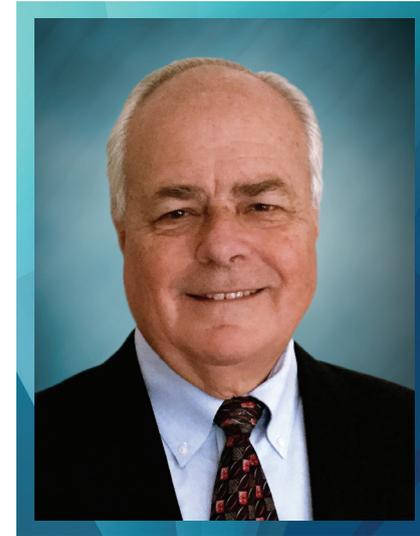


ANNUAL  
REPORT

2018



California Casualty Group



**Wayne S. Diviney**

**Vice Chair**

California Casualty Indemnity Exchange

**Chair**

California Casualty Insurance Company

California Casualty & Fire Insurance Company

California Casualty General Insurance Company of Oregon

California Casualty Compensation Insurance Company

California Casualty Group is comprised of California Casualty Indemnity Exchange (the “Exchange”) and its four wholly-owned subsidiary insurance companies: California Casualty Insurance Company, California Casualty & Fire Insurance Company, California Casualty General Insurance Company of Oregon and California Casualty Compensation Insurance Company. The Exchange is governed by its Advisory Board.

The insurance business of the Exchange and its subsidiary insurance companies is managed, by contract, by California Casualty Management Company, a separate and independent company.

The relationship between California Casualty Management Company and the Exchange has been in place since 1917.

## Looking Back At 2018

Once again, catastrophes defined 2018 – for our customers and for California Casualty. For the second year in a row, wildfires in California destroyed tens of thousands of homes and properties, this time taking 97 lives in the communities of Paradise, Redding and Malibu/Agoura Hills/Thousand Oaks. Amidst the destruction, we witnessed the impressive and heroic efforts of first responders, educators and nursing professionals in those areas, who risked their lives to save others, keeping the losses from being worse. Many saw their property and vehicles decimated by the flames while they were protecting fellow community members. The “can-do” attitude of these American heroes is an inspiration to all of us.

Back-to-back catastrophes put a strain on our organization. However, as a 105-year-old company,



we have the knowledge and know-how to bend without breaking. Once again, employees from all departments rose to the occasion to help. Service and Partner Relations mobilized to check on customers who might be affected in the impacted areas. Claims management assigned adjusters to customers as soon as their claims were reported. Those adjusters moved quickly to make initial contact and promptly advanced additional living expense funds. While many employees didn't directly work with customers in the aftermath of these disasters, everyone chipped in to fulfill our company promise to those who have entrusted us for their auto and home insurance.

Our Claims team proved they are agile and responsive, even with a second year of unprecedented catastrophe losses. With a wealth of long-tenured, experienced employees, we called on senior internal Claims adjusters to take on field assignments to augment Field Claims employees handling open total loss claims from the 2017 Santa Rosa/Wine Country fires. This enabled us to maintain the face-to-face relationships that our customers prefer.

We are proud of the many ways our employees provided service with the highest levels of care, compassion and understanding to those in their greatest time of need.

This second year of destructive wildfires contributed to poor profitability for California Casualty, negatively impacting California Casualty Group's surplus. However, California Casualty remains well-capitalized and able to meet the obligation of \$42 million in 2018 catastrophic losses, half of which will be recovered from reinsurers. In

2019, we have added an additional layer of reinsurance to provide coverage for large catastrophe events, starting at a lower retention point of \$10 million. This additional layer of 2019 reinsurance gives California Casualty Group \$63 million of reinsurance protection above its \$10 million retention. We were able to do so at reasonable rates because our losses in both the 2017 and 2018 California fires, as a proportion of total industry losses, were significantly below what we would have expected, given our 0.5 percent homeowners insurance market share in the state. We underwrite and price well in the state of California, and reinsurers recognized this with their 2019 participation in our program.

Despite the challenges, 2018 was a solid year in many respects for California Casualty:

- we expanded customers-in-force to 165,524, beating our 2018 plan
- customer retention increased to a historical high of 92.7 percent
- direct written premium growth continued at a strong pace
- auto net incurred loss ratio was 0.2 percentage points better than planned and improved by 1.5 percentage points
- customer satisfaction for Service and Claims continued to reach exceptional levels
- California Casualty Group earned a Financial Stability Rating® of A, *Exceptional*, from Demotech, Inc., affirming its strong capital position

*“We are proud of the many ways our employees provided service with the highest levels of care, compassion and understanding to those in their greatest time of need.”*

The many affinity groups we serve rely on California Casualty not only for financial protection, but as a partner to benefit their membership, to bolster long-standing relationships, and to be there in times of need. In 2018, we lived up to those high standards and promises.

*Carl B. Brown*

**Carl B. (Beau) Brown, CPCU**

**Chairman | Chief Executive Officer**  
California Casualty Management Company  
**Chairman**  
California Casualty Indemnity Exchange

*Joseph L. Volponi*

**Joseph L. Volponi, FCAS**

**President | Chief Operating Officer**  
California Casualty Management Company  
**Advisory Board Member**  
California Casualty Indemnity Exchange

## The Brand Starts With Us

Our business is based on strong relationships with our affinity partners and their members. We not only insure them, but we provide a personal touch, adding value to their membership or employee benefits.

Once again, with images seared into our minds of unchecked fires tearing through businesses and homes, California Casualty employees made the difference for our customers during another difficult year. The past two years have tested us, but we were up to the task.

Living up to the promises laid out in the California Casualty Code, our people showed exceptional empathy and caring for those in their greatest time of need. In our 105th year, California Casualty proved again that we are prepared for catastrophes with a response plan that offers more than just financial help, but understanding. Our extraordinary efforts assisting others displayed what the California Casualty brand really means.

## Prepared to Help

Before the smoke had cleared from the disastrous fires in Northern and Southern California, our Field and Customer Service teams were reaching out to policyholders in the affected areas, checking to see if they were okay, offering help and extending concern for their well-being. Of the 530 policyholders in the fire areas, we left messages for or talked with more than 300. Our consideration for those whose lives were upended by disaster was genuine and well-received.

“Your call means more than words can say,” said one policyholder.

*“It’s so nice that California Casualty recognizes the valor of our teachers and everything they are doing to be there for our kids and to keep the district going.”*

Another customer was moved to tears when our Field Marketing Manager, Lorelei Seip, contacted him. He was in the hospital when the Woolsey fire broke out and hadn’t heard from his wife since she fled their home as flames consumed it. Lorelei said that the call was “life changing” for both him and for her. “It was a real connection. He needed someone to listen to him and be there for him. I felt really good knowing what our company stands for and that we cared for him and his wife’s well-being. Just talking and listening made a difference, and he thanked me for that.”



Christy and CTA consultant Curtis Lyon filling relief bags at CTA Chico headquarters.

In the Paradise area, flames moved with unprecedented swiftness, leaving utter destruction of homes, businesses, restaurants, government offices and schools. Sr. Field Marketing Manager Christy Forward spent days personally meeting with insureds and providing energy bars and other necessities for evacuees and first responders.



Christy (left) celebrating with Reiner Light, Camp Fire Education Administrator; Kat Kennedy, PINT teacher; PINT Principal Cris Dunlap; Larry Johnson, PINT Co-Principal.

The blaze left all but one of the Paradise schools destroyed or severely damaged, forcing administrators, instructors and staff (many who lost their homes) to find temporary locations to continue educating students. When Christy learned that Paradise Intermediate School (PINT) was setting up shop 20 miles away in a vacant hardware store in Chico, and seeing the emotional toll the fire and the relocation were taking on the staff, Christy spearheaded an effort to grant them a \$7,500 School Lounge Makeover from California Casualty. Principal

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Cris Dunlap – who was one of 35 PINT staff members who lost a home in the fire – was moved to tears. “We’ve focused so much on giving students a learning space and place to be with their teachers and friends. As educators, we put others ahead of ourselves. It’s so nice that California Casualty recognizes the valor of our teachers and everything they are doing to be there for our kids and to keep the district going,” she said.

She added that it was important for staff to continue to bond with students, providing a sense of normalcy for a community decimated both physically and mentally – leaving in tatters the sense of connection that comes from neighborhoods, business and schools.

Knowing the toll the fires took on our affinity group partners and the employees or members they serve, the California Casualty Cares Committee made donations to the CTA Disaster Relief Fund, the North Valley Community Foundation Camp Fire Relief Fund (through the California State Firefighters’ Association), and to the Peace Officers Research Association of California’s Relief and Education Foundation, which gave aid to educators and first responders whose property was damaged or destroyed.



Left: CTA Controller Wei Pan accepting a donation from Beau Brown. Right: CSFA’s Joe Stewart, Bob Hamilton and Executive Director Gene Gantt with California Casualty’s Tami Phillips and Roxanne Dean.

## Beyond Disasters



Frontier Middle School (MO) receiving a Thomas R. Brown Athletics Grant.

California Casualty also continued to strengthen relationships and provide added value to our partner employees and members through various giving programs, awards and celebrations. They included: 46 recipients of the California Casualty Award for Teaching Excellence, in conjunction with the NEA Foundation; sponsorship of the California School Recognition Program, which honored the California Teachers of the Year and 287 Distinguished Schools in the Golden State; 79 public middle and high schools who received a Thomas R. Brown Athletics Grant; and nurses and first responders who benefitted from the \$1,000 Nurse's Night Out and Work Hard/Play Hard Better Safe Than Sorry giveaways. These giving programs resonate with our affinity groups and the members who benefitted from them.

One of the more critical efforts for California Casualty is our continued support of Impact Teen Drivers and its Create Real Impact contest, which works to prevent the danger of and the heartache from distracted teen driving crashes. Impact Teen Drivers (ITD) honored our commitment by giving Distinguished Service Awards to our Oregon and Washington Sr. Field Marketing Managers, Sherry Hanacek and Michelle Hawkins, for their dedication to helping spread Impact's important message with educators, first responders and health care professionals. Both Sherry and Michelle have been instrumental in bringing the ITD curriculum into schools in their area, and have helped teach the "What Do You Consider Lethal?" course.



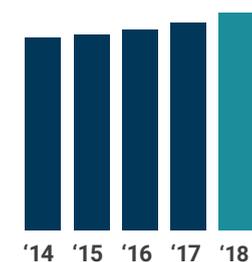
Beau presenting Distinguished Service Awards to Sherry and Michelle.

Sherry said, "I was humbled meeting the parents of affected families, who are so brave to publicly share one of the worst losses a parent can suffer – the death of their child from a preventable crash. They share their stories because they believe they can make a difference so other lives may be saved." Michelle added, "After meeting several affected family members at this event, I vowed to them that I will continue to tell their child's story to as many others as I can. I also want to thank our CEO, Beau Brown, for his continued support of this program – we are saving lives."

Thank you to the men and women of California Casualty who continue to be guided by our Code, making a difference for others, and working together with our partners. We strive to do what's right for our customers, because the people who commit to make a difference for our communities deserve financial protection with the highest levels of care, service, compassion and understanding...Which is Why We Exist.

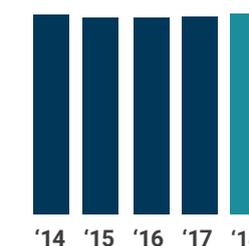
## 2018 Financial Highlights

Premium Written  
(in millions of dollars)



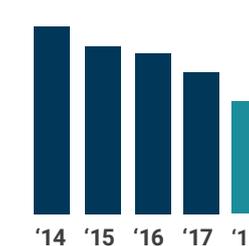
2014	336.7
2015	341.3
2016	348.6
2017	360.8
2018	378.9

Combined Auto/Home  
Policies in Force  
(in thousands)



2014	292.2
2015	288.7
2016	287.7
2017	289.8
2018	293.1

Policyholders' Surplus  
(in millions of dollars)



2014	319.1
2015	284.3
2016	273.0
2017	241.6
2018	191.6

Operating performance  
(in thousands of dollars)

	2018	2017
Premiums written	378,911	360,818
Underwriting loss	(52,919)	(52,678)
Net investment income	11,092	10,222
Net realized gain	4,760	7,233
Other income (loss)	(105)	648
Net loss	(37,131)	(34,565)

Financial position  
(in thousands of dollars)

	2018	2017
Assets	583,386	621,194
Liabilities	391,762	379,605
Policyholders' surplus	191,624	241,589

## California Casualty Indemnity Exchange

### Advisory Board\*

Carl B. (Beau) Brown, CPCU<sup>1</sup>  
California Casualty  
Management Company\*\*

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Modoc Consulting

Robert R. Nicolay III  
Progressive Corporation  
(Retired)

Heather S. Schafer  
National Volunteer Fire Council

Wayne S. Diviney<sup>2</sup>  
National Education Association  
(Retired)

Karen B. Kyhn  
California Teachers Association  
(Retired)

Karen M. Padovese<sup>3</sup>  
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California State University,  
Los Angeles

Leona S. Lindner  
NEA's Member Benefits  
Corporation

Edward G. Phoebus III  
NEA's Member Benefits  
Corporation

Joseph L. Volponi, FCAS  
California Casualty  
Management Company\*\*

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California Association of  
Highway Patrolmen

Michael G. McPherson  
National Education Association

<sup>1</sup> Chairman of the Board

<sup>2</sup> Vice Chair

<sup>3</sup> Secretary

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Marston Nauman

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R. Wayne Johnson

Ralph M. Tornatore, Jr.

John E. Cahill, Jr.

Barbara E. Kerr

Suzanne M. Zimmer

### Advisory Board Honoraries

Thomas R. Brown, CLU

William R. Dahlman

George G. C. Parker, Ph.D.

Lynne F. Siegel, J.D.

### Newly Elected Board Member



**Karen B. Kyhn**  
California Teachers  
Association (Retired)

Elected to the Advisory  
Board in January 2018



**Robert R. Nicolay III**  
Progressive Corporation  
(Retired)

Elected to the Advisory  
Board in December 2018

\* All of the members of the Advisory Board, except those representing California Casualty Management Company, are also directors of two of California Casualty Indemnity Exchange's subsidiaries: California Casualty & Fire Insurance Company and California Casualty Compensation Insurance Company.

\*\*California Casualty Management Company employees are non-voting members of the Advisory Board.

## California Casualty Insurance Company and California Casualty General Insurance Company of Oregon

### Board of Directors and Officers

Wayne S. Diviney  
National Education  
Association (Retired)

Jon H. Hamm  
California Association  
of Highway Patrolmen

Mitchell E. Hornecker  
Modoc Consulting

Heather S. Schafer  
National Volunteer  
Fire Council

President  
**Carl B. Brown, CPCU**  
California Casualty  
Management Company

Treasurer  
**Michael A. Ray, CPA**  
California Casualty  
Management Company

Secretary  
**James Inglese, CPCU**  
California Casualty  
Management Company

**Thomas M. Tongue, Esq.**  
Schwabe, Williamson & Wyatt

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Chief Executive Officer

**Thomas R. Brown, CLU**  
Director  
Chairman Emeritus

**Hong Chen, FCAS**  
Senior Vice President  
Actuary

**James R. Kauffman, Esq.**  
Senior Vice President  
Claims

**Joseph L. Volponi, FCAS**  
Director  
President  
Chief Operating Officer

**Marston Nauman**  
Director  
Vice Chairman Emeritus

**James Inglese, CPCU**  
Senior Vice President  
General Counsel  
Secretary

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Chief Marketing Officer

**Kenneth G. Berry**  
Director

**Michael A. Ray, CPA**  
Director  
Executive Vice President  
Chief Financial Officer  
Treasurer

**Fong-Yee Judy Jao,**  
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Senior Vice President  
Actuary

**Joseph C. Muenzen, CPCU**  
Senior Vice President  
Underwriting and Product  
Development

**Michael D. Bower**  
Director  
Executive Vice President  
Technology and Investments

**James M. Sevey, CPCU**  
Director

