

REPORT OF EXAMINATION  
OF THE  
REPUBLIC INDEMNITY COMPANY OF CALIFORNIA  
AS OF  
DECEMBER 31, 2011

Filed January 8, 2013

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Los Angeles, California  
November 2, 2012

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

REPUBLIC INDEMNITY COMPANY OF CALIFORNIA

(hereinafter also referred to as the Company) at its home office located at 15821 Ventura Boulevard, Encino, California 91436.

SCOPE OF EXAMINATION

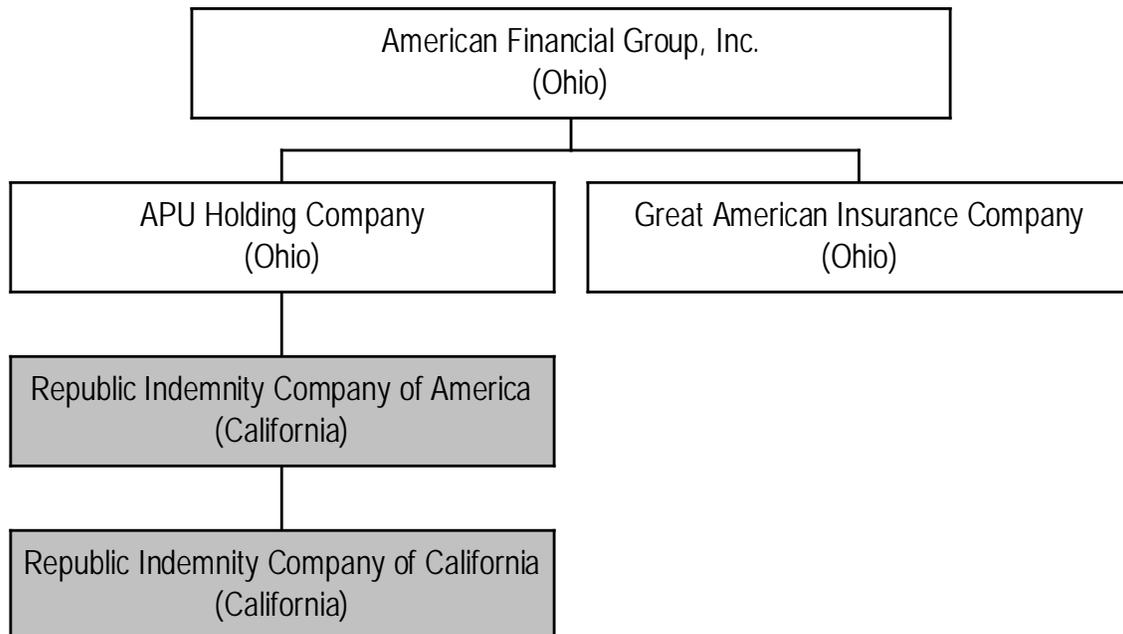
We have performed our multi-state coordinated examination of the Company. The previous examination of the Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2011. The examination was conducted in accordance with the National Association 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 conducted concurrently with the examinations of other insurance entities in the holding company group, including the Company's parent, Republic Indemnity Company of America. Participating in this multi-state coordinated examination were the following states: Delaware, New York, Ohio, and Texas, with the state of Ohio serving as the lead state.

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; accounts and records; and sales and advertising.

### MANAGEMENT AND CONTROL

Ultimate control of the Company is maintained by the American Financial Group, Inc. The following abridged organization chart depicts the Company's relationship within the holding company system (all ownership is 100%):



The nine 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, 2011:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ronald J. Brichler Wyoming, Ohio	Executive Vice President Great American Insurance Company Property & Casualty Group
Gary J. Gruber Cincinnati, Ohio	Executive Vice President Great American Insurance Company Property & Casualty Group
David Harkins Westlake Village, California	Senior Vice President Republic Indemnity Company of America Republic Indemnity Company of California
Karen H. Horrell Cincinnati, Ohio	Senior Vice President Great American Insurance Company Corporate Services & Financial Group
Donald D. Larson Cincinnati, Ohio	President & Chief Operating Officer Great American Insurance Company Property & Casualty Group
Dwayne T. Marioni Novato, California	President & Chief Executive Officer Republic Indemnity Company of America Republic Indemnity Company of California
David P. Mitchell Agoura Hills, California	Senior Vice President Republic Indemnity Company of America Republic Indemnity Company of California
Michael E. Sullivan, Jr. West Chester, Ohio	Senior Vice President Great American Insurance Company Property & Casualty Group

Name and Residence

David J. Witzgall  
Villa Hills, Kentucky

Principal Business Affiliation

Senior Vice President, Chief Financial  
Officer & Treasurer  
Great American Insurance Company  
Corporate Services & Financial Group

Principal Officers

Name

Title

Dwayne T. Marioni  
Marion S. Chappel

President and Chief Executive Officer  
Senior Vice President, Chief Financial  
Officer, and Treasurer

DeAllen L. Goodwin  
David Harkins  
David P. Mitchell  
Rao V. Tadepalli

Senior Vice President  
Senior Vice President  
Senior Vice President  
Senior Vice President and Chief  
Information Officer

Management Agreements

Investment Services Agreement: The Company, its parent, Republic Indemnity Company of America (RICA), and other affiliates, are parties to an Investment Services Agreement with American Money Management Corporation (AMMC), as amended effective January 1, 1996. Under the terms of the agreement, AMMC provides management and accounting services related to the Company's and its affiliates' investment portfolios. Expenses incurred by AMMC for services under this agreement are charged and paid quarterly and pro-rated on the basis of the proportion of each company's portfolio value to the total portfolio value administered by AMMC. For 2009, 2010, and 2011, the Company paid AMMC \$30,889, \$6,633, and \$14,807, respectively, under the terms of this agreement.

Service Agreement: Effective December 31, 2009, the Company and its parent, RICA, entered into a Service Agreement. Under the terms of the agreement, RICA provides the Company with the following services: claims, accounting, underwriting, actuarial,

telecommunication, data processing, legal, payroll, purchasing, and employee relations services. Expenses incurred in connection with the service agreement are allocated between the parties in proportion with each party's respective participation in the Intercompany Pooling Agreement as discussed in the reinsurance section of this report. The agreement was approved by the California Department of Insurance (CDI) on December 23, 2009. For 2009, 2010, and 2011, the Company paid RICA amounts totaling \$1,200,477, \$1,724,202, and \$934,263, respectively, under the terms of this agreement.

General Services Agreement: Effective August 1, 1996, the Company and its parent, RICA, are parties to a General Services Agreement with Great American Insurance Company (GAIC) and certain affiliated companies. Under the terms of the agreement, each of the parties has agreed to provide printing, office duplicating, telecommunications, purchasing, personnel, data processing, administrative, consultative, and other services as requested by any of the other parties. Fees payable for services furnished are based on actual cost. For 2009, 2010, and 2011, the Company paid GAIC \$123,480, \$90,122, and \$93,047, respectively, under the terms of this agreement.

Claims Services Agreement: Effective August 30, 2006, the Company and its parent, RICA, have been parties to a Workers' Compensation Claims Services Agreement with GAIC. Under the terms of the agreement, GAIC provides certain claims handling services for the Company and RICA, and compensation is based on the actual cost. For 2009, 2010, and 2011, the Company paid GAIC \$1,543, \$1,758, and \$1,115, respectively, under the terms of this agreement.

Tax Allocation Agreement: Effective December 31, 2005, a Tax Allocation Agreement was implemented between American Financial Group, Inc. (AFG) and certain specified subsidiaries including the Company. This agreement superseded the previous tax allocation agreement which had been in effect since 1974. Under the terms of the agreement federal income tax returns are filed on a consolidated basis on behalf of

AFG and the specified subsidiaries. The entity's tax liability or refund is determined as if the entity was filing on a separate basis. This Tax Allocation Agreement was approved by the CDI on November 29, 2005. The Company paid (recovered) the following taxes during the examination period:

<u>Year</u>	<u>Amount</u>
2009	\$ 180,781
2010	(168,511)
2011	<u>6,521</u>
Total	<u>\$ 18,791</u>

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company was licensed to write various property and casualty coverages in the District of Columbia and the following 37 states:

Alabama	Illinois	Montana	South Dakota
Alaska	Indiana	Nebraska	Tennessee
Arizona	Iowa	Nevada	Texas
Arkansas	Kansas	New Mexico	Utah
California	Kentucky	North Carolina	Washington
Colorado	Louisiana	Ohio	West Virginia
Delaware	Maryland	Oklahoma	Wisconsin
Georgia	Michigan	Oregon	
Hawaii	Mississippi	Rhode Island	
Idaho	Missouri	South Carolina	

During 2011, the Company wrote \$78 million of direct premiums consisting exclusively of workers' compensation business. Effective July 1, 2007, as part of the Company's strategic diversification efforts, excess workers' compensation (other liability) business was initiated in several new states; all business written under the excess liability workers' compensation program was discontinued in 2010, and is in run-off. The following table reflects the two largest premium producing states:

State	Direct Premium Written	Percentage of Total
California	\$74,395,928	95%
Arizona	2,019,456	3%

The Company's workers' compensation book is produced through 1,200 brokerage firms that target all workers' compensation risk classes except petroleum and mining. In recent years, the Company has focused on skilled classes and small retail operations, de-emphasizing construction and other high risk classes.

## REINSURANCE

### Intercompany Pooling Agreement

The Company and its parent, Republic Indemnity Company of America (RICA), are parties to an Intercompany Pooling Agreement, effective January 1, 1991 and amended on December 31, 2009. Under the terms of this agreement, substantially all direct and assumed business written by the two companies is pooled. Premiums, losses, and expenses incurred are then reapportioned and shared by RICA and the Company in the proportions of 97% and 3%, respectively. The agreement was approved by the California Department of Insurance (CDI) on December 23, 2009.

### Assumed

Assumed business is limited to the Company's participation in the above referenced Intercompany Pooling Agreement.

### Ceded

Ceded business is limited to the Company's participation in the above referenced Intercompany Pooling Agreement.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Underwriting and Investment Exhibit for the Year Ended December 31, 2011

Reconciliation of Surplus as Regards Policyholders from December 31, 2008  
through December 31, 2011

Statement of Financial Condition  
as of December 31, 2011

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 26,111,447	\$	\$ 26,111,447	
Cash and short-term investments	8,366,854		8,366,854	
Investment income due and accrued	380,499		380,499	
Federal income tax recoverable and interest thereon	18,422		18,422	
Net deferred tax asset	925,466	378,595	546,871	
Receivables from parent, subsidiaries and affiliates	1,712,391		1,712,391	
Aggregate write-ins for other than invested assets	<u>5,191,768</u>	<u>16</u>	<u>5,191,752</u>	
 Total assets	 <u>\$ 42,706,847</u>	 <u>\$ 378,611</u>	 <u>\$ 42,328,236</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 15,891,785	(1)
Commissions payable, contingent commissions and other similar charges			29,325	
Other expenses			143,660	
Taxes, licenses and fees			9,426	
Unearned premiums			364,199	
Amounts withheld or retained by company for account of others			4,064	
Aggregate write-ins for liabilities			<u>13,206</u>	
 Total liabilities			 16,455,665	
Aggregate write-ins for other than special funds		\$ 237,523		
Common capital stock		3,525,000		
Gross paid-in and contributed surplus		6,395,000		
Unassigned funds (surplus)		<u>15,715,048</u>		
Surplus as regards policyholders			<u>25,872,571</u>	
 Total liabilities, surplus and other funds			 <u>\$ 42,326,236</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2011

Statement of Income

Underwriting Income

Premiums earned		\$ 4,405,374
Deductions:		
Losses and loss expenses incurred	\$ 3,320,065	
Other underwriting expenses incurred	<u>1,427,600</u>	
Total underwriting deductions		<u>4,747,665</u>
Net underwriting loss		(342,291)

Investment Income

Net investment income earned	\$ 1,060,335	
Net realized capital gain	<u>(3,587)</u>	
Net investment gain		1,056,748

Other Income

Net loss from agents' or premium balances charged off (amount recovered \$1,023, amount charged off \$4,726)	\$ (3,703)	
Aggregate write-ins for miscellaneous income	<u>4</u>	
Total other income		<u>(3,699)</u>
Net income before dividends to policyholders, after capital gains tax and before federal income taxes		710,758
Dividends to policyholders		<u>19,240</u>
Net income after dividends to policyholders, after capital gains tax and before federal income taxes		691,518
Federal income taxes incurred		<u>70,775</u>
Net income		<u>\$ 620,743</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2010		\$ 25,221,842
Net income	\$ 620,743	
Change in net deferred income tax	(85,929)	
Change in nonadmitted assets	(21,358)	
Aggregate write-ins for gains in surplus	<u>94,557</u>	
Change in surplus as regards policyholders for the year		<u>650,729</u>
Surplus as regards policyholders, December 31, 2011		<u>\$ 25,872,571</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2008 through December 31, 2011

Surplus as regards policyholders, December 31, 2008 per Examination			\$ 23,846,891
	Gain in Surplus	Loss in Surplus	
Net income	\$ 2,121,837	\$	
Change in net deferred income tax		477,375	
Change in nonadmitted assets	134,695		
Aggregate write-ins for gains and losses in surplus	246,523		
Total gains and losses	\$ 2,503,055	\$ 477,375	
Net increase in surplus as regards policyholders			2,025,680
Surplus as regards policyholders, December 31, 2011, per Examination			\$ 25,872,571

## 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, 2011 were found to be reasonably stated.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

None.

### Previous Report of Examination

Management and Control – Management Agreements (Page 5): The Company was reminded that it must observe the requirements stipulated in California Insurance Code Section 1215.5(b)(4). The Company has complied with the recommendation.

Accounts and Records – Information System Controls (Page 11): It was recommended that the Company formally document the annual review and update of its business continuity/disaster recovery plan. 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/\_\_\_\_\_  
Vivien Fan, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California