



CSE 2015
ANNUAL
REPORT
INSURANCE GROUP



CSE Insurance Group has a simple vision: we are a community of good policy people who want to offer protection with well-made and innovative insurance products, delight with exceptional service, and create confidence in our customer's mind everyday.

Our strategy is equally simple: it's to aim for a 1% market share on the West Coast of the United States.

To achieve this, we are vigorously leading our transformation around four major strategic lines:

- Adapting our organization and our governance to improve our efficiency and competitiveness
- Differentiating ourselves through a new communications strategy and a new brand
- Investing in new technologies to be more successful, more responsive and ever-closer to our clients
- Innovating through new products and services

In this respect, the past year has been especially rich in projects and achievements, notably with the year-end launch of our new brand. Our new communications strategy is primarily directed towards our three redefined market segments:

- Public employees (Our historic target)
- General public
- Commercial

The message we continue to communicate to our agents and policyholders is, "We are good policy people." In light of this ambition we have:

- Revised our commercial products and automated our process in close collaboration with our agents
- Formed a partnership with Palomar Specialty from La Jolla, CA, to provide a superior earthquake product
- Partnered with Agero, an industry leader in roadside assistance, whose network protects more than 75 million drivers each year, to launch a new roadside assistance service, providing the best possible services at the lowest prices
- Launched our next generation Landlord product, which has been completely rebuilt with comprehensive coverage that is innovative and unique in the market

At the same time, and in response to our agents' expectations, we have improved our tools and processes through the lens of "ease of doing business." This includes a simplification of our quoting process, an improvement in our research tools, and an enhanced client interface. We also consolidated our claims management staff to our Pasadena office.

Lastly, while CSE Insurance Group greatly lowered its operating costs in 2015, the same did not apply to claims. Last year was strongly impacted by three wildfires. The first, the Round Valley fire, occurred in February 2015 with a total loss of \$3.1 million. In September, the Valley and Butte fires occurred, which together were the third most damaging wildfires in California history, amounting to more than \$8 million in claims.

The year 2015 was our second year of transformation, with a direct view into an improved market position regarding price, quality of our services, products and appeal. Our agents and our clients will see our continuing commitment to this transformation in 2016 as we continue to invest in the quality of our teams, tools, and products.

We have included detailed information regarding our organization, our teams, and our results in the following report.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Rey". The signature is stylized and somewhat abstract, with a vertical line extending downwards from the end.

Richard Rey
President & CEO



04 Brand Update

Welcome to the new CSE Insurance Group!

We are a community of good policy people who want to offer protection with well-made and innovative insurance products, delight with exceptional service and create confidence in our customer's mind every day.

We are good policy people.



Who we are

A community of good people define our company.

CSE Insurance Group is a local company. Our community is your community. Being good people defines us and the agents that represent our products.

What we do

Protect with well-made insurance, delight with exceptional service.

Our customers deserve exceptional service and well-made, high-quality insurance at a reasonable cost. They should feel positive about the protection CSE Insurance Group provides.

How we think

Create confidence in our customer's mind everyday.

Every time we connect with you is an opportunity to express our purpose — to exemplify the integrity we demand of ourselves and of our company.

We invest in people, process and products.

Our strategic focus defines us every day.

We've led an **extensive organizational transformation** by creating:

- A new management team
- New governance process & decision-making
- New technical teams
- Marketing & sales management
- Data & analytics
- New tools & systems
- New products & offerings

Our customer focus revolves around ensuring the best **experience**, ease of **interaction**, **growth** and **profitability**. We are committed to:

- Three customer segments
 - Public employees
 - General public
 - Commercial
- Innovative products to target customer needs
- Omni-channel customer interaction
- Growth opportunities

At a glance, our **3-year strategic plan** has been the **bedrock** of our organizational development.

2014

- Adapt organization and improve governance and decision-making processes
- Initiate projects: business intelligence, ease of doing business (EODB), new product development practices, etc.

2015

- Create new products and rates
- Update technology and tools
- Develop business intelligence
- Develop marketing and brand strategy
- Continue EODB

2016

- Create new products and rates
- Implement marketing and brand strategy
- Focus on customer experience

06 Financial Summary

131

EMPLOYEES

358

INDEPENDENT AGENTS

144,700+

POLICYHOLDERS

56,000+

VEHICLES INSURED

105,000+

RESIDENCES INSURED

8,100+

COMMERCIAL PROPERTIES INSURED

\$147.6M

Net Earned
Premium

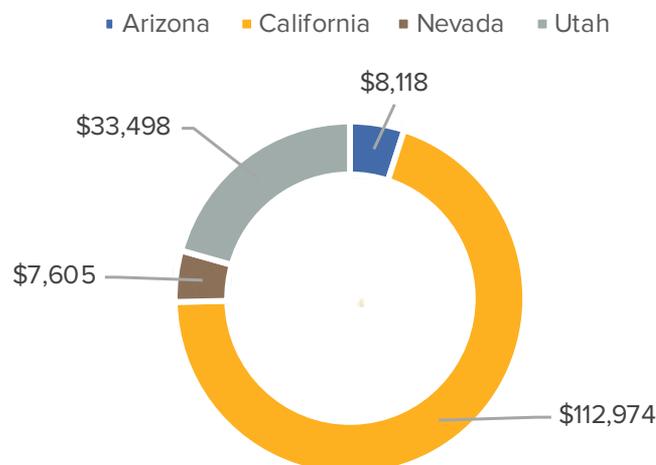
\$154.3M

Total
Revenue

\$102.1M

Claims
Paid

GROSS WRITTEN PREMIUM





Strength

	2015	2014
Cash and investments	\$231,285	\$254,075
Net loss & LAE reserves	\$70,910	\$79,969
Total assets	\$298,804	\$332,660
Total liabilities	\$160,310	\$188,761
Stockholders' equity	\$138,494	\$143,899

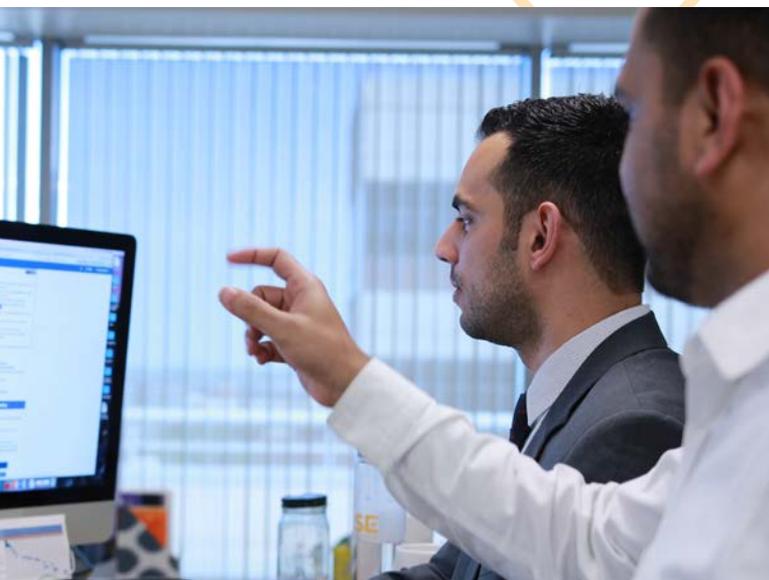
Operations

	2015	2014
Net premium earned	\$147,550	\$141,871
Investments and other income	\$6,730	\$6,405
Net loss and LAE incurred	\$102,118	\$90,441
Commissions & other acquisition costs	\$26,249	\$24,719
Other underwriting expense	\$25,272	\$26,659
Net income after tax	\$135	\$4,272
Loss & LAE ratio	69.2%	63.7%
Commission ratio	17.8%	17.4%
Other underwriting expense ratio	17.1%	18.8%

08 Organizational Overview



People



The cornerstone of CSE Insurance Group has been – and always will be – its investment in people from different backgrounds. We firmly believe that our diverse pool of in-house talent is our biggest asset.

2015 was no exception in our commitment to adapting the organization to meet the needs of the market through our human capital. As a matter of fact, we recruited **40%** of our workforce last year, effectively ushering in a broad new range of skills, values, management styles, and industry acumen.

At a glance, CSE Insurance Group was extremely proud to accomplish the following:

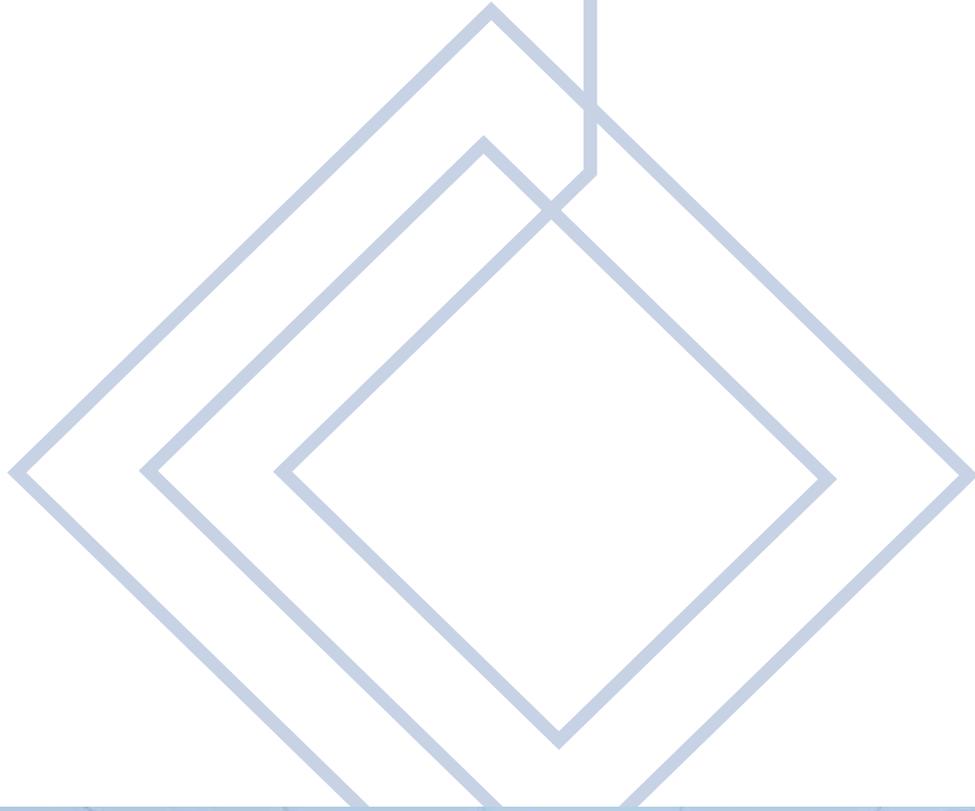
- The onboarding of two key executives – **Randy Farless as SVP of Sales and Marketing** and **Jim Van Farowe as VP of Claims** – bringing keen industry insight and experience to their departments
- **Extensive Claims training** to provide clear and concise communication for more visible customer claims transactions, and consolidation of our Claims operations to our Pasadena office for increased efficiency
- A full staffing of our **Technical Operations team**, with a great mix of tenured and new employees with the skills and energy needed to move our products continuously forward
- A new **Actuarial team** with analysts experienced in pricing, reserving, modeling, reporting and portfolio analysis
- A rebuilt **Sales and Marketing team** with a **Director of Sales Operations**, experienced **Territory Managers**, creative digital **Marketing Managers**, and an agile **Business Analyst**
- Merging of our **Customer Services** to a single point of contact for our agents and customers, improving efficiency and quality of service
- The onboarding of experienced and practiced **Finance** professionals to heighten our accounting, reinsurance and auditing capabilities

Our dedication to serving our policyholders is a representation of our dedication to our own people. Excellent and genuine service starts with them.

We are honored to invest in our employees, their skills, their career goals and pursuits. We celebrate their unique experiences and backgrounds. Every department at CSE Insurance Group reflects this passion.



Process



CSE Insurance Group is constantly evolving by aggressively implementing new technologies, refining its systems, decision-making, and a new governance process in order to provide its insureds with the best possible experience.

Every facet of our organization is analyzed through the lens of “ease of doing business,” or “EODB.” It drives every decision, every project, and every process. This ensures we are streamlining our operations, driving efficiencies, and making our products and services as accessible to our agents and policyholders as possible.

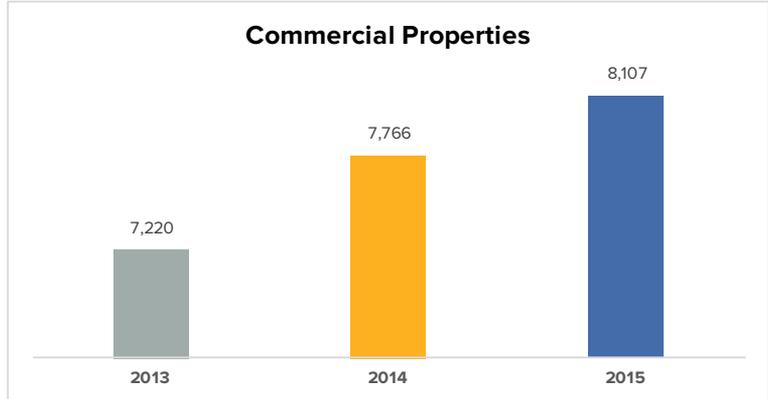
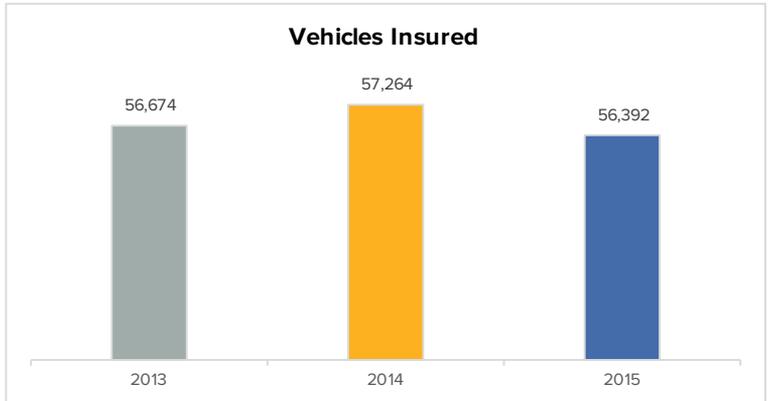
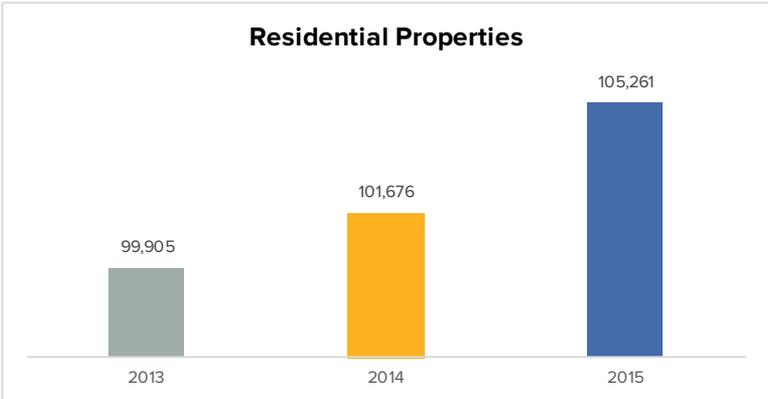
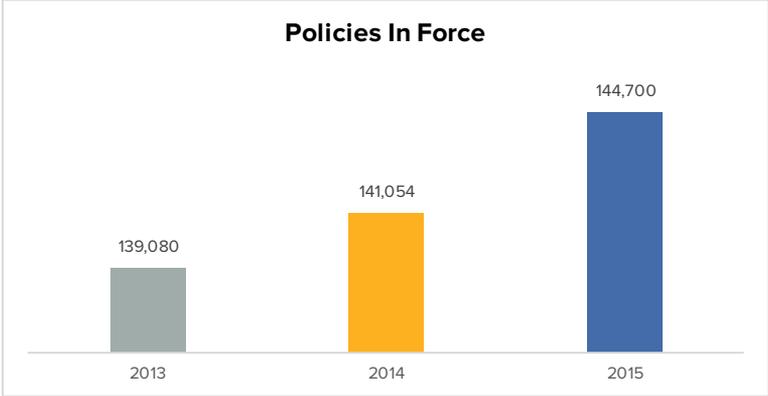
The last 12 months have been characterized by a torrent of exciting process revamps. In summary, we are dedicated to EODB as evidenced by:

- Our **policy management system (SPInn)** migration to cloud services to improve security and performance
- Our **newly defined governance process** that breaks the silos of traditional companies by ensuring that information is gathered from all points of the company before making consensus decisions
- New **Commercial product** development and automation into our policy management system
- **SaaS systems** in Finance and HR to improve efficiency
- **Agency management system (AMS)** and **Salesforce** implementation for better reporting, compliance and transparency
- Evaluation and implementation of **Claims vendor relationships** to assist the customer in ease and speed of the claims process
- Initiatives for improved **EODB** including: **quick quote** indications for all property coverages, automatic **data prefill**, **application process streamlining**, and **digital delivery** of policy information to ensure accuracy and efficiency in the application process
- Integrating a **new VOIP phone system** for Customer Service with management monitoring capabilities
- Innovative **predictive modeling software** to improve our ability to segment

Our fundamental process improvements are an indispensable part of who we are and what we do. We are constantly changing and finding new ways of innovating and creating a better version of CSE Insurance Group. This makes us more responsive to the diverse needs of our customers and helps us improve our competitiveness, ensuring we are at the forefront of the industry.

Products

Evolution and performance



As an organization, all our efforts culminate into the quality of the products we produce for our insureds and the service that accompanies it. We take pride in protecting our insureds with well-made and innovative products that are backed by a fair and prompt claims process.

We have based every product revision on a thorough evaluation of the market's best practices, emerging customer preferences for coverages, and our own rich experience in the industry. We are dedicated to addressing the natural needs of our customers and building our next generation insurance products around them with better pricing models and improved rating.

2015 saw a multitude of product renovations designed to exceed the expectations of the preferred marketplace. At a glance, CSE Insurance Group released:

- A superior **Landlord product** with new multivariate pricing, new coverage features and new discount options, unveiling the most comprehensive product in the U.S. designed to meet the unique needs of Landlords
- An enhanced **Commercial Property product** with new pricing, coverage options, granular segmentation, scheduled discounts with premium modifiers, collaborative portfolio management, and automation
- An overhauled **Homeowners product** with new multivariate pricing for improved competitiveness in matching price to risk and expanded coverages
- An upgraded **Automobile product** in partnership with Agero, with significantly improved roadside assistance benefits, modified rating and new coverage options
- A new **Earthquake product** in partnership with Palomar Specialty, which improves coverage levels and ease of doing business

We are proud to demonstrate continuous improvement when it comes to our products. Not only is it an indispensable aspect of our customer focus, it is also the centerpiece of our organizational transformation through and through. We use the needs of the market to inform the direction of our underwriting, risk appetite, pricing, and decision-making. In essence, it drives who we are and what we do.



THE EXECUTIVE TEAM

CSE Insurance Group has assembled an impressive team of executives, each with a wealth of experience in their respective department. Each member brings unique insight to the industry and plays a key role as we carry the evolution forward towards reaching both our short and long term goals.



Richard Rey
CEO & President



Pam Burrows
VP of Human Resources



Patrick Wong
AVP, General Counsel, Corporate Secretary



Mark Chequer
VP, Chief Information Officer



Stefan Dobrus
EVP, Chief Financial Officer



David Carmany
SVP of Technical Operations



Ryan McAllister
AVP, Chief Actuary



Jim Van Farowe
VP of Claims



Randy Farless
SVP of Sales & Marketing



Mike Suzuki
VP of Technical Operations



BOARD OF DIRECTORS

CSE Insurance Group is a subsidiary of Covéa Coopérations, a mutual insurance group headquartered in France. The Covéa Group is the 13th largest insurer in Europe. The association with Covéa not only provides the financial backing of a \$20 billion global insurer, but also access to expertise and leadership to assist us in our decision and governance processes. In leveraging this relationship, CSE Insurance Group will be developing sophisticated products, adding new coverages, increasing our operational efficiency.



Patrice Forget
Chairman



Sophie Beuvadén
Director



Richard Rey
President and CEO



Philippe Narzul
Director



Thomas Kelly
Director



Bertrand Lefebvre
Director



David Brinker
Director



Dominique Salvy
Director

16 Audited Financial Statements

Board of Directors
Civil Service Employees Insurance Company
Walnut Creek, California



We have audited the accompanying consolidated financial statements of Civil Service Employees Insurance Company and subsidiary (the "Company"), which comprise the consolidated statutory statements of admitted assets, liabilities, capital and surplus as of December 31, 2015 and 2014, and the related consolidated statutory statements of income, changes in capital and surplus and cash flows for the years then ended, and the related notes to the consolidated statutory financial statements.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the financial reporting provisions of the California Department of Insurance. Management is also responsible for the design, implementation and maintenance of internal control relevant to preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of Civil Service Employees Insurance Company and subsidiary as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with the financial reporting provisions of the California Department of Insurance as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the consolidated financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions of the California Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the California Department of Insurance. Our opinion is not modified with respect to that matter.

Restriction on Use

This report is intended solely for the information and use of the board of directors and management of Civil Service Employees Insurance Company and subsidiary and the California Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

March 28, 2016

An independent firm associated with
Moore Stephens International Limited
MOORE STEPHENS

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Ramon, California

Balance Sheet

ASSETS

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$2,098	\$30,576
Fixed maturity securities, at fair value (amortized cost of \$229,151 in 2015; \$220,824 in 2014)	229,127	223,499
Premiums receivable (less allowance for doubtful accounts of \$210 in 2015; \$202 in 2014)	19,280	20,038
Reinsurance recoverable, net	8,245	18,655
Prepaid reinsurance premiums	24	1,856
Property and equipment (net of accumulated depreciation of \$18,994 in 2015; \$17,339 in 2014)	5,013	2,814
Deferred taxes, net	13,090	13,545
Accrued investment income	2,130	2,240
Deferred policy acquisition costs	17,057	17,432
Other assets	2,740	2,006
Total assets	<u>\$298,804</u>	<u>\$332,660</u>

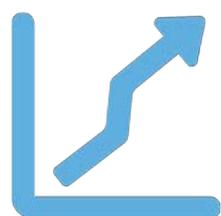
LIABILITIES AND EQUITY

Unpaid losses and loss adjustment expenses	\$78,796	\$98,411
Unearned premiums	70,509	70,233
Funds held under reinsurance treaties	168	177
Ceded reinsurance premiums payable	59	311
Accrued expenses and other liabilities	9,348	17,979
Accrued compensation and benefits payable	1,430	1,650
Total liabilities	<u>160,310</u>	<u>188,761</u>
Commitments and contingencies (Notes 7, 12 and 14)		
Stockholders' equity		
Capital stock, common, par value \$0.10 per share, authorized 2,000 shares, issued and outstanding 1,132 shares	-	-
Additional paid-in capital	332,202	332,202
Accumulated other comprehensive income	(851)	1,789
Accumulated deficit	(192,857)	(190,092)
Total stockholders' equity	138,494	143,899
Total liabilities and stockholders' equity	<u>\$298,804</u>	<u>\$332,660</u>

Income Statement

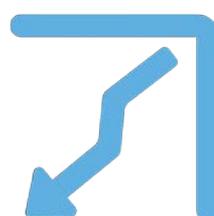
	<u>2015</u>	<u>2014</u>
Premiums and other revenue		
Net premiums earned	\$147,550	\$141,871
Net investment income earned	4,651	3,916
Net realized capital gains	459	1,803
Other income, net	<u>1,620</u>	<u>686</u>
Total revenue	<u>154,280</u>	<u>148,276</u>
Expenses		
Losses and loss adjustment expenses incurred	102,118	90,441
Other underwriting expenses	<u>51,521</u>	<u>51,378</u>
Total expenses	<u>153,639</u>	<u>141,819</u>
Income before taxes	641	6,457
Income tax expense	<u>506</u>	<u>2,185</u>
Net income	135	4,272
Net unrealized loss on securities	<u>(2,640)</u>	<u>(189)</u>
Comprehensive income (loss)	<u>\$(2,505)</u>	<u>\$4,083</u>

Highlights



4.0%

Growth in Net Earned
Premium YOY



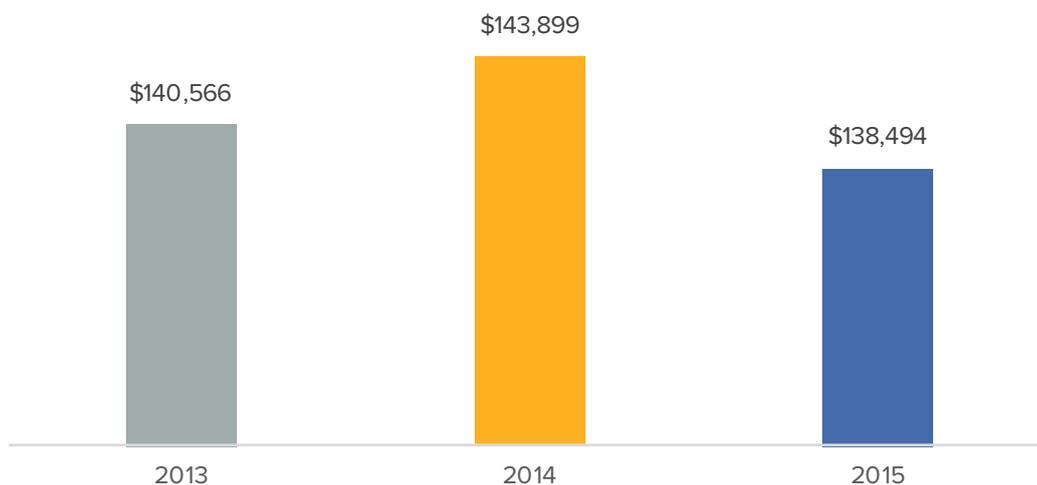
3.6%

Reduced Underwriting
Expense Ratio YOY

Stockholder Equity

	Capital Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balances, January 1, 2014	\$-	\$332,202	\$1,978	\$(193,614)	\$140,566
Net income	-	-	-	4,272	4,272
Other comprehensive income, net of tax					
Net unrealized holding loss arising during the period (net of income tax of \$569)	-	-	(189)	-	(189)
Stockholder dividend declared/paid	-	-	-	(750)	(750)
Balances, December 31, 2014	-	332,202	1,789	(190,092)	143,899
Net income	-	-	-	135	135
Other comprehensive income, net of tax					
Net unrealized holding loss arising during the period (net of income tax of \$21)	-	-	(2,640)	-	(2,640)
Stockholder dividend declared/paid	-	-	-	(2,900)	(2,900)
Balances, December 31, 2015	<u>\$-</u>	<u>\$332,202</u>	<u>\$(851)</u>	<u>\$(192,857)</u>	<u>\$138,494</u>

Stockholders' Equity





CSE Insurance Group

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2015 Civil Service Employees Insurance
Company / CSE Safeguard Insurance Company