

REPORT ON EXAMINATION  
OF THE  
21st CENTURY NATIONAL INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2009

DATE OF REPORT

MARCH 30, 2011

EXAMINER

JIMMIE NEWSOME

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

March 30, 2011

Honorable James J. Wrynn  
Superintendent of Insurance  
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 30528 dated May 18, 2010, attached hereto, I have made an examination into the condition and affairs of the 21st Century National Insurance Company as of December 31, 2009 and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate the 21st Century National Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

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

## 1. SCOPE OF EXAMINATION

This examination was conducted as a multi-state examination of 21st Century Personal Auto Group (“21st Century PAG”) Personal Lines Pool companies in coordination with the examination of other Farmers property and casualty companies 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, 2006. This examination covered the three-year period from January 1, 2007 through December 31, 2009. 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 which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

The Company, formerly known as Abeille General Insurance Company, Inc., commenced business as a United States Branch of a foreign insurer on September 4, 1975. On December 12, 1994, the Company was incorporated in the State of New York.

On July 16, 1996, New Hampshire Indemnity Company, Inc. (“NHIC”) purchased all of the issued and outstanding shares of the Company. NHIC was a direct wholly-owned subsidiary of New Hampshire Insurance Company, an indirect wholly-owned subsidiary of American International Group, Inc. (“AIG”), through June 30, 2009.

On February 1, 1997, the Company’s name was changed to AIG National Insurance Company, Inc., which was approved by the Department on the same date.

The Company and other member companies that comprise the 21st Century Personal Auto Group (“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 ten related non-insurance entities.

Effective July 1, 2009, the outstanding shares of NHIC, the Company's direct parent, are owned 80% by FIE, 10% by Truck, and 10% by Fire. The Company continues to be a direct wholly-owned subsidiary of NHIC, which changed its name to 21st Century Security Insurance Company, effective April 1, 2010.

At December 31, 2009, capital paid in was \$6,000,000 consisting of 60,000 shares of common stock at \$100 par value per share. All authorized shares are issued and outstanding. Gross paid in and contributed surplus was \$4,791,928.

Subsequent to the examination date, the Company changed its name to 21st Century National 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.

A. Management

Pursuant to the Company's charter and by-laws, as amended and restated, management of the Company is vested in a board of directors, consisting of not less than thirteen or more than twenty-one members. The board is required to meet at least one time during each calendar year. At December 31, 2009, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Karen Moller Alejnikov Valley Forge, PA	Executive Vice President – Operations, 21st Century Insurance and Financial Services, Inc.
Robin Ken Campaniano Honolulu, HI	Vice Chairman, President & Chief Executive Officer, Farmers Insurance Hawaii, Inc.
Jeffrey John Dailey Los Angeles, CA	Executive Vice President – Personal Lines, Farmers Group, Inc.
Anthony James DeSantis Centerville, DE	Chairman, President & Chief Executive Officer, 21st Century Insurance and Financial Services, Inc.
William Donald Loucks, Jr. Glen Mills, PA	Executive Vice President & Chief Operating Officer, 21st Century Insurance and Financial Services, Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Lisa Shari Mahaffey Baldwin, NY	Claims Counsel, 21st Century Insurance and Financial Services, Inc.
Ronald Gregory Myhan Laguna Beach, CA	Executive Vice President – Finance, Farmers Exchanges
Glenn Alan Pfeil Wilmington, DE	Chief Financial Officer, Executive Vice President & Treasurer, 21st Century Insurance and Financial Services, Inc.
James Anthony Porcari, III Alpharetta, GA	Senior Vice President – Claims, 21st Century Insurance and Financial Services, Inc.
Donald Walter Procopio Aldan, PA	Senior Vice President & Chief Actuary, 21st Century Insurance and Financial Services, Inc.
Bryan Marc Rothenberg Plainview, NY	Managing Attorney, 21st Century Insurance and Financial Services, Inc.
Mhayse Gokul Samalya Topanga, CA	Executive Vice President – Commercial Lines, Farmers Group, Inc.
F. Robert Woudstra Los Angeles, CA	Chief Executive Officer, Farmers Group, Inc.

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 had an acceptable record of attendance.

Section 312(b) of the New York State Insurance Law states in part:

“A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer's files confirming that such member has received and read such report.”

The Company was unable to provide the signed statement from each director on the board of directors that they had received and read the prior report on examination of AIG National Insurance Company, Inc. as of December 31, 2006.

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.

As of December 31, 2009, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Anthony J. DeSantis	President & Chief Executive Officer
Glenn A. Pfeil	Chief Financial Officer, Executive Vice President & Treasurer
Esta L. Cain	Senior Vice President, Secretary & General Counsel
Karen M. Alejnikov	Senior Vice President
William D. Loucks, Jr.	Senior Vice President
James A. Porcari, III	Senior Vice President
Donald W. Procopio	Senior Vice President & Chief Actuary

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in forty-one states and the District of Columbia. The Company is also approved as an accredited reinsurer in Connecticut.

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, 69<sup>th</sup> Congress as amended; 33 USC Section 901 et seq. as amended).

The Company's primary business is providing voluntary private passenger automobile insurance. The Company markets its personal automobile insurance through independent agents. The Company also participates in the National Flood Insurance Program ("NFIP") and the Write Your Own ("WYO") program of the Federal Insurance Administration ("FIA") of the Federal Emergency Management Agency ("FEMA") and granted authority to National Flood Services, Inc. ("NFS") to act for and on behalf of the Company in matters required for NFS to supervise and conduct the handling of the flood insurance business.

Based upon 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 \$6,000,000.

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 Written</u>	<u>Premiums Written in New York as a Percentage of Total Premiums Written</u>
2007	\$44,271,514	\$340,369,293	13.01%
2008	\$31,459,776	\$283,180,154	11.11%
2009	\$14,547,459	\$175,351,128	8.30%

C. Reinsurance

Assumed Reinsurance

The Company's assumed reinsurance program consists mainly of private passenger auto liability, auto physical damage, homeowners, earthquake and commercial auto liability coverage assumed on a quota share basis, pursuant to the terms of an intercompany pooling agreement with authorized affiliated cedents. Additionally, the Company's participation in various mandated pools is reflected in its assumed reinsurance activity. The Company utilizes reinsurance accounting as defined in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

The Company's assumed reinsurance business has decreased since the last examination.

Intercompany Pooling Agreement

The Company was party to an intercompany pooling agreement, effective January 1, 1996, and as subsequently amended. In connection with the sale of the 21st Century PAG companies to Farmers Insurance Exchange ("FIE"), Truck Insurance Exchange ("Truck"), and Fire Insurance Exchange ("Fire"), the intercompany pooling agreement was subsequently amended and restated effective June 30, 2009 (the "Amended Agreement").

Pursuant to the terms and conditions of the Amended Agreement, 100% of the net business written by each of the pool members is ceded to the 21st Century North America Insurance Company ("21st CNAIC"), the lead insurer in the 21st Century PAG Personal Lines Pool. 21st CNAIC will cede and retrocede all liabilities relating to losses with a date of loss prior to July 1, 2009, to the members of the 21st Century PAG Personal Lines Pool based on each pool member's fixed pooling participation percentage. Losses which have a date of loss on and after July 1, 2009, will be ceded to FIE by 21st CNAIC pursuant to the terms of a 100% quota share reinsurance agreement between 21st CNAIC and FIE.

At December 31, 2009, the pool members and their applicable pooling participation percentage in the 21st Century PAG Personal Lines Pool were as follows:

<u>Pool Member</u>	<u>State of Domicile</u>	<u>Pooling Percentage</u>
21st Century North America Insurance Company	NY	23.00%
21st Century Centennial Insurance Company	PA	20.00%
21st Century Insurance Company	CA	20.00%
21st Century Premier Insurance Company	PA	10.00%
21st Century Security Insurance Company	PA	8.00%
Farmers Insurance Hawaii, Inc.	HI	4.00%
21st Century Assurance Company	DE	2.00%
21st Century Indemnity Insurance Company	PA	2.00%
21st Century Pacific Insurance Company	CO	2.00%
21st Century Preferred Insurance Company	PA	2.00%
21st Century Pinnacle Insurance Company	NJ	1.75%
21st Century Auto Insurance Company of New Jersey	NJ	1.50%
21st Century Advantage Insurance Company	MN	1.00%
21st Century National Insurance Company	NY	1.00%
21st Century Superior Insurance Company	CA	1.00%
American Pacific Insurance Company, Inc.	HI	0.50%
21st Century Casualty Company	CA	0.25%
21st Century Insurance Company of the Southwest	TX	0.00%

#### Ceded Reinsurance

At December 31, 2009, the Company had the following ceded reinsurance program in effect:

#### Private Client Group (“PCG”) Business Reinsurance and Administration Agreement

Effective June 30, 2009, the Company and various affiliated companies entered into a PCG business reinsurance and administration agreement with National Union Fire Insurance Company of Pittsburgh, PA (“NUFIC”), an unaffiliated reinsurer. Under the terms of the agreement, all liabilities relating to new PCG business written by members of the 21st Century PAG Personal Lines Pool on or after July 1, 2009 will be assumed by the 21st Century North America Insurance Company (“21st CNAIC”). In turn, the 21st CNAIC will cede and retrocede all liabilities associated with the new PCG policies written to NUFIC.

Reinsurance agreements 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.

It is the Company’s policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company to take credit for cessions to unauthorized

reinsurers were reviewed for compliance with Department Regulations 133. No exceptions were noted.

All significant ceded 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. 62. 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 25 of SSAP No. 62.

During the period covered by this examination, the Company commuted various reinsurance agreements where it was a ceding and/or assuming reinsurer. These commutations were neutral to the Company's surplus position.

#### D. Holding Company System

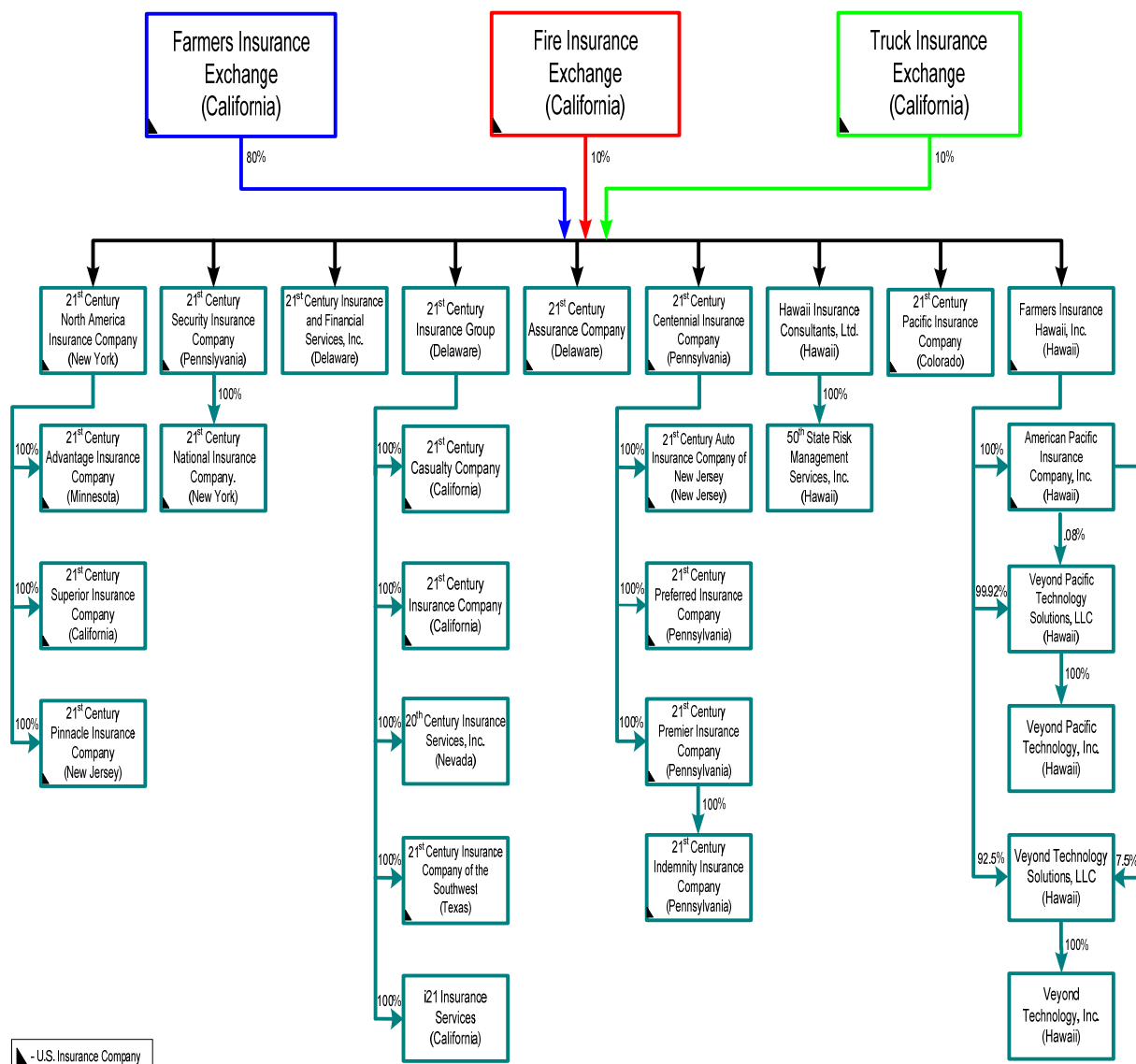
The Company is a member of the 21st Century Personal Auto Group ("21st Century PAG"). The Company and other members of 21st Century PAG were acquired by Farmers Group, Inc., a subsidiary of Zurich Financial Services Ltd. from American International Group, Inc., effective July 1, 2009. Subsequently on July 1, 2009, FGI sold the 21st Century PAG entities to Farmers Insurance Exchange ("FIE"), Truck Insurance Exchange ("Truck"), and Fire Insurance Exchange ("Fire"). 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.

The Company is a wholly-owned subsidiary of 21st Century Security Insurance Company (f/k/a New Hampshire Indemnity Company, Inc.), a Pennsylvania domiciled corporation, which is owned 80% by Farmers Insurance Exchange, 10% by Truck Insurance Exchange, and 10% by Fire

Insurance Exchange; all California domiciled corporations. Farmers Insurance Exchange has been deemed the ultimate controlling entity.

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, 2009, which reflects the 21st Century PAG companies' new names as of April 1, 2010:



At December 31, 2009, the Company was party to the following agreements with other members of its holding company system:

1. Tax Sharing Agreement

Effective July 1, 2009, the Company participates in a tax allocation agreement with its ultimate parent, Farmers Insurance Exchange. Pursuant to the provisions of Section 1505(d) of the New York Insurance Law and Department Circular Letter 1979-33, the agreement and any subsequent amendments thereto are required to be submitted to the Department for non-disapproval at least 30 days prior to the effective date. It was noted that the Company did not submit the agreement to the Department until September 23, 2010 and the Department non-disapproved it on January 19, 2011 with an effective date no earlier than November 1, 2010.

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.

Intercompany Balances

It is noted that settlements between the Company and 21st Century North America Insurance Company for its share of the management services and for pooling transactions are not made on a timely basis. At December 31, 2009, the Company reported an admitted asset for "Receivable from parent, subsidiaries and affiliates" in the amount of \$6.3 million, which was not settled until September 2010 when it settled balances through June 30, 2010.

Paragraph 6 of SSAP No. 25 states:

Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified date due. Amounts owed to the reporting entity over ninety days from the written agreement due date shall be nonadmitted, except to the extent this is specifically addressed by other statements of statutory accounting principals (SSAPs). If the due date is not addressed by the written agreement, any uncollected receivable is nonadmitted.

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.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, 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)	49%
Premiums in course of collection to surplus as regards policyholders	0%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the three-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$68,874,464	77.65%
Other underwriting expenses incurred	24,013,997	27.07
Net underwriting loss	<u>(4,190,575)</u>	<u>(4.72)</u>
Premiums earned	<u>\$88,697,886</u>	<u>100.00%</u>

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 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	\$23,886,772		\$23,886,772
Cash, cash equivalents and short-term investments	2,141,753		2,141,753
Investment income due and accrued	278,224		278,224
Amounts recoverable from reinsurers	(2,542)		(2,542)
Net deferred tax asset	502,523	\$415,138	87,385
Receivables from parent, subsidiaries and affiliates	6,310,966		6,310,966
Other receivables	<u>(156)</u>	<u>0</u>	<u>(156)</u>
Total assets	<u>\$33,117,540</u>	<u>\$415,138</u>	<u>\$32,702,402</u>



Liabilities, Surplus and Other Funds

<u>Liabilities</u>		<u>Amount</u>
Losses		\$ 9,119,426
Reinsurance payable on paid losses and loss adjustment expenses		709,372
Loss adjustment expenses		2,735,454
Current federal and foreign income taxes		82,034
Ceded reinsurance premiums payable		148,159
Payable to parent, subsidiaries and affiliates		<u>12,152</u>
Total liabilities		\$12,806,597
 <u>Surplus and Other Funds</u>		
Common capital stock	\$6,000,000	
Gross paid in and contributed surplus	4,791,928	
Unassigned funds (surplus)	<u>9,103,877</u>	
Surplus as regards policyholders		<u>19,895,805</u>
Total liabilities, surplus and other funds		<u>\$32,702,402</u>

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2002. 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. Audits covering tax years 2003 through 2005 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2006 through 2009. 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

Surplus as regards policyholders increased \$2,319,543 during the three-year examination period January 1, 2007, through December 31, 2009, detailed as follows:

Underwriting Income

Premiums earned		\$88,697,886
Deductions:		
Losses incurred	\$57,099,317	
Loss adjustment expenses incurred	11,775,147	
Other underwriting expenses incurred	23,985,540	
LAD program fee	<u>28,457</u>	
Total underwriting deductions		<u>92,888,461</u>
Net underwriting gain or (loss)		\$ (4,190,575)

Investment Income

Net investment income earned	\$4,913,366	
Net realized capital gains or (losses)	<u>279,177</u>	
Net investment gain or (loss)		5,192,543

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(1,249,833)	
Finance and service charges not included in premiums	2,222,549	
Loss on retroactive reinsurance	<u>(120,562)</u>	
Total other income		<u>852,154</u>
Net income after dividends, after capital gains tax and before all federal and foreign income taxes		\$ 1,854,122
Federal and foreign income taxes incurred		<u>(1,434,091)</u>
Net income		<u>\$ 3,288,213</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2006			\$17,576,262
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income or (loss)	\$3,288,213		
Change in net deferred income tax		\$647,891	
Change in non-admitted assets		320,753	
Prior year adjustment	<u>                    </u>	<u>          26</u>	
Total gains and losses	<u>\$3,288,213</u>	<u>\$968,670</u>	
Net increase (decrease) in surplus			<u>2,319,543</u>
Surplus as regards policyholders per report on examination as of December 31, 2009			<u>\$19,895,805</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability of \$11,854,880 is the same as the amount reported by the Company as of the examination date. 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 statement.

**5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained eight recommendations as follows (item letters and page numbers refer to that of the prior report):

ITEM

PAGE NO.

A. Reinsurance

It is recommended that the Company re-evaluate the benchmarks referenced in the risk transfer worksheet and advise the Department of the results of this review.

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The recommendation is no longer applicable. The Company was acquired by Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange on July 1, 2009.

ITEMPAGE NO.B. Holding Company SystemTax Payment Allocation Agreement

- i. It is recommended that the Company amend the tax payment allocation agreement in accordance with the Department Circular Letter No. 33 (1979) and submit the agreement to the Department for non disapproval in accordance with the Department Circular Letter No. 33 (1979). 11

The recommendation is no longer applicable. The Company was acquired by Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange on July 1, 2009.

- ii. It is recommended that the Company settle intercompany federal income tax balances within 30 days of filing of the consolidated federal tax returns in accordance with the Department Circular Letter No. 33 (1979). 11

The recommendation is no longer applicable. The Company was acquired by Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange on July 1, 2009.

Investment Advisory Agreement

- It is recommended that the Company amend the investment advisory agreement to reflect the current name of the Company and the custodian, as well as the officers and directors authorized to take action under the agreement. The amendment should be filed with the New York State Insurance Department in accordance with Section 1505(d)(3) of the New York Insurance Law. 11

The recommendation is no longer applicable. The Company was acquired by Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange on July 1, 2009.

Managing General Agent Agreement

- It is recommended that the Company file all future intercompany reinsurance and service agreements and amendments with the Department in a timely manner in accordance with Article 15 of the New York Insurance Law. 12

The Company has complied with this recommendation.

C. Accounts and RecordsRecord Retention for Independent Auditors' Workpapers

- It is recommended that the Company require their independent auditors to include the required record retention clause in the engagement letters for future audits in accordance with Part 89.2(c) of New York Department Regulation 118 14

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and Part 243.2(b)(7) of New York Regulation 152.

The Company has complied with this recommendation.

Remittances and Items Not Allocated

It is recommended that the Company report unapplied cash as a liability in “Remittances and items not allocated” in accordance with the Annual Statement Instructions and SSAP No. 67 of the NAIC Accounting Practices and Procedures Manual.

15

The Company has complied with this recommendation.

D. Risk Management and Internal Control

It is recommended that the Company continue to monitor and remediate the control deficiencies as an on-going effort to enhance the control environment.

15

The Company has complied with this recommendation.

**6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**ITEMPAGE NO.A. Management

- 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.

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B. Holding Company System

- 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.
- ii. 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.

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Respectfully submitted,

\_\_\_\_\_/s/  
Jimmie Newsome  
Associate Insurance Examiner

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

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

\_\_\_\_\_/s/  
Jimmie Newsome

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, James J. Wrynn Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

***Jimmie Newsome***

*as proper person to examine into the affairs of the*

**21<sup>st</sup> CENTURY NATIONAL INSURANCE COMPANY**

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

**Company**

*with such other information as he shall deem requisite.*

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

*this 18th day of May, 2010*



*James J. Wrynn*

JAMES J. WRYNN

Superintendent of Insurance