

REPORT ON EXAMINATION

OF THE

21st CENTURY NORTH AMERICA INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT

May 11, 2015

EXAMINER

ADEBOLA AWOFOESO

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

May 11, 2015

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31037 dated September 9, 2013, attached hereto, I have made an examination into the condition and affairs of 21st Century North America Insurance Company as of December 31, 2013, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate 21st Century North America Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s main administrative office located at 3 Beaver Valley Road, Wilmington, Delaware 19803.

1. SCOPE OF EXAMINATION

The Department has participated in a coordinated group examination of the Company, a multi-state insurer. This examination was conducted as a multi-state examination of the 21st Century Personal Auto Group companies in coordination with other holding company groups within the Farmers Insurance Exchange, namely, the Bristol West Coast National Group, the Foremost Group and the Farmers Insurance Group. All three subsidiary groups are all direct or indirect subsidiaries of the Farmers Insurance Group. The group examination was conducted by the state of California as the lead state. Other states participating in this examination were Colorado, Delaware, Hawaii, Minnesota, New Jersey, Pennsylvania and Texas.

The previous examination was conducted as of December 31, 2009. This examination covered the four-year period from January 1, 2010 through December 31, 2013. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment and an evaluation based upon the Company’s Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated as Belgian General Insurance Company (“BGIC”) under the laws of the State of New York on September 19, 1985, and commenced business on January 8, 1986.

Effective September 30, 1985, the Compagnie Belge d’Assurances Generales Incendie, Accident Et Risques Divers of Belgium, which conducted business in the United States via a United States Branch, entered into a domestication agreement whereby it transferred all of the assets and liabilities of its United States Branch to BGIC, in return for all of the outstanding shares of common stock of BGIC.

On January 8, 1986, American International Group, Inc. (“AIG”) purchased all of the issued and outstanding shares of capital stock from Compagnie Belge d’Assurances Generales Incendie, Accident Et Risques Divers of Belgium to become the sole shareholder of BGIC.

On April 22, 1986, the Company's name was changed to American International Insurance Company ("AIIC").

On April 1, 1987, AIG sold its shares of the Company to three of its wholly-owned domestic insurance subsidiaries: 50% was allocated to Commerce and Industry Insurance Company ("CIIC"), 25% allocated to American Home Assurance Company ("American Home") and 25% allocated to AIU Insurance Company ("AIU").

On June 30, 2008, AIU transferred its 25% ownership of the Company through an upstream dividend to its shareholders in proportion to their ownership in AIU. As a result, National Union Fire Insurance Company of Pittsburgh, PA acquired 21% ownership of the Company, The Insurance Company of the State of Pennsylvania acquired 2% ownership of the Company, and AIG Casualty Company acquired 2% ownership of the Company.

Also on June 20, 2008, American Home transferred its 25% ownership of the Company through an upstream dividend to its sole shareholder, AIG Commercial Insurance Group, Inc. Upon receipt of American Home's 25% interest in the Company, AIG Commercial Insurance Group, Inc. contributed its interest as a capital contribution to its wholly-owned subsidiary, CIIC, thereby increasing CIIC's ownership in the Company to 75%.

As a result of these transactions, effective June 30, 2008, the Company was directly owned by CIIC (75%), National Union Fire Insurance Company of Pittsburgh, PA (21%), The Insurance Company of the State of Pennsylvania (2%) and AIG Casualty Company (2%), all indirect wholly-owned subsidiaries of AIG.

The Company and the other member companies that comprise the 21st Century PAG were acquired by Farmers Group, Inc. ("FGI"), a subsidiary of Zurich Financial Services Ltd., from AIG, effective July 1, 2009. Subsequently on July 1, 2009, FGI sold the 21st Century PAG entities to Farmers Insurance Exchange ("FIE") (80%), Truck Insurance Exchange ("Truck") (10%) and Fire Insurance Exchange ("Fire") (10%). FGI, doing business as Farmers Underwriters Association, is the Attorney-in-Fact for FIE. Truck Underwriters Association is the Attorney-in-Fact for Truck. Fire Underwriters Association is the Attorney-in-Fact for Fire. FGI owns 100% of Truck Underwriters Association and Fire Underwriters Association. 21st Century PAG is comprised of eighteen insurance companies domiciled in nine states and nine related non-insurance entities.

Effective July 1, 2009, all outstanding shares of the Company are owned 80% by FIE, 10% by Truck, and 10% by Fire.

The Company changed its name to 21st Century North America Insurance Company, which was adopted by the shareholders and the board of directors on December 4, 2009, and approved by the Department on January 14, 2010, to become effective April 1, 2010.

At December 31, 2013, capital paid in is \$5,000,000 consisting of 5,000 shares of common stock at \$1,000 par value per share. All authorized shares are issued and outstanding. Gross paid in and contributed surplus was \$133,800,000.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven members. At December 31, 2013, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kenneth W. Bentley Los Angeles, CA	Retired
Anthony J. DeSantis Centerville, DE	President of Personal Lines Farmers Group, Inc.
Peter D. Kaplan Los Angeles, CA	Retired
David W. Louie Los Angeles, CA	Real Estate Broker
Dale A. Marlin Naples, FL	Retired
Ronald G. Myhan Laguna Beach, CA	Chief Financial Officer Farmers Insurance Exchange
Donald E. Rodriguez Long Beach, CA	Executive Director Boys and Girls Club of Long Beach
Bryan M. Rothenberg Plainview, NY	Attorney Farmers Insurance Exchange
John T. Wuo Arcadia, CA	President and Chief Executive Officer Golden Apple Group International

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
William Donald Loucks Jr.	President
Glenn Alan Pfeil	Treasurer
Doren Eugene Hohl	Secretary

B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed to write business in all fifty states and the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident and Health
4	Fire
5	Miscellaneous Property
6	Water Damage
7	Burglary and Theft
8	Glass
9	Boiler and Machinery
10	Elevator
11	Animal
12	Collision
13	Personal Injury Liability
14	Property Damage Liability
15	Workers' Compensation and Employers' Liability
16	Fidelity and Surety
17	Credit
19	Motor Vehicle and Aircraft Physical Damage
20	Marine and Inland Marine
21	Marine Protection and Indemnity

The Company is also authorized to transact such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113 (a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers'

Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et seq. as amended).

As of December 31, 2013, the Company's primary lines of business were private passenger automobile insurance and automobile physical damage insurance. The Company primarily markets its personal automobile insurance through mass marketing programs of the 21st Century PAG division.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

DIRECT PREMIUMS WRITTEN

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	<u>Premiums Written in New York State as a Percentage of Total Premium</u>
2010	\$ 30,802,807	\$ 289,053,496	10.66%
2011	\$ 26,308,963	\$ 227,508,993	11.56%
2012	\$ 23,410,900	\$ 196,103,187	11.94%
2013	\$ 20,813,313	\$ 169,428,221	12.28%

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$5,000,000.

C. Reinsurance

Assumed

The Company is the lead Company in the 21st Century Intercompany pooling agreement. In accordance with the agreement, effective July 1, 2009, the Company assumes 100% of the net written business of the other participants in the pool. In 2013 the Company assumed approximately \$1.6 billion in premium under the agreement representing 91% of the Company's gross premium for 2013.

The Company additionally assumes a relatively small amount of private passenger auto liability and physical damage from non-affiliated companies.

Ceded

Effective July 1, 2009, the Company entered into a 100% quota share reinsurance agreement with its parent, the Farmers Insurance Exchange (“FIE”). Under the terms of the agreement, the Company cedes 100% of the net premiums written by the 21st Century Intercompany pool. As a result of this agreement the Company has retained no underwriting risk since June 30, 2009. Prior to July 1, 2009 the Company retained 23% of the net premiums written by the pool. The Company cedes a relatively small amount of premium to external reinsurers.

At December 31, 2013 the Company reported approximately \$1.48 billion in reinsurance recoverables from FIE. These reinsurance recoverables are the Company’s most significant financial item and ultimately the Company’s most significant financial risk is its ultimate ability to collect on these reinsurance recoverables. It is noted that FIE was examined concurrently with the Company and there were no examination changes made to FIE’s balance sheet and income statement.

Reinsurance agreements and amendments with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

All significant reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company’s chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 18 through 27 of SSAP No. 62R.

D. Holding Company System

The Company is a member of the 21st Century Group.

The Company is owned 80% by Farmers Insurance Exchange, 10% by Truck Insurance Exchange and 10% by Fire Insurance Exchange (“FIE”), all California domiciled corporations. The Farmers Exchanges are unincorporated insurance companies in which subscribers exchange policies through an attorney in fact in transactions that share or spread the risk. The subscribers provide a power of attorney to an attorney in fact through a subscription agreement, giving the attorney in fact legal authority to act on their behalf in managing and administering the Farmers Exchanges.

The Zurich Insurance Group Ltd, a publicly traded Swiss Corporation, is the ultimate parent of the attorney’s in fact which manage the exchanges and has been accordingly deemed the ultimate controlling person of the Company.

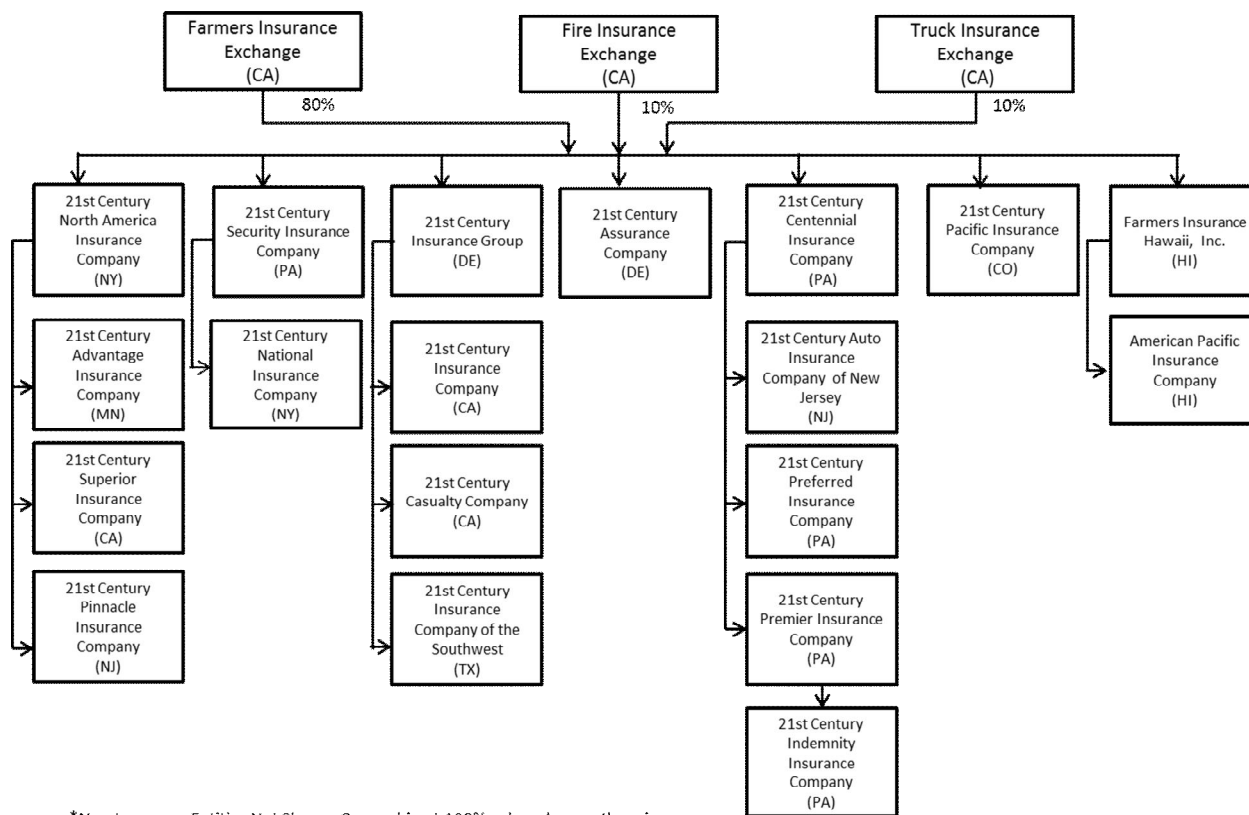
The Company owns 100% of the outstanding shares of common stock of 21st Century Superior Insurance Company (a California domiciled company), 21st Century Advantage Insurance Company (a Minnesota domiciled company) and 21st Century Pinnacle Insurance Company (a New Jersey domiciled company).

A review of the holding company registration statements filed with this Department indicated that such filings were complete and filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged organizational chart of the holding company system at December 31, 2013:

EXCHANGES/21st CENTURY ORGANIZATION*

Exhibit A



*Non-Insurance Entities Not Shown. Ownership at 100% unless shown otherwise

At December 31, 2013, the Company was a party to the following agreements with other members of its holding company system:

1. Services Agreement

Effective July 1, 2009, the Company entered into an amended service agreement with its ultimate parent, Farmers Insurance Exchange (“FIE”). Under the terms of this agreement, FIE will provide, or arrange for the provision of various investment services to the Company, including but not limited to: underwriting, claim settlement, reinsurance, legal, communications, advertising, regulatory, financial, and general administrative services.

On September 6, 2011, an amendment and restatement of the original agreement was entered into by both parties.

The agreement and subsequent amendment were filed with and non-disapproved by the Department in accordance with Section 1505(d)(3) of the New York Insurance Law.

2. Investment Services Agreement

Effective January 1, 2010, the Company entered into an amended service agreement with its ultimate parent, FIE. Under the terms of this agreement, FIE will provide, or arrange for the provision of various investment services to the Company.

The agreement was filed with and non-disapproved by the Department in accordance with Section 1505(d)(3) of the New York Insurance Law.

3. Tax Sharing Agreement

The Company participates in a tax allocation agreement with its ultimate parent, FIE along with various subsidiaries of FIE. The original effective date of the agreement was July 1, 2009. The agreement has been updated and its last update has an effective date of September 1, 2013.

Pursuant to the terms of the agreement, the parties will file consolidated federal income tax returns. Said agreement stipulates that the Company’s tax liability on a consolidated basis would not exceed the liability had the Company filed its tax return on a stand-alone basis.

The agreement was filed with and non-disapproved by the Department in accordance with Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	8%
Premiums in course of collection to surplus as regards policyholders	0%

The premium ratios reflected above are not meaningful given the Company's 100% cession to the Farmers Insurance Exchange.

All of the above ratios fall within the benchmark range set forth in the Insurance Regulatory Information System ("IRIS") of the National Association of Insurance Commissioners.

F. Accounts and Records

As part of this examination, a review was made of the Company's general controls over its information systems. The review focused on information technology governance, logical access, physical security, change management, and disaster recovery/business continuity plan. As a result of the review, deficiencies were noted primarily in the area of access controls. These findings were presented to the Company along with recommendations to strengthen its controls. Many of the issues have been remediated at the time of this report. It is recommended that the Company continue to address the recommendations made regarding its information systems controls.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$398,373,140		\$398,373,140
Common stocks	97,630,141		97,630,141
Cash and short-term investments	61,252,249		61,252,249
Investment income due and accrued	4,970,601	\$ 2,500	4,968,101
Uncollected premiums and agents' balances in the course of collection	(679,031)		(679,031)
Amounts recoverable from reinsurers	3,963,311		3,963,311
Receivables from parent, subsidiaries and affiliates	6,480,346		6,480,346
Prepaid expenses	<u>1,644,694</u>	<u>1,644,694</u>	<u>0</u>
Total assets	<u>\$573,635,451</u>	<u>\$1,647,194</u>	<u>\$ 571,988,257</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and Loss adjustment expenses	\$ 18,153,288
Reinsurance payable on paid losses and loss adjustment expenses	20,923
Net deferred tax liability	5,783,622
Ceded reinsurance premiums payable (net of ceding commissions)	(20,343)
Payable to parent, subsidiaries and affiliates	14,920,304
Account payable	4,069
State tax payable to AIG	<u>546,603</u>
 Total liabilities	 \$ 39,408,466

Surplus and Other Funds

Common capital stock	\$ 5,000,000	
Gross paid in and contributed surplus	133,800,000	
Unassigned funds (surplus)	<u>393,779,791</u>	
Surplus as regards policyholders		<u>532,579,791</u>
 Total liabilities, surplus and other funds		 <u>\$571,988,257</u>

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2012. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Net income for the four-year examination period, January 1, 2010 through December 31, 2013, was \$130,696,119 detailed as follows:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses and loss adjustment expenses incurred	\$	(82,863)	
Other underwriting expenses incurred		<u>1,434,074</u>	
Total underwriting deductions			<u>1,351,211</u>
Net underwriting loss		\$	(1,351,211)

Investment Income

Net investment income earned	\$	83,231,078	
Net realized capital gains		<u>28,178,083</u>	
Net investment gain			111,409,161

Other Income

Other fees	\$	6,022	
Total other income			<u>6,022</u>
Net income before all federal and foreign income taxes			\$110,063,972
Federal and foreign income taxes incurred			<u>(20,632,147)</u>
Net income			<u>\$130,696,119</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$71,287,423 during the four-year examination period January 1, 2010, through December 31, 2013, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009			\$ 461,292,368
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 130,696,119		
Net unrealized capital gains	14,741,573		
Change in net deferred income tax		\$ 31,529,461	
Change in non-admitted assets	2,815,317		
Cumulative effect of changes in accounting principle	4,563,875		
Dividends to stockholders	<u>0</u>	<u>50,000,000</u>	
Total gains and losses	\$ <u>152,816,884</u>	\$ <u>81,529,461</u>	
Net increase in surplus			<u>71,287,423</u>
Surplus as regards policyholders per report on examination as of December 31, 2013			\$ <u>532,579,791</u>

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$18,153,288 is the same as reported by the Company as of December 31, 2013. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

It should be noted that this liability reflects losses retained by the Company prior to July 1, 2009. Effective July 1, 2009, all losses were ceded to the Farmers Insurance Exchange. At the examination date, the Company has taken reinsurance reserve credit, for losses ceded to the exchange, of approximately \$975 million. The Company has additionally reduced its unearned premium reserve by approximately \$439 million.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained four recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
i.	It is recommended that the Company obtain and maintain the signed statements from each member of its board of directors confirming that such member has received and read the report on examination pursuant to the provisions of Section 312(b) of the New York Insurance Law.	6
	The Company has complied with this recommendation.	
B	<u>Holding Company System</u>	
i.	It is recommended that the Company adhere to the provisions of Section 1505(d) of the New York Insurance Law and Department Circular Letter 1979-33.	14
	The Company has complied with this recommendation.	
ii.	It is recommended that the Company refrain from making payments to AIGM in excess of the amounts owed for services rendered.	14
	The company's contract with AIGM is no longer in effect therefore this recommendation is not applicable.	
iii.	It is recommended that the Company settle its intercompany balances in a timely manner and not admit any amounts over ninety days due pursuant to the provisions of SSAP No. 25.	15
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Accounts and Records</u>	
i.	It is recommended that the Company continue to address the recommendations made regarding its information systems controls.	12

Respectfully submitted,

Adebola Awofeso
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

ADEBOLA AWOFESE being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

Adebola Awofeso

Subscribed and sworn to before me

this _____ day of _____, 2015.

APPOINTMENT NO. 31037

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Adebola Awofeso

as a proper person to examine the affairs of the

21st Century North American Insurance Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 9th day of September, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:

Jean Marie Cho
Deputy Superintendent