2021.

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 Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is

identified, the impact of such adjustment will be documented separately following the Exchange's financial statements.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This was a coordinated examination with California as the lead state of the California Casualty Group (CCG). It was conducted concurrently with the examinations of the Company's parent, California Casualty Indemnity Exchange (California), its immediate parent, California Casualty Insurance Company (Oregon), and affiliates, California Casualty Compensation Insurance Company (California), and California Casualty General Insurance Company of Oregon (Oregon). The Oregon Department of Consumer and Business Services, Division of Financial Regulation participated in the examination.

COMPANY HISTORY

Capitalization

The Company is authorized to issue 30,000 shares of common stock with par value of \$100 per share. As of December 31, 2021, these were 26,000 shares issued and outstanding

Capital Contribution

In 2020, the Company received a capital contribution of \$6.0 million in bonds from its parent, California Casualty Insurance Company. The purpose of the capital contribution was to reallocate capital among the companies within CCG to reduce the net written premiums to surplus ratio across all companies from over 4.0 to 1, to less than 3.0 to 1.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system which is managed by the California Casualty Management Company (CCMC) as the attorney-in-fact for the Company's parent, California Casualty Indemnity Exchange (CCIE). As of December 31, 2021, Thomas R. Brown owned or controlled 32.65% of the Class A voting stock common stock of CCMC.

The following organizational chart depicts the Company's relationship within the holding company system at December 31, 2021 (all ownership is 100% unless otherwise indicated):

Thomas R. Brown
California Casualty Management Company (California)*
California Casualty Indemnity Exchange (California)
California Casualty Compensation Insurance Company (California)
California Casualty Insurance Company (Oregon)
California Casualty and Fire Insurance Company (California)
California Casualty General Insurance Company of Oregon (Oregon)

*Thomas R. Brown owns 32.65% and the Exchange owns 20.15% of Series A Voting Shares of CCMC, respectively. CCMC has no ownership interest in the insurers in CCG. CCMC's affiliation is through an Underwriters Agreement with the Exchange and management agreements with the other insurers in CCG.

A twelve-member Board of Directors, who are elected annually, oversees the business and affairs of the Company. The following are members of the board and principal officers of the Company serving at December 31, 2021:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Micaela C. Cichocki San Bernardino, California	Teacher San Bernardino City Unified School District
Wayne S. Diviney Clifton, Virginia	Retired National Education Association
Jose A. Gomez Pasadena, California	Educator, University Administrator California State University, Los Angeles
Jon H. Hamm Placerville, California	Retired California Association of Highway Patrolmen
Mitchell E. Hornecker Portland, Oregon	Owner Modoc Consulting, LLC
Karen B. Kyhn Moreno Valley, California	Retired California Teachers Association
Leona S. Lindner Washington, District of Columbia	Chief Marketing Officer National Education Association's Member Benefits Corporation
Michael G. McPherson Silver Spring, Maryland	Chief Financial Officer National Education Association
Robert R. Nicolay ^(a) Westlake, Ohio	Chief Executive Officer California Casualty Management Company
Karen M. Padovese San Rafael, California	Retired GeoVera Holdings, Inc.
Edward G. Phoebus, III Silver Spring, Maryland	Chief Executive Officer National Education Association's Member Benefits Corporation
Thomas M. Tongue Lake Oswego, Oregon	Attorney Schwabe, Williamson and Wyatt, P.C.

Principal Officers

<u>Name</u>	<u>Title</u>
Robert R. Nicolay ^(a)	President and Chief Executive Officer
Michael A. Ray	Executive Vice President and Chief Financial Officer
Joseph C. Muenzen ^(b)	Senior Vice President Underwriting and Product Management and Secretary

The following changes in management occurred subsequent to the examination date:

- (a) Jonathan D. Adkisson was appointed President and Chief Executive Officer effective June 1, 2022. Robert R. Nicolay remains as a director.
- (b) Joseph C. Muenzen left the Company on March 30, 2022 due to a leadership reorganization. John J. Allen, Legal Counsel, filled in for the secretary position on March 31, 2022 and left the Company on August 4, 2022. Carl B. Brown is the interim Secretary of the Company.

Management Agreements

Management Agreement: The Company is managed by California Casualty Management Company (CCMC) under a Management Agreement (Agreement), effective January 1, 1994. Under the terms of the Agreement, CCMC has the power to conduct, control and supervise the complete insurance activities of the Company. CCMC is paid a monthly fee of up to 125% of expenses incurred on the services performed by CCMC on behalf of the Company. In addition, the Company agrees to pay CCMC an annual incentive fee not to exceed 10% of the Company's calendar year pre-tax income. This Agreement was approved by the California Department of Insurance (CDI) on November 12, 1993 pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). There was no incentive fee paid in 2018, 2019, and 2021. In 2020, CCMC charged an incentive fee of 10%, which was included in the management fee. The total fees paid by the Company under this Agreement were: \$12,021,063 in 2018, \$12,432,995 in 2019, \$13,319,771 in 2020, and \$12,513,162 in 2021.

Tax Allocation Agreement: Effective January 1, 1992, the Company entered into a tax allocation agreement entitled "California Casualty Group Tax Allocation Agreement" (Tax Agreement) with California Casualty Indemnity Exchange (CCIE), California Casualty

Compensation Insurance Company, California Casualty Insurance Company, and California Casualty General Insurance Company of Oregon. 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 CIC Section 1215.5(b)(4) on March 26, 2008. The CDI did not disapprove the agreement as of 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 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 its subsidiaries. The total federal income taxes incurred by the Company under this Agreement were: \$(82,621) in 2018, \$(5,338) in 2019, and \$40,031 in 2021.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Exchange is licensed to transact property and casualty insurance in all states except Michigan and New Jersey, and the District of Columbia. The Exchange’s business is focused on personal lines, which includes private passenger automobile and homeowners coverages. Effective January 1, 2017, workers compensation coverage for domestic workers is included under the homeowners multiple peril line of business.

Arizona	Missouri	Oregon
California	Nebraska	Utah
Illinois	Nevada	Washington
Iowa	New Jersey	Wisconsin
Kansas	New Mexico	Wyoming
Kentucky	Ohio	

In 2021, the entire direct premiums written of \$20.3 million was written in New Jersey. The Company’s principal lines of business written during 2021 were private passenger automobile liability (48.2%), automobile physical damage (32.5%), and homeowners multiple peril (19.1%). The remainder (0.2%) was written in inland marine.

CCMC, as the manager of the Company, provides services to the Company in accordance with the Management Agreement. CCMC conducts operations from its home office in San Mateo, California. CCMC also has service centers at Colorado Springs, Colorado; Leawood, Kansas; and Glendale, Arizona. These service centers provide claims, corporate services, customer service, information technology, marketing, as well as sales and underwriting support. In addition, CCMC provides production and operating facilities pursuant to the provisions of the Management Agreement.

REINSURANCE

Pooling

Effective January 1, 2011, a revised Intercompany Pooling Agreement (Agreement) was approved by the California Department of Insurance (CDI) on August 30, 2010 pursuant to California Insurance Code Section 1215.5(b)(3). This revised Agreement was amended to clarify that only the Company's ultimate parent, California Casualty Indemnity Exchange (CCIE) may purchase non-affiliate reinsurance contracts and each subsidiary's direct premiums and direct paid loss and loss adjustment expenses are ceded to the Exchange. Under the terms of this agreement, each participating insurer 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 business, which are in run-off. The pooled personal lines business is then 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 of business. All workers' compensation and miscellaneous commercial lines direct and assumed business are retroceded 100% to California Casualty Compensation Insurance Company.

Assumed

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

Ceded

Effective January 1, 2000, the Company, CCIC, CCGIC and the Exchange, collectively known as the California Casualty Group (CCG) entered into a 15-year Quota Share Reinsurance Agreement with Fireman's Fund Insurance Company (FFIC) covering the CCG's personal lines of business. Under the terms of this agreement, for the first five years of the treaty, CCG ceded 20% of the personal lines written premiums and losses. Effective January 1, 2005 through December 31, 2014, CCG ceded 30% of the written premiums and losses to FFIC. This agreement was cancelled on a run-off basis effective January 1, 2015, with immaterial reinsurance recoverable balances for paid and unpaid losses during the examination period.

The following is a summary of principal reinsurance agreement in-force as of December 31, 2021:

Type of Contract	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
<u>Property Catastrophe Excess of Loss Contract</u> First Layer	<u>Authorized:</u> Lloyd's Underwriters (21.25%) Munich Reinsurance America, Inc. (8.5%) Convex Insurance UK Limited (3.75%) Axis Reinsurance Company (2.5%) Swiss Reinsurance Company Ltd. (2.5%) DaVinci Reinsurance Ltd. (2%) Hannover Ruck SE (2%) Renaissance Reinsurance Ltd. (2%) <u>Unauthorized:</u> Hannover Re (Bermuda) Ltd. (8.5%) American Agricultural Insurance Company (5%) Note: CCIE retained the remaining 42%.	\$10 million each occurrence	\$10 million excess of \$10 million each occurrence, subject to maximum annual limit of \$20 million
Second Layer	<u>Authorized:</u> Lloyd's Underwriters (35.25%) SCOR Reinsurance Company (15%) Munich Reinsurance America, Inc. (8.5%) Arch Reinsurance Ltd. (7.5%) Convex Insurance UK Limited (2.5%) Swiss Reinsurance Company Ltd. (2.5%) Hannover Ruck SE (2.5%) American Standard Insurance Company of Wisconsin (2%) Partner Reinsurance Company Ltd. (1.5%) Validus Reinsurance, Ltd. (1%) <u>Unauthorized:</u> Hannover Re (Bermuda) Ltd. (12.75%) American Agricultural Insurance Company (5%) Peak Reinsurance Company Ltd. (4%)	\$20 million each occurrence	\$20 million excess of \$20 million each occurrence, subject to maximum annual limit of \$40 million

Type of Contract	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Third Layer	<u>Authorized:</u> Lloyd's Underwriters (21.5%) SCOR Reinsurance Company (14%) Munich Reinsurance America, Inc. (8.5%) Arch Reinsurance Ltd. (7.5%) Odyssey Reinsurance Company (7.5%) Shelter Mutual Insurance Company (6%) Axis Reinsurance Company (5%) Swiss Reinsurance Company Ltd. (2.5%) Houston Casualty Company (2.25%) Hannover Ruck SE (2%) American Standard Insurance Company of Wisconsin (2%) Partner Reinsurance Company Ltd. (1.5%) Validus Reinsurance, Ltd. (1%) <u>Unauthorized:</u> Hannover Re (Bermuda) Ltd. (12.75%) Peak Reinsurance Company Ltd. (4%) American Agricultural Insurance Company (2%)	\$40 million each occurrence	\$40 million excess of \$40 million each occurrence, subject to maximum annual limit of \$80 million

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2021. The accompanying comments to the amounts in the annual statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 39,005,255	\$	\$ 39,005,255	
Cash, cash equivalents, and short-term investments	363,718		363,718	
Receivables for securities	10,625		10,625	
Investment income due and accrued	171,551		171,551	
Uncollected premiums and agents' balances in the course of collection	208,079	12,159	195,920	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	27,788,041		27,788,041	
Amounts recoverable from reinsurers	622,827		622,827	
Receivables from parent, subsidiaries and affiliates	6,238,400		6,238,400	
Aggregate write-ins for other than invested assets	124,004	122,369	1,635	
Total assets	<u>\$ 74,532,499</u>	<u>\$ 134,528</u>	<u>\$ 74,397,971</u>	

<u>Liabilities, Surplus, and Other Funds</u>			<u>Notes</u>
Losses		\$ 15,031,085	(1)
Reinsurance payable on paid loss and loss adjustment expenses		2,581,554	
Loss adjustment expenses		2,726,902	(1)
Other expenses		64,009	
Taxes, licenses and fees		91,884	
Current federal and foreign income taxes		40,535	
Unearned premiums		20,093,166	
Advance premiums		236,352	
Ceded reinsurance premiums payable		9,739,577	
Amounts withheld or retained by company for account of others		816,310	
Payable to parent, subsidiaries and affiliates		7,898,540	
Aggregate write-ins for liabilities		31,415	
Total liabilities		59,351,329	
Common capital stock	\$ 2,600,000		
Gross paid-in and contributed surplus	22,411,492		
Unassigned funds (surplus)	<u>(9,964,850)</u>		
Surplus as regards policyholders		<u>15,046,642</u>	
Total liabilities, surplus, and other funds		<u>\$ 74,397,971</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned		\$ 39,271,503
Deductions:		
Losses incurred	\$ 25,182,317	
Loss adjustment expenses incurred	4,622,061	
Other underwriting expenses incurred	10,653,106	
		<hr/>
Total underwriting deductions		40,457,484
		<hr/>
Net underwriting loss		(1,185,981)

Investment Income

Net investment income earned	\$ 747,973	
Net realized capital gains	332	
		<hr/>
Net investment gain		748,305

Other Income

Net loss from agents' or premium balances charged off	\$ (47,081)	
Finance and service charges not included in premiums	164,298	
		<hr/>
Total other income		117,217
		<hr/>
Net loss after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		(320,459)
Federal and foreign income taxes incurred		39,943
		<hr/>
Net loss		\$ (360,402)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$ 15,378,738
Net loss	\$ (360,402)	
Change in net unrealized capital gains	33,682	
Change in nonadmitted assets	(5,376)	
		<hr/>
Change in surplus as regards policyholders for the year		(332,096)
		<hr/>
Surplus as regards policyholders, December 31, 2021		\$ 15,046,642

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Surplus as regards policyholders, December 31, 2017			\$ 16,081,247	<u>Notes</u>
	Gain in Surplus	Loss in Surplus		
Net loss	\$	\$ 6,960,600		
Change in nonadmitted assets		53,418		
Surplus adjustments: Paid-in	5,979,413			
Total gains and losses	\$ 5,979,413	\$ 7,014,018		
Net decrease in surplus as regards policyholders			(1,034,605)	
Surplus as regards policyholders, December 31, 2021			<u>\$ 15,046,642</u>	

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, 2021 prepared by the Company's actuary and concurred with the actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2021 were reasonable and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

In 2022, the California Casualty Group (CCG) rolled out a re-organization of its leadership structure; the goal is to create an organizational structure that enables CCG to grow, build up surplus strength and be sustainable. Jonathan D. Adkisson, President and Chief Executive Officer; and Mark D. Pitchford, Executive Vice President and Chief Marketing Officer joined CCG on June 1, 2022 and July 25, 2022, respectively. They will be leading CCG to develop a new corporate strategy and make changes toward growth and profitability.

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 Company's officers and California Casualty Management Company's employees during the course of this examination.

Respectfully submitted,

Sam Chiu, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Li Lim, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California