

Report of Examination of

**The Cincinnati Casualty Company**  
Fairfield, Ohio

As of December 31, 2014

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Columbus, Ohio  
September 11, 2015

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**The Cincinnati Casualty Company**

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.”

**Scope of Examination**

The Department has performed a multi-state coordinated examination of the Company in which the Delaware Department of Insurance was also a participant. The last examination covered the period of January 1, 2009, through December 31, 2009. This examination covers the period of January 1, 2010, through December 31, 2014.

The Department conducted the examination in accordance with the NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in Section 3901.07 of the ORC and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information,

etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For all years under examination, the Certified Public Accounting firm of Deloitte & Touche LLP provided an unqualified opinion on the Consolidated Statutory-Basis Financial Statements of The Cincinnati Insurance Company based on Statutory Accounting Principles. Representatives of the Department reviewed the independent auditors' reports and supporting work papers during the examination.

## **Management and Control**

### **Board of Directors**

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<b>Name</b>	<b>Principal Occupation</b>
William F. Bahl	Chairman Bahl & Gaynor Investment Counsel, Inc.
Gregory T. Bier	Retired Deloitte & Touche LLP
Teresa C. Cracas	Senior Vice President and Chief Risk Officer The Cincinnati Insurance Companies
Donald J. Doyle, Jr.	Senior Vice President The Cincinnati Insurance Companies
Martin F. Hollenbeck	Senior Vice President and Chief Investment Officer The Cincinnati Insurance Companies
Steven J. Johnston	President and Chief Executive Officer The Cincinnati Insurance Companies
John S. Kellington	Senior Vice President and Chief Information Officer The Cincinnati Insurance Companies
Lisa A. Love	Senior Vice President and Secretary The Cincinnati Insurance Companies
W. Rodney McMullen	Chairman and Chief Executive Officer The Kroger Co.

<b>Name</b>	<b>Principal Occupation</b>
Martin J. Mullen	Senior Vice President The Cincinnati Insurance Companies
David P. Osborn	President Osborn Rohs Williams & Donohoe, LLC
Jacob F. Scherer	Executive Vice President The Cincinnati Insurance Companies
John J. Schiff, Jr.	Former Chairman and Chief Executive Officer The Cincinnati Insurance Companies
Thomas R. Schiff	Chairman and Chief Executive Officer John J. & Thomas R. Schiff & Co., Inc.
Michael J. Sewell	Senior Vice President and Chief Financial Officer The Cincinnati Insurance Companies
Stephen M. Spray	Senior Vice President The Cincinnati Insurance Companies
Kenneth W. Stecher	Chairman The Cincinnati Insurance Companies
John F. Steele, Jr.	Chairman and Chief Executive Officer Hilltop Basic Resources, Inc.
Charles P. Stoneburner II	Senior Vice President The Cincinnati Insurance Companies
Timothy L. Timmel	Senior Vice President The Cincinnati Insurance Companies
Larry R. Webb	President Webb Insurance Agency, Inc.

## **Officers**

As of the examination date, the following executive and senior officers were serving in the designated position:

<b>Name</b>	<b>Title</b>
Kenneth W. Stecher	Chairman
Steven J. Johnston	President and Chief Executive Officer
Jacob F. Scherer	Executive Vice President
Teresa C. Cracas	Senior Vice President
Donald J. Doyle, Jr.	Senior Vice President
Martin F. Hollenbeck	Senior Vice President
John S. Kellington	Senior Vice President
Lisa A. Love	Senior Vice President and Secretary
Eric N. Mathews	Senior Vice President
Martin J. Mullen	Senior Vice President
Michael J. Sewell	Senior Vice President and Chief Financial Officer
Joan O. Shevchik	Senior Vice President
Stephen M. Spray	Senior Vice President
Charles P. Stoneburner II	Senior Vice President
Timothy L. Timmel	Senior Vice President
William H. Van Den Heuvel	Senior Vice President

## **Insurance Holding Company System**

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is a wholly owned subsidiary of The Cincinnati Insurance Company, an insurance company domiciled in Ohio, which is a wholly owned subsidiary of Cincinnati Financial Corporation, a holding company domiciled in Ohio that is the ultimate controlling person in the holding company system.

### Territory and Plan of Operations

The Company was licensed to transact business in all states and the District of Columbia. Business is written through a network of independent agents. The table below illustrates the Company's 2014 premiums written, in thousands, by line of business:

Line of Business	Direct	Assumed	Ceded	Net
Fire	\$ 3,033	\$ -	\$ 3,033	\$ -
Allied lines	2,890	-	2,890	-
Commercial multiple peril	76,764	-	76,764	-
Workers' compensation	155,776	-	155,776	-
Other liability – occurrence	23,141	-	23,141	-
Products liability – occurrence	7,514	-	7,514	-
Commercial auto liability	20,895	-	20,895	-
Auto physical damage	7,184	-	7,184	-
All other	<u>4,495</u>	<u>-</u>	<u>4,495</u>	<u>-</u>
Totals	<u>\$ 301,692</u>	<u>\$ -</u>	<u>\$ 301,692</u>	<u>\$ -</u>

### Reinsurance

The Company cedes 100% of all direct and assumed business to its affiliate, The Cincinnati Insurance Company, through an inter-company reinsurance agreement. The contract was noted to contain all necessary clauses that meet the guidelines prescribed by the NAIC.

### Financial Statements

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2014. The accompanying Notes to Financial Statements should be considered an integral part of the financial statements.

**Statement of Assets, Liabilities, Surplus and Other Funds**  
**December 31, 2014**

**Assets**

Bonds	\$ 248,257,311
Common stocks	90,539,502
Cash, cash equivalents and short-term investments	<u>5,485,557</u>
Subtotal, cash and invested assets	344,282,370
Investment income due and accrued	3,022,512
Amounts recoverable from reinsurers	14,990,882
Other amounts receivable under reinsurance contracts	2,489,705
Receivables from parent, subsidiaries and affiliates	<u>6,983,309</u>
Total admitted assets	<u>\$ 371,768,778</u>

**Liabilities**

Other expenses	\$ 1,987
Current federal and foreign income taxes	219,439
Net deferred tax liability	15,651,468
Ceded reinsurance premiums payable	24,125,804
Amounts withheld or retained by company for account of others	1,548,637
Aggregate write-ins for liabilities	<u>850</u>
Total liabilities	<u>\$ 41,548,185</u>

**Capital and Surplus**

Common capital stock	3,750,000
Gross paid in and contributed surplus	18,000,000
Unassigned funds	<u>308,470,593</u>
Total capital and surplus	<u>330,220,593</u>
Total liabilities, capital and surplus	<u>\$ 371,768,778</u>

**Statement of Income**  
**For the Year Ended December 31, 2014**

Net investment income earned	\$ 12,697,926
Net realized capital gains	<u>1,729,670</u>
Net investment gain	<u>14,427,596</u>
Net income before federal income taxes	14,427,596
Federal income taxes incurred	<u>2,420,524</u>
Net income	<u>\$ 12,007,072</u>

**Statement of Changes in the Capital and Surplus Account**  
(in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and surplus, prior year end	\$ 316,526	\$ 292,647	\$ 279,979	\$ 268,543	\$ 253,907
Net income	12,007	9,933	9,760	15,192	9,860
Change in net unrealized capital gains (losses)	1,674	13,974	3,162	(4,217)	4,797
Change in net deferred income tax	<u>14</u>	<u>(28)</u>	<u>(254)</u>	<u>461</u>	<u>(21)</u>
Net change in capital and surplus	<u>13,695</u>	<u>23,879</u>	<u>12,668</u>	<u>11,436</u>	<u>14,636</u>
Capital and surplus, current year end	<u>\$ 330,221</u>	<u>\$ 316,526</u>	<u>\$ 292,647</u>	<u>\$ 279,979</u>	<u>\$ 268,543</u>

**Notes to Financial Statements**

**Investments**

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

**Loss and Loss Adjustment Expense Reserves**

The Company's Board of Directors appointed Rita M. Zona, ACAS, MAAA, a Principal with Deloitte Consulting LLP, to render the Company's Statement of Actuarial Opinion ("Opinion"). Ms. Zona prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's 2014 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, the Department's Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the reserves. On the

basis of his analysis, Mr. Botsko concluded the reserves fall within a reasonable range of reserve estimates at December 31, 2014.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

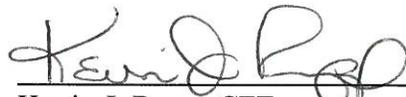
Total Admitted Assets	<u>\$ 371,768,778</u>
Liabilities	41,548,185
Capital and Surplus	<u>330,220,593</u>
Total Liabilities, Capital and Surplus	<u>\$ 371,768,778</u>

### Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, CFE, AES, CISA, CISSP, CIDM; Stephen W. Bishel, CPA; Ryan S. Gibson, AES, CFE, CISA, FLMI; and Roy J. Moster, AES, CFE, CISA, CPA.

Respectfully,

  
\_\_\_\_\_  
Kevin J. Rupp, CFE  
Examiner-In-Charge  
Ohio Department of Insurance

  
\_\_\_\_\_  
Jeffrey K. Ebert, CFE  
Assistant Chief Examiner  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2014.

Kevin J. Rupp  
Examiner-In-Charge

10/5/15  
Date

Jeffrey K. Ebert  
Assistant Chief Examiner

10/5/15  
Date

State of Ohio  
County of Franklin

Personally appeared before me the above named, Kevin J. Rupp, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 5 day of October, 2015.

Elizabeth Chase

(Notary Public)

**ELIZABETH CHASE**

**NOTARY PUBLIC, STATE OF OHIO**

**MY COMMISSION EXPIRES MAY 22, 2017**

My Commission Expires

State of Ohio  
County of Franklin

Personally appeared before me the above named, Jeffrey K. Ebert, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 5 day of October, 2015.

Elizabeth Chase

(Notary Public)

**ELIZABETH CHASE**

**NOTARY PUBLIC, STATE OF OHIO**

**MY COMMISSION EXPIRES MAY 22, 2017**

My Commission Expires