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## M E M O R A N D U M

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**DATE:** August 10, 2012

**TO:** California Department of Insurance,  
Elizabeth Mohr, Dan Goodell;  
California General Underwriters Insurance Company,  
Steve Weinstein, Spencer Kook

**CC:** Joel Laucher

**FROM:** Elise Meerkatz and Pam Pressley

**RE:** *In the Matter of the Rates and Rating Plans of California General Underwriters Insurance Company Inc.*, File No. PA-2011-00017

### I. Introduction

This analysis details Consumer Watchdog's ("CWD's") continued objections to California General Underwriters Insurance Company's ("Cal Gen's") applications (File Nos. 11-8704 and 11-8705) for a new auto insurance program under the Mercury General Corporation Group of companies seeking a "super group exemption" from the requirements of Insurance Code section 1861.16(b),<sup>1</sup> pursuant to section 1861.16(c)(1).<sup>2</sup> The very purpose of section 1861.16(b) is to enforce Proposition 103's "take-all-comers" good driver discount mandate (section 1861.02(b)) by ensuring that all good drivers get the lowest good driver discount rate to which they are entitled. This requirement is aimed at preventing an insurer from creating a subsidiary that can be used to "cherry-pick" certain drivers and steer other good drivers it does not want to insure into a higher rate policy.

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<sup>1</sup> Section 1861.16(b) provides: "An agent or representative representing one or more insurers having common ownership or operating in California under common management or control *shall offer*, and the *insurer shall sell*, a good driver discount policy to a good driver from an insurer within that common ownership, management, or control group, which offers the lowest rates for that coverage. This requirement applies notwithstanding the underwriting guidelines of any of those insurers or the underwriting guidelines of the common ownership, management, or control group." (Emphasis added.)

<sup>2</sup> All statutory references herein are to the California Insurance Code unless otherwise noted.

Approving this new program proposed by Cal Gen could open the door to exactly the kind of de facto redlining that the statute is aimed at preventing and allow the continuation of the very practices Mercury was previously caught engaging in by the CDI. (See, e.g., Notice of Noncompliance and Order to Show Cause, *In the Matter of the Rates, Rating Plans, or Rating Systems of Mercury Cas. Co., et al.*, File No. NC-2010-00002, Apr. 9, 2010; Market Conduct Examination Report of the Rating and Underwriting Practices of Mercury Insurance Group, as of May 31, 2007.) According to CDI investigators, Mercury used a variety of internal company rules – many unwritten – to overcharge or refuse to sell insurance to many Californians it deemed “unacceptable” based on customers’ military status, occupation, health, marital status (unmarried people living together), employment status, prior accidents where the driver was not at-fault, prior insurance coverage and other criteria. For example, according to the 2007 Market Conduct Report Summary, Mercury “barred from coverage people in certain occupations – bartender, liquor store owner, painter, cocktail waitress/waiter and artists – who didn’t meet additional underwriting standards that were not applied to people in other occupations.” In fact, Cal Gen proposes to use the same unfairly discriminatory group discounts as Mercury that are aimed at marketing to professionals with four-year degrees, including scientists and engineers, educators, doctors, lawyers and CPAs.

CWD raised and discussed its concerns in its Petition for Hearing and on the teleconference with the parties held on August 2, 2012. After reviewing Cal Gen’s written responses dated 11/15/11, 3/5/12, 4/26/12, 5/29/12, 6/12/12, and 7/30/12, and considering the additional oral statements of Steve Weinstein and Stephanie Behnke, Cal Gen President and General Manager, made during the August 2, 2012 teleconference, CWD’s objections to allowing a “third price point” for an additional Mercury auto insurance product under the Mercury General umbrella remain: Cal Gen does not qualify for the exemption from the requirement under section 1861.16(b) to offer and sell a good driver discount policy to a good driver from the insurer within a common ownership, management, or control group with the lowest rate. Unlike a true “super group” that derives from an acquisition in which there is a common holding company but the business operations of the insurers are otherwise entirely independent and they are true competitors, it is evident that Mercury General has made a business decision to use an existing wholly-owned subsidiary to circumvent the requirements of section 1861.16(b).<sup>3</sup> In fact, with the exception of one or two people, the Directors and Officers of Cal Gen are also Directors and Officers of Mercury General Corporation and all the Mercury affiliates. (Class Plan Application, Exh. 19 as updated on 5/29/12, attached.) Moreover, Cal Gen’s filing provides only a cursory description of how it claims to meet each of the conditions required by statute to meet the “super group exemption.” (See CWD Petition for Hearing, pp. 3-4.) In its written responses to CDI and CWD questions and objections,

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<sup>3</sup> During the parties’ August 2, 2012 teleconference, Ms. Behnke stated that the idea to use Cal Gen to create a “third price point” in California originated with Mercury General Corp.

Cal Gen's proposal continues to fall short of meeting the requirements of section 1861.16(c)(1), as evidenced by at least the following facts:

- The *majority* of the Directors and Officers of Cal Gen are also Directors and Officers of Mercury.
- George Joseph and Gabriel Tirador – the two highest ranking individuals at Mercury General Corp – are Directors of Cal Gen. George Joseph is also Chairman of Cal Gen.
- Cal Gen maintains data used in ratemaking through “core data systems” shared with Mercury auto insurers.
- Cal Gen utilized the ratemaking and underwriting data of Mercury Insurance Company in preparing and submitting its new program application.
- Cal Gen will utilize the marketing and underwriting data, rating factors and underwriting rules, and marketing operations of other Mercury auto insurance companies when it provides multi-policy discounts to Mercury policyholders.
- Cal Gen fails to act independently of Mercury Insurance Company in its application of base rates, rating factors, class plan, and underwriting rules by using the same base rates, rating factors, class plan, and underwriting rules as Mercury.
- Cal Gen plans to appoint the same agents that sell Mercury insurance products to sell Cal Gen insurance products, and has failed to demonstrate how the sales operations of the companies will be kept separate when the same agent is appointed to both Cal Gen and Mercury.

Cal Gen has repeatedly claimed that wherever resources are shared between Cal Gen and Mercury, whether those resources are directors and officers, data, plans, information, or systems, that such shared resources are shared only to the extent that their separation is not required by section 1861.16(c)(1).<sup>4</sup> Despite each of the instances listed above and discussed further below illustrating joint direction, joint maintenance of data, and failure to act independently by applying the same base rates, rating factors, class plans and underwriting rules as other Mercury auto insurers, Cal Gen asks the CDI and CWD to ignore the requirements of the statute and to accept its word that it will not cross any lines where separation is required.

According to Cal Gen, the CDI should just approve its application and then later conduct field exams *after* the new program is in place and operational to determine if Cal Gen is compliant with section 1861.16(c)(1). The CDI should reject this invitation. Based on the evidence presented in its application, Cal Gen has clearly failed to prove that it meets “*each*” of the necessary threshold requirements of separation as set forth in

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<sup>4</sup> Another example of this is in Cal Gen's responses to CWD's questions dated 7/16/12, which CWD received via email on 7/30/12, stating: “Mr. Joseph and the Mercury General board do not manage the functions for which separation is required under Section 1861.16(c).”

the plain language of the statute. Cal Gen's proposal would render the separation requirements meaningless by allowing an insurance group to use an existing subsidiary that is not a true competitor in the marketplace to avoid having to give all good drivers the lowest rate within the group.

Cal Gen's failure to meet the requirements of section 1861.16(c)(1), subdivisions (A), (C), (D), (E), (F) and (G) are discussed below.

## II. Analysis

### 1. Section 1861.16(c)(1)(A): The business operations of Cal Gen and other Mercury Insurance Group auto insurers, including Mercury Insurance Company, Mercury Casualty Company, and California Automobile Insurance Company, are not independently managed and directed.

At the time of Cal Gen's original class plan filing, its Exhibit 19 - "Super Group – Corporate Structure Verification Exhibit" listed nine Directors and eight Officers for Cal Gen. Eight of the nine Cal Gen Directors and six of the eight Cal Gen Officers were the same as the Directors and Officers of Mercury General Corporation and the three companies that make up Mercury Insurance Group (Mercury Insurance Company, Mercury Casualty Company, and California Automobile Insurance Company).<sup>5</sup>

In a letter dated 2/2/12, CDI asked Cal Gen: "If the directors and officers are the same with only a few exceptions between Mercury Casualty Group and California General, explain how you comply with 1861.16c." In its response of 3/5/12, Cal Gen revised its Exhibit 19 to claim that Cal Gen now had three of five Directors who were also Mercury Directors. The only explanation it offered in response to CDI's question was its claims that "[t]he California General Board of Directors will hold separate meetings, and all California General decisions are made independent of the other Mercury Companies," and "[n]othing in subdivision (c) precludes having some of the same directors or officers in both insurers." (Cal Gen letter to CDI dated 3/5/12, p.1, response to question 1.) However, Cal Gen did not expand on how exactly subdivision (c) permits overlapping directors and officers when: 1) subdivision (c) does *not* explicitly allow overlapping directors and officers, and 2) it *does* explicitly require that the business operations of the insurers are *independently* managed *and* directed. To show that it is independently managed and directed under section 1861.16(c)(1)(A), Cal Gen must have a board of directors and officers that are independent from Mercury. Cal Gen has failed to meet this requirement by having Directors and Officers that overlap with Mercury's

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<sup>5</sup> See Cal Gen. Class Plan, Exh. 19 dated 5/29/12, p. 4. Because Mercury General Corporation and the companies of Mercury Insurance Group all have identical Directors and Officers (as shown in Cal Gen's Exhibit 19s), they will be referred to collectively as "Mercury" for the remainder of this discussion.

Directors and Officers. In fact, the *majority* of Cal Gen Directors and Officers are also Mercury Directors and Officers.

In a letter dated 4/19/12, CDI stated to Cal Gen: “We expect Directors and Officers at the Holding Company level to have management control over all affiliates within a group of insurers, *but we don’t expect the same people to also be Directors and Officers for each company within the group.* [Emphasis added] Since the same people are directors and officers for Mercury General Corporation and California General, a) please explain specifically how these companies are independently managed and directed as required by CIC §1861.16c1A, b) What are the autonomous decisions that are within the scope of the individual company management for each of these companies?” Cal Gen summarily responded that “the officers shared by Cal Gen with the other companies in the group are responsible for functions for which separation is not required under Section 1861.16(c),” and that “the management decisions and direction of Cal Gen are the responsibility of its President and General Manager.” (Cal Gen letter to CDI dated 4/26/12.) These claims are belied by the facts: as indicated in CDI’s 4/19/12 letter to Cal Gen, having a majority of Directors and Officers which are the same across all Mercury Insurance Group insurers and Cal Gen simply cannot meet the black letter requirement of the statute that the insurers are “independently managed and directed.”

In a letter dated 5/24/12, CDI asked Cal Gen to: “Provide more details or examples to your responses of April 26, 2012 to show compliance with 1861.16.” In response, Cal Gen submitted another revised Exhibit 19 (dated 5/29/12), in which the number of its Officers is reduced from eight to six.<sup>6</sup> In the 5/29/12 Exhibit 19, four out of six Cal Gen Officers are also Mercury Officers. As in the previous Exhibit 19, three of the five Cal Gen Directors are Mercury Directors. The overlapping Directors and Officers in the 5/29/12 Exhibit 19 are highlighted in the table below.

Mercury General Corp., Mercury Casualty Company, Mercury Insurance Company, and California Automobile Insurance Company (collectively “Mercury”)	Cal Gen
Directors:  Nathan Bessin Bruce Allan Brunner Michael David Curtius Richard Eugene Grayson George Joseph Martha E. Marcon Donald Patrick Newell	Directors:  Stephanie Behnke Richard Eugene Grayson George Joseph Gabriel Tirador Jane Li

<sup>6</sup> CWD believes that the 5/29/12 Exhibit 19 is the most current version of this exhibit.

<p>Donald Roy Spuehler Gabriel Tirador</p> <p>Officers:</p> <p>George Joseph, Chairman Gabriel Tirador, President, CEO Judith A. Walters, Secretary Christopher Graves, VP, Chief Investment Officer Robert Houlihan, VP, Chief Product Officer Kenneth G. Kitzmiller, VP, Chief Underwriting Officer Allan Lubitz, SVP, Chief Information Officer Brandt N. Minnich, VP, Marketing Theodore R. Stalick, VP, Chief Financial Officer and Treasurer Joanna Y. Moore, SVP, Chief Claims Officer John Sutton, SVP, Customer Service Charles Toney, VP, Chief Actuary</p>	<p>Officers:</p> <p>George Joseph, Chairman Stephanie Behnke, President Judith A. Walters, Secretary Christopher Graves, VP, Chief Investment Officer Jane Li, VP, Product and Actuarial Theodore R. Stalick, VP, Chief Financial Officer and Treasurer</p>
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The fact that George Joseph, owner of Mercury, is also the Chairman and a Director of Cal Gen and every other Mercury Insurance Group auto insurer, is, in and of itself, enough to show that Cal Gen is not independently managed and directed, and therefore does not qualify for a “super group exemption” under section 1861.16(c)(1). In fact, two of the three overlapping Directors – George Joseph and Gabriel Tirador – are the two highest ranking individuals at Mercury General Corp. Cal Gen’s claim that they are both serving as Directors of Cal Gen but will not have any role in the management or direction of the company is not credible.

In its response to CWD’s 7/16/12 questions, Cal Gen explains that “Mr. Joseph is the ultimate controlling person [in the holding company system] because he owns 34.3% of Mercury General, by virtue of which he can exercise *substantial control* over Mercury General and its subsidiaries.”<sup>7</sup> (Emphasis added.) Whatever control Mr. Joseph may properly exercise over Mercury subsidiaries from his position at the holding company level, it is another thing entirely for him to occupy a Director position on Cal Gen’s Board of Directors. When he does so, he has obvious influence over the management and direction of the company, which cannot then be considered separate from Mercury’s under subdivision (A) of 1861.16(c)(1).

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<sup>7</sup> Cal Gen also explains that the designation of an ultimate controlling person is required by the NAIC model registration statement form, which is mandatory in California.

Moreover, the fact that the *majority* of the Directors and Officers of Cal Gen are also Directors and Officers of Mercury is, in and of itself, sufficient to show that Cal Gen does not meet the requirement of 1861.16(c)(1)(A) that “[t]he business operations of the insurers are independently managed and directed.” Cal Gen argues that the overlapping Directors and Officers will serve in roles for which separation is not required under section 1861.16(c)(1) subdivisions (B) – (H).<sup>8</sup> Whether or not that is true, it is *not* what subdivision (A) requires. Subdivision (A) requires that Cal Gen’s business operations are independently managed and directed, period. Subdivision (A) does not say the business operations must be “independently managed and directed for the purposes of the functions enumerated in subdivisions (B) – (H).” Subdivisions (B) – (H) contain requirements that are separate and distinct from the requirements of subdivision (A).

**2. Section 1861.16(c)(1)(C): Cal Gen maintains data used in ratemaking through “core data systems” shared with Mercury auto insurers.**

Cal Gen claims that while certain core data systems are used by Cal Gen and Mercury Insurance Group auto insurers to process their data, systematic controls have been put in place to ensure that the data of either group is neither available to, nor used by, the other group. (5/29/12 Exh. 19, p. 7.) However, the statute requires not only that insurers do not share data, but also that “insurers do not jointly *maintain*” data. The fact that Cal Gen and Mercury use the same systems to process their data means that they jointly maintain their data. Even if access to the companies’ data is restricted to certain persons, the fact that it is jointly maintained on the same shared server system means they fail to meet the requirements of subdivision (C).

In its written questions submitted to the parties on 7/16/12, CWD asked Cal Gen: “What kind of data is processed and/or maintained in the data systems referenced [in Exhibit 19]? Do these data systems contain any loss or expense statistics, financial data, or other data used in ratemaking or in the preparation of rating systems or rate filings?” Cal Gen admitted that financial data is maintained on the shared systems, but claims that Cal Gen’s “data is separated from Mercury General data, and is not accessible to any employees or organizations to which Section 1861.16(c)(1)(C) applies.” (Cal Gen responses to CWD’s questions dated 7/16/12, received from Cal Gen via email on 7/30/12, p. 2, response to question 3(a).) This is yet another cursory reply from Cal Gen in which we are asked to take Cal Gen’s word that the companies’ data will not be shared. In this situation, however, the response is even less satisfactory because the requirements of subdivision (C) are not only that the data is not shared, but also that is not jointly “maintained.” Cal Gen has made no effort to show that it does not jointly maintain data with Mercury, and in fact has presented factual evidence that it does share core data systems that contain financial data that could be used in ratemaking.<sup>9</sup>

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<sup>8</sup> This was argued by Steve Weinstein on the parties’ Aug. 2, 2012, phone conference.

<sup>9</sup> See *id.*, p. 2, as confirmed by statements of Cal Gen’s representatives during the parties’ Aug. 2, 2012, teleconference.

**3. Section 1861.16(c)(1)(D): Cal Gen utilized Mercury Insurance Company's marketing, sales, and underwriting data in preparing and filing its new program application, and will continue to use the marketing, sales, and underwriting data of Mercury insurers in applying multi-policy discounts to Cal Gen policyholders who have a Mercury policy.**

By using the same class plan and rate filing as Mercury Insurance Company, Cal Gen is utilizing other Mercury insurers' marketing, sales, and underwriting data. This use of Mercury's data falls squarely within the prohibition of section 1861.16(c)(1)(D). While it is permitted to submit a "me-too" filing of an affiliate under 10 CCR § 2632.9(b)(4) for the sake of creating a new program, Cal Gen cannot *also* claim a "super group exemption" from the requirement that it offer and sell a good driver discount policy to a good driver from the insurer within a common ownership, management, or control group pursuant to section 1861.16(b).

CWD asked Cal Gen to explain how it meets the requirements of section 1861.16(c)(1)(D), when it admits that it used Mercury's data and class plan to do its filing.<sup>10</sup> The only response that Cal Gen provided was: "Cal Gen's new program is based upon publically available, previously approved rates (CDI Filing Number 11-3067)." This response has nothing to do with the requirements of subdivision (D). Unlike subdivision (C), subdivision (D) does not provide an exception from its requirements when the data is generally available to the industry. Thus, Cal Gen has failed to provide any support for its assertion that it meets the requirements of subdivision (D).

Cal Gen also proposes to offer a multi-policy discount ("MPD") for Cal Gen policyholders who have any Mercury Company homeowner, condominium, or tenants policy. (Class Plan, Exh. 13, Private Passenger Auto Insurance Manual, Rule P17.) In doing so, Cal Gen is using the end result of other Mercury companies' underwriting processes (i.e., the issuance of an insurance policy) to determine whether to provide a discount to its insureds. In other words, it is relying on the conclusions drawn by Mercury underwriters regarding the person's insurability. Furthermore, the offer of a multi-policy discount across the proposed "super group" line ultimately means that there are interactions between the premiums of Cal Gen and the other Mercury companies. This also runs afoul of sections (E) and (F) discussed immediately below.

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<sup>10</sup> See CWD Questions re: Super Group Exemption and Driver Classification, July 16, 2012, p. 2, question 4.



**4. Section 1861.16(c)(1)(E): Cal Gen does not act independently of other Mercury insurers in determining, filing, and applying base rates, factors, class plans, and underwriting rules, and in the making of insurance policy forms.**

Cal Gen's letter of 6/12/12 states: "As a new program, Cal Gen had no historical data to work with. California General filed a 'me-too' of [Mercury Insurance Company's] class plan, which included its affinity groups." (Cal Gen letter to CDI dated 6/12/12, p. 3, referring to Mercury Insurance Company's Private Passenger Automobile Program, CDI file number 11-3067.) Cal Gen also used the base rates of Mercury Insurance Company (File No. 08-13081) in determining its initial base rates. Cal Gen does not explain how, by using the same base rates, rating factors, and underwriting rules as Mercury Insurance Company, its filing complies with subdivision (E) of section 1861.16(c)(1).

By using the same class plan and rate filing as Mercury Insurance Company, Cal Gen is not acting independently of the other Mercury insurers in applying base rates, rating factors and underwriting rules. Cal Gen has already applied the "base rates, factors, class plans, and underwriting rules" of Mercury Insurance Company, contrary to the requirements of subdivision (E). Again, while it is permitted to use its affiliate's information under 10 CCR § 2632.9(b)(4) for the sake of creating a new program, it cannot *also* claim a "super group exemption" from the requirement that it offer and sell a good driver discount policy to a good driver from the insurer within a common ownership, management, or control group pursuant to section 1861.16(b).

CWD asked Cal Gen to explain how it meets the requirements of section 1861.16(c)(1)(E), when it admits that it used Mercury's data and class plan rules, relativities, and rating factors for its rate and class plan filings.<sup>11</sup> The only response that Cal Gen provided was: "Cal Gen's new program is based upon publically available, previously approved rates (CDI Filing Number 11-3067)." This response has nothing to do with the requirements of subdivision (E). Unlike subdivision (C), subdivision (E) does not provide an exception from its requirements when the data is generally available to the industry. Thus, Cal Gen has failed to provide any support for its assertion that it meets the requirements of subdivision (E).

Cal Gen's proposal to offer a multi-policy discount to Cal Gen policyholders who are also Mercury policyholders also runs contrary to section 1861.16(c)(1)(E). Cal Gen clearly does not act independently of Mercury in "determining... [rating] factors, ... and underwriting rules" when it offers a multi-policy discount to insureds that have a policy with Mercury. Instead, Cal Gen relies on Mercury's application of its underwriting rules and conclusions based on the application of those rules (i.e., the decision to issue a policy) when it offers a discount based on the issuance of that Mercury policy.

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<sup>11</sup> See CWD Questions re: Super Group Exemption and Driver Classification, July 16, 2012, p. 2, question 4.

**5. Section 1861.16(c)(1)(F): The information provided by Cal Gen shows that its sales operations are not separate from other Mercury auto insurance companies.**

Cal Gen has admitted in written and oral statements that it will use the same agent sales force to sell Cal Gen and Mercury policies. (See e.g., Cal Gen letter to CDI dated 3/5/12, p. 2 [“there will be some overlap in Mercury/Cal Gen appointments” of agents].)

Question 5 in CDI’s 2/22/12 letter to Cal Gen asks: “How will the agent determine which company the insured will be placed into? Give a complete description of this process and include in the description a situation where the agent is appointed to both Mercury Casualty Group and California General.” Cal Gen responded: “As with any private passenger risk, agents typically place business with a carrier based on many factors including price, service, ease of use, commissions, and policy language. This process would be similar if an agent had a Mercury Casualty group appointment and a California General appointment in his/her office.” Cal Gen’s response did not provide “a complete description of this process and include in the description a situation where the agent is appointed to both Mercury Casualty Group and California General” as requested by CDI. Moreover, on the 8/2/12 teleconference, Ms. Behnke merely reiterated the factors that would be used by agents to place business, but did not answer the question of CDI or further inquiries by CWD as to how an agent who is appointed to both Mercury and Cal Gen would determine which company to direct a consumer. Thus, the information provided by Cal Gen to date is insufficient to show that the insurers’ sales operations are truly separate. In fact, the information provided to date reveals that the same agents will be selling Mercury and Cal Gen policies and that the sales operations are not separate.

**6. Section 1861.16(c)(1)(G): Cal Gen utilizes the marketing operations of other Mercury insurance companies by offering a multi-policy discount to Mercury policyholders.**

Cal Gen’s proposal to offer a multi-policy discount across the proposed “super group” line for having a Mercury policy also runs contrary to the requirements of section 1861.16(c)(1)(G). The offer of a MPD is essentially a cross-promotional marketing scheme with other Mercury auto insurers that intertwines the marketing operations of Cal Gen and Mercury. Thus, the insurers’ marketing operations are not separate.

**III. Conclusion**

Cal Gen’s failure to meet each of the requirements in section 1861.16(c)(1) disqualifies it from obtaining a “super group exemption” from the requirement that Mercury offer and sell a good driver discount policy to a good driver from the insurer within a common ownership, management, or control group with the lowest rate. CWD

has demonstrated Cal Gen's failure to meet six of the eight requirements of section 1861.16(c)(1).

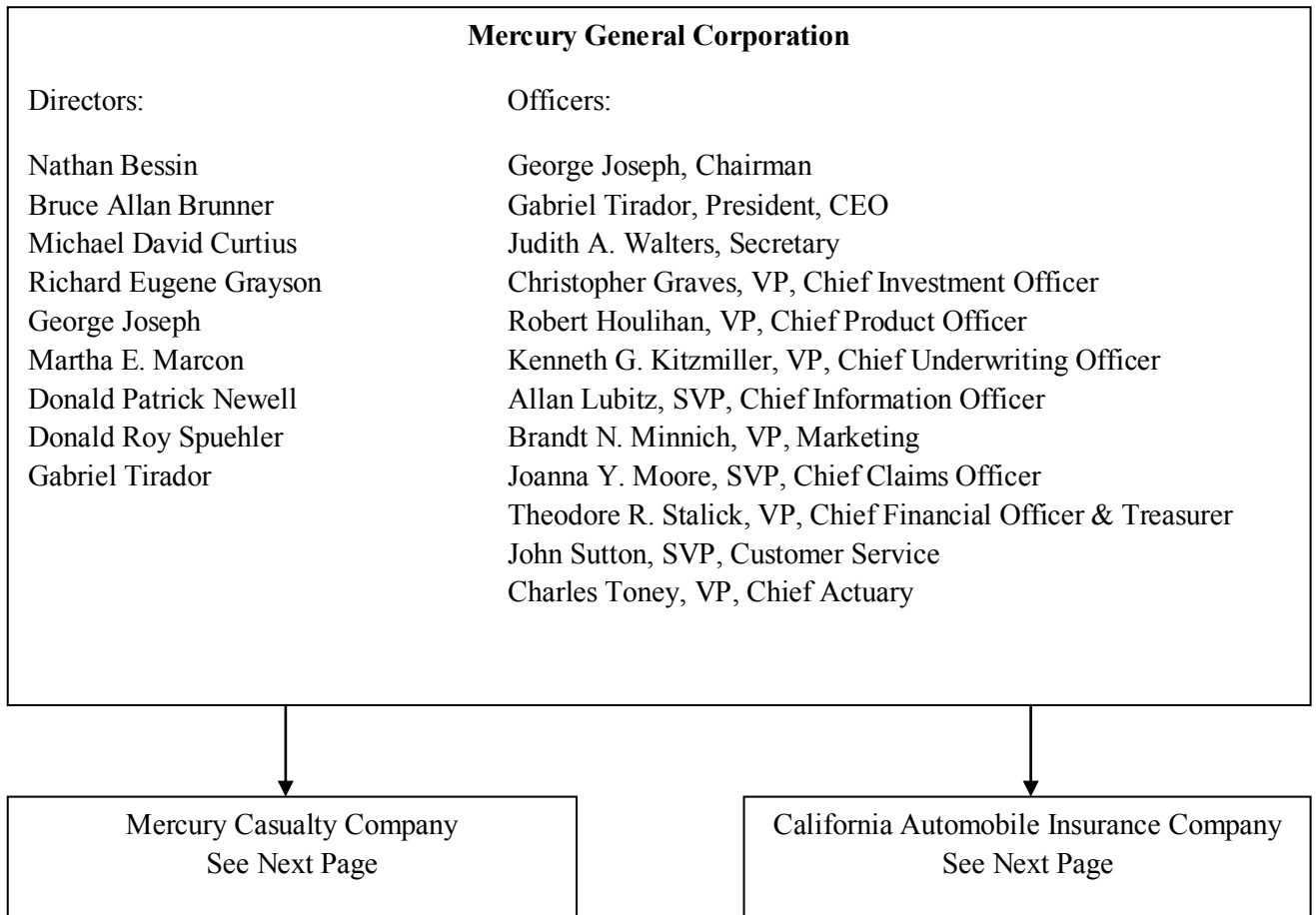
Cal Gen's inability to meet the requirements of the "super group exemption" is especially pronounced in two critical ways: 1) Cal Gen's new program filing uses the data, rates, rating factors, and underwriting rules of Mercury, such that it cannot possibly meet the requirements of subdivisions (C), (D), and (E) of 1861.16(c)(1), and 2) the majority of Cal Gen's Directors and Officers are also Mercury Directors and Officers, making it clear that Cal Gen's business operations are not independently managed and directed as required by subdivision (A) of section 1861.16(c)(1). Each of these considerations alone is an obvious bar to Cal Gen's qualification for the exemption. The presence of both in one filing makes this filing a quintessential example of one that does *not* qualify for a "super group exemption." As a result, the CDI should reject the proposed filing. If this new program is to remain under consideration as currently proposed by Cal Gen, the CDI must require Cal Gen to comply with section 1861.16(b) so that if an auto policy with Cal Gen is the lowest rate within the control group, then it must be offered to all good drivers seeking a Mercury policy.

**ATTACHMENT 1**

**Exhibit 19 – Super Group – Corporate Structure Verification Exhibit**

California General Underwriters Insurance Company, Inc. submits this exhibit in accordance with California Insurance Code section 1861.16.

1. California General Underwriters Insurance Company, Inc. is a wholly-owned subsidiary of Mercury Casualty Company, which is a wholly-owned subsidiary of Mercury General Corporation, a publicly traded company domiciled in the State of California. Mercury General Corporation and its subsidiaries are referred to collectively as the “Mercury Group.”
2. The chart below describes the relationship between Mercury General Corporation companies conducting business in California and includes a list of each company’s officers and directors:



**Mercury Casualty Company**

**Directors:**

Nathan Bessin  
Bruce Allan Brunner  
Michael David Curtius  
Richard Eugene Grayson  
George Joseph  
Martha E. Marcon  
Donald Patrick Newell  
Donald Roy Spuehler  
Gabriel Tirador

**Officers:**

George Joseph, Chairman  
Gabriel Tirador, President, CEO  
Judith A. Walters, Secretary  
Christopher Graves, VP, Chief Investment Officer  
Robert Houlihan, VP, Chief Product Officer  
Kenneth G. Kitzmiller, VP, Chief Underwriting Officer  
Allan Lubitz, SVP, Chief Information Officer  
Brandt N. Minnich, VP, Marketing  
Joanna Y. Moore, SVP, Chief Claims Officer  
Theodore R. Stalick, VP, Chief Financial Officer & Treasurer  
John Sutton, SVP, Customer Service  
Charles Toney, VP, Chief Actuary

**California Automobile Insurance Company**

**Directors:**

Nathan Bessin  
Bruce Allan Brunner  
Michael David Curtius  
Richard Eugene Grayson  
George Joseph  
Martha E. Marcon  
Donald Patrick Newell  
Donald Roy Spuehler  
Gabriel Tirador

**Officers:**

George Joseph, Chairman  
Gabriel Tirador, President, CEO  
Judith A. Walters, Secretary  
Christopher Graves, VP, Chief Investment Officer  
Robert Houlihan, VP, Chief Product Officer  
Kenneth G. Kitzmiller, VP, Chief Underwriting Officer  
Allan Lubitz, SVP, Chief Information Officer  
Brandt N. Minnich, VP, Marketing  
Joanna Y. Moore, SVP, Chief Claims Officer  
Theodore R. Stalick, VP, Chief Financial Officer & Treasurer  
John Sutton, SVP, Customer Service  
Charles Toney, VP, Chief Actuary

Mercury Insurance Company  
See Next Page

California General Underwriters Insurance  
Company, Inc.  
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**Mercury Insurance Company**

**Directors:**

Nathan Bessin  
Bruce Allan Brunner  
Michael David Curtius  
Richard Eugene Grayson  
George Joseph  
Martha E. Marcon  
Donald Patrick Newell  
Donald Roy Spuehler  
Gabriel Tirador

**Officers:**

George Joseph, Chairman  
Gabriel Tirador, President, CEO  
Judith A. Walters, Secretary  
Christopher Graves, VP, Chief Investment Officer  
Robert Houlihan, VP, Chief Product Officer  
Kenneth G. Kitzmiller, VP, Chief Underwriting Officer  
Allan Lubitz, SVP, Chief Information Officer  
Brandt N. Minnich, VP, Marketing  
Joanna Y. Moore, SVP, Chief Claims Officer  
Theodore R. Stalick, VP, Chief Financial Officer & Treasurer  
John Sutton, SVP, Customer Service  
Charles Toney, VP, Chief Actuary

**California General Underwriters Insurance Company,  
Inc.**

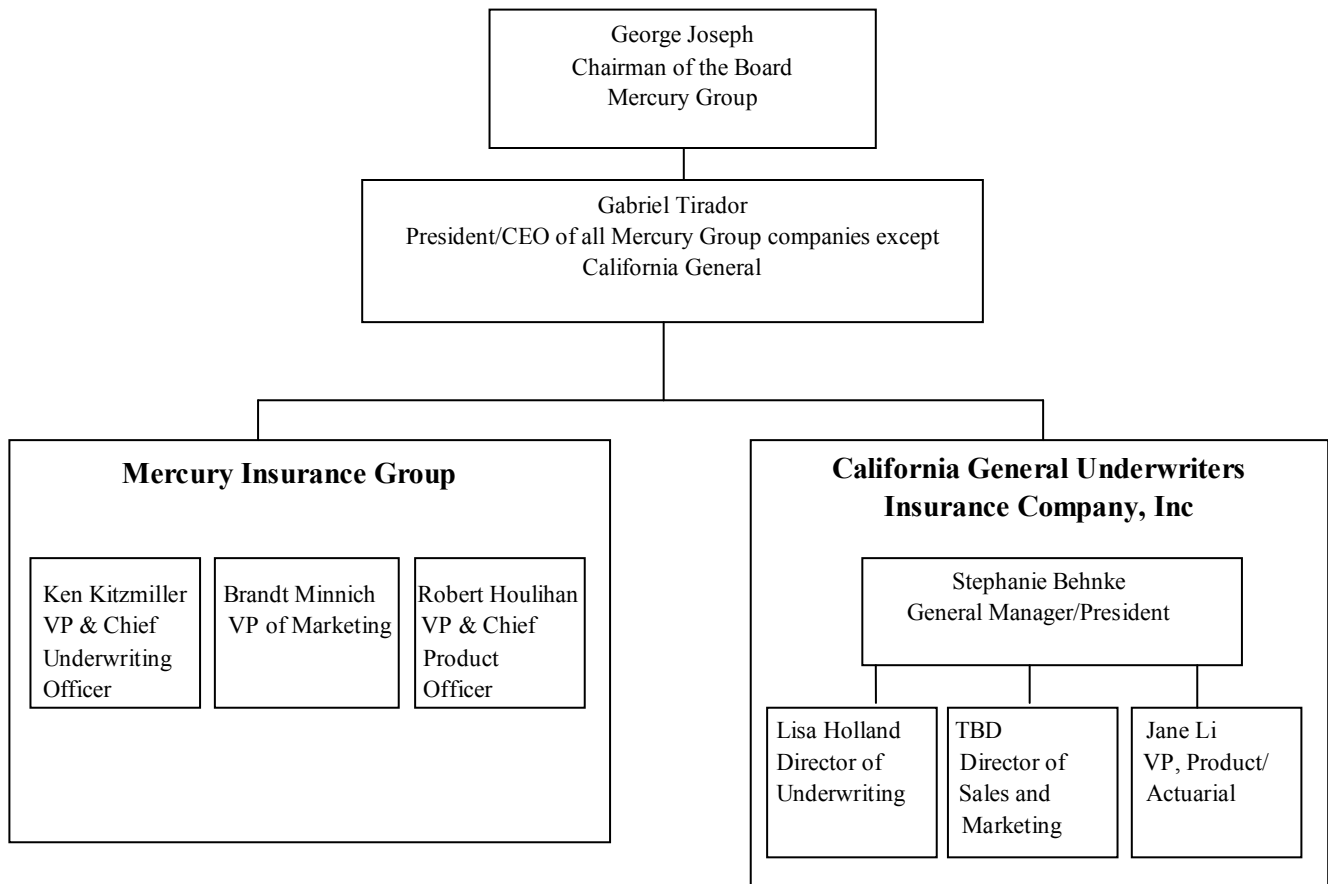
**Directors:**

Stephanie Behnke  
Richard Eugene Grayson  
George Joseph  
Jane Li  
Gabriel Tirador

**Officers:**

George Joseph, Chairman  
Stephanie Behnke, President  
Judith A. Walters, Secretary  
Christopher Graves, VP, Chief Investment Officer  
Jane Li, VP, Product and Actuarial  
Theodore R. Stalick, VP, Chief Financial Officer and Treasurer

California General Underwriters Insurance Company, Inc. (“California General”) and its California insurer affiliates, Mercury Casualty Company, Mercury Insurance Company, and California Automobile Insurance Company (referred to collectively as “Mercury Insurance Group”) operate with separate and distinct sales, marketing, product, actuarial and policy service operations. Personnel assigned to sales, marketing, product, actuarial and policy services are devoted exclusively to either California General or Mercury Insurance Group operations. The organizational chart below provides the names, titles and functions of the operational leaders of each organization.





### **California General**

- Sales and marketing activities for California General are under the direction of **TBD**, Director of Sales and Marketing.
- All product development/management, rate-making and actuarial activities for California General are under the direction of Jane Li, Vice President of Product/Actuarial.
- Policy service operations (i.e. new business, renewal and endorsement processing) for California General are under the direction of Lisa Holland, Director of Underwriting.

### **Mercury Insurance Group**

- Sales and marketing activities for Mercury Insurance Group (Mercury Insurance Company, Mercury Casualty Company, and California Automobile Insurance Company) are under the direction of Brandt Minnich, VP of Marketing.
- All product development/management, rate-making and actuarial activities for Mercury Insurance Group are under the direction of Robert Houlihan, VP and Chief Product Officer.
- Policy service operations (i.e. new business, renewal and endorsement processing) for Mercury Insurance Group are under the direction of Kenneth Kitzmiller, VP and Chief Underwriting Officer.

3. The sales, marketing, product, actuarial, and policy service operations of California General and Mercury Insurance Group are completely separate. California General and the Mercury Insurance Group operate autonomously under California Insurance Code section 1861.16, and effectively compete against each other.

California General's sales, marketing and policy service operations are conducted at 3230 Imperial Hwy Ste 270, Brea, CA 92821. Product management and actuarial operations are located in Richmond, CA.

Marketing, sales, policy service and product management operations for Mercury Insurance Group are located at 1700 Greenbriar Lane, Brea, CA 92821. Actuarial staff are located at 555 W Imperial Hwy, Brea, CA 92821.

- (A) The business operations of California General and the Mercury Insurance Group are distinctly different, independently managed, and separate from one another.

California General offices are located at 3230 Imperial Hwy Ste 270, Brea, CA 92821, and are managed and directed by their President, Stephanie Behnke.

The operations of Mercury Insurance Group are managed from 1700 Greenbriar Lane, Brea CA 92821, where the offices of Chief Underwriting Officer Ken Kitzmiller, Vice President of Marketing Brandt Minnich, and Chief Product Officer Robert Houlihan are located.

- (B) California General and Mercury Insurance Group do not jointly develop loss or expense statistics or other data used in ratemaking, or in the preparation of rating systems or rate filings

California General product management personnel independently develop ratemaking data, including loss and expense statistics for California General under the direction of Jane Li, VP of Product and Actuarial. These same product management personnel are exclusively responsible for developing data related to preparation of filings and rating systems.

Mercury Insurance Group product management personnel independently develop ratemaking data, including loss and expense statistics for the Mercury Insurance Group companies. Product Management Operations are under the direction of Robert Houlihan, VP and Chief Product Officer. These same product management personnel are exclusively responsible for developing data related to preparation of filings and rating systems.

- (C) California General and Mercury Insurance Group do not jointly maintain or share loss or expense statistics or other data used in ratemaking. As noted in (B) above, the ratemaking function for Mercury Insurance Group and California General are managed separately.

While certain core data systems are used by both groups to process their data, systematic controls have been put in place to ensure that the data of either group is neither available to, nor used by the other group.

- (D) California General and Mercury Insurance Group do not utilize each others' marketing, sales, or underwriting data.

California General sales, marketing, and underwriting data are housed separately from the sales, marketing and underwriting data of Mercury Insurance Group. California General and the Mercury Insurance Group use separate underwriting and marketing systems. California General sales, marketing and underwriting personnel have access only to the systems that house California General data. Sales, marketing and underwriting employees of Mercury Insurance Group only have access to data related to those companies.

- (E) California General and Mercury Insurance Group act independently of each other in determining, filing, and applying base rates, factors, class plans, and underwriting rules, and in the making of insurance policy forms.

California General product management personnel located in Richmond, CA independently determine, file, and apply base rates, factors, class plans, and underwriting rules and independently make insurance policy forms for California General products.

Mercury Insurance Group product management personnel located in Brea, CA independently determine, file, and apply base rates, factors, class plans, and underwriting rules and independently make insurance policy forms for Mercury Insurance Group.

- (F) California General and the Mercury Insurance Group have separate sales operations.

While California General and Mercury Insurance Group both sell insurance to California residents through independent agents, the selection, appointment and compensation of agents is handled independently.

(G) California General and the Mercury Companies have separate marketing operations.

California General marketing operations are conducted by employees located at 3230 Imperial Hwy Ste 270, Brea, CA 92821 and home-based field personnel. California General marketing data is logically separated from marketing data related to the Mercury Companies.

The Mercury Companies' marketing operations are conducted under Brandt Minnich, VP of Marketing, by Mercury employees located at 1700 Greenbriar Lane, Brea, CA 92821 and home-based field personnel. Marketing data for the Mercury Companies is logically separated from sales data related to California General.

(H) California General and the Mercury Companies have separate policy service operations.

California General policy service operations ( e.g. new business, renewal and endorsement processing) are conducted under Lisa Holland, Director of Underwriting, located at 3230 Imperial Hwy Ste 270, Brea, CA 92821. California General policy data is physically and logically separated from policy data related to the Mercury Companies.

The Mercury Companies' policy service operations (e.g. new business, renewal and endorsement processing) are conducted under Kenneth Kitzmiller, VP and Chief Underwriting Officer, by Mercury employees located throughout California. Policy data for the Mercury Companies is physically and logically separated from policy data related to California General.