

**[IN ACCORDANCE WITH CALIFORNIA INSURANCE CODE SECTION 12938,
THIS REPORT WILL BE MADE PUBLIC AND BE PUBLISHED ON THE
CALIFORNIA DEPARTMENT OF INSURANCE (CDI) WEBSITE]**

**WEBSITE PUBLISHED REPORT OF THE
MARKET CONDUCT EXAMINATION OF THE
RATING AND UNDERWRITING PRACTICES OF THE**

**CALIFORNIA CASUALTY GROUP
(NAIC GROUP #0033)**

AS OF APRIL 30, 2012

ADOPTED ON APRIL 1, 2014

STATE OF CALIFORNIA



**DEPARTMENT OF INSURANCE
MARKET CONDUCT DIVISION
FIELD RATING AND UNDERWRITING BUREAU**

NOTICE

The provisions of Section 735.5(a), (b), and (c) of the California Insurance Code describe the Commissioner's authority and exercise of discretion in the use and/or publication of any final or preliminary examination report or other associated documents. The following examination report is a report that is made public pursuant to California Insurance Code Section 12938(b)(1) which requires the publication of every report on an examination of unfair or deceptive practices in the business of insurance as defined in Section 790.03 that is adopted as filed, or as modified or corrected, by the Commissioner pursuant to Section 734.1.

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DEPARTMENT OF INSURANCE

CONSUMER SERVICES AND MARKET CONDUCT BRANCH
FIELD RATING & UNDERWRITING BUREAU
300 South Spring Street
Los Angeles, California 90013



April 1, 2014

The Honorable Dave Jones
Insurance Commissioner
State of California
300 Capitol Mall
Sacramento, California 95814

Honorable Commissioner:

Pursuant to instructions, and under the authority granted under the California Insurance Code Part 2, Chapter 1, Article 4, Sections 730, 733, and 736 and Article 6.5, Section 790.04; and Chapter 9, Article 6, Sections 1857.2, 1857.3, and 1857.4, an examination was made of the rating and underwriting practices and procedures in California of the **CALIFORNIA CASUALTY GROUP** (NAIC Group #0033), comprised in California of:

California Casualty Indemnity Exchange
(NAIC #20117, CDI #0427-5),

California Casualty Insurance Company
(NAIC #20125, CDI #1893-7),

California Casualty & Fire Insurance Company
(NAIC #27464, CDI #2145-1),

California Casualty Compensation Insurance Company
(NAIC #10063, CDI #3631-9),

and

California Casualty General Insurance Company of Oregon
(NAIC #35955, CDI #2286-3)

hereinafter referred to as either CCIE, CCIC, CCFC, CCCIC and CCGIC individually, or collectively as the California Casualty Group, California Casualty, or the Companies. The

California Department of Insurance will be referred to as the Department. CCIC, CCFC, CCCIC, and CCGIC did not have any written premium in California during 2012; therefore no policies issued in those four companies were included in the policy review.

This report is made available for public inspection and is published on the California Department of Insurance website (www.insurance.ca.gov) pursuant to California Insurance Code Section 12938(b)(1).

FOREWORD

This examination covered the rating and underwriting practices of the aforementioned Companies during the period from February 1, 2012 through April 30, 2012. The California Casualty Group examination included a review of the homeowners and private passenger automobile lines of business. The examination was made to discover, in general, if these and other operating procedures of the Companies conform to provisions of the California Insurance Code (CIC), the California Code of Regulations (CCR), and other applicable insurance law.

This report contains only alleged violations of CIC § 790.03 and its implementing regulations. A separate report pertains to laws other than CIC § 790.03.

This report is written in a “report by exception” format. This report does not present a comprehensive overview of the subject insurer’s practices. The report contains only a summary of pertinent information about the lines of business examined and of the non-compliant or problematic activities or results that were discovered during the course of the examination, along with the insurers’ proposals for correcting the deficiencies. All unacceptable or non-compliant activities may not have been discovered. Failure to identify, comment upon, or criticize non-compliant activities in this state or other jurisdictions does not constitute acceptance of such practices.

Alleged violations identified in this report, any criticisms of practices, and the Companies' responses, if any, have not undergone a formal administrative or judicial process.

SCOPE OF THE EXAMINATION

To accomplish the foregoing, the examination included:

1. A review of the rates, rating plans, forms, and underwriting rules made or adopted by the Companies for use in California, including a review of records of data, statistics, or information maintained by the Companies in support of or relating to such rates, forms, and rules.
2. A review of the application of such rates, forms, and rules by means of an examination of policy files and related records.
3. A review of the Companies' advertising materials, which consisted of print brochures provided to its association groups, and the Companies' internet site at www.calcas.com.
4. A review of the Department's market analysis results, a review of any consumer complaints and inquiries received by the Department about these Companies in the year prior to the start of the examination, a review of prior market conduct examination reports on these Companies, and a review of any prior enforcement actions by the Department regarding these Companies.

The examination was conducted at the Companies' regional service center in Colorado Springs, Colorado.

EXECUTIVE SUMMARY

This examination included a review of policies that were issued, renewed, cancelled, non-renewed, or declined during the period of February 1, 2012 and April 30, 2012, referred to as the “review period,” and a review of the Companies’ general practices and procedures related to rating, underwriting, advertising and marketing, and risk selection. The examiners reviewed 160 in-force policies and 108 terminated and declined policies.

Within the scope of this report, one general practice was alleged to be in violation of CIC § 790.03. California Casualty failed to ensure that its replacement cost calculations for new business and renewal homeowners risks were developed using reasonably current sources and methods.

RESULTS OF THE REVIEW OF MARKET ANALYSIS,
CONSUMER COMPLAINTS AND INQUIRIES, PREVIOUS EXAMINATIONS,
AND PRIOR ENFORCEMENT ACTIONS

The market analysis did not identify any specific areas of concern within the scope of this report.

METHOD OF DOING BUSINESS

The California Casualty Group is a direct writing group of insurers. All individual producers are employees of California Casualty Management Company (CCMC). As of May 1, 2012, 69 employees who sell insurance were licensed as agents and endorsed to CCMC's agency license to represent the insurers under the California Casualty Group. As of March 1, 2006, all personal automobile and homeowners policies are issued solely in CCIE. The Companies primarily market to members of various association groups in the fields of education and public safety.

California Casualty does not use any General Agents or Managing General Agents.

AUTHORIZED CLASSES OF BUSINESS

<u>Class No.</u>	<u>Class Of Insurance</u>	<u>CCCIC</u>	<u>CCFIC</u>	<u>CCGIC</u>	<u>CCIE</u>	<u>CCIC</u>
1.	Life					
2.	Fire		X	X	X	X
3.	Marine		X	X	X	X
4.	Title					
5.	Surety					
6.	Disability					
7.	Plate Glass		X	X	X	X
8.	Liability	X	X	X	X	X
9.	Workers' Compensation	X	X	X	X	X
10.	Common Carrier Liability		X	X	X	X
11.	Boiler and Machinery					
12.	Burglary		X	X	X	X
13.	Credit					
14.	Sprinkler		X	X	X	X
15.	Team and Vehicle		X	X	X	X
16.	Automobile	X	X	X	X	X
17.	Mortgage					
18.	Aircraft					
19.	Mortgage Guaranty					
19.6	Legal Insurance					
20.	Miscellaneous		X	X	X	X
24.	Financial Guaranty					

PREMIUM AND LOSS EXPERIENCE STUDY

The following tables show the California premium and loss experience for each California Casualty company by line of business for calendar year 2011, based on data from the Statutory Page 14 of the Annual Statement filed with the Department. The “California Casualty Group, Consolidated” table includes combined California premium and loss experience for all companies. The loss ratio for each line is calculated by dividing Direct Losses Incurred by Direct Premiums Earned. (Figures with no meaning due to division by zero are indicated as “NM,” as are calculations including a negative premium earned. All ratios are capped at 999%.)

California Casualty Group, Consolidated
California Loss Ratios by Line for the Year 2011

Line of Coverage	Direct Premiums Written	Direct Premiums Earned	Direct Losses Incurred	Loss Ratio (%)
Fire	158,648	160,181	28,246	18%
Allied Lines	36,119	36,896	7,894	21%
Homeowners	42,317,108	42,394,629	11,531,673	27%
Inland Marine	428,638	437,230	61,456	14%
Earthquake	1,353,410	1,364,816	0	0%
Workers' Compensation	402,762	402,855	(4,920,565)	(999%)
Other Liability	0	0	(1,500)	NM
Other Private Pass Auto Liability	51,587,147	52,061,591	25,639,197	49%
Private Pass Auto Phys. Damage	44,486,406	44,948,307	23,668,555	53%
TOTALS	140,770,238	141,806,506	65,856,086	46%

California Casualty Indemnity Exchange
California Loss Ratios by Line for the Year 2011

Line of Coverage	Direct Premiums Written	Direct Premiums Earned	Direct Losses Incurred	Loss Ratio (%)
Fire	158,648	160,181	28,599	18%
Allied Lines	36,119	36,896	7,918	21%
Homeowners	42,317,108	42,394,629	11,653,187	28%
Inland Marine	351,200	356,519	54,833	15%
Earthquake	1,353,410	1,364,816	0	0%
Workers' Compensation	402,762	402,855	(3,251,468)	(807%)
Other Liability	0	0	(1,500)	NM
Other Priv Pass Auto Liab	51,587,147	52,061,591	25,640,633	49%
Private Pass Auto Phys Damage	44,486,406	44,948,307	23,672,018	53%
TOTALS	140,692,800	141,725,795	57,804,220	41%

California Casualty Compensation Insurance Company
California Loss Ratios by Line for the Year 2011

Line of Coverage	Direct Premiums Written	Direct Premiums Earned	Direct Losses Incurred	Loss Ratio (%)
Workers' Compensation	0	0	(373,678)	NM

California Casualty and Fire Insurance Company
California Loss Ratios by Line for the Year 2011

Line of Coverage	Direct Premiums Written	Direct Premiums Earned	Direct Losses Incurred	Loss Ratio (%)
Workers' Compensation	0	0	(399,941)	NM
Private Pass Auto Phys Damage	0	0	(616)	NM
TOTALS	0	0	(400,557)	NM

California Casualty General Insurance Company
California Loss Ratios by Line for the Year 2011

Line of Coverage	Direct Premiums Written	Direct Premiums Earned	Direct Losses Incurred	Loss Ratio (%)
Workers' Compensation	0	0	(899,259)	NM

California Casualty Insurance Company
California Loss Ratios by Line for the Year 2011

Line of Coverage	Direct Premiums Written	Direct Premiums Earned	Direct Losses Incurred	Loss Ratio (%)
Fire	0	0	(353)	NM
Allied Lines	0	0	(24)	NM
Homeowners	0	0	(121,514)	NM
Inland Marine	77,438	80,711	6,623	8%
Workers' Compensation	0	0	3,781	NM
Other Priv Passenger Auto Liab	0	0	(1,436)	NM
Private Pass Auto Phys Damage	0	0	(2,847)	NM
TOTALS	77,438	80,711	(115,770)	(143%)

LINES OF BUSINESS REVIEWED

The California Casualty examination included a review of the following lines of business:

Homeowners

Rates Filed: March 1, 2006
Rate Page Edition: March 2006

CCIE writes preferred homeowners policies which are predominately based on ISO standard policy language with certain enhancements designed to appeal to the association memberships with which it has contracted. Group memberships are available to associations in the teaching, public safety and higher education fields. In addition, a general public rate group is available to consumers who are not members of any of the sponsored association groups.

Private Passenger Automobile

Rates Filed: October 11, 2011
Rate Page Edition: November 2011

CCIE writes preferred personal automobile policies which are predominately based on ISO standard policy language with certain enhancements designed to appeal to the association memberships with which it has contracted. Group memberships are available to associations in the teaching, public safety and higher education fields. The groups have different base rates filed in addition to a general public rate that is available to consumers who are not members of any of the sponsored association groups.

California Automobile Assigned Risk Plan (CAARP)

Insurers that sell private passenger automobile policies are required by law to accept risks that are assigned to them by the California Automobile Assigned Risk Plan. CCIE has a limited

assignment distribution (LAD) agreement with National Liability & Fire Insurance Company to handle its California Auto Assigned Risk and Low Cost Automobile Programs (LCA) policies.

Therefore, no CAARP or LCA policies were reviewed during the examination.

DETAILS OF THE CURRENT EXAMINATION

The following sections of the report provide summary information regarding the policy review, and regarding the statutes and regulations that were cited during the examination.

POLICY REVIEW RESULTS

The policy sample was reviewed to determine if California Casualty was properly and consistently applying its adopted rates, rating plans and underwriting rules at the individual policy level. The policies were selected at random from the Group's listing of policies issued, renewed, non-renewed, cancelled, or declined during the period of February 1, 2012 and April 30, 2012. The results of this review are listed below on the In-Force Policies table and the Terminated and Declined Transactions table.

The In-Force Policies table shows the number of policies reviewed, the number of policies with rating errors, the number of policies with non-rating errors, and the error ratios by program and company resulting from this examination. In general, policies containing rating errors that result in premium overcharges are corrected by policy endorsement, and refunds are made to the policyholder. Policies with errors that result in undercharges are marked for corrective action at the next policy renewal date. Non-rating errors include forms, documentation, and other errors not affecting premium. (Errors that result in premium changes under \$5 or 1% of the policy premium, whichever is greater, are counted as non-rating errors.)

The Terminated and Declined Transactions table shows the number of termination transactions reviewed per line of business. These include policies which had been cancelled, non-renewed, or declined. The number of policies with errors noted in the termination transaction is shown, as well as the overall ratio of terminations with errors.

CALIFORNIA CASUALTY GROUP

Policy Review Result Summary Tables

In-Force Policies

Program	No. of Policies Reviewed	No. with Rating Errors	Rating Error Ratio %	No. with Non-Rating Errors	Non-Rating Error Ratio %
Homeowners	80	2	3%	0	0%
Private Passenger Auto	80	3	4%	2	3%
TOTALS	160	5	3%	2	1%

Terminated and Declined Transactions

Program	No. of Policies Reviewed	No. with Errors	Error Ratio %
Homeowners			
Declined	27	1	4%
Non-Renewed	16	0	0%
Cancelled	15	1	7%
Total Homeowners	58	2	3%
Private Passenger Automobile			
Declined	20	0	0%
Non-Renewed	15	1	7%
Cancelled	15	1	7%
Total Private Passenger Automobile	50	2	4%
TOTALS	108	4	4%

GENERAL PRACTICES REVIEW RESULTS

The examination included a review of the rates, rating plans, forms, and underwriting rules made or adopted by California Casualty for use in California. The table below identifies the provision(s) of CIC § 790.03 and/or its implementing regulations for which violations were alleged during the examination. Each law listed on the following table may be due to a general practice which affects many policyholders. One practice can also violate multiple laws or occur across multiple companies within an insurer group.

SUMMARY OF RELEVANT LAWS

	Code Citation	Description of Law
1.	CIC § 790.03(b)	Making or disseminating to the public in this state, in any newspaper or publication, or in any other advertising device, a statement regarding the business of insurance that is untrue, deceptive, or misleading is a prohibited act.
2.	CCR § 2695.183	No licensee shall communicate an estimate of replacement cost to an applicant or insured in connection with an application for or renewal of a homeowners' insurance policy that provides coverage on a replacement cost basis, unless the requirements and standards set forth in subdivisions (a) through (e) are met.
3.	CCR § 2695.183(e)	The licensee shall no less frequently than annually take reasonable steps to verify that the sources and methods used to generate the estimate of replacement cost are kept current to reflect changes in the costs of reconstruction and rebuilding, including changes in labor, building materials, and supplies, based upon the geographic location of the insured structure. The estimate of replacement cost shall be created using such reasonably current sources and methods.

SUMMARY OF EXAMINATION RESULTS

During the California Casualty examination, and within the scope of this report, one general practice was alleged to be in violation of CIC § 790.03 or its implementing regulations. In response to the Department's allegations of non-compliance, the Companies were required to identify remedial or corrective action that was or will be taken to correct the deficiency. Regardless of actions taken or proposed by the insurer in this report, it is the insurer's obligation to ensure that compliance with California law is maintained continuously. Any non-compliant practice identified in this report may extend to other jurisdictions. The Companies were asked if they intend to take corrective action in all jurisdictions where applicable. The Companies indicated that these practices are not applicable in other jurisdictions.

No premium has been returned to consumers as a result of the issues described in this report.

Homeowners

1. Whole house fans, High Efficiency (HE) air conditioning, and interior sprinklers are required by the 2011 California Building Code to be included in newly built residential properties and have been incorporated into the Residential Component Technology (RCT) estimators currently utilized by CCIE and other insurers in the industry. The examination found that CCIE was inconsistent in adding in the whole house fan, HE Air Conditioning and interior sprinkler components to replacement cost estimates calculated for new business policies. CCIE also did not add any of these additional features when creating replacement cost estimates for its renewal policies. By failing to capture known required components which would need to be incorporated into a rebuilt home to satisfy current building codes, the replacement cost calculation could be inadequate and leave homeowners potentially underinsured in the event of a total loss. Insurers are tasked with taking steps annually to ensure that the sources and methods used to generate replacement cost estimates are reasonably current to reflect changes in the costs of reconstruction and rebuilding.

The Department alleges these acts are in violation of CCR §§ 2695.183 and 2695.183(e) and are statements with respect to the business of insurance which are misleading, and which are known, or which in the exercise of reasonable care should be known to be misleading under CIC § 790.03(b).

CIC § 790.03(b): CCR §§ 2695.183 and 2695.183(e)

Summary of Insurer Response: CCIE will now add the whole house fan, HE air conditioning and interior sprinklers to all new and renewal business policies going forward. The Companies have worked with their vendor to identify which systems built into the RCT program meet or exceed current building codes. For renewal business, the programming logic was enacted to add the needed components when a policy was identified as lacking a system meeting or exceeding the building code. The new programming logic will be in place for renewals with effective dates of April 1, 2014 and later.