

REPORT OF EXAMINATION
OF THE
CIVIL SERVICE EMPLOYEES
INSURANCE COMPANY
AS OF
DECEMBER 31, 2018

Filed on March 19, 2020

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San Francisco, California
January 16, 2020

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CIVIL SERVICE EMPLOYEES INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 2121 North California Boulevard, Walnut Creek, California 94596.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2014. This 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. The examination also included identifying and evaluating significant risks that could cause the Company'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 includes 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 an adjustment was identified during the course of the examination, the impact of such adjustment would be documented separately following the Company's financial statements.

This examination report includes 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.

COMPANY HISTORY

Capitalization

The Company is authorized to issue 1,000 shares of common stock with a par value of \$4 thousand per share. As of December 31, 2018, there were 859 shares issued and outstanding.

The Company received capital contributions in the amount of \$15 million in 2017 and \$25 million in 2018 from its ultimate parent, Covéa Coopérations. The Company accounted for this contribution as additional paid-in capital on its balance sheet.

Dividends

The Company paid ordinary cash dividends to its parent, GMF Financial Services Corporation, in the amount of \$2.9 million in 2015 and \$563 thousand in 2016. The Company did not pay any cash dividends to its parent company in 2017 and 2018.

The Company received dividends from its subsidiary, CSE Safeguard Insurance Company, in the amount of \$967 thousand in 2015 and \$188 thousand in 2016. The Company did not receive dividends from its subsidiary in 2017 and 2018.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system (CSE Insurance Group), of which Covéa Coopérations is the ultimate controlling entity. The following

abridged organizational chart depicts the inter-relationship of the companies as of December 31, 2018 (all ownership is 100% unless otherwise noted):

MMA IARD Assurances Mutuelles (France) [21.53%]

MMA Vie Assurance Mutuelles (France) [11.80%]

Garantie Mutuelle des Fonctionnaires/GMF (France) [18.80%]

Assurances Mutuelles de France (France) [14.54%]

MAAF Assurances (France) [33.16%]

MAAF Sante (France) [0.17%]

 Covéa Coopérations (France)

 Covéa Lux (Luxembourg)

 GMF Financial Services Corporation (Delaware)

 CSE Insurance Services, Inc. (California)

Civil Service Employees Insurance Company (California)

 CSE Safeguard Insurance Company (California)

The seven members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal offices of the Company serving at December 31, 2018:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
David A. Brinker Tucson, Arizona	Retired Executive Vice President CSE Insurance Group
Fancois Josse Paris, France	Senior Vice President, Head of International Covéa Coopérations
Thomas A. Kelly West Linn, Oregon	Retired Senior Vice President Towers Watson, Inc.
Bertrand A. LeFebvre Paris, France	Senior Vice President, Group Internal Audit Covéa Coopérations
Marcus H. Linden El Dorado Hills, California	President and Chief Executive Officer CSE Insurance Group
Pierre Michel Paris, France	Executive Vice President, International and Reinsurance Covéa Coopérations
Dominique Salvy ^(a) Paris, France	Senior Vice President, International Covéa Coopérations

Principal Officers

<u>Name</u>	<u>Title</u>
Marcus H. Linden Neeraj Juneja	President and Chief Executive Officer Executive Vice President and Chief Financial Officer
Angela Grant ^(b)	Acting Secretary

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

- (a) Dominique Salvy resigned from the Board effective April 5, 2019. Fäiza Lefevre and Reuben Jeffrey were appointed to serve on the Board on that same date.
- (b) Angela Grant was appointed to serve as General Counsel and Corporate Secretary on April 4, 2019.

Management Agreements

Cost Sharing Agreement: Effective January 1, 2018, the Company entered into a Cost Sharing Agreement (Agreement) with its subsidiary, CSE Safeguard Insurance Company (Safeguard). This Agreement replaced the Cost Sharing Agreement that expired on December 31, 2017. The Agreement identifies certain services that are delegated by Safeguard to the Company and compensation for the services provided. These services include: claims and underwriting services, taxes, accounting, reinsurance and other functional support. During the examination, the Company did not submit the new Agreement with the California Department of Insurance (CDI) for pre-approval pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). It is recommended that the Company file the Agreement with the CDI pursuant to CIC Section 1215.5(b)(4).

Tax Allocation Agreement: Effective January 1, 1990, the Company entered into a Tax Allocation Agreement (Agreement) to file federal income taxes on a consolidated basis with its holding company, GMF Financial Services Corporation (GMFF), and other affiliates. On January 1, 2011, a revised Agreement was executed that provides for a consolidated tax return to be filed by GMFF with each company being responsible for its share of the taxes, computed on a separate company basis. The revised Agreement was approved by the CDI on October 8, 2015.

TERRITORY AND PLAN OF OPERATION

The Company's operations are conducted jointly with its subsidiary, CSE Safeguard Insurance Company (Safeguard), at its home office in Walnut Creek, California. As of

December 31, 2018, the Company was licensed to write private passenger automobile liability and physical damage, homeowners multiple peril, and commercial multiple peril insurance in the District of Columbia and the following states:

Arizona	Idaho	Utah
California	Nevada	Virginia
Colorado	Oregon	Washington

Of the Company's 2018 direct premiums written of \$64.6 million, 58.0% was written in California, 27.1% in Arizona, and 14.9% in Nevada. Business is written through approximately 370 independent agents, general agents, and one managing general agent.

Effective August 2019, the Company discontinued writing new commercial multiple peril policies (commercial policies). In December 2019, the Company began non-renewing its existing commercial policies.

REINSURANCE

Intercompany

Aggregate Stop Loss Reinsurance Contract: Effective January 1, 2018, the Company entered into an Aggregate Stop Loss Reinsurance Contract (Contract) with an affiliate, Covéa Lux. Pursuant to the Contract, the Company will retain and be liable for losses, excluding loss adjustment expenses, occurring during the period from January 1, 2018 through December 31, 2018, in an amount of aggregate ultimate net loss equal to 62% of its subject net earned premium for that period. Covéa Lux will be liable for an amount of aggregate ultimate net loss not to exceed 11% of the subject net earned premium of the Company for that period. For the reinsurance provided, the Company will pay Covéa Lux a 7.143% gross rate (5% net rate net of ceding commission) of its subject net earned

premium for the term of the Contract. The Contract went into effect on January 1, 2018 and expired on December 31, 2018.

Subsequent to the examination date, the Company entered into a new Aggregate Stop Loss Reinsurance Contract (Contract) with Covéa Lux. The Contract went into effect on January 1, 2019 and expired on December 31, 2019. Pursuant to the Contract, the Company will retain and be liable for \$90.0 million of aggregate ultimate net loss and allocated loss adjustment expenses not to exceed \$40.0 million under Layer 1. Under Layer 2, the Company will be liable for an amount of aggregate ultimate net loss and allocated loss adjustment expenses not to exceed \$25.0 million, in excess of \$130.0 million. Layer 2 will be triggered as soon as 90% of the capacity of Layer 1 is used.

Excess of Loss Aggregate Reinsurance Contract: Effective July 1, 2018, the Company entered into an Excess of Loss Aggregate Reinsurance Contract (Contract) with Covéa Lux. Pursuant to the Contract, the Company will retain and be liable for \$37.0 million of aggregate ultimate net loss and allocated loss adjustment expenses and Covéa Lux will be liable for an amount of aggregate ultimate net loss and allocated loss adjustment expenses not to exceed \$35.0 million, in excess of \$37.0 million. The Company will pay Covéa Lux a flat premium of \$13.0 million that will be held by the Company and deposited into a funds withheld account. The Contract went into effect on July 1, 2018 and expired on December 31, 2019.

Reinsurance Pooling Contract: Effective January 1, 2018, the Company entered into a Reinsurance Pooling Contract (Contract) with its wholly-owned subsidiary, CSE Safeguard Insurance Company (Safeguard). This Contract replaced the Reinsurance Pooling Contract that was in effect since January 1, 2014. The Contract provides for the pooling and distribution of premiums, losses, loss adjustment and underwriting expenses between the parties. Pursuant to the Contract, Safeguard will cede 100% of its net writings (after non-affiliated reinsurance) to the Company, which in turn will retrocede 33.3% of the combined net writings of both companies to Safeguard. The Contract authorizes the

Company to (1) collect and receive all premiums, (2) adjust and pay all losses, (3) obtain reinsurance, and (4) develop policy forms, establish rates, and accept or cancel risks.

The Company did not file the Aggregate Stop Loss Reinsurance Contracts, Excess of Loss Aggregate Reinsurance Contract and Reinsurance Pooling Contract with the California Department of Insurance (CDI) prior to execution as required under California Insurance Code (CIC) Section 1215.5(b)(3). It is recommended that the Company file all intercompany reinsurance agreements with the CDI pursuant to CIC Section 1215.5(b)(3).

Assumed

The Company did not assume any reinsurance during the examination period other than from the intercompany pool pursuant to the Reinsurance Pooling Contract detailed above.

Ceded

Other than the intercompany pooling, reinsurance is placed by the Company for itself and CSE Safeguard Insurance Company. Listed below are the principal treaties, coverages, retentions, and limits in effect as of December 31, 2018:

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Multi Line Reinsurance			
<u>Property (Per Risk)</u>	<u>All Authorized:</u> Employers Mutual Cas. Co. (12.5%); Hannover Rueck SE (30%); Mapfre Re (10%); Munich Re America (20%); SCOR Re. (15%); Toa Re of America (12.5%)	\$500 thousand	\$5 million with an aggregate limit of \$20 million. \$10 million limit for Acts of Terrorism.
<u>Property (Per Occurrence)</u>	<u>All Authorized:</u> Employers Mutual Cas. Co. (12.5%); Hannover Rueck SE (30%); Mapfre Re (10%);	\$3 million	\$10 million with an aggregate limit of \$20 million. \$10 million limit for Acts of Terrorism.

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
	Munich Re America (20%); SCOR Re (15%); Toa Re of America (12.5%)		
<u>Casualty</u> (ECO/XPL/LAE/WC Clash Cover Only)	<u>All Authorized:</u> Employers Mutual Cas. Co. (12.5%); Hannover Rueck SE (30%); Mapfre Re (10%); Munich Re America (20%); SCOR Re (15%); Toa Re of America (12.5%)	\$500 thousand per event	\$6.5 million with an aggregate limit of \$20 million. \$10 million limit for Acts of Terrorism.
<u>Excess of Loss</u> <u>Property Catastrophe</u> <u>Excess of Loss</u> First Layer	<u>Authorized:</u> (Aquila) Hannover Rueck SE (20.0%); Lloyd's 2001 (20%); Munich Re America, Inc. (20.0%); and three others. <u>Unauthorized</u> America Ag. Ins. Co. (435%); MS Amlin AG (15.0%); Shelter Mutual Ins. Co. (2.0%) and two others.	\$5 million	\$7.5 million
Second Layer	<u>Authorized:</u> (Aquila) Hannover Rueck SE (20.0%); Lloyd's 2001 (20%); Mapfre Re (10.0%); and two others. <u>Unauthorized:</u> Hannover Re, Ltd. (4.0%); MS Amlin AG (15.0%); R+V Versicherung AG (17.5%) and four others	\$12.5 million	\$7.5 million
Third Layer	<u>Authorized:</u> (Aquila) Hannover Rueck SE (10.0%); Lloyd's 2001 (20%), Mapfre Re (10.0%) and two others <u>Unauthorized:</u> Hannover Re, Ltd. (11.5%); MS Amlin AG	\$20 million	\$30 million

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
	(15.0%); R+V Versicherung AG (17.5%); and six others		
Fourth Layer	<u>Authorized:</u> (Aquila) Hannover Rueck SE (2.0%); Lloyd's 2001 (20%); Mapfre Re (7.0%) and two others <u>Unauthorized:</u> Hannover Re, Ltd. (27.0%); MS Amlin AG (12.5%); R+V Versicherung AG (12.25%); and six others	\$50 million	\$70 million

ACCOUNTS AND RECORDS

Unclaimed Property

A review was made of the Company's unclaimed property filings with the California State Controller's Office (SCO). California Code of Civil Procedure (CCP) Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532 – Unclaimed Property Law requires that all tangible personal property located in the State of California that is held or owing in the ordinary course of business and has remained unclaimed by the owner for more than three years after it became payable or distributable, is escheated to the SCO.

The Company did not file unclaimed property notices and remittance reports with payments to the SCO during the examination period. It is recommended that the Company escheat unclaimed property to the SCO and implement procedures to ensure compliance with CCP Sections 1530 and 1532. The Company agreed with the finding and filed unclaimed property notices to the SCO subsequent to the examination date.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements reported by the Company.

Statement of Financial Condition as of December 31, 2018

Underwriting and Investment Exhibit for the Year Ended December 31, 2018

Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2018

Statement of Financial Condition
as of December 31, 2018

<u>Assets</u>	<u>Ledger and</u> <u>Nonledger</u>	<u>Assets Not</u>	<u>Net Admitted</u>	<u>Notes</u>
	<u>Assets</u>	<u>Admitted</u>	<u>Assets</u>	
Bonds	\$ 139,753,602	\$	\$ 139,753,602	
Common stocks	34,660,39		34,660,397	
Cash and short-term investments	48,239,003		48,239,003	
Aggregate write-ins for invested assets	418,083		418,083	
Investment income due and accrued	1,021,474		1,021,474	
Premiums and agents' balances in course of collection	5,473,822	805,738	4,668,084	
Premiums , agents' balances and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums)	14,131,352		14,131,352	
Amount recoverable from reinsurers	2,991,927		2,991,927	
Net deferred tax asset	10,943,661	6,477,835	4,465,826	
Electronic data processing equipment and software	1,624,398	1,531,540	92,858	
Furniture and equipment	1,104,537	1,104,537	0	
Aggregate write-ins for other than invested assets	3,188,401	3,090,822	97,579	
Total assets	\$ 263,550,657	\$ 13,010,472	\$ 250,540,185	

Liabilities, Surplus and Other Funds

			<u>Notes</u>
Losses		\$ 139,753,602	(1)
Loss adjustment expenses		12,533,352	(1)
Commissions payable, contingent commissions and other similar charges		1,481,040	
Other expenses		2,000,055	
Taxes, licenses and fees		364,923	
Current federal and foreign income taxes		(54,994)	
Unearned premiums		63,955,082	
Advance premiums		898,260	
Dividends declared and unpaid: Stockholders			
Ceded reinsurance premiums payable		818,715	
Funds held by company under reinsurance treaties		565,535	
Amounts withheld or retained by company for account of others		934,688	
Payable to parent, subsidiaries and affiliates		8,577,114	
Aggregate write-ins for liabilities		2,511,794	
Total liabilities		155,884,323	
Common capital stock	\$ 3,436,000		
Gross paid-in and contributed surplus	70,057,317		
Unassigned funds (surplus)	21,162,544		
Surplus as regards policyholders		\$ 94,655,861	
Total liabilities, surplus and other funds		\$ 250,540,184	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2018

Statement of Income

Underwriting Income

Premiums earned	\$	108,723,721	
Deductions:			
Losses incurred	\$	70,738,316	(1)
Loss adjustment expenses incurred		17,304,057	
Other underwriting expenses incurred		40,631,414	
		<u>128,673,787</u>	
Total underwriting deductions			
Net underwriting loss			(54,994)

Investment Income

Net investment income earned	\$	3,322,938	
Net realized capital losses		<u>(275,752)</u>	
Net investment gain			3,047,186

Other income

Net loss from agent's or premium balances charged off (amount recovered \$0 amount charged off \$621,633)	\$	(621,633)	
Finance and service charges not included in premiums		(518,843)	
Aggregate write-ins for miscellaneous income		<u>1,392,546</u>	
Total other income			<u>252,070</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes			(16,650,810)
Federal and foreign income taxes incurred			<u>(124,020)</u>
Net loss			<u>\$ (16,526,790)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2017	\$	94,390,676	
Net loss	\$	(16,526,790)	
Change in net unrealized capital losses		(7,378,955)	
Change in net deferred income tax		(1,920,577)	
Change in nonadmitted assets		2,509,398	
Surplus adjustments: Paid-in		25,000,000	(2)
Aggregate write-ins for losses in surplus		<u>(1,417,892)</u>	
Change in surplus as regards policyholders for the year			<u>265,184</u>
Surplus as regards policyholders, December 31, 2018			<u>\$ 94,655,860</u>

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2014 through December 31, 2018

Surplus as regards policyholders, December 31, 2014			\$ 117,297,816
	Gain in Surplus	Loss in Surplus	
Net income	\$	\$	33,821,276
Change in unrealized capital gains or losses			18,084,218
Change in net deferred income tax			2,331,711
Change in nonadmitted assets			3,508,375
Surplus adjustments: paid-in	40,000,000		
Cumulative effect of changes in accounting principles			3,463,000
Aggregate write-ins for gains in surplus			1,433,376
Total gains and losses	\$ 40,000,000	\$ 62,641,956	
Net decrease in surplus as regards policyholders			<u>(22,641,956)</u>
Surplus as regards policyholders, December 31, 2018			<u>\$ 94,655,860</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2018 were found to be reasonably stated and have been accepted for the purpose of this examination.

(2) Surplus Adjustments: Pain-in

The Company received a capital contribution in the amount of \$25 million in 2018 from its ultimate parent, Covéa Coopérations. The Company accounted for this contribution as additional paid-in capital.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements – Cost Sharing Agreement (Page 5): It is recommended that the Company file its Cost Sharing Agreement with the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

Reinsurance – Intercompany (Page 7): It is recommended that the Company file all intercompany reinsurance agreements with the CDI pursuant to CIC Section 1215.5(b)(3).

Accounts and Records – Unclaimed Property (Page 10): It is recommended that the Company escheat unclaimed property to the State Controller's Office (SCO) and implement procedures to ensure compliance with California Code of Civil Procedure Sections 1530 and 1532. The Company agreed with the finding and filed unclaimed property notices to the SCO subsequent to the examination date.

Previous Report of Examination

Management and Control – Company Filings (Page 15): It was recommended that the Company comply with CIC Section 1215.4(b)(6) in future Insurance Holding Company System Annual Registration Filings. The Company is now in compliance.

Accounts and Records – Information Systems Controls (Page 15): It was recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls. The Company indicated that it would continue to make the appropriate changes to strengthen its information systems controls.

Accounts and Records – Vehicle Fraud Assessment (Page 15): It was recommended that the Company identify insured vehicles by their unique vehicle identification numbers to comply with California Code of Regulation (CCR), Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62(b). It was also recommended that the Company retain an Automobile Assessment File to comply with CCR, Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62(d). The Company is now in compliance.

Accounts and Records – Claims Practices (Page 15): It was recommended that the Company use a depreciation schedule that applies depreciation based on age and condition to comply with CCR Title 10, Chapter 5, Subchapter 7.5, Article I, Section 2695.9(f). The Company is now in compliance.

ACKNOWLEDGMENT

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

Respectfully submitted,

_____/S/_____

Donavan Han, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

_____/S/_____

Kyo Chu, CFE
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