REPORT OF EXAMINATION
OF THE

HORACE MANN PROPERTY AND CASUALTY
INSURANCE COMPANY

AS OF
DECEMBER 31, 2006

Participating State
and Zone:

California

Filed May 14, 2008

TABLE OF CONTENTS

Los Angeles, California
March 14, 2008

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Kent Michie
Secretary, Zone IV-Western
Commissioner of Insurance
Department of Insurance, State of Utah
Salt Lake City, Utah

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

HORACE MANN PROPERTY AND CASUALTY INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records and main administrative office, 1 Horace Mann Plaza, Springfield, Illinois 62715. The Company's statutory home office is located at 27215 Commerce Center Drive, Suite 228, Temecula, California, 92591.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

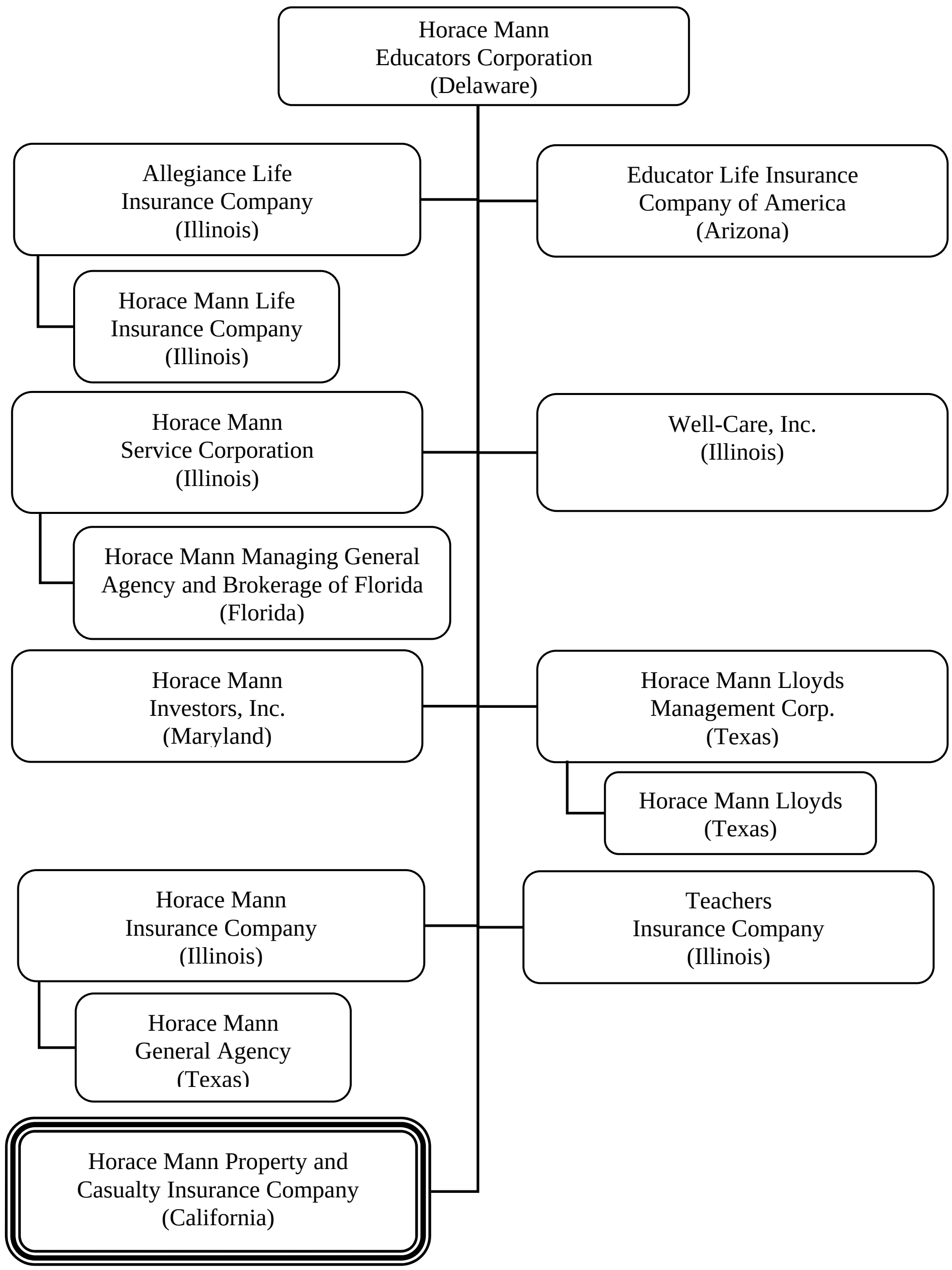
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience and sales and advertising.

COMPANY HISTORY

In 2005, the Company paid a cash dividend of $2.0 million to its parent company, Horace Mann Educators Corporation.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system:



(*) all ownership is 100% unless otherwise noted

Management of the Company is vested in a seven member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

Directors

Name and Residence	Principal Business Affiliation
Paul Duane Andrews Springfield, Illinois	Vice President, Corporate Services Horace Mann Educators Corporation
Ann Mary Caparrós Springfield, Illinois	Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer Horace Mann Educators Corporation
Frank D'Ambra III Springfield, Illinois	Senior Vice President, Life and Annuity Horace Mann Educators Corporation
Peter Hall Heckman Springfield, Illinois	Executive Vice President and Chief Financial Officer Horace Mann Educators Corporation
Robert Burn Joyner Springfield, Illinois	Senior Vice President Horace Mann Educators Corporation
Louis Gordon Lower II Springfield, Illinois	President and Chief Executive Officer Horace Mann Educators Corporation
Douglas William Reynolds Springfield, Illinois	Executive Vice President Property and Casualty Division Horace Mann Educators Corporation

Principal Officers

Name	Title
Louis Gordon Lower II	President and Chief Executive Officer
Peter Hall Heckman	Executive Vice President and Chief Financial Officer
Douglas William Reynolds	Executive Vice President
Ann Mary Caparrós	Vice President, Corporate Secretary and

Name	Title
	General Counsel
Rhonda Rene Armstead	Vice President, Chief Counsel and Assistant Corporate Secretary
Richard Virgil Atkinson	Vice President and Chief Actuary
Angela Sue Christian	Vice President and Treasurer
Bret Alan Conklin	Senior Vice President and Controller
Dennis Edward Bianchi	Senior Vice President
Dwayne Duncan Hallman	Senior Vice President
Robert Burn Joyner	Senior Vice President
Deborah Feiges Kretchmar	Vice President

Inter-Company Agreements

The Company has common management and shares office facilities with Horace Mann Educators Corporation (HMEC) and other affiliates. The Company participates in several inter-company agreements. Under these agreements the Company is provided management, administrative, data processing, commission and agency services, utilization of personnel, and investment advisory services. A summary of the inter-company agreements in force as of December 31, 2006 follows:

Property Management and Financial Services Agreement: The Company entered into a Property Management and Financial Services Agreement with its parent company, HMEC on January 14, 1994. HMEC provides overall management and corporate services to the Company, including office supplies and equipment, information processing supplies, software and equipment, office space, corporate facilities, investment advisory, risk management, and cash receipt and disbursement services. HMEC is reimbursed for all actual expenses incurred on behalf of the Company. For 2004, 2005 and 2006, the Company paid HMEC $7.5 million, $9.0 million and $11.4 million, respectively.

Administration and Services Agreement: The Company entered into an Administration and Services Agreement with its parent company, HMEC on January 14, 1994. Under the terms of this agreement, HMEC provides the following corporate services: human resources to perform insurance agent and marketing services, data processing services, actuarial and underwriting services, claims administration and customer relation services, financial services, personnel services, legal services, and other insurance management services as required. HMEC is reimbursed for all actual expenses incurred on behalf of the Company. For 2004, 2005 and 2006, the Company paid HMEC $6.4 million, $6.7 million, and $7.7 million, respectively.

Premium Deposit, Claims Disbursement and Reinsurance Services Agreement: The Company entered into a Premium Deposit, Claims Disbursement and Reinsurance Services Agreement with its affiliate, Horace Mann Insurance Company (HMIC) effective January 14, 1994. Under the terms of this agreement, HMIC collects all property-casualty premiums due the Company, disburses all payments for claims and claim related expenses that are incurred on policies underwritten by the Company and performs all reinsurance service functions such as procures and executes reinsurance treaties on behalf of the Company. HMIC is reimbursed for all actual expenses incurred on behalf of the Company. For 2004, 2005 and 2006, the Company paid $34.5 million, $38.6 million and $53.5 million, respectively, to HMIC under the terms of this agreement.

On July 8, 1998, the Company filed the Property Management and Financial Service Agreement, Administration and Service Agreement, and Premium Deposit, Claim Disbursement and Reinsurance Service Agreement with the California Department of Insurance (CDI) in accordance with California Insurance Code (CIC) Section 1215.5(b)(4). The agreements were not approved by the CDI. On August 20, 2001, the Company re-filed the agreements with CDI, but no approval was granted. On July 10, 2002, a letter was sent to the Company from the CDI outlining changes to be made to the agreements and recommending the re-filing of the amended agreements. As of the examination date of December 31, 2006, the Company had not incorporated the changes outlined by the CDI to the inter-company agreements and has not re-filed the said agreements. It is recommended that the Company amend its inter-company agreements in accordance with the recommendations made by the CDI and re-file the agreements to comply with CIC Section 1215.5(b)(4).

Managing General Agency Agreement: The Company is party to a Managing General Agency Agreement with Horace Mann Service Corporation (HMSC) and its insurance company affiliates and subsidiaries and the Horace Mann Managing General Agency and Brokerage of Florida (HMMGA). The effective date of this agreement was February 5, 2004. HMMGA is designated as exclusive brokerage and general agency in Florida. HMMGA is authorized to solicit and bind the Company and to issue policies of insurance. HMMGA is compensated a sum equal to 1.2% of premiums received on policies and endorsements written. The Company did not write any business in Florida in 2005 and 2006. This agreement was not filed with the CDI. It is recommended that the Company file this agreement with the CDI to comply with CIC Section 1215.5(b)(4).

Consolidated Income Tax Agreement: The Company is included in the consolidated tax return of HMEC and subsidiaries. The effective date of this agreement was August 29, 1989. The tax-sharing agreement provides that the tax liability be determined on a separate company basis as though each member had filed a separate federal income tax return.

CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the commissioner. The board must also enter that fact in the board minutes. A review of the board minutes disclosed that, while the officially filed report was presented to the board, the first formally prepared draft by the examiners was not. It is recommended that the Company implement procedures to comply with CIC Section 735.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company was licensed to transact multiple lines of property and casualty insurance. The Company is licensed in the following 45 states and the District of Columbia:

Alabama	Kansas	New Hampshire	Tennessee
Alaska	Kentucky	New Mexico	Texas
Arizona	Louisiana	New York	Utah
Arkansas	Maine	North Carolina	Vermont
California	Maryland	North Dakota	Virginia
Colorado	Michigan	Ohio	Washington
Connecticut	Minnesota	Oklahoma	West Virginia
Delaware	Mississippi	Oregon	Wisconsin
Idaho	Missouri	Pennsylvania	Wyoming
Illinois	Montana	Rhode Island	
Indiana	Nebraska	South Carolina	
Iowa	Nevada	South Dakota	

In 2006, the Company wrote $91.2 million in direct premiums. Of the direct premiums written, 20.7% or $18.9 million was written in California, $12.6 million (13.9%) was written in Minnesota, $8.7 million (9.5%) was written in North Carolina, $6.9 million (7.6%) in Texas, and $44.1 million (48.3%) written in the remaining states with no one state writing more than 6.0% of the total direct premiums. The Company writes primarily personal automobile property and liability coverage, along with homeowners' policies, including earthquake.

The Company's products are marketed through a network of 848 agents that write exclusively for the Company and its affiliates. In 2006, the Company began the transition from a single-person operation to its new Agency Business Model, with agents in outside offices supported by personnel and licensed product specialist, designed to remove current capacity constraints and increase productivity. Management anticipates full implementation of the Agency Business Model by the end of 2010.

REINSURANCE

Assumed

Other than certain mandatory state reinsurance pools, the Company has no reinsurance assumed.

Ceded

The following is a summary of the principal ceded reinsurance treaties inforce as of December 31, 2006:

Type of Contract	**Reinsurer's Name**	**Company's Retention**	**Reinsurer's Maximum Limits**
Personal Umbrella Quota Share	General Reinsurance Corporation	5% of policy limit	95% of policy limit up to $1 million
Property Catastrophe Aggregate	General Reinsurance Corporation	$20 million plus 5 % of the next $20 million	95% of 20 million in excess of 20 million (broken down into 4 layers but no differences between the layers)
Multiple Line Excess of Loss	Odyssey American Reinsurance Corporation Platinum Underwriting Reinsurance, Inc.	$500,000 each loss occurrence	$2.0 million excess of $500,000
Three Layer Clash Excess of Loss:			
1st Layer	Various Reinsurers	$2.5 million each loss occurrence	$7.5 million
2nd Layer	Various Reinsurers	$5 million each loss occurrence	$15 million
3rd Layer	Various Reinsurers	$10 million each loss occurrence	$30 million

Type of Contract	**Reinsurer's Name**	**Company's Retention**	**Reinsurer's Maximum Limits**
2nd and 3rd Event Property Catastrophe Excess of Loss	Da Vinci Reinsurance Ltd. Renaissance Reinsurance, Ltd.	$10 million each loss occurrence plus 5% of the next $5 million on the 2nd and 3rd events	95 % of 5 million in excess of $10 million up to $10 million
Four Layer Property Catastrophe Excess of Loss:			
1st Layer	Various Reinsurers	$15 million each loss occurrence	$20 million each loss occurrence
2nd Layer	Various Reinsurers	$25 million each loss occurrence	$40 million each loss occurrence
3rd Layer	Various Reinsurers	$45 million each loss occurrence	$60 million each loss occurrence
4th Layer	Various Reinsurers	$75 million each loss occurrence	$70 million each loss occurrence

ACCOUNTS AND RECORDS

This examination experienced significant difficulties obtaining supporting documentation for much of the information reported by the Company in its filed Annual Statements. This included routine requests for confirmation of information, account reconciliations and detailed supporting reports. It is recommended that the Company maintain documentation to support all financial statement accounts and make such records available to the examiners in a timely manner pursuant to California Insurance Code Section 734. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 107,404,097	$	$ 107,404,097	(1)
Stocks:				
Common stocks	471,938		471,938	
Cash and short-term investments	2,342,271		2,342,271	
Investment income due and accrued	1,257,862		1,257,862	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	1,566,415	47,972	1,518,443	
Premiums, agents' balances and installments booked but deferred and not yet due	9,644,911		9,644,911	
Amounts recoverable from reinsurance	10,294		10,294	
Net deferred tax asset	3,761,000	1,089,000	2,672,000	
Guaranty funds receivable or on deposit	28,104		28,104	
Receivable from parent, subsidiaries and affiliates	256,903		256,903	
Aggregate write-ins for other than invested assets	471,749		471,749	
Total assets	$ 127,215,544	$ 1,136,972	$ 126,078,572	

Liabilities, Surplus and Other Funds

Losses			$ 28,106,421	(2)
Loss adjustment expenses			6,972,182	(2)
Commissions payable, contingent commissions and other similar charges			808,318	
Taxes licenses and fees			1,347,679	
Current federal and foreign income taxes			1,130,198	
Unearned premiums			30,301,510	
Advance premium			2,861,902	(3)
Ceded reinsurance premium			126,464	
Amounts withheld or retained by company for account of others			98,904	
Remittance and items not allocated			95,547	
Total liabilities			71,849,125	
Common capital stock		$ 3,000,000		
Gross paid-in and contributed surplus		8,692,613		
Unassigned funds (surplus)		42,536,834		
Surplus as regards policyholders			54,229,447	
Total liabilities, surplus and other funds			$ 126,078,572	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income		
Premiums earned		$ 84,670,965
Deductions:		
Losses incurred	$ 50,023,107	
Loss expense incurred	7,061,221	
Other underwriting expenses incurred	16,925,668	
Total underwriting deductions		74,009,996
Net underwriting gain		10,660,969
Investment Income		
Net investment income earned	$ 4,504,153	
Net realized capital gains	43,094	
Net investment gain		4,547,247
Other Income		
Net loss from agents' balances charged off	$ (123,448)	
Finance and service charges not included in premiums	762,363	
Aggregate write-ins for miscellaneous income	397,307	
Total other income		1,036,222
Net income before federal taxes		16,244,438
Federal income taxes incurred		4,604,310
Net income		$ 11,640,128

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$ 42,498,818
Net income	$ 11,640,129	
Net unrealized capital gains	10,936	
Change in net deferred income tax	574,000	
Change in nonadmitted assets	(521,436)	
Change in provision for reinsurance	27,000	
Change in surplus as regards policyholders		11,730,629
Surplus as regards policyholders, December 31, 2006		$ 54,229,447

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2003, per Examination			$ 21,260,293
Net income	$ 34,151,787	$	
Change in net unrealized capital gains	10,936		
Change in net deferred income tax	512,000		
Change in nonadmitted assets	89,431		
Change in provision for reinsurance	205,000		
Dividends to stockholders		2,000,000	
Totals	$ 34,969,154	$ 2,000,000	
Net increase in surplus as regards policyholders for the examination			32,969,154
Surplus as regards policyholders, December 31, 2006, per Examination			$ 54,229,447

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds and Stocks

A review of the Company's custodial agreement dated August 1995 revealed that the agreement was made between Allegiance Insurance Company and State Street Bank and Trust Company of California. The Company's name was changed from Allegiance Insurance Company to Horace Mann Property and Casualty Insurance Company on March 19, 2001 and was approved by the California Department of Insurance (CDI). The custodial agreement was not amended to reflect the new name of the Company. It is recommended that the Company amend the custodial agreement to reflect the current name of the Company and submit it to the CDI.

(2) Losses and Loss Adjustment Expenses

The review of the loss and loss adjustment expense reserves was coordinated with the State of Illinois Division of Insurance (IL DOI) in conjunction with their examination of Horace Mann Insurance Company and several affiliates. IL DOI contracted the review of the Company's loss and loss adjustment expense reserves with INS Regulatory Insurance Services, Inc. (INS RIS). Based on the analysis by INS RIS and the review of their work, by a Casualty Actuary from the CDI, the Company's December 31, 2006 reserves for losses and loss adjustment expenses were found to be reasonably reported and have been accepted for purposes of this examination.

It was noted that the Company has been misclassifying certain loss adjustment expenses as Defense and Cost Containment rather than Adjusting and Other within the Annual Statement. Per Statements of Statutory Accounting Principles (SSAP) No. 55, paragraph 5, attorney fees incurred in the determination of coverage, including litigation between the reporting entity and the policyholders, should be classified as Adjusting and Other. It is recommended that the Company implement procedures to comply with SSAP No. 55, paragraph 5, regarding classification of loss adjusting expenses.

(3) Advance Premiums

The Company reported the total premiums written for policies not yet in effect as advance premium rather than the actual amount received as defined in SSAP No. 53, paragraph 13, which states that advance premiums result when the policies have been processed, and the premium has been paid prior to the effective date. The Company created an adjusting entry in its receivables to reconcile the difference between the overstated advance premiums as a result of booking the total premiums written and actual amount received to account for the true advance premiums. The adjusting entry in its receivable did not have any effect on its surplus. However, it is recommended that the Company comply with SSAP No. 53, paragraph 13.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Inter-Company Agreements (Page 5): It is recommended that the Company amend the following management agreements, Property Management and Financial Service Agreement, Administration and Service Agreement and Premium Deposit, Claims Disbursement and Reinsurance Service Agreement, in accordance with the recommendations of the California Department of Insurance (CDI) and re-file the agreements along with the Managing General Agency Agreement to comply with California Insurance Code (CIC) Section 1215.5 (b) (4).

Corporate Records (Page 7): It is recommended that the Company implement procedures in its board meetings to ensure compliance with CIC Section 735.

Accounts and Records (Page 10): It is recommended that the Company maintain documentation to support all financial statement accounts and make such records available to the examiners in a timely manner pursuant to CIC Section 734.

Comments on Financial Statements – Bonds and Stocks (Page 14): It is recommended that the Company amend the custodial agreement to reflect the current name of the Company and submit it to the CDI.

Comments on Financial Statements – Losses and Loss Adjustment Expenses (Page 14): It is recommended that the Company implement procedures to comply with SSAP No. 55, paragraph 5, regarding classification of loss adjustment expenses.

Comments on Financial Statements – Advance Premiums (Page 15): It is recommended that the Company comply with SSAP No. 53, paragraph 13, regarding reporting of advance premiums received.

Previous Report of Examination

Management and Control – Management Agreements (Page 5): It was recommended that the Company amend the management agreements in accordance with the recommendations of the California Department of Insurance (CDI). The Company did not amend the management agreements as recommended by the CDI.

Corporate Records (Page 7): It was recommended that the Company implement procedures in its board meeting to ensure compliance with California Insurance Code (CIC) Section 735. In addition, it was recommended that the board of directors declare all dividends to stockholders before they are paid. The Company has not implemented the procedure to ensure compliance with CIC Section 735.

Accounts and Records (Page 11): It was recommended that the Company maintain documentation to support all financial statements accounts. The Company was also reminded that all of its books and records must be made available for examination pursuant to CIC Section 734. The Company has not implemented this recommendation.

Accounts and Records – Information System Controls (Page 11): It was recommended that the Company review its information systems and make appropriate changes to strengthen internal controls. The Company has complied with this recommendation.

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/_________________
Cuauhtémoc Beltran, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California