

REPORT ON EXAMINATION

OF

21st CENTURY NORTH AMERICA INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

MAY 17, 2019

EXAMINER

IRENE TRAN

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

June 24, 2019

Honorable Linda A. Lacewell
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31703 dated January 30, 2018, attached hereto, I have made an examination into the condition and affairs of 21st Century North America Insurance Company as of December 31, 2017, 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 administrative office located at 3 Beaver Valley Road, Wilmington, DE 19803.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2013. This examination covered the four-year period from January 1, 2014 through December 31, 2017. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was a coordinated examination with California as the lead state of the Farmers Insurance Exchange subgroup of the Farmers Insurance Group of companies. The Company is part of the 21st Century subgroup, which is also part of the Farmers Insurance Group of companies.

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 current and 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, and management’s compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- 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 under the laws of the State of New York on September 19, 1985 and commenced business on January 8, 1986. On the same date, the Company was acquired by American International Group, Inc. On April 22, 1986, the Company changed its name to American International Insurance Company.

On July 1, 2009, FGI, a subsidiary of Zurich Financial Services Group, acquired the Company and the other member companies within the 21st Century Personal Auto Group Pool (Pool). FGI is the Attorney-in-Fact for FIE. FGI sold the Pool entities to three affiliated companies: (1) FIE 80%; (2) Truck Insurance Exchange 10%; and (3) Fire Insurance Exchange 10% (collectively referred to as the FIE Exchanges). On April 1, 2010, the Company changed its name to 21st Century North America Insurance Company.

A. Corporate Governance

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 nor more than thirteen members. The board meets four times during each calendar year. At December 31, 2017, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard Michael Ferraro Thousand Oaks, CA	West Region Director, Private Equity Consulting
Scott William Hood Leawood, KS	Senior Consultant, Rockdale Group
Gail Nanette Jackson Playa del Rey, CA	Physician
Sherman Lenard Lewis III Pearland, TX	President, The Lewis Group
Gerald Alden McElroy La Quinta, CA	CEO, Insight Risk Management Solutions

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Glenn Alan Pfeil* Wilmington, DE	President, 21st Century North America Insurance Company and 21st Century National Insurance Company
Bryan Marc Rothenberg Plainview, NY	Attorney, Famers Insurance Exchange

As of December 31, 2017, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Glenn Alan Pfeil*	President
Doren Eugene Hohl	Secretary
Theresa Leona Harm	Treasurer

*Glenn Alan Pfeil retired effective January 4, 2019. He was replaced by William Loucks as President and Director effective October 1, 2018.

B. Territory and Plan of Operation

As of December 31, 2017, 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 & 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

<u>Paragraph</u>	<u>Line of Business</u>
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

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 \$5,000,000.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2014	\$136,019,781	\$1,512,615,142	\$1,648,634,923
2015	\$108,215,995	\$1,368,903,201	\$1,477,119,196
2016	\$ 85,609,321	\$1,119,771,960	\$1,205,381,281
2017	\$ 36,857,017	\$ 786,980,170	\$ 823,837,187

The Company's core business is private passenger auto liability and physical damage. The Company markets its personal automobile insurance through direct marketing programs of the 21st Century Group.

The Company's direct premiums mainly originated from the eastern United States, with Connecticut, New York and Florida accounting for 56% of the premium volume. The Company ceased writing new business at the end of 2016 resulting in decline of business by approximately 57% in 2017.

C. Reinsurance Ceded

Intercompany Pooling Agreement

As part of the acquisition by the FIE Exchanges, the Company entered into an amended and restated inter-company pooling agreement effective June 30, 2009, (Pooling Agreement). This agreement is currently in effect with 14 affiliated insurance companies and the Company, who is the lead company for the pool. Under the terms of the Pooling Agreement, each of the participants cedes 100% of their net business written to the Company. The Company cedes the pool losses prior to 2009 back to pool members based on each pool member's fixed pool participation percentage. The Company cedes pool losses after 2009 to FIE. This Pooling Agreement was amended effective June 1, 2016. This amendment had 3 parts: 1) changing the number of pool participants from 18 to 15, 2) changing the Company's pooling participation

percentage to 25.5% from 23%, and 3) beginning in 2017, the Company ceased ceding any percentage of this business back to the pool participants, instead ceding 100% to FIE. The agreement and amendment were approved by the Department.

The following is a list of member companies in the Pooling Agreement and the applicable pooling percentages at December 31, 2014, 2015, 2016 and 2017:

<u>Company</u>	<u>Pooling Percentage 12/31/2014 and 12/31/2015</u>	<u>Pooling Percentage 12/31/2016</u>	<u>Pooling Percentage 12/31/2017</u>
21st Century North America Insurance Company *	23.00%	25.50%	100.00%
21st Century Centennial Insurance Company	20.00%	20.00%	0.00%
21st Century Insurance Company	20.00%	20.00%	0.00%
21st Century Premier Insurance Company	10.00%	10.00%	0.00%
21st Century Security Insurance Company	8.00%	8.00%	0.00%
Farmers Insurance Hawaii, Inc.	4.00%	4.00%	0.00%
21st Century Assurance Company	2.00%	2.00%	0.00%
21st Century Indemnity Insurance Company	2.00%	2.00%	0.00%
21st Century Pacific Insurance Company	2.00%	2.00%	0.00%
21st Century Preferred Insurance Company	2.00%	2.00%	0.00%
21st Century Pinnacle Insurance Company	1.75%	1.75%	0.00%
21st Century Auto Insurance Company of New Jersey **	1.50%	N/A	N/A
21st Century Advantage Insurance Company	1.00%	1.00%	0.00%
21st Century National Insurance Company	1.00%	1.00%	0.00%
21st Century Superior Insurance Company **	1.00%	N/A	N/A
American Pacific Insurance Company, Inc.	0.50%	0.50%	0.00%
21st Century Casualty Insurance Company	0.25%	0.25%	0.00%
21st Century Insurance Company of the Southwest **	0.00%	N/A	N/A
	100.00%	100.00%	100.00%

* The lead company of the Pool.

** Removed from the Pooling Agreement effective June 1, 2016.

Reinsurance Ceded Program

Effective June 30, 2009, the Company entered into an Amended and Restated 100% Quota Share Reinsurance Agreement with FIE whereby 100% of the net liability of the Pool will be ceded to FIE by the Company. This agreement was approved by the Department on August 15, 2011.

Because the Company cedes 100% to FIE, the Company retains no underwriting risk, but does retain significant credit risk/counterparty risk. The collectability of the reinsurance recoverable from FIE may have significant financial impact on the Company. At December 31, 2017, the Company had a reinsurance recoverable from FIE of \$879,612,000.

The above reinsurance agreement with FIE was reviewed for compliance with Article 15 of the New York Insurance Law. The agreement was filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected 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 and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. The ceded reinsurance agreement was accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

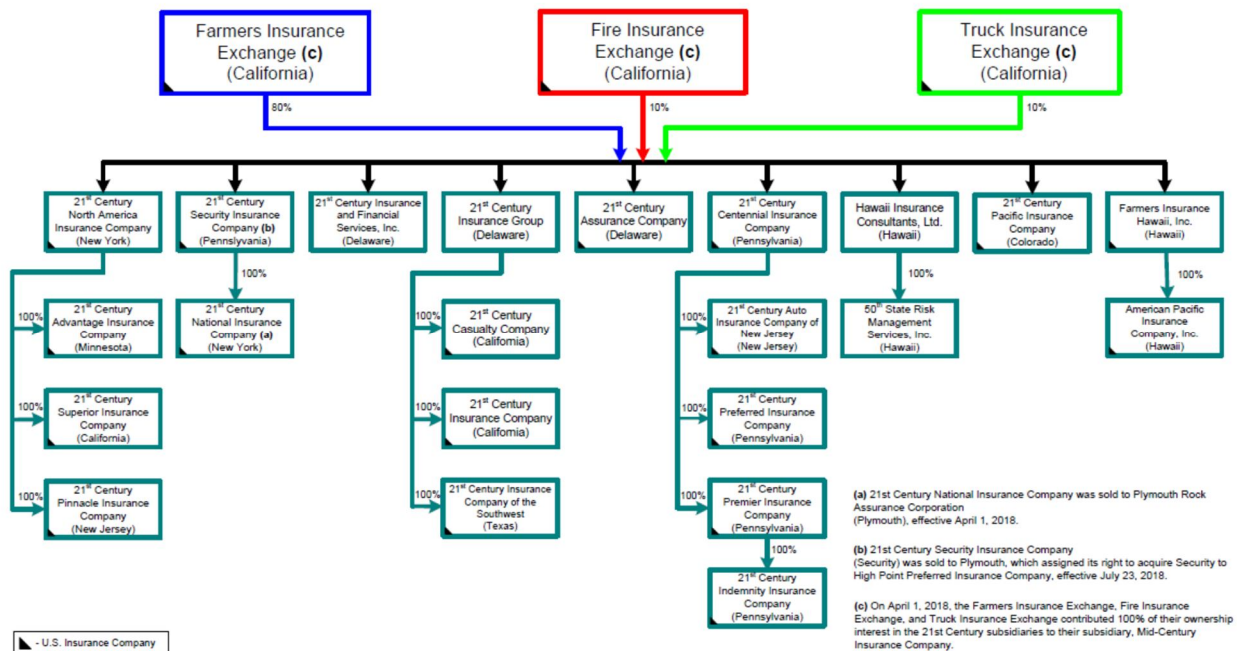
The Company is a member of the Farmers Insurance Group of Companies. The Company is 100% owned by Mid-Century Insurance Company, a California domiciled insurer which is a subsidiary of Farmers Insurance Exchange (80%), Fire Insurance Exchange (10%) and Truck Insurance Exchange (10%) (collectively the "Exchanges"). The Exchanges are inter-insurance exchanges owned by their policyholders and organized under the laws of the State of California.

Pursuant to agreements with FIE, FIE will provide, or arrange for provision of services to the Company, including investment management services. Besides the management and administration services, FIE also assumes the premiums and losses from the Company.

The Company owns all the common stock of (1) 21st Century Superior Insurance Company, a California domiciled company; (2) 21st Century Pinnacle Insurance Company, a New Jersey domiciled company, and; (3) 21st Century Advantage Insurance Company, a Minnesota domiciled company.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an organization chart at December 31, 2017:



Holding Company Agreements

At December 31, 2017, the Company was party to the following agreements with other members of its holding company system:

Service Agreement

The Company originally entered into an amended and restated service agreement with FIE effective June 30, 2009, which was amended and restated effective September 6, 2011. That agreement was replaced by the service agreement effective July 1, 2015 whereby FIE provides underwriting, claim settlement, reinsurance, legal, regulatory reporting, financial, and general administrative services to the Company. The Company paid \$6,892,394 in expenses for services provided in 2017 under this agreement. This agreement was filed with the Department, pursuant to Section 1505 of the New York Insurance Law.

Investment Services Agreement

The Company entered into an investment services agreement with FIE effective January 1, 2010. According to the agreement, FIE provides investment management services to the Company. The agreement was filed with the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.

Tax Sharing Agreement

The Company participates in a tax sharing agreement with FIE and affiliated companies effective September 1, 2013. Pursuant to the terms of the agreement, the parties file consolidated federal income tax returns. The agreement stipulates that the Company's tax liability on a consolidated basis is not to exceed the Company's tax that it would have paid on a stand-alone basis. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Revolving Credit Facility Framework Agreement

Effective January 25, 2017, the Company and certain affiliated companies of FIE entered into a revolving credit facility framework agreement to eliminate the need to maintain large cash balances among participating affiliates as required under the affiliated reinsurance agreements. The agreement allows short-term loans to be made within participating affiliates; the terms of the loans are negotiable at least once every three years. This agreement was filed and non-disapproved by the Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Ratios

The Company's operating and underwriting ratios are not meaningful because the Company cedes 100% of its business to FIE.

The Company's reported risk based capital score (RBC) was 26,851.7% at 12/31/17. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the company's RBC score.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$467,284,942	\$ 0	\$467,284,942
Common stocks (stocks)	103,506,329	0	103,506,329
Cash, cash equivalents and short-term investments	13,600,900	0	13,600,900
Unsettled investment transaction	36,563	0	36,563
Investment income due and accrued	3,645,923	3,000	3,642,923
Amounts recoverable from reinsurers	707,694	0	707,694
Net deferred tax asset	152,585	0	152,585
Receivables from parent, subsidiaries and affiliates	<u>5,635,083</u>	<u>0</u>	<u>5,635,083</u>
Total assets	<u>\$594,570,019</u>	<u>\$3,000</u>	<u>\$594,567,019</u>

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses	\$ 15,641,134
Ceded reinsurance premiums payable (net of ceding commissions)	(30,221)
Payable to parent, subsidiaries and affiliates	<u>6,892,394</u>
Total liabilities	\$ 22,503,307

Surplus and Other Funds

Common capital stock	\$ 5,000,000
Gross paid in and contributed surplus	133,800,000
Unassigned funds (surplus)	<u>433,263,712</u>
Surplus as regards policyholders	<u>572,063,712</u>
Total liabilities, surplus and other funds	<u>\$594,567,019</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2013. 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 2014 through 2016 are currently under examination. 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

The net income for the examination period as reported by the Company was \$26,027,330 as detailed below:

Underwriting Income

Premiums earned		\$ 0
Deduction:		
Losses and loss adjustment expenses incurred	\$ <u>2,674,891</u>	
Total underwriting deductions		<u>2,674,891</u>
Net underwriting gain or (loss)		\$(2,674,891)

Investment Income

Net investment income earned	\$41,236,472	
Net realized capital gain or (loss)	<u>(5,434,584)</u>	
Net investment gain or (loss)		35,801,888

Other Income

Miscellaneous expenses	<u>(1,474)</u>	
Total other income or (loss)		<u>(1,474)</u>
Net income before federal and foreign income taxes		\$33,125,523
Federal and foreign income taxes incurred		<u>7,098,193</u>
Net income		<u>\$26,027,330</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$39,483,921 during the four-year examination period January 1, 2014 through December 31, 2017 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2013			\$532,579,791
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$26,027,330		
Net unrealized capital gains or losses	5,876,187		
Change in net deferred income tax	5,936,210		
Change in nonadmitted assets	<u>1,644,194</u>		
Total gains and losses	<u>\$39,483,921</u>		
Net increase (decrease) in surplus			<u>39,483,921</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2017			<u>\$572,063,712</u>

No adjustments were made to surplus as a result of this examination.

At December 31, 2017, capital paid in was \$5,000,000 consisting of 5,000 shares of \$1,000 par value per share common stock. Gross paid in and contributed surplus was \$133,800,000 which did not change during the examination period.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$15,641,134 is the same as reported by the Company as of December 31, 2017. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

The entire liability above is in the auto liability and physical damage lines of business.

5. SUBSEQUENT EVENTS

On April 1, 2018, all outstanding shares of the Company were transferred to Mid-Century Insurance Company, which is owned by Farmers Insurance Exchange (80%), Fire Insurance Exchange (10%) and Truck Insurance Exchange (10%).

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page number refers to the prior report):

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

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations in this report.


Respectfully submitted,



Irene Tran, CFE
Senior Insurance Examiner

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

Irene Tran, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.


Irene Tran

Subscribed and sworn to before me

this 14th day of June, 2019

Marion Kennedy
MARION KENNEDY
Notary Public, State of New York
No. 01KE6137029
Qualified in Kings County
Commission Expires Nov. 14, 2021

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, 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:

MyNghi Irene Tran

as a proper person to examine the affairs of the

21st Century North America Insurance Company

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

COMPANY

with such other information as she 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 30th day of January, 2018

*MARIA T. VULLO
Superintendent of Financial Services*



By:

Joan P. Riddell

*Joan Riddell
Deputy Bureau Chief*

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

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*MARIA T. VULLO
Superintendent of Financial Services*



By:

Joan P. Riddell

*Joan Riddell
Deputy Bureau Chief*