

REPORT ON EXAMINATION

OF THE

21st CENTURY NATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT

May 11, 2015

EXAMINER

ADEBOLA AWOFESO

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawskey  
Superintendent

May 11, 2015

Honorable Benjamin M. Lawskey  
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 31038 dated September 9, 2013, attached hereto, I have made an examination into the condition and affairs of 21st Century National 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 National 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 (“21st Century PAG”) 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.

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, 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 the 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 nine 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.

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.

At December 31, 2013, capital paid in was \$6,000,000 consisting of 60,000 shares of common stock with a par value of \$100 per share. All authorized shares are issued and outstanding. Gross paid in and contributed surplus was \$ 4,791,928.

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 thirty nine states and the District of Columbia. The Company was also authorized to do business 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 primarily markets its personal automobile insurance through mass marketing programs of the 21st Century Insurance Group.

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 State as a Percentage of Total Premiums Written</u>
2010	\$ 6,657,111	\$37,066,866	17.96%
2011	\$ 866,515	\$ 690,159	125.55%
2012	\$16,927,089	\$16,927,089	100.00%
2013	\$22,550,924	\$22,550,924	100.00%

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 \$6,000,000.

C. Reinsurance

The Company reported no assumed reinsurance business during the examination period.

The Company is party to an intercompany pooling agreement, the 21st Century Intercompany pooling agreement. In accordance with the terms of this agreement, as amended on July 1, 2009, the Company ceded 100% of its net business written to the lead company and assumes nothing back from the pool. Prior to July 1, 2009, the Company had a 1% participation in the pool. The pool leader is 21st Century North America Insurance Company ('21st Century North America'). As a result of this agreement the Company has retained no underwriting risk since June 30, 2009.

At December 31, 2013, the Company reported approximately \$24.3 million in reinsurance recoverables from 21st Century North America. 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.

The ultimate counterparty for the reinsurance recoverables is the Company's ultimate parent, the Farmers Insurance Exchange ('FIE'). This is because 21st Century North America, in turn, cedes 100% of its net business written to FIE pursuant to a quota share agreement effective July 1, 2009. 21st Century North

America reported a surplus, at December 31, 2013, of approximately \$532.5 million and took reserve credit of approximately \$1.4 billion in connection with its reinsurance agreement with FIE.

It is noted that both FIE and 21st Century North America were examined concurrently with the Company and there were no examination changes made to their balance sheets and income statements.

The pooling agreement was filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law. The agreement was 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.

D. Holding Company System

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

The Company is a wholly-owned subsidiary of 21st Century Security Insurance Company, a Pennsylvania domiciled corporation, which is owned 80% by Farmers Insurance Exchange, 10% by Truck Insurance Exchange, and 10% by Fire Insurance Exchange (collectively referred to as 'the Farmers Exchanges'); 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.

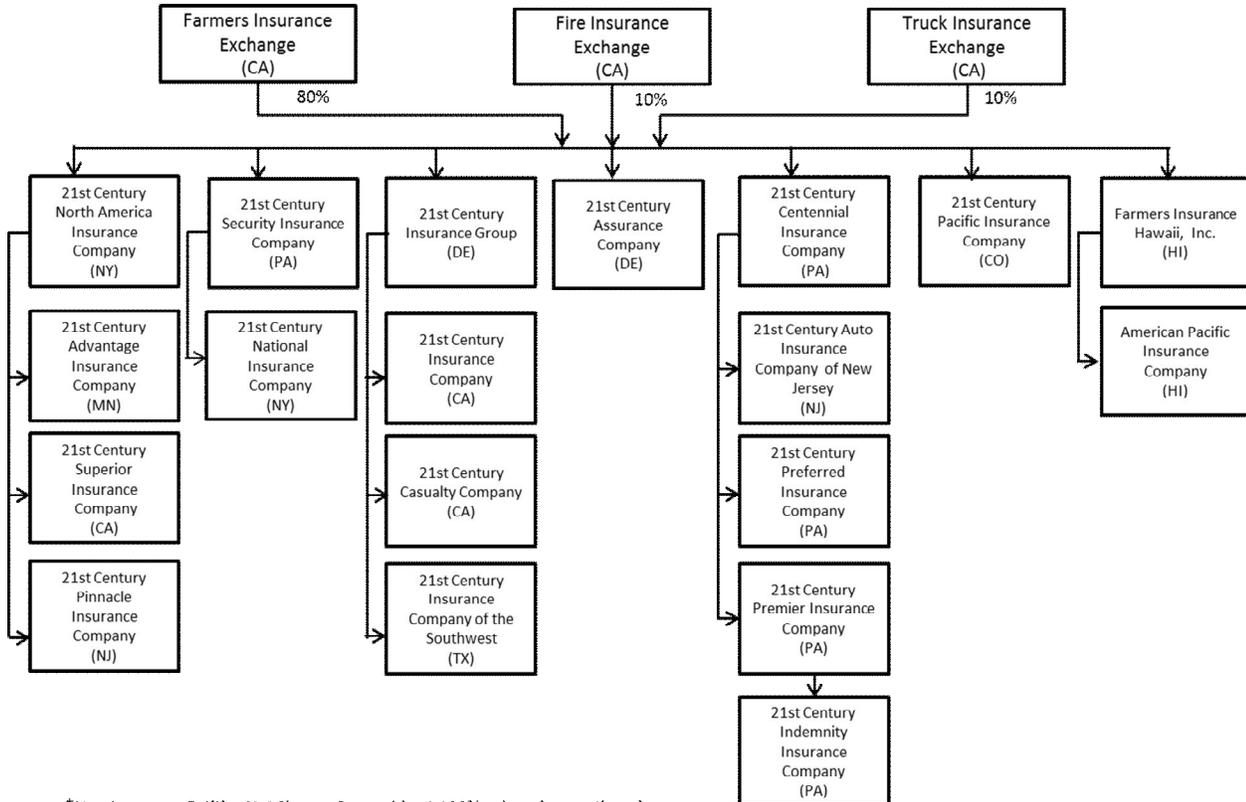
The Zurich Insurance Group Ltd, a publicly traded Swiss Corporation, is the ultimate parent of the attorneys in fact which manage the exchanges and has been accordingly deemed the ultimate controlling person of the Company.

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 agreement with other members of its holding company system:

Tax Sharing Agreement

The Company participates in a tax allocation agreement with its ultimate parent, the Farmers Insurance Exchange (“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)	4%
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 per the terms of the 21st Century Intercompany pooling agreement.

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.

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>	<u>Net Admitted Assets</u>
Bonds	\$23,745,009	\$ 0	\$23,745,009
Cash, cash equivalents and short-term investments	295,431		295,431
Derivatives	6,858		6,858
Receivables for securities	100,000		100,000
Investment income due and accrued	148,773		148,773
Net deferred tax asset	<u>239,879</u>	<u>30,310</u>	<u>209,569</u>
Total assets	<u>\$24,535,950</u>	<u>\$30,310</u>	<u>\$24,505,640</u>
 <u>Liabilities, surplus and other funds</u>			
<u>Liabilities</u>			<u>Amount</u>
Losses and loss adjustment expenses			\$ 789,273
Reinsurance payable on paid losses and loss adjustment expenses			32,518
Payable to parent, subsidiaries and affiliates			<u>184,536</u>
Total liabilities			\$ 1,006,327
 <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>12,707,385</u>	
Surplus as regards policyholders			<u>23,499,313</u>
Total liabilities, surplus and other funds			<u>\$24,505,640</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 \$3,480,059 detailed as follows:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses incurred and Loss adjustment expenses incurred	(4,277)		
Other underwriting expenses incurred	<u>(42,097)</u>		
Total underwriting deductions			<u>(46,374)</u>
Net underwriting gain or (loss)		\$	46,374

Investment Income

Net investment income earned	\$3,335,478		
Net realized capital gains	<u>369,288</u>		
Net investment gain			\$3,704,766

Other Income

Class action recovery income	\$	5,595	
Total other income			<u>5,595</u>
Net income before federal and foreign income taxes			\$3,756,735
Federal and foreign income taxes incurred			<u>276,676</u>
Net income			<u>\$3,480,059</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$3,603,508 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			\$19,895,805
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income or (loss)	\$3,480,059		
Net unrealized capital gains or (losses)	821		
Change in net deferred income tax		\$262,201	
Change in non-admitted assets	183,360		
Cumulative effect of changes in accounting principles	<u>201,469</u>	<u>0</u>	
Total gains and losses	<u>\$3,865,709</u>	<u>\$262,201</u>	
Net increase in surplus			\$ <u>3,603,508</u>
Surplus as regards policyholders per report on examination as of December 31, 2013			<u>\$23,499,313</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$789,273 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 21st Century North America, the lead Company in the 21st Century pool. At the examination date, the Company has taken reinsurance reserve credit of approximately \$19 million. The Company has additionally reduced its unearned premium reserve by approximately 5.3 million due to the 100% cession to 21st Century North America.

21st Century North America has a 100% quota share agreement in place with the Farmers Insurance Exchange. This makes the Farmers Insurance Exchange, the ultimate counter-party on the \$24.3 million in reserve credit taken by the Company.



Respectfully submitted,

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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.

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Adebola Awofeso

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2015.

APPOINTMENT NO. 31038

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

**21<sup>st</sup> Century National 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.

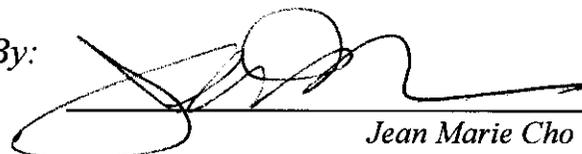
In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York

this 9th day of September, 2013

BENJAMIN M. LAWSKY  
Superintendent of Financial Services



By:

  
Jean Marie Cho  
Deputy Superintendent