



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Caterpillar Insurance Company for the period ended December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Caterpillar Insurance Company for the period ended December 31, 2013, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, analysis of examination changes, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Caterpillar Insurance Company as of December 31, 2013 be and is hereby ADOPTED as filed and for Caterpillar Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 27th day of May, 2015.



A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

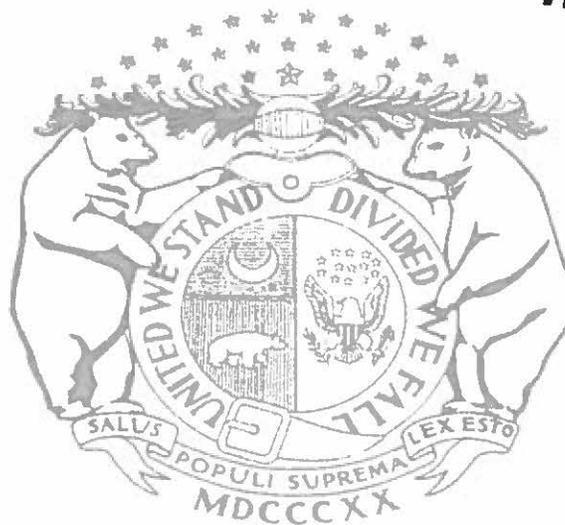
John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

Caterpillar Insurance Company

As of:
DECEMBER 31, 2013

FILED
JUN 7 2015
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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April 13, 2015
St. Louis, MO

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, MO 65101

Director Huff:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Caterpillar Insurance Company

hereinafter referred to as "CIC", or the "Company". The Company's home office is located at 2120 West End Avenue, Nashville, Tennessee; telephone number (615) 341-8147. Examination fieldwork began on September 8, 2014, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of Caterpillar Insurance Company. The last examination was completed as of December 31, 2009. This examination covers the period from January 1, 2010, through December 31, 2013. This examination also included material transactions or events occurring subsequent to December 31, 2013.

Procedures

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (Department or DIFP) or statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and to identify prospective risks of the Company. This process involves obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating the systems controls and procedures used by the Company to mitigate those risks. The examination also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The following key activities were identified: Claims Handling, Investments, Premiums and Underwriting, Reinsurance, Reserves, Taxes and Treasury.

SUMMARY OF SIGNIFICANT FINDINGS

An examination change was made to reclassify the \$13,343,983 balance reported as a write-in liability titled "Premium Deficiency" to the Unearned premiums line item. This balance represented the amount by which the Company's carried unearned premium reserves were below the minimum statutory required amount and did not appear to meet the definition of a premium deficiency reserve per SSAP No. 53 (Property Casualty Contracts – Premiums). This examination change had no effect on surplus.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2013 through the date of this report.

COMPANY HISTORY

General

Caterpillar Insurance Company was formed when Caterpillar Insurance Holdings Inc., a Delaware insurance holding company and a wholly owned subsidiary of Caterpillar Inc., acquired the shell of Integral Insurance Company on June 1, 2000, with approval from the DIFP. The name of the Company was changed to Caterpillar Insurance Company on June 5, 2000.

Capital Stock and Paid-In Surplus

The Company is authorized to issue 5 million shares of common stock at a par value of \$3.50 per share. The Company reported 1 million common shares issued and outstanding as of December 31, 2013, resulting in a common capital stock account of \$3.5 million.

The Company reported gross paid in and contributed surplus of \$92,170,000 as of December 31, 2013. No capital contributions were received during the examination period.

Dividends

The Company paid ordinary dividends of \$10,000,000 to its parent, Caterpillar Inc. on September 27, 2013. This was the first dividend paid by the Company since it was formed.

Acquisitions, Mergers and Major Corporate Events

There were no mergers or acquisitions during the examination period.

Surplus Debentures

The Company has had no outstanding surplus notes during the examination period.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. There were no amendments to either during the examination period.

The minutes of the shareholder, board of directors, and committee meetings were reviewed for the period under examination. The minutes appear to properly document and approve corporate transactions and events.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a board of directors, which per the Articles of Incorporation and resolution of the Board of Directors, is fixed at nine members. The Company's nine Directors serving at December 31, 2013, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Kent M. Adams II Nashville, TN	Vice President of Caterpillar Inc. President of Caterpillar Financial Services Corporation
Robert C. Thompson Nashville, TN	President of Caterpillar Insurance Company
Steven B. Resnick Nashville, TN	CFO & Treasurer of Caterpillar Insurance Company
Michael D. Faoro Nashville, TN	Vice President of Caterpillar Insurance Company
Brian P. LePage Nashville, TN	Vice President of Caterpillar Insurance Company
Jeffrey L. Pridgen Nashville, TN	Vice President of Caterpillar Insurance Company
Larry K. Smith Nashville, TN	Vice President of Caterpillar Insurance Company
David E. Gunnell Nashville, TN	Vice President of Caterpillar Insurance Company
Federico Folchi-Vici-D'Arcevia Nashville, TN	Vice President of Caterpillar Insurance Company

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2013, were as follows:

<u>Name</u>	<u>Position</u>
Robert C. Thompson	President
Steven B. Resnick	Vice President and Treasurer
Donald J. Meyers	Vice President, General Counsel and Secretary
Michael D. Faoro	Vice President
Brian P. LePage	Vice President
Jeffrey L. Pridgen	Vice President
Larry K. Smith	Vice President
Federico Folchi-Vici-D'Arcevia	Vice President
David E. Gunnell	Vice President
Robin D. Beran	Assistant Treasurer

Committees

In accordance with the bylaws, the board has established various committees with responsibility for managing the Company's affairs between meetings of the board. Annually, the full board reviews and approves the actions of the committees. Committee assignments as of December 31, 2013, were as follows:

Investment Committee:	Kent Adams, Robert Thompson, Steven Resnick, James Cotton, Donald Meyers, Charles Urban
Reserve Committee:	Robert Thompson, Steven Resnick, James Duensing, Larry Smith, Steve Elsesser, Todd Day
Anti-Fraud Committee:	Michael Faoro, Donald Meyers, Sheri Hall, Todd Day, Andrew Hodel, Santiago Garcia
Compliance Committee:	Donald Meyers, Jeffrey Pridgen, Darryl Hicks, Santiago Garcia, Tim Mills, Itzela Vasquez, Tom Fishback, Less Tapp, Dave Gunnell, Michele Abbott, Michael Faoro, Andrew Hodel

The Company does not have an audit committee. To comply with Sections 375.1025-1062 RSMo, the Company relies on the Audit Committee of Caterpillar Inc., the ultimate parent. That committee was comprised of three independent directors as of December 31, 2013.

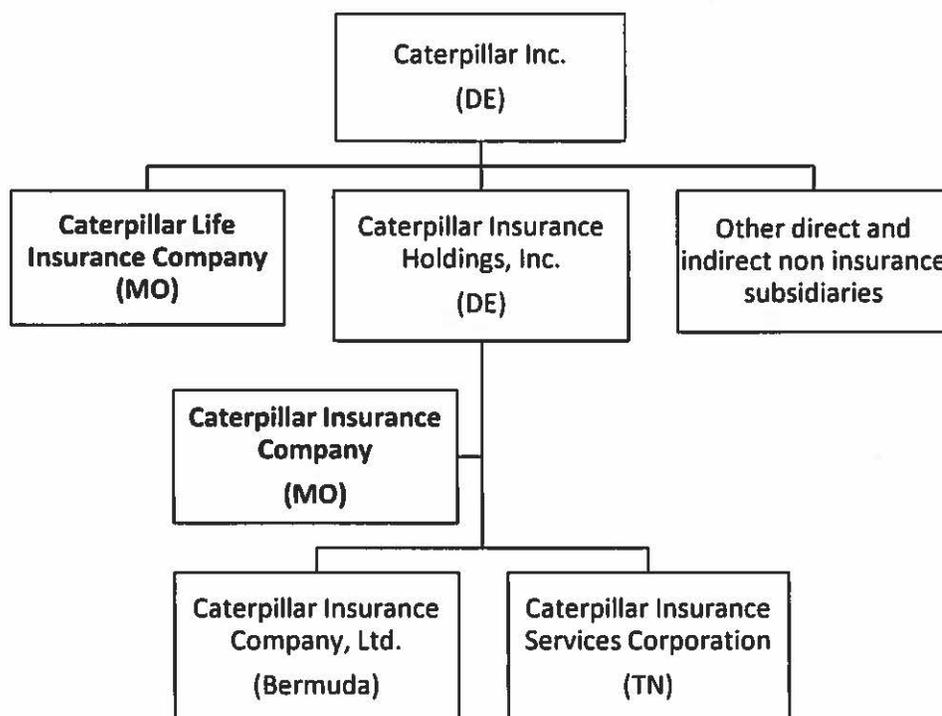
Holding Company, Subsidiaries and Affiliates

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is a wholly owned subsidiary of Caterpillar Insurance Holdings, Inc., a Delaware holding company, which in turn is wholly owned by Caterpillar Inc.,

the ultimate parent. Caterpillar Inc. is the world's largest manufacturer of construction and mining equipment, diesel and natural gas engines and industrial gas turbines.

Organization Chart

The following organizational chart depicts an abbreviated portion of the holding company system at December 31, 2013, including the Company. All subsidiaries shown are wholly owned. A complete list of all companies within the holding company system is included within the annual statement.



Affiliated Transactions

As of December 31, 2013, the Company was party to the following affiliated agreements:

1) Management Agreement

Parties: CIC, Caterpillar Life Insurance Company (CLIC), Caterpillar Insurance Co. Ltd, Caterpillar Product Services Corporation, Caterpillar Insurance Services Corporation, Caterpillar Insurance Holdings, Inc., and Caterpillar Inc., are all receivers of services. Caterpillar Financial Services Corporation, Caterpillar S.A.R.L., Caterpillar America C.V., and Caterpillar North America C.V., are all providers of services.

Effective: January 1, 2009, non-disapproved May 2, 2008
Terms: The providers of services provide various administrative, management and accounting services to the receivers of services.
Rate(s): Fees charged under the Agreement are equal to the cost incurred to render such services to the other parties.

2) General Agency Agreement

Parties: CIC and Caterpillar Insurance Services Corporation (CISC)
Effective: April 1, 2003, non-disapproved March 31, 2003. Amendments were approved on July 15 and September 10, 2009.
Terms: CISC provides various general agency services to CIC.
Rate(s): Fees related to this agreement are paid for under the Management Agreement described above.

3) Administrative Agreement – Singapore Program

Parties: CIC and Caterpillar S.A.R.L.
Effective: May 1, 2007, non-disapproved January 3, 2008
Terms: CIC appoints Caterpillar S.A.R.L. as a program administrator. Caterpillar S.A.R.L. registers and administers extended warranty or service contract claims for equipment issued to customers of Caterpillar dealers in Singapore.
Rates: Fees charged at cost.

4) Administrative Agreement - Canada Program

Parties: CIC and Caterpillar S.A.R.L.
Effective: November 1, 2008, non-disapproved September 26, 2008
Terms: CIC appoints Caterpillar S.A.R.L. as a program administrator. Caterpillar S.A.R.L. registers and administers extended warranty or service contract claims for equipment issued to customers of Caterpillar dealers in Canada.
Rates: Fees charged at cost.

5) Administrative Agreement – Europe, Africa, Mideast (EAME)

Parties: CIC and Caterpillar S.A.R.L.
Effective: January 1, 2007, non-disapproved March 14, 2008
Terms: CIC appoints Caterpillar S.A.R.L. as a program administrator. Caterpillar S.A.R.L. registers and administers extended warranty or service contract claims for equipment issued to customers of Caterpillar dealers.
Rates: Fees charged at cost.

6) Administrative Agreement - (Japan)

Parties: CIC and Caterpillar S.A.R.L. and Caterpillar Used Equipment Services, Inc. (CUESI)
Effective: January 1, 2011, non-disapproved March 4, 2011.
Terms: CIC appoints Caterpillar S.A.R.L. as a program administrator to register and administer extended warranty or service contract claims for equipment issued in Japan.
Rates: Fees charged at cost.

7) Administrative Agreement - Latin America Program

Parties: CIC and Caterpillar S.A.R.L.
Effective: November 1, 2008, non-disapproved September 26, 2008
Terms: CIC appoints Caterpillar S.A.R.L. as a program administrator. Caterpillar S.A.R.L. registers and administers extended warranty or service contract claims for equipment issued to customers of Caterpillar dealers in Latin America.
Rates: Fees charged at cost.

8) Administrative Agreement - (Partial Assignment)

Parties: CIC and Caterpillar S.A.R.L. and Caterpillar Used Equipment Services, Inc.
Effective: January 1, 2012, non-disapproved December 14, 2011
Terms: This is a partial assignment of the Administrative Agreement between Caterpillar S.A.R.L. to CUESI. This allows CUESI to enroll used equipment under the CSARL Extended Warranty Program for EAME Caterpillar dealerships.
Rates: Fees charged at cost.

9) Administrative Agreement - Latin America Program (Partial Assignment)

Parties: CIC and Caterpillar S.A.R.L. and Caterpillar Used Equipment Services, Inc. (CUESI)
Effective: August 1, 2009, non-disapproved July 23, 2009
Terms: This is a partial assignment of the Administrative Agreement - Latin America Program between CIC and Caterpillar S.A.R.L. to CUESI. This allows CUESI to enroll used equipment under the Caterpillar Americas C.V. Extended Warranty Program.
Rates: Fees charged at cost.

10) Retrospective Reinsurance Premium Adjustment Agreement

Parties: CIC and Caterpillar Inc.

Effective: June 1, 2007, non-disapproved July 27, 2007

Terms: Allows CIC to charge additional premiums in the event of adverse claim development on an extended warranty/service program covering Telehandler machines sold and delivered between January 1, 2007 and December 31, 2007.

Rates: The additional premiums would be paid by Caterpillar, Inc. on behalf of Caterpillar S.A.R.L.

11) Aggregate Excess Stop Loss Commercial Contractual Liability Guarantee Agreement

Parties: CIC and Caterpillar Inc.

Effective: January 1, 2008, non-disapproved April 14, 2008

Terms: Caterpillar Inc. guarantees to cover all losses sustained by CIC related to Telehandler construction equipment extended warranties or service contracts as follows: For business in the United States and Canada, Caterpillar Inc. pays all losses in excess of an 80% loss ratio up to an aggregate of \$650,000. In Europe, the Middle East, and Africa, Caterpillar Inc. pays 50% of losses in excess of a 32% loss ratio up to an aggregate of \$2 million.

Rates: CIC pays Caterpillar Inc. the sum of \$10 for consideration for the guarantee.

12) Contractual Liability Insurance Policy (EAME)

Parties: CIC and Caterpillar S.A.R.L. (CSARL)

Effective: November 1, 2008, non-disapproved September 26, 2008

Terms: CIC through its Switzerland branch provides reimbursement insurance to CSARL for extended warranty obligations incurred by CSARL under program agreements with Caterpillar dealerships in Europe, Africa and the Middle East.

Rates: N/A

13) Contractual Liability Insurance Policy (Latin America)

Parties: CIC and Caterpillar S.A.R.L.

Effective: November 1, 2008, non-disapproved September 26, 2008

Terms: CIC through its Switzerland branch provides reimbursement insurance to CSARL for extended warranty obligations incurred by CSARL under program agreements with Caterpillar America C.V. (CAMCV) relating to program agreements between CAMCV and the Caterpillar dealerships in Latin America

Rates: N/A

14) Contractual Liability Insurance Policy (Canada)

Parties: CIC and Caterpillar S.A.R.L.

Effective: November 1, 2008, non-disapproved September 26, 2008

Terms: CIC through its Switzerland branch provides reimbursement insurance to CSARL for extended warranty obligations incurred by CSARL under a Service Agrément with Caterpillar North America C.V. (CNAMCV) relating to program agreements between CNAMCV and the Caterpillar dealerships in Canada.

Rates: N/A

15) Tax Sharing Agreement

Parties: CIC and Caterpillar, Inc.

Effective: January 1, 2009, non-disapproved October 26, 2006

Terms: The agreement applies to years ending December 31, 2008, and thereafter. Caterpillar Inc. files consolidated federal income tax returns, and is responsible for making all payments when due and filing for and collecting any refunds due.

Rates: The tax liability is calculated on a separate return basis.

16) Sublease Agreement

Parties: CIC and Caterpillar Financial Services Company (CFSC)

Effective: January 1, 2010, non-disapproved August 13, 2010

Terms: CIC leases and occupies the ninth floor of 2120 West End Avenue, Nashville TN from CFSC until February 28, 2022.

Rates: Rent of \$22,529.81 per month.

17) Quota Share Reinsurance Agreement

Parties: Caterpillar Insurance Company and Caterpillar Life Insurance Company

Effective: May 1, 2004, non-disapproved June 4, 2004.

Terms: 100% quota share reinsurance agreement between CIC and CLIC. Under the terms of the agreement, CIC cedes a 100% quota share interest in all policies, binders, contracts and agreements of insurance and reinsurance written to CLIC under the Group Accident and Health (Retiree Medical and Long-Term Disability) and Other Accident and Health Business.

Rate(s): CIC receives a ceding commission of 5% of gross premiums written and ceded under the treaty.

18) Quota Share Reinsurance Agreement

Parties: CIC and Caterpillar Insurance Company, Ltd (CICL)

Effective: April 1, 2010, non-disapproved February 22, 2010.

Terms: CIC cedes to CICL a 90% quota share interest in all policies, contracts and agreements of insurance and reinsurance written by CIC. Addendum No. 6 excludes the marine programs. Addendum No. 7 allows for payment of ceding commission of five percent. Addendum No. 8 excludes the Perkins Engines, Inc., Extended Service Contract Program or any OEM Extended Service Contract Program. Addendum No. 9 added certain exclusion language to Article V. Addendum No. 10 added certain exclusion language to Article V. Addendum No. 11 excluded a new program that will be implemented by CIC offering mechanical breakdown insurance coverage.

Rates: CIC receives ceding commission of 5% of gross premiums written and ceded under the treaty.

FIDELITY BOND AND OTHER INSURANCE

CIC is included on an employee theft policy purchased by its parent, Caterpillar, Inc., which provides \$25 million in coverage with a \$5 million deductible. This coverage exceeds the minimum amount of fidelity insurance recommended by the NAIC.

The Company is also included on a number of other insurance policies held by Caterpillar Inc. Coverage provided includes general and excess liability, automobile, directors' and officers' liability, aircraft, fiduciary, and employment practices. The Company's insurance coverage appears adequate.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. Services are provided by affiliates through a management agreement. Affiliates' employees are provided benefits typical of the industry including group health and dental coverage, group life insurance, short- and long-term disability, a flexible spending account, a 401(k) plan, a non-contributory defined benefit pension plan, paid time off, an employee assistance plan and tuition reimbursement. The Caterpillar pension plan was closed to new entrants effective January 1, 2011. A sunset group of employees are continuing to accrue pension benefits until the earlier of retirement or December 31, 2019.

Employee benefit costs, including retirement costs, are included in intercompany charges.

TERRITORY AND PLAN OF OPERATIONS

General

CIC is licensed in all states and the District of Columbia. The Company is licensed in Missouri under Chapter 379 RSMo (Insurance other than life) to write accident and health, fidelity and surety, liability, miscellaneous, and property insurance.

The Company provides various forms of insurance to Caterpillar Inc. customers and dealers to support the purchase or lease of Caterpillar Inc. equipment.

Domestic

The Company underwrites inland marine policies to Caterpillar Inc. customers covering physical damage exposure on Caterpillar equipment sold within the United States. These policies are placed with CIC by Caterpillar Insurance Services Corporation, a Tennessee agency licensed throughout the United States, through licensed dealer employees or direct placement by CISC.

The Company underwrites contractual liability policies to Caterpillar dealerships and other equipment manufacturers (OEM's) covering extended service contracts and warranties issued by dealers or OEM's on equipment and engines in the United States. CISC serves as the distribution network for the contractual liability policies.

The Company also underwrites retiree medical exposures of Caterpillar Inc. The post-retirement medical exposures are insured on an excess basis via a stop-loss insurance policy issued to a Voluntary Employee Benefit Association (VEBA) trust to cover the risk of loss of Caterpillar Inc. in excess of a certain specified deductible. This business is ceded 100% to CLIC.

International

On September 17, 2008, the Company opened a branch office in Zurich, Switzerland. The branch office was licensed in Switzerland under the name Caterpillar Insurance Company, Jefferson City, Zurich Branch. It is licensed to write miscellaneous financial risk, which allows the Branch to insure the worldwide-extended warranty/service contract obligations of Caterpillar S.A.R.L., a corporation in Switzerland and wholly owned subsidiary of Caterpillar Inc. that manufactures and sells machines and engines to international Caterpillar dealerships. In the United Kingdom, Australia and New Zealand, the Company is allowed to insure the Caterpillar dealerships for dealer extended warranty obligations and in Singapore, the Company is allowed to insure Caterpillar S.A.R.L. Singapore Branch without being licensed in these territories.

GROWTH OF COMPANY

The table below shows various indicators of the Company's growth over the past four years.

	2010	2011	2012	2013
Net Premiums Written	\$ 118,186,679	\$ 164,418,236	\$ 199,232,904	\$ 214,611,634
Net Admitted Assets	401,807,674	473,953,909	575,646,880	639,627,777
Total Liabilities	260,853,286	322,338,059	371,725,946	396,202,509
Total Capital and Surplus	140,954,388	151,615,850	203,920,934	243,425,268

LOSS EXPERIENCE

The following exhibit illustrates the Company's underwriting results for each of the last four years.

	2010	2011	2012	2013
Net Premiums Earned	\$ 104,215,529	\$ 118,436,777	\$ 156,727,275	\$ 182,698,701
Net Underwriting Gain/(Loss)	9,578,221	1,988,729	48,810,597	53,407,767
Net Investment Gain/(Loss)	11,880,459	11,501,574	12,783,048	13,559,622
Net Income	11,496,228	3,885,220	41,532,628	33,206,526

The Company's operating performance remained strong as it posted a net underwriting gain, net investment gain and positive net income for each year during the examination period.

REINSURANCE

General

Premiums written by the Company during the examination period were as follows:

	2010	2011	2012	2013
Direct Premiums Written	\$ 201,165,547	\$ 294,644,399	\$ 357,303,934	\$ 361,848,269
Ceded Premiums	82,935,931	130,226,163	158,071,030	147,236,635
To Affiliates	82,474,889	129,765,721	157,757,797	146,957,684
To Non-Affiliates	461,042	460,442	313,233	278,951
Net Premiums Written	<u>\$ 118,229,616</u>	<u>\$ 164,418,236</u>	<u>\$ 199,232,904</u>	<u>\$ 214,611,634</u>

Assumed

The Company had no assumed reinsurance arrangements during the examination period.

Ceded

Affiliated Agreements

Retiree Medical – The Company ceded 100% of its Retiree Medical Stop Loss liabilities to affiliate, Caterpillar Life Insurance Company, effective May 1, 2004. One-time premiums ceded were \$103,800,000. As of year-end 2013, \$91,422,000 of net recoverable was due under the agreement.

Other Liability (Extended Warranty) – The Company reinsures its core, “Other Liability” business with affiliate, Caterpillar Insurance Company, Ltd. The agreement cedes 90% of non-excluded business in all states except California, Florida and Wyoming. The ceding percentages for those states are 50%, 49% and 79% respectively. The agreement was originally effective June 1, 2000. At year-end 2013, \$238,810,000 of net recoverable was due under the agreement, and secured by funds held in trust.

Unaffiliated Agreement

Inland Marine – The Company provides protection for the risk of physical damage to equipment manufactured by Caterpillar Inc., which is leased, rented, or sold under conditional sales agreements by third party dealers. Primarily, coverage under this policy is offered to dealers’ customers under a “point-of-sale” program. The Company and its affiliate, CICL, have per risk reinsurance of \$650,000 in excess of \$350,000 and property catastrophe reinsurance of \$1,000,000 in excess of \$1,000,000 with multiple unaffiliated reinsurers. As of year-end 2013, \$36,000 net recoverable was due under these coverages.

ACCOUNTS AND RECORDS

General

The Company’s financial statements are prepared using the Oracle general ledger software.

The IS4W (Insurance Solutions for Windows) system is currently used for policy administration and claims handling. The Company is in the process of converting to a new system for policy administration, claims handling and other applications called Insurity. The new system is expected to be fully implemented by the end of 2016.

Independent Auditor

The Company’s financial statements are audited annually by PricewaterhouseCoopers LLP. The work papers and reports of the most recent independent audit were reviewed and used in the course of this examination as deemed appropriate.

Independent Actuaries

Reserves and related actuarial accounts reported in the financial statements were reviewed and certified by L. Kevin Smith, ACAS, MAAA, Vice-President and Chief Actuary of the Company.

Robert P. Daniel, ACAS, MAAA, Consulting Actuary with Merlinos & Associates, Inc., was retained by the Department to review the adequacy of the Company's reserves and other related liabilities. Mr. Daniel concluded that the Company's reserves were reasonable as of the examination date.

Information Systems

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the DIFP, conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2013, as reflected below, were sufficient in par and market value to meet the minimum requirement of \$1,200,000 in accordance with Section 379.098 RSMo (Securities to be deposited by all companies, kind and amount).

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Note	\$ 2,550,000	\$ 2,592,228	\$2,591,095

Deposits with Other States

The Company also has funds on deposit with various other states. Those funds on deposit as of December 31, 2013, were as follows:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Alabama	US Treasury Note	\$ 1,025,000	\$ 1,022,714	\$ 1,021,218
Arizona	US Treasury Note	105,000	105,422	105,362
Arizona	Money Market	1,313	1,313	1,313
Florida	US Treasury Note	260,000	259,420	259,041
Georgia	US Treasury Note	90,000	90,551	90,460
Idaho	US Treasury Note	255,000	255,209	254,847
Maine	US Treasury Note	305,000	310,051	309,915
Massachusetts	US Treasury Note	560,000	558,751	557,934
Nevada	US Treasury Note	205,000	204,543	203,996
New Hampshire	US Treasury Note	505,000	507,030	506,741
New Mexico	US Treasury Note	310,000	311,246	311,069
North Carolina	US Treasury Note	335,000	340,548	340,399
Oregon	US Treasury Note	425,000	424,403	423,787
South Carolina	US Treasury Note	210,000	209,532	209,225
Virginia	US Treasury Note	<u>510,000</u>	<u>508,863</u>	<u>508,118</u>
Totals		<u>\$ 5,101,313</u>	<u>\$ 5,109,596</u>	<u>\$ 5,103,425</u>

Other Special Deposits

In addition to the funds on deposit with the various states, Caterpillar Insurance Company has other securities reported as special deposits. These deposits are not for the benefit of all policyholders. The deposits are funds held on joint deposit with banks to meet regulatory requirements for operations in foreign countries. The statement and market value of these securities at December 31, 2013, was \$1,878,759 and \$1,913,078 respectively.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2013, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements" section, which follow the financial statements.

There may have been additional differences found in the course of this examination that are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	\$ 385,883,968	\$ -	\$ 385,883,968
Common Stocks	94,928,216	-	94,928,216
Cash and short-term investments	97,151,852	9,672	97,142,180
Investment income due and accrued	3,809,925	-	3,809,925
Uncollected premiums	21,756,254	-	21,756,254
Amounts recoverable from reinsurers	7,975,834	-	7,975,834
Net deferred tax asset	24,306,600	-	24,306,600
Guaranty funds receivable	983	-	983
Receivables from affiliates	3,459,880	-	3,459,880
Prepaid expenses	3,926	3,926	-
Advance claims payments	307,396	-	307,396
Taxes recoverable	56,541	-	56,541
TOTAL ASSETS	\$ 639,641,375	\$ 13,598	\$ 639,627,777

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 11,886,583
Loss adjustment expenses	154,815
Other expenses	380,674
Taxes, licenses and fees	1,707,097
Current federal and foreign income taxes	24,156,289
Unearned premiums (Note 1)	329,182,927
Advance premiums	96,172
Ceded reinsurance premiums payable	20,771,409
Payable to affiliates	2,989,277
Payable for securities	248,951
Ceding commission received in excess of acquisition cost	4,628,315
Premium deficiency (Note 1)	-
TOTAL LIABILITIES	<u>\$ 396,202,509</u>
Common capital stock	3,500,000
Gross paid in and contributed surplus	92,170,000
Unassigned funds (surplus)	147,755,268
SURPLUS AS REGARDS POLICYHOLDERS	<u>\$ 243,425,268</u>
TOTAL LIABILITIES AND SURPLUS	<u><u>\$ 639,627,777</u></u>

STATEMENT OF INCOME

Underwriting Income:

Premiums earned (Note 1) \$ 169,354,718

Deductions:

Losses incurred \$ 99,739,493

Loss adjustment expenses incurred 1,143,438

Other underwriting expenses incurred 25,658,750

Premium deficiency (Note 1) (10,594,730)

Total underwriting deductions 115,946,951

Net Underwriting Gain (Loss) **\$ 53,407,767**

Investment Income:

Net investment income earned \$ 12,451,813

Net realized capital gains 1,107,809

Net Investment Gain (Loss) **\$ 13,559,622**

Other Income:

Net loss from agents or premium balances charged off \$ -

Finance and service charges -

Miscellaneous income 149,801

Total Other Income **\$ 149,801**

Net income before dividends and FIT **\$ 67,117,190**

Dividends to policyholders -

Federal income taxes incurred 33,910,664

Net income **\$ 33,206,526**

RECONCILIATION OF SURPLUS
Changes from December 31, 2010 to December 31, 2013

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus;				
December 31 prior year	\$ 126,176,853	\$ 140,954,388	\$ 151,615,850	\$ 203,920,934
Net income	11,496,228	3,885,220	41,532,628	33,206,526
Change in net U/R capital gains	1,681,184	(198,530)	4,488,675	12,528,673
Change in net U/R FX capital gains	(165,949)	(1,914,587)	2,454,904	(5,887,717)
Change in net deferred income tax	2,481,842	4,512,237	1,333,935	9,405,548
Change in nonadmitted assets	(715,769)	4,377,122	4,014,551	251,305
Dividends to stockholders	-	-	-	(10,000,000)
Aggregate write-ins	-	-	(1,519,609)	-
Change in capital and surplus	<u>14,777,536</u>	<u>10,661,462</u>	<u>52,305,084</u>	<u>39,504,335</u>
Capital and surplus;				
December 31 current year	<u>\$ 140,954,388</u>	<u>\$ 151,615,850</u>	<u>\$203,920,934</u>	<u>\$ 243,425,271</u>

ANALYSIS OF EXAMINATION CHANGES

Surplus as Reported by Company		\$243,425,268
	Increase in Surplus	Decrease in Surplus
Unearned premiums	-	13,343,983
Premium deficiency	13,343,983	-
Total Changes	13,343,983	13,343,983
Net Change in Surplus		-
Surplus Per Examination		<u><u>\$243,425,268</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Note 1	Unearned premiums	\$329,182,927
	Premium deficiency	\$0

CIC reported a write-in premium deficiency reserve (PDR) of \$13,343,983 on the 2013 Annual Statement. This represented the amount by which the Company's carried unearned premium reserves were below the minimum statutory required amount. SSAP No. 53 states that the purpose of a premium deficiency reserve is to record an additional liability when anticipated losses, loss adjustment expenses, acquisition costs and maintenance costs exceed the recorded unearned premium reserve.

The Company's additional "gross-up" of unearned premium reserves does not meet the definition of a PDR and should instead be reported in Unearned premiums. As a result, an examination change was made to reclassify the \$13,343,983 balance from the write-in liabilities to the Unearned premium line item. This examination change also impacted the Premiums earned and Premium deficiency lines on the Statement of Income, however there was no effect on surplus.

The Company should report the additional "gross-up" of unearned premium reserves on the Unearned premium line on the Annual Statement in the future.

SUMMARY OF RECOMMENDATIONS

Comments on Financial Statements

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The Company should report the additional "gross-up" of unearned premium reserves on the Unearned premium line on the Annual Statement in the future.

