STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF QUALIFYING FINANCIAL EXAMINATION

OF

CALIFORNIA CASUALTY GENERAL INSURANCE COMPANY
SAN MATEO, CALIFORNIA

NAIC COMPANY CODE 35955

AS OF

DECEMBER 31, 2003

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November 10, 2004

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440
Salem, OR 97301-3883

Dear Director:

In accordance with your instructions and pursuant to ORS 731.300, I have examined the business affairs and financial condition of

CALIFORNIA CASUALTY GENERAL INSURANCE COMPANY
1900 Alameda De Las Pulgas
San Mateo, California 94403

NAIC Company Code 35955

hereinafter referred to as "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

This qualifying examination of the Company was conducted as of December 31, 2003, and included subsequent events that are considered material to the financial condition and significant regarding compliance with the Oregon Insurance Code.

This examination was conducted concurrently with examinations conducted by the California Department of Insurance of the Company's parent, California Casualty Insurance Company (CCIC), its parent California Casualty Indemnity Exchange (CCIE), and two affiliates, California Casualty & Fire Insurance Company (CFIC) and California Casualty Compensation Insurance Company (CCCIC). These insurers are each domiciled in California and are collectively referred to as the California Casualty Group (Group) hereinafter.

The examination was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC).

COMPANY HISTORY

California Casualty General Insurance Company is a California domiciled stock insurance company formed in 1977. It commenced business in March 1978. The Company is authorized to write business in 17 states, including Oregon. The Company has not been writing business directly, but has participated in a pooling arrangement with its parent and affiliates.

The Company is seeking to redomesticate from California to Oregon. Once the Company redomesticates, it will change its name to "California Casualty General Insurance Company of Oregon."

CAPITALIZATION

The Company meets the minimum requirements of ORS 731.554(1) by maintaining capital and surplus of $25,816,747, as reflected in the 2003 filed annual statement.

CORPORATE RECORDS

The examination included a review of the Company's corporate records which include: Application for Redomestication, Articles of Incorporation, Bylaws, and Certificate of Incorporation.

Articles of Incorporation

The Articles of Incorporation conformed to Oregon statutes.

Bylaws

The Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

The Company business affairs are vested in the Board of Directors composed of 15 directors.

Name and Residence	Principal Business Affiliation
David A. Aaker Orinda, CA	Retired Professor University of California Berkeley
John H. Hamm El Dorado Hills, CA	Executive Manager California Assoc. of Highway Patrolmen
George Goodrich Coale Parker Portola Valley, CA	Professor of Finance Graduate School of Business Stanford University
Suzanne M. Zimmer Golden, CO	Assistant Executive Director Colorado Education Association
James D. Altman Menlo Park, CA	Retired Johnson & Higgins of California

Name and Residence	Principal Business Affiliation
John E. Cahill, Jr. Kentfield, CA	Chairman and Chief Executive Officer Cahill Contractors, Inc.
Richard W. Johnson Fullerton, CA	Retired California Teachers Association
Edward G. Phoebus III Silver Spring, MD	President and Chief Executive Officer National Education Association's Member Benefits Corp.
William R. Dahlman North Hollywood, CA	President and Chief Executive Officer Employers Group
R. Kirk Lindsey Modesto, CA	President Brite Transport System, Inc.
Lynne F. Siegel Portland, OR	Retired Oregon Education Association
Jonathon A. Brown Fair Oaks, CA	President Assoc. of Independent Colleges and Universities
Wayne S. Diviney Fairfax, VA	Assistant Executive Director National Education Association
Ronald G. McPeck Redlands, CA	Retired California Teachers Association
Ralph M. Tornatore, Jr. Cool, CA	Retired California Assoc. of Highway Patrolmen

The Board of Directors does not meet all the provisions of ORS 732.305 which requires one third of the members reside in Oregon. The Company has indicated a new Board will be appointed consisting of five directors, two of whom will be Oregon residents. **I recommend the Company restructure its Board of Directors to comply with ORS 732.305.**

Officers

The following were officers of the Company as of December 31, 2003:

Name	**Title**
George Goodrich Coale Parker	Chairman of the Board
Kai Grant Edwin Anderson	President
John G. Vidosh	Treasurer
James M. Sevey	Secretary
Joseph L. Volponi	Actuary

Based on a review of directors' and officers' biographical affidavits, it appears the Board of Directors and officers possess the insurance experience necessary to manage the affairs of the Company as required by the provisions of ORS 731.386.

Parent and Affiliated Companies

The Company is a member of the California Casualty Group (Group) of which California Casualty Management Company (CMCC), as the attorney-in-fact for the California Casualty Indemnity Exchange (CCIE), controls CCIE. The lead insurer in the group is CCIE, a California domiciled company authorized in Oregon since 1962.

Intercompany Agreements

The Company is managed by CCMC under a management agreement effective January 1, 1994. Under the agreement, CCMC has the power to conduct, control and supervise the complete insurance activities of the Company. As compensation for the services performed, CCMC is paid a monthly fee of up to 125% of expenses incurred on behalf of the Company. In addition, the Company pays CCMC an annual incentive fee not to exceed 10% of the Group's calendar year pretax income. This agreement was approved by the California Department of Insurance.

Effective January 1, 1999, the Company entered into an amended tax allocation agreement with the other insurers in the Group. Under this agreement, the consolidated federal income tax liability of the Group is allocated to each company in proportion to each company's share of taxable income, computed on a separate company basis. California Casualty Indemnity Exchange is responsible for filing and making all tax payments on behalf of the Group. This agreement amends and supercedes the previous tax allocation agreement that was effective January 1, 1992.

Effective July 1, 1999, the Company entered into an investment advisory agreement with Pillar Point Capital Management, Inc. (PPCM), a wholly owned subsidiary of CCMC. Under this agreement, PPCM supervises and directs the Company's investments and makes all investment decisions subject to approved investment guidelines. PPCM's fee is based on a percentage of assets under management. This agreement replaced a previous one with PPCM that had an effective date of July 1, 1993. On June 24, 2002, the agreement was extended through June 30, 2005. PPCM ceased being a registered investment advisor on September 30, 2004. Its fixed income management function will be rolled up into CCMC under the control of the aforementioned management agreement.

CONFLICT OF INTEREST

The Company requires officers and directors to read the corporate conflict of interest policy and then disclose any conflict of interest on a signed conflict of interest statement.

From a review of the conflict of interest statements, it appeared the affected personnel performed due diligence in disclosing all and any potential conflicts of interest.

FIDELITY BONDS AND OTHER INSURANCE

The Company has adequate insurance coverages in all exposed areas of risk. The examination of these coverages involved determining the methods by which the Company assesses risk, adequacy of limits and retentions, and solvency of the insurers providing the coverages.

In addition to the general liability coverage, the Company is covered up to $5,000,000 each claim and $5,000,000 in aggregate for directors and officers liability insurance. The fidelity coverage of $3,000,000 met the prescribed minimum coverage as specified by the NAIC. Other major coverages of the Company are commercial liability, commercial property and commercial inland marine. The Company is afforded these coverages from being named on policies covering the same risk of CCIE.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance in the states of Arizona, California, Idaho, Illinois, Iowa, Kansas, Kentucky, Missouri, Nebraska, Nevada, New Mexico, Ohio, Oregon, Utah, Washington, Wisconsin, and Wyoming. The Company is authorized in these states to transact the business of property and casualty insurance, including workers' compensation.

The Company has not written any significant amount of direct business since 1999. California Casualty Indemnity Exchange has taken over the greater share of the Group's direct business written in the states where the Company is licensed.

On October 1, 1997, the Group discontinued writing new commercial workers' compensation policies. Under the pooling agreement, effective January 1, 1998, all of the workers' compensation and miscellaneous commercial business in run-off was retroceded to CCCIC.

In May 2000, the California Casualty Group received an endorsement as the recommended insurer for members for the National Education Association (NEA). The endorsement is for a ten-year period. In connection with the anticipated premium growth related to this endorsement, the Company's manager, CCMC, entered into a strategic relationship with Fireman's Fund Insurance Company (FFIC) to share in the business generated through the NEA endorsement. One of the components of this relationship is a quota share reinsurance agreement between insurers in the Group and FFIC, where FFIC assumes 20% of the personal lines business written by the group, including but not limited to fire, allied lines, earthquake, homeowner's, mobile homeowner's, inland marine, personal watercraft, and personal automobile policies. (See "Reinsurance" for further commentary.)

On November 5, 2003, the California Department of Insurance consented to a redomestication of the Company to the State of Oregon and a name change of the Company to "California Casualty General Insurance Company of Oregon."

REINSURANCE

Pooling Agreement

A pooling arrangement was approved by the California Department of Insurance effective January 1, 1998. This amended arrangement provides that all companies cede 100% of their direct business to CCIE. The arrangement calls for personal lines insurance business be retroceded to, and assumed by, CCIC, CCFIC, and the Company according to their respective pooling percentages of 22% 11%, 16%. CCIE retains 51% of the pooled personal lines business. All workers' compensation and miscellaneous commercial lines direct and assumed business is in run-off and is retroceded 100% to CCCIC.

Assumed Reinsurance

The Company has no reinsurance assumed.

Ceded Reinsurance

Effective January 1, 2000, CCIE, CCIC, CCFIC and the Company (the Companies) entered into a 15-year quota share reinsurance agreement with FFIC. For the first five years of the agreement, the Companies cede 20% of all personal lines premium written and losses paid and earn a ceding commission equal to 20% of underwriting expenses. For the subsequent ten years of the treaty, the Companies cede 30% of written premiums and losses and earn a ceding commission equal to 30% of underwriting expense. Under the terms of the agreement, the Companies also received an additional ceding commission through 2003. The additional commission was 7.5% in 2000, 5% in 2001, 2.5% in 2002 and $37,500 per month in 2003. The Companies are recognizing the additional ceding commission over the first ten years of the contract per SSAP No. 62, paragraph 51, because that is the term of the endorsement by the NEA. (See "Territory and Plan of Operation.")

The quota share agreement with FFIC contains language that deviates from the Oregon Insurance Code. Specifically:

1. The arbitration clause contains language that allows the panel to settle disputes on an equitable basis rather than on a strictly legal basis.

2. The treaty does not require the arbitration panel to strictly enforce the insolvency clause.

3. The agreement allows for cancellation by either party in the event either party is placed in receivership, conservatorship, liquidation or trust.

The above are contrary to the provisions of SSAP No. 62, paragraph 7, ORS 731.508 and ORS 731.512(a). **I recommend the Company complete its negotiations with Fireman's Fund Insurance Company so that the quota share agreement between the Companies complies with SSAP No. 62, paragraph 7, ORS 731.508 and ORS 731.512(a). This recommendation is made pursuant to the provisions of ORS 731.302.**

The Company had the following additional reinsurance agreements in effect at December 31, 2003:

Type of Contract	Line of Business	Reinsurer's Name	Company's Retention	Reinsurer's Limits
Catastrophe Excess of Loss 1st Layer of Loss	Property	Various Admitted and Nonadmitted Reinsurers	$10,000,000 + 40% of $10,000,000 in excess of $10,000,000 per occurrence	60% of $10,000,000 per occurrence in excess of $10,000,000, $20,000,000 annual aggregate
2nd Layer Excess of Loss	Property	Various Admitted and Nonadmitted Reinsurers	$20,000,000 + 25% of $20,000,000 in excess of $20,000,000 per occurrence	75% of $20,000,000 per occurrence in excess of $20,000,000, $40,000,000 annual aggregate
3rd Layer Excess of Loss	Property	Various Admitted and Nonadmitted Reinsurers	$40,000,000 + 5% of $35,000,000 in excess of $40,000,000 per occurrence	95% of $35,000,000 per occurrence in excess of $40,000,000, $70,000,000 annual aggregate

As previously noted, the Group discontinued writing workers' compensation business in 1997, except for domestic workers' compensation coverage under homeowner's policies. Under the new pooling agreement, effective January 1, 1998, all workers' compensation and miscellaneous commercial business in force was retroceded to CCCIC. Effective January 1, 2001, CCCIC entered into an adverse loss development cover with XL Re, Ltd., of Hamilton, Bermuda, covering workers' compensation claims with dates of injury to January 1, 1999. The following excess of loss agreements inure to the benefit of the adverse development cover between CCIC and XL Re, Ltd.

Type of Contract	Line of Business	Reinsurer's Name	Company's Retention	Reinsurer's Limits
Excess of Loss 1st Layer excess of loss	Workers' Compensation	American Re-Insurance Company	$400,000 per occurrence	$600,000 per occurrence in excess of $400,000 Canceled 1/1/99
2nd Layer excess of loss	Workers' Compensation	American Re-Insurance Company	$1,000,000 per occurrence	$1,000,000 per occurrence in excess of $1,000,000 Cancelled 1/1/99
3rd Layer excess of loss	Workers' Compensation	American Re-Insurance Company	$2,000,000 per occurrence	$3,000,000 per occurrence in excess of $2,000,000, $6,000,000 annual aggregate Cancelled 1/1/99
4th Layer excess of loss covering multiple person occurrences only	Workers' Compensation	American Re-Insurance Company	$5,000,000 per occurrence	$5,000,000 per occurrence in excess of $5,000,000, $10,000,000 annual aggregate Cancelled 1/1/99
5th Layer excess of loss covering multiple person occurrences only	Workers' Compensation	American Re-Insurance Company	$10,000,000 per occurrence	$5,000,000 per occurrence in excess of $10,000,000 annual aggregate Cancelled 1/1/99
6th Layer excess of loss covering multiple person occurrences only	Workers' Compensation	American Re-Insurance Company	$15,000,000 per occurrence	$15,000,000 per occurrence in excess of $15,000,000, $30,000,000 annual aggregate Cancelled 1/1/99

Type of Contract	Line of Business	Reinsurer's Name	Company's Retention	Reinsurer's Limits
7th Layer excess of loss covering multiple person occurrences only	Worker's Compensation	Various Admitted and Nonadmitted Reinsurers	$30,000,000 per occurrence	$25,000,000 per occurrence in excess of $30,000,000 Cancelled 10/1/98
8th Layer excess of loss covering multiple person occurrences only	Workers' Compensation	Various Admitted and Nonadmitted Reinsurers	$55,000,000 per occurrence	$25,000,000 per occurrence in excess of $55,000,000, Cancelled 10/1/98
9th Layer excess of loss covering multiple person occurrences only	Workers' Compensation	Various Admitted and Nonadmitted Reinsurers	$80,000,000 per occurrence	$40,000,000 per occurrence in excess of $80,000,000 Cancelled 10/1/98
10th layer excess of loss covering multiple person occurrences only	Workers' Compensation	Various Admitted and Nonadmitted Reinsurers	$120,000,000 per occurrence	$40,000,000 per occurrence in excess of $120,000,000 Cancelled 10/1/98
1st Person Excess	Workers' Compensation	American Re-Insurance Company	$5,000,000 per occurrence	$2,500,000 per occurrence in excess of $5,000,000, $10,000,000 aggregate Cancelled 10/1/98
2nd Person Excess	Workers' Compensation	Various Admitted Reinsurers	$7,500,000 per occurrence	$2,500,000 per occurrence in excess of $7,500,000, $20,000,000 annual aggregate Cancelled 10/1/98
3rd Person Excess	Workers' Compensation	Reliastar Life Insurance Company	$10,000,000 per occurrence	$5,000,000 per occurrence in excess of $10,000,000, $20,000,000 annual aggregate Cancelled 10/1/98
Occupational Disease	Workers' Compensation	American Re-Insurance Company	$1,000,000 per occurrence	$2,000,000 per occurrence in excess of $1,000,000, $12,000,000 aggregate Cancelled 10/1/98

Insolvency Clauses

All of the Company's reinsurance agreements contained insolvency clauses which specified payment to a statutory successor without diminution in accordance with the provisions of ORS 731.508.

Intermediary Clause

The Company obtains its reinsurance agreements through a reinsurance broker. It was noted the Company has a proper intermediary clause that includes a provision whereby the reinsurer will assume all credit risks of the intermediary related to payments to the intermediary in accordance with the NAIC Examiners Handbook, page 5-9 and ORS 731.302.

ACCOUNTS AND RECORDS

Short-term Investments

Schedule "DA" - Short-term Investments Owned as of December 31, 2003, indicates that the Company held $8,367,867 in a Wells Fargo money account. This is in excess of 10% of the Company's assets. ORS 733.770, states that an insurer shall not have any combination of investments in or secured by the stocks, obligations, and property of one person, corporation or political subdivision in excess of 10% of the insurer's assets." No recommendation will be made as, subsequent to the date of this examination and prior to the end of field work, the Company reduced the amount of the money market account to less than 10% to comply with ORS 733.770.

Information System Controls

During the course of this examination, a review was made of the Company's general controls over its information systems. As a result of the review, some weaknesses in controls were noted in areas of user access and audit policy.

The weaknesses noted were presented to the Company along with recommendations to strengthen its controls. **I recommend the Company evaluate the information system control recommendations and make appropriate changes to strengthen controls over its information system.**

The Company has agreed to comply with the provisions of ORS 732.245 by maintaining its records and source documentation at its principal place of business and home office located at:

> 10260 SW Greenberg Road, Suite 448
> Portland, Oregon 97223

Based on a review of the Company's accounts, it appears the Company has made sufficient provisions for the recording of all assets, liabilities, surplus, income and expenses.

CALIFORNIA CASUALTY GENERAL INSURANCE COMPANY
BALANCE SHEET
As of December 31, 2003

ASSETS	Per Company	Examination Adjustments	Per Examination
Bonds **(Note 1)**	$40,469,592	$	$40,469,592
Cash & short-term investments **(Note 1)**	8,367,867		8,367,867
Interest due & accrued	372,476		372,476
Uncollected premiums and agents balances in course of collection	2,732,229	(14,055)	2,718,174
Deferred premiums, agent balances and installments booked but deferred and not yet due	17,540,874		17,540,874
Reinsurance recoverable	881,893		881,893
Net deferred tax asset	4,148,964	(4,148,964)	
Guaranty funds receivable or on deposit	6,324		6,324
Aggregate write-ins for other than invested assets	68,584	(68,584)	0
Total Assets	$74,588,803	$(4,231,603)	$70,357,200
LIABILITIES			
Losses **(Note 2)**	$14,703,742		$14,703,742
Loss adjustment expenses **(Note 2)**	2,860,968		2,860,968
Commissions payable, contingent commissions and other similar charges	793,261		793,261
Other expenses	411,894		411,894
Taxes, licenses and fees	213,337		213,337
Unearned premiums	21,299,833		21,299,833
Ceded reinsurance premiums payable	544,257		544,257
Amounts withheld or retained by company for account of others	433,925		433,925
Payable to parent, subsidiaries and affiliates **(Note 3)**	3,223,430		3,223,430
Aggregate write-ins for liabilities	55,806	0	55,806
Total Liabilities	44,540,453	0	44,540,453
SURPLUS AND OTHER FUNDS			
Common capital stock	2,602,000		2,602,000
Gross paid in and contributed surplus	12,200,000		12,200,000
Unassigned funds (surplus)	15,246,350	(4,231,603)	11,014,747
Surplus as regards policyholders	30,048,350	(4,231,603)	25,816,747
Total Liabilities and Surplus	$74,588,803	$(4,231,603)	$70,357,200

CALIFORNIA CASUALTY GENERAL INSURANCE COMPANY
STATEMENT OF INCOME
For the Year Ended December 31, 2003

UNDERWRITING INCOME

Premiums earned	$38,910,095
Deductions	802
Losses incurred	27,061,731
Loss expenses incurred	7,643,575
Other underwriting expenses incurred	12,379,038
Total Underwriting Deductions	47,084,344
Net underwriting gain (loss)	(8,174,249)

INVESTMENT INCOME

Net investment income earned	2,289,955
Net realized capital gains (losses)	(62,028)
Net investment gain (loss)	2,227,927

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	(126,656)
Finance and service charges not included in premiums	129,228
Total other income	2,572
Miscellaneous expense	
Net income before dividends to policy holder and before federal and foreign income taxes	(5,943,750)
Dividends to policyholders	0
Net income, after dividends to policyholders but before federal and foreign income taxes	(5,943,750)
Federal and foreign income taxes incurred	(161,865)
Net Income (loss)	$(5,781,885)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2002	$31,627,703
Net income (loss)	(5,781,885)
Change in net deferred income tax	1,924,960
Change in nonadmitted assets	(1,954,031
Change in surplus as regards policyholders for the year	(5,810,956)
Surplus as regards policyholder, December 31, 2003	$25,816,747

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Bonds, Cash and Short-term Investments

Bonds, cash and short-term investments were confirmed with the respective bank or custodian as of December 31, 2003.

Note 2 - Losses and Loss Adjustment Expenses

The California Department of Insurance (CDI) retained an independent actuary for the purposes of providing a full actuarial evaluation of the Company's loss and loss adjustment expense reserves as of December 31, 2003. A casualty actuary with the CDI reviewed the analysis and concurred with the conclusion of the consulting actuary that the reserves for losses and loss adjustment expenses are reasonable. The work of both these actuaries was reviewed by David Dahl, ACAS, MAAA, consulting actuary for the State of Oregon, Insurance Division. He also found the reserves to be adequate.

Note 3 - Payable to Parent, Subsidiaries and Affiliates

The intercompany pooling agreement calls for prompt settlement of balances. Pooling balances, along with regular intercompany balances due from 2002, were substantially settled during the first and second quarter 2004. **I recommend intercompany balances be settled on a more regular basis.**

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Page

6 I recommend the Company restructure its Board of Directors to comply with ORS 732.305.

12 I recommend the Company complete its negotiations with Fireman's Fund Insurance Company so that the quota share reinsurance agreement between the companies complies with SSAP No. 62, paragraph 7, ORS 731.508 and 731.512(a). This recommendation is made pursuant to the provisions of ORS 731.302.

16 I recommend the Company evaluate the information system control recommendations and make appropriate changes to strengthen controls over its information system.

19 I recommend the Company settle intercompany balances on a timely basis.

CONCLUSION

Once the Company files with the director articles of incorporation that are amended to comply with all of the requirements of law relating to the organization and authorization of a domestic insurer, the Company will have complied with the requirements of ORS 731.363(1) and will be entitled to a Certificate of Authority to transact insurance in this state and shall be subject as a domestic insurer to the authority and jurisdiction of this state.

ACKNOWLEDGMENT

The examiner wishes to express his appreciation for the cooperation extended by the officers and employees of the Company during the course of the examination.

In addition, we wish to acknowledge the assistance of the State of California Insurance Department, for allowing us to use many of their source documents in our examination.

Respectfully submitted,

Timothy R. Hurley, CFE
Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Timothy Hurley, being duly sworn, deposes and says that the foregoing qualifying financial report of examination as of December 31, 2003, of California Casualty General Insurance Company, San Mateo, California, subscribed by him is true to the best of his knowledge and belief.

____
Timothy R. Hurley, CFE
Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn before me this ______ day of ___________________, 2004.

____
Notary Public in and for the State of Oregon

My commission expires __________________