REPORT OF EXAMINATION
OF THE
PACIFIC PROPERTY AND CASUALTY COMPANY
AS OF
DECEMBER 31, 2010

Filed June 19, 2012

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Los Angeles, California
April 27, 2012

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

PACIFIC PROPERTY AND CASUALTY COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 1949 E. Sunshine, Springfield, Missouri 65899. The Company's statutory home office and main administrative office is located at 4606 Meridian Avenue, Suite F, San Jose, California 95124.

SCOPE OF EXAMINATION

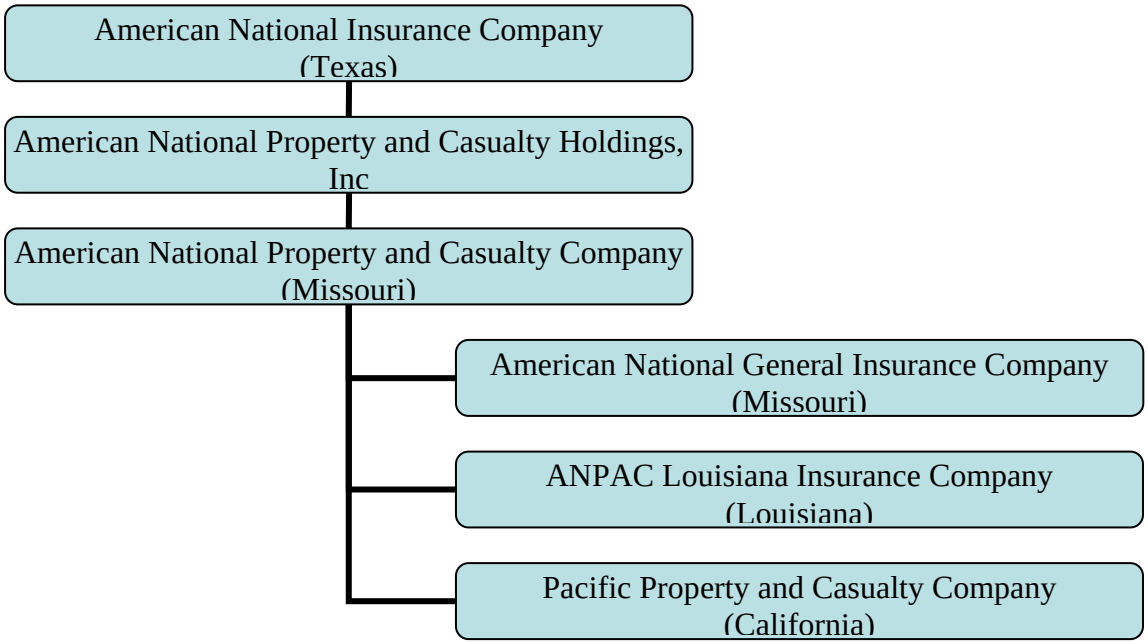
We have performed our single-state examination of Pacific Property and Casualty Company. The last examination was completed as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2010. The examination was conducted in accordance with the National Association 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 examination was a coordinated examination and was conducted concurrently with the Company's parent, American National Property and Casualty (ANPAC), domiciled in the state of Missouri.

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; accounts and records; statutory deposits; and sales and advertising.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of American National Property and Casualty Company, a Missouri domiciled company. The ultimate controlling entity is American National Insurance Company. The following abridged organizational chart depicts the Company's relative position within the holding company structure.



All ownership is 100% unless otherwise noted.

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

Name and Residence	Principal Business Affiliation
Robert J. Campbell Springfield, Missouri	Executive Vice President, General Counsel, Secretary, and Chief Claims Officer American National Property and Casualty Company
George R. Ferdinandtsen Galveston, Texas	President and Chief Operating Officer American National Insurance Company
Irwin M. Herz Jr. Galveston, Texas	Attorney Greer, Herz and Adams, LLP
Ross R. Moody Galveston, Texas	Director National Western Life Insurance Company
Gregory V. Ostergren Springfield, Missouri	Chairman of the Board, President, and Chief Executive Officer American National Property and Casualty Company
Stephen E. Pavlicek Galveston, Texas	Senior Vice President and Controller American National Insurance Company
James E. Pozzi Galveston, Texas	Senior Executive Vice President and Chief Administrative Officer American National Insurance Company
Timothy A. Walsh Albany, New York	President and Chief Executive Officer Farm Family Casualty Insurance Company
Ronald J. Welch Galveston, Texas	Chief Actuary American National Insurance Company

Principal Officers

Name	Title
Gregory V. Ostergren	Chairman of the Board, President and Chief Executive Officer
Robert J. Campbell	Executive Vice President, General Counsel and Secretary
Shannon L. Smith	Executive Vice President and Chief Marketing Officer
Bernard S. Gerwel	Senior Vice President, Chief Information, and Innovation Officer
Stuart M. Paulson	Vice President, Deputy General Counsel, and Assistant Secretary
Scott F. Brast	Vice President, Investments
Janet A. Clark	Vice President, Underwriting Services
Gordon D. Dixon	Vice President, Investments
Deborah A. Foell	Vice President, Information/General Services
James W. Gillette Jr.	Vice President, Actuarial Services
Jerry W. Jones	Vice President, Claims Services
Robert J. Kirchner	Vice President, Investments
Ronald J. Koch	Vice President, Controller and Treasurer
Anne M. LeMire	Vice President, Investments
George A. Macke	Vice President, General Auditor
Linda F. Ward	Vice President, Corporate Actuary

Management Agreements

Service Agreement: The Company and all of its insurance affiliates are parties to a Service Agreement with its parent, American National Property and Casualty Company (ANPAC). Under the terms of the agreement, the Company receives certain managerial, accounting and data processing services from ANPAC. The agreement specifies that reimbursement for accounting services is based on the actual cost, reimbursement for all other facilities and services will be on a cost allocation basis. The agreement has been in force since January 31, 1996. For 2006, 2007, 2008, 2009 and 2010, fees paid by the Company under the agreement were $1,521,590, $2,452,738, $2,008,899, $945,524 and $3,502,839, respectively. This agreement was approved by the California Department of Insurance (CDI) on September 27, 2005.

Service Agreement: The Company and all of its insurance affiliates are parties to a Service

Agreement, effective January 1, 2008, with its ultimate parent, American National Insurance Company (ANICO). Under the terms of the agreement, the Company receives general office and administrative services (to include investment services) and facilities as necessary when using another Party's facility. Services and facilities may be provided either directly or through third parties. Expenses are charged on an allocated cost incurred basis. For 2008, 2009 and 2010, fees paid by the Company under the agreement were $44,769, $67,178 and $67,722, respectively. However, the Company failed to execute the agreement. Therefore, it is recommended that the Company execute the agreement and submit it to the CDI for approval in accordance with California Insurance Code (CIC) Section 1215.5(b)(4).

Tax Sharing Agreement: The Company is a member of the American National Insurance Company Consolidated Tax Sharing Agreement, effective January 1, 1996, and amended January 1, 1998. For purposes of calculating the earnings and profits of each of the members, the consolidated federal income tax liability of the affiliated group is apportioned among the members in accordance with the method set forth in the Internal Revenue Code Section 1552, the agreement was approved by the CDI on February 17, 2010.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company was licensed to transact multiple lines of property and casualty insurance in California. In 2010, the Company wrote $28.6 million of direct premiums. The principal lines of business written were private passenger auto liability, $9.5 million or 33.5%; auto physical damage, $7.2 million or 25.3%; homeowners multiple peril, $8.0 million or 28.0%; and allied lines, $1.8 million or 6.3%. The remainder of the direct premiums written totaled $1.9 million or 6.9%, and was composed of fire, other liability, inland marine, and commercial lines.

REINSURANCE

Assumed

The Company has no reinsurance assumed.

Ceded

The following is a summary of the principal ceded reinsurance treaties in force as of December 31, 2010:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Multiple Line Excess of Loss			
Excess Casualty Clash			
First Layer	Hannover Rueck Lloyds Syndicates Catlin Insurance Company Ltd. QBE Reinsurance Corp	$6 million per occurrence	$4 million excess $6 million, per occurrence, not to exceed $8 million. Acts of Terrorism $4 million aggregate Toxic Mold $4 million annual limit
Second Layer	Hannover Rueck Platinum Underwriters Reinsurance, Inc Lloyds Syndicates Catlin Insurance Company Ltd. QBE Reinsurance Corp	$10 million per occurrence	$20 million excess $10 million, per occurrence, not to exceed $40 million for all occurrences\. Acts of Terrorism - $20 million aggregate Toxic Mold $20 million annual limit
Third Layer	Hannover Rueck Lloyds Syndicates Platinum Underwriters Reinsurance, Inc Catlin Insurance Company Ltd. QBE Reinsurance Corp	$30 million per occurrence	$20 million excess $30 million, per occurrence, not to exceed $40 million . Acts of Terrorism - $20 million in aggregate Toxic Mold $20 million annual limit
Excess Multiple Line	Swiss Reinsurance America Corporation	$1 million per loss/risk	$5 million excess $1 million, per loss/risk, not to exceed $10 million for all risks; Workers Compensation $20 million in aggregate

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Excess Per Risk	Lloyd's Syndicates Amlin Bermuda Limited Hannover Rueck	$6 million per loss/risk	$9 million excess $6 million, per loss/risk, not to exceed $9 million per occurrence or $36 million for all occurrences during contract term. Acts of Terrorism - $9 million in aggregate Toxic Mold $9 million annual limit
Property Catastrophe Excess of Loss			
Property Catastrophe Excess of Loss	American National Property and Casualty Company	$5 million of ultimate net loss plus 2.5% of $20 million excess of $5 million	97.5% of $20 million excess $5 million, ultimate net loss, not to exceed $20 million per occurrence or $40 million for all occurrences during contract term
Property Catastrophe Excess of Loss (TX/OK/AR)	Lloyds Syndicate Hiscox Insurance Company Amlin Bermuda Limited Catlin Insurance Company Ltd Flagstone Reassurance Suisse SA Scor Switzerland Ltd	$10 million of ultimate net loss plus 2.5% of $30 million excess of $10 million	97.5% of $30 million excess $10 million, loss/losses/one event, not to exceed $30 million per occurrence or $60 million for all occurrences during contract term
Property Catastrophe Excess of Loss (LA/AL/MS/SC)	Lloyds Syndicate Amlin Bermuda Limited Catlin Insurance Company Ltd Paladin Catastrophe Management LLC Flagstone Reassurance Suisse SA Hiscox Insurance Company Scor Switzerland Ltd	$10 million of ultimate net loss plus 2.5% of $30 million excess of $10 million	97.5% of $30 million excess $10 million, loss/losses/one event, not to exceed $30 million per occurrence or $60 million for all occurrences during contract term

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property Catastrophe Excess of Loss (Excludes hurricane losses in coastal states and earthquake losses)	Lloyds Syndicate Catlin Insurance Company Ltd Liberty Syndicates Allianz Risk Transfer AG Paladin Catastrophe Management LLC Flagstone Reassurance Suisse SA	$20 million of ultimate net loss plus 2.5% of $20 million excess of $20 million	97.5% of $20 million excess $20 million, loss/losses/one event, not to exceed $20 million per occurrence or $40 million for all occurrences during contract term
Property Catastrophe Excess of Loss (Covers earthquake losses; excludes California)	Lloyds Syndicate Amlin Bermuda Limited Partner Reinsurance Company Ltd. Sompo Japan Insurance Inc. Munchener Ruck Validus Reinsurance, Ltd Hannover Re (Bermuda), Ltd. Scor Switzerland Ltd	$25 million of ultimate net loss plus 2.5% of $125 million excess of $25 million	97.5% of $125 million excess $25 million, loss/losses/one event, not to exceed $125 million per occurrence or $250 million for all occurrences during contract term
Property Catastrophe Excess of Loss-1st Layer	Lloyds Syndicate and 21 domestic, foreign and alien companies	$40 million of ultimate net loss plus 2.5% of $40 million excess of $40 million	97.5% of $40 million excess $40 million, loss/losses/one event, not to exceed $40 million per occurrence or $80 million for all occurrences during contract term
Property Catastrophe Excess of Loss-2nd Layer	Lloyds Syndicate and 26 domestic, foreign and alien companies	$80 million of ultimate net loss plus 2.5% of $80 million excess of $80 million	97.5% of $80 million excess $80 million, loss/losses/one event, not to exceed $80 million per occurrence or $160 million for all occurrences during contract term
Property Catastrophe Excess of Loss-3rd Layer	Lloyds Syndicate and 31 domestic, foreign and alien companies	$160 million of ultimate net loss plus 2.5% of $140 million excess of $160 million	97.5% of $140 million excess $160 million, loss/losses/one event, not to exceed $140 million per occurrence or $280 million for all occurrences during contract term
Property Catastrophe Excess of Loss-4th Layer	Lloyds Syndicate and 31domestic, foreign and alien companies	$300 million of ultimate net loss plus 2.5% of $200 million excess of $300 million	97.5% of $200 million excess $300 million, loss/losses/one event, not to exceed $200 million per occurrence or $400 million for all occurrences during contract term

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, 2005 through December 31, 2010

Statement of Financial Condition
as of December 31, 2010

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 36,867,974	$	$ 36,867,974	
Common stocks	2,454,596		2,454,596	
Cash and short-term investments	9,541,030		9,541,030	
Investment income due and accrued	554,071		554,071	
Premiums and agents' balances in course of collection	183,349		183,349	
Premiums, agents' balances and installments booked but deferred and not yet due	4,415,901	24,728	4,391,173	
Current federal income tax recoverable and interest thereon	162,199		162,199	
Net deferred tax asset	897,626		897,626	
Receivables from parent, subsidiaries and affiliates	18,275		18,275	
Aggregate write-ins for other than invested assets	63,697	29,988	33,709	
Total assets	$ 55,158,718	$ 54,716	$ 55,104,002	

Liabilities, Surplus and Other Funds			
Losses		$ 11,110,950	(1)
Loss adjustment expenses		2,070,920	(1)
Commissions payable, contingent commissions and other similar charges		844,047	
Other expenses		3,205	
Taxes, licenses and fees		56,783	
Unearned premiums		10,264,484	
Advance premiums		329,749	
Ceded reinsurance premiums payable		486	
Remittances and items not allocated		1,746	
Payable to parent, subsidiaries and affiliates		515,444	
Aggregate write-ins for liabilities		61,342	
Total liabilities		25,259,156	
Common capital stock	$ 2,600,000		
Gross paid in and contributed surplus	7,400,000		
Unassigned funds (surplus)	19,844,846		
Surplus as regards policyholders		29,844,846	
Total liabilities, surplus and other funds		$ 55,104,002	

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

Statement of Income

Underwriting Income		
Premiums earned		$ 25,422,597
Deductions:		
Losses and loss expenses incurred	$ 17,951,287	
Other underwriting expenses incurred	6,190,584	
Total underwriting deductions		24,141,871
Net underwriting gain		1,280,726
Investment Income		
Net investment income earned	$ 1,661,233	
Net realized capital gain	159,100	
Net investment gain		1,820,333
Other Income		
Net loss from agents' or premium balances charged off	$ (44,140)	
Finance and service charges not included in premiums	49,415	
Total other income		5,275
Net income before federal income taxes		3,106,334
Federal and foreign income taxes incurred		767,676
Net income		$ 2,338,658

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2009		$ 27,246,041
Net income	$ 2,338,658	
Change in net unrealized capital gains	186,727	
Change in net deferred income tax	58,344	
Change in nonadmitted assets	10,764	
Aggregate write-ins for losses in surplus	4,312	
Change in surplus as regards policyholders for the year		2,598,805
Surplus as regards policyholders, December 31, 2010		$ 29,844,846

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2010

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2005 per Examination			$ 16,524,310
Net income	$ 12,882,109	$	
Net unrealized capital gains	245,845		
Change in net deferred income tax	337,120		
Change in nonadmitted assets		34,604	
Aggregate write-ins for gains and losses in surplus		109,934	
Total gains and losses	$ 13,465,074	$ 144,538	
Net increase in surplus as regards policyholders			13,320,536
Surplus as regards policyholders, December 31, 2010, per Examination			$ 29,844,846

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 Company's loss and loss adjustment expense reserves as of December 31, 2010 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control - Management Agreements – Service Agreement (Page 5): It is recommended that the Company execute the service agreement and submit it to the California Department Of Insurance for approval in accordance with California Insurance Code (CIC) Section 1215.5(b)(4).

Previous Report of Examination

Management and Control - Management Agreements – Tax Sharing Agreement (Page 4): It was recommended that the Company file the tax sharing agreement with the California Department of Insurance (CDI) for approval. The Company has complied with the recommendation..

Accounts and Records (Page 5): It was recommended that the Company segregate the premium of its earthquake riders from the homeowners' policies in its Annual Statement. The Company has complied with the recommendation.

Comments on Financial Statements – Custodial Agreement (Page 11): It was recommended that the Company execute a custodial agreement with a qualified custodian and file the agreement with the CDI for approval. The Company has complied with the recommendation.

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/_____
Ralph Oseguera
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California