

REPORT OF EXAMINATION  
OF THE  
21st CENTURY INSURANCE COMPANY  
21st CENTURY CASUALTY COMPANY  
AS OF  
DECEMBER 31, 2021

*Insurance Commissioner*

A handwritten signature in blue ink, appearing to be 'D. P. ...', is written over a light blue rectangular background.

Filed on October 27, 2023

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION .....	1
HISTORY: .....	5
Capitalization .....	6
MANAGEMENT AND CONTROL:.....	6
Management Agreements.....	9
Related Party Transactions.....	10
TERRITORY AND PLAN OF OPERATION.....	12
REINSURANCE: .....	13
Intercompany Pooling Agreement.....	13
Assumed.....	14
Ceded .....	14
ACCOUNTS AND RECORDS:.....	14
Certificate of Authority Requirements .....	17
Vehicle Fraud Assessment .....	17
Premium Tax Filing .....	18
FINANCIAL STATEMENTS: .....	20
21st Century Insurance Company.....	22
Statement of Financial Condition as of December 31, 2021.....	22
Underwriting and Investment Exhibit for the Year Ended December 31, 2021 .....	23
Reconciliation of Surplus as Regards Policyholders from December 31, 2017 through December 31, 2021 .....	24
21st Century Casualty Company .....	26
Statement of Financial Condition as of December 31, 2021.....	26
Underwriting and Investment Exhibit for the Year Ended December 31, 2021 .....	27
Reconciliation of Surplus as Regards Policyholders from December 31, 2017 through December 31, 2021 .....	28
SUMMARY OF COMMENTS AND RECOMMENDATIONS: .....	29
Current Report of Examination .....	29
Previous Report of Examination .....	31
ACKNOWLEDGMENT .....	32

Los Angeles, California  
September 26, 2023

Honorable Ricardo Lara  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the following California-domiciled, multi-state insurance companies,

21st CENTURY INSURANCE COMPANY  
21st CENTURY CASUALTY COMPANY

(hereinafter also referred to as the “Companies.”) The Companies statutory home office is located at 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California 95833.

#### SCOPE OF EXAMINATION

We have performed our multi-state examination of the Companies. The previous examination of the Companies was made as of December 31, 2017. This examination covers the period from January 1, 2018 through December 31, 2021.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Companies’ financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated, both currently and prospectively.

All accounts and activities of the Companies were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Companies’ financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report, but separately communicated to other regulators and/or the Companies.

This 21st Century Insurance subgroup examination was a part of the coordinated examination with California as the lead state of the 21st Century Insurance subgroup. The states of Colorado, Delaware, Hawaii, Minnesota, New Jersey, New York, Pennsylvania, and Texas participated on the 21st Century Insurance subgroup examination, and it was conducted concurrently with the examinations of the following insurance entities in the holding company group:

<b>Group/Company</b>	<b>NAIC CoCode</b>	<b>Domiciled State</b>
<b>FARMERS INSURANCE EXCHANGE GROUP</b>		
Farmers Insurance Company of Arizona	21598	AZ
Farmers Insurance Exchange	21652	CA
Truck Insurance Exchange	21709	CA
Fire Insurance Exchange	21660	CA
Civic Property and Casualty Company	10315	CA
Neighborhood Spirit Property and Casualty Company	10317	CA
Exact Property and Casualty Company	10318	CA
Mid-Century Insurance Company	21687	CA
Farmers Insurance Company of Idaho	21601	ID
Farmers New Century Insurance Company	10806	IL
Illinois Farmers Insurance Company	21679	IL

Farmers Insurance Company, Inc.	21628	KS
Farmers Insurance of Columbus, Inc.	36889	OH
Farmers Insurance Company of Oregon	21636	OR
Texas Farmers Insurance Company	21695	TX
Farmers Texas County Mutual Insurance Company	24392	TX
Mid-Century Insurance Company of Texas	28673	TX
Farmers Insurance Company of Washington	21644	WA

Group/Company	NAIC CoCode	Domiciled State
<b>COAST NATIONAL/BRISTOL WEST GROUP</b>		
Coast National Insurance Company	25089	CA
Security National Insurance Company	33120	FL
Bristol West Preferred Insurance Company	12774	MI
Bristol West Casualty Insurance Company	11034	OH
Bristol West Insurance Company	19658	OH

Group/Company	NAIC CoCode	Domiciled State
<b>FOREMOST GROUP</b>		
Foremost Insurance Company Grand Rapids, Michigan	11185	MI
Foremost Property and Casualty Insurance Company	11800	MI
Foremost Signature Insurance Company	41513	MI
Farmers Specialty Insurance Company	43699	MI
Foremost County Mutual Insurance Company	29254	TX
Foremost Lloyds of Texas	41688	TX

Group/Company	NAIC CoCode	Domiciled State
<b>21st CENTURY INSURANCE GROUP</b>		
<b>21st Century Casualty Company</b>	<b>36404</b>	<b>CA</b>
<b>21st Century Insurance Company</b>	<b>12963</b>	<b>CA</b>
21st Century Pacific Insurance Company (b)	23795	CO
Toggle Insurance Company f/k/a 21st Century Assurance Company	44245	DE
American Pacific Insurance Company, Inc.	10805	HI
Farmers Insurance Hawaii, Inc.	28487	HI
21st Century Advantage Insurance Company	25232	MN
21st Century Auto Insurance Company of New Jersey (b)	10184	NJ
21st Century Pinnacle Insurance Company	10710	NJ

21st Century North America Insurance Company (a)	32220	NY
21st Century Centennial Insurance Company	34789	PA
21st Century Indemnity Insurance Company (b)	43974	PA
21st Century Premier Insurance Company	20796	PA
American Federation Insurance Company f/k/a 21st Century Insurance Company of the Southwest	10245	TX

(a) On January 13, 2020, 21st Century Superior Insurance Company was merged into 21st Century North America Insurance Company and subsequently dissolved.

(b) Effective January 1, 2022, 21st Century Auto Insurance Company of New Jersey, 21st Century Indemnity Insurance Company, and 21st Century Pacific Insurance Company were sold, and therefore they ceased to be part of the Farmers Holding Company system.

(c) Effective April 1, 2023, 21<sup>st</sup> Century Advantage Insurance Company was sold and ceased to be part of the Farmers Holding Company system.

Group/Company	NAIC CoCode	Domiciled State
<b>FARMERS WORKPLACE SOLUTIONS GROUP (f/k/a METROPOLITAN INSURANCE GROUP)</b>		
Economy Fire & Casualty Company	22926	IL
Economy Preferred Insurance Company	38067	IL
Economy Premier Assurance Company	40649	IL
Farmers Casualty Insurance Company f/k/a Metropolitan Casualty Insurance Company	40169	RI
Farmers Direct Property and Casualty Insurance Company f/k/a Metropolitan Direct Property and Casualty Insurance Company	25321	RI
Farmers Group Property and Casualty Insurance Company f/k/a Metropolitan Group Property and Casualty Insurance Company	34339	RI
Farmers Property and Casualty Insurance Company f/k/a Metropolitan Property and Casualty Insurance Company	26298	RI
Farmers Lloyds Insurance Company of Texas f/k/a Metropolitan Lloyds Insurance Company of Texas	13938	TX

Group/Company	NAIC CoCode	Domiciled State
<b>ZURICH GROUP</b>		
<b>Farmers Reinsurance Company</b>	<b>10873</b>	<b>CA</b>

With the exception of the Farmers Reinsurance Company (Farmers Re), which is part of the Zurich Group, all the above companies are part of the Farmers Insurance Group of companies. Although owned by Farmers Group, Inc. (FGI), the Attorney-In-Fact (AIF) for the Farmers Insurance Exchange, Farmers Reinsurance Company operates as one of the Farmers property and casualty companies.

## HISTORY

21st Century Insurance Company (21st CIC) was organized in the state of California on November 1, 1967, and commenced business on December 31, 1968.

21st Century Casualty Company (21st CCC) was organized in the state of California on September 8, 1987, and commenced business on January 4, 1988.

In April 2018, Farmers Insurance Exchange (FIE), Fire Insurance Exchange (Fire), and Truck Insurance Exchange (Truck) contributed 100% of their ownership interest, valued at \$1.416 billion, in their 21st Century subsidiaries, including 21st CIC and 21st CCC, to Mid-Century Insurance Company (Mid-Century). This non-cash transaction was accounted for as a reorganization and change in ownership interest in all of the 21st Century subsidiaries. FIE, Fire, and Truck's shares were \$1.133 billion, \$141.6 million, and \$141.6 million, respectively. The restructuring transaction was exempted from the Form A filing requirement pursuant to California Insurance Code Section 1215.2(g), which was granted by the California Department of Insurance (CDI) on February 27, 2018. After the restructuring, Mid-Century became the immediate parent of the Companies, with FIE being the ultimate controlling entity.

## Capitalization

21st Century Insurance Company is authorized to issue 10,000 shares of common stock with a par value of \$300 per share. As of December 31, 2021, there were 10,000 shares issued and outstanding.

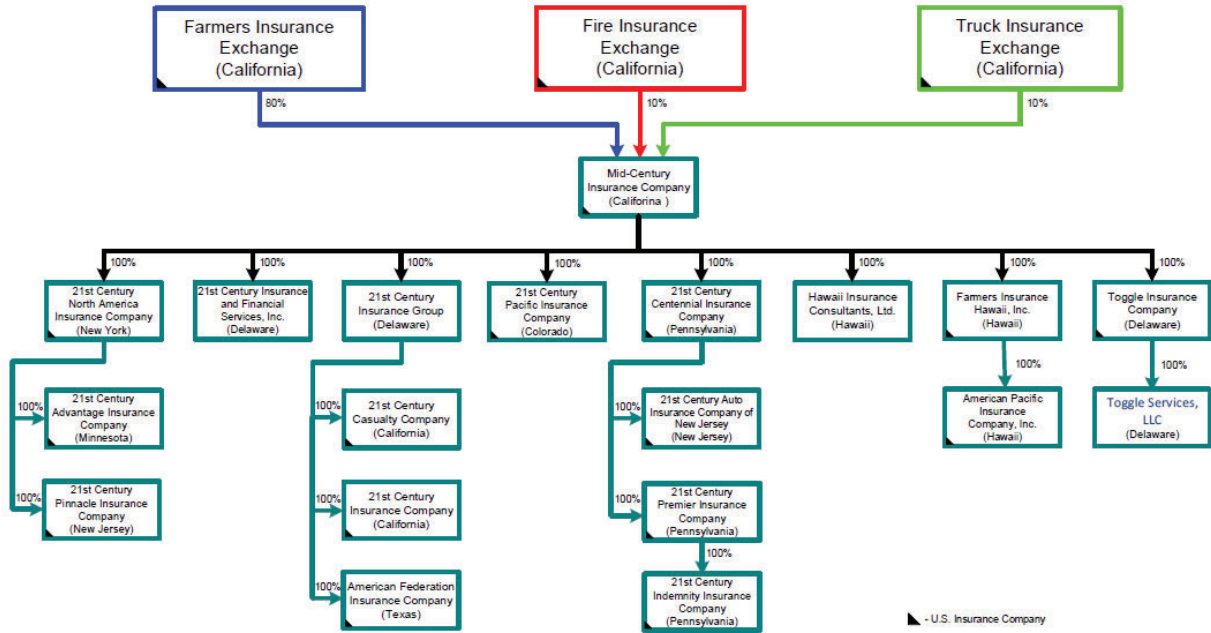
21st Century Casualty Company is authorized to issue 100,000 shares of common stock with a par value of \$1,000 per share. As of December 31, 2021, there were 3,300 shares issued and outstanding.

## MANAGEMENT AND CONTROL

The Companies are members of an insurance holding company system. The following organizational chart shows, as of December 31, 2021, the interrelationship of the Companies with its ultimate parents, along with its subsidiaries within the holding company system. All ownership is 100% unless denoted otherwise:



**CHART I: EXCHANGES/21st CENTURY/TOGGLE GROUP**



▲ - U.S. Insurance Company

Management of 21st Century Insurance Company and 21st Century Casualty Company are vested in a board of directors elected annually, composed of not less than four nor more than seven members. Directors and Officers of 21st Century Insurance Company and 21st Century Casualty Company are the same. A listing of the members of the board and principal officers serving on December 31, 2021 follows:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Joe D. Bryant <sup>(a)</sup> Moore, Oklahoma	Owner Military Medal Manufacturing
Kris M. Bidlingmaier <sup>(b)</sup> Batavia, Illinois	President 21st Century Insurance Group
Guy M. Hanson Missoula, Montana	Owner Retail Businesses
Gail N. Jackson Playa Del Rey, California	Physician
Sherman L. Lewis, III Pearland, Texas	President Businesses with Franchise Operations

Principal Officers

<u>Name</u>	<u>Title</u>
Kris M. Bidlingmaier (a)	President
Theresa L. Harm (b)	Treasurer
Parul Sehgal	Secretary
Robert P. Howard	Vice President
Thomas S. Noh	Vice President & Assistant Treasurer
Gretchen L. Barnes	Assistant Treasurer
James L. Nutting	Actuary

The following changes in management occurred subsequent to the examination date:

- (a) Replaced by Stephanie T. Lloyd, effective March 22, 2022. Stephanie T. Lloyd was replaced by Vanessa A. Jackson as Director, effective June 6, 2022.
- (b) Replaced by Mary K. Keane as Vice President and Treasurer, effective March 22, 2022

## Management Agreements

The following is a summary of the significant management agreements in-force as of December 31, 2021:

**Service Agreement:** The Companies entered into a new Service Agreement with Farmers Insurance Exchange (FIE) as of January 1, 2021. The agreement works in conjunction with the 100% Quota Share Agreements entered into as of January 1, 2021. The agreement covers all normal operations including: claims adjustment services, accounting and financial reporting services, investment management services, preparation of insurance policies, billing and collections, and other administrative services to the Companies. FIE shall provide or arrange for the provision of services at its cost. This agreement was approved by the California Department of Insurance (CDI) on June 26, 2020.

**Agency Agreement:** Effective October 6, 2021, the Companies, and various affiliates of the Companies entered into an Agency Agreement with Farmers General Insurance Agency Inc. (Agent). The agreement appoints the Agent to sell, solicit, and service insurance for the Companies for the classes and lines underwritten by the Companies. The agreement was non-disapproved by the CDI on September 23, 2021.

**Agency Agreement:** Effective December 9, 2021, the Companies and various affiliates of the Companies entered into an Agency Agreement with FX Insurance Agency, LLC (Agent). The agreement appoints the Agent to sell, solicit, and service insurance for the Companies for the classes and lines underwritten by the Companies. The agreement was non-disapproved by the CDI on November 18, 2021.

**Tax Sharing Agreement:** Effective September 1, 2013, FIE entered into a Tax Sharing Agreement with its various insurance and non-insurance affiliates and subsidiaries, including the Companies. FIE is the party primarily responsible for filing and making all tax payments on behalf of the parties to this agreement. Allocation of taxes is based upon separate return calculations, with intercompany tax balances payable or receivable being

settled in amounts equal to the amounts which would be due to or from federal taxing authorities as if separate returns were filed. Intercompany balances are settled monthly, and the final settlement is made within 30 days after the filing date of the consolidated return. The agreement was approved by the CDI on February 18, 2014 pursuant to California Insurance Code (CIC) § 1215.5(b)(4), as well as by the insurance departments of the domiciliary states of the affiliated parties outside of California. The agreement was amended as of January 1, 2022 to add and remove certain parties.

21st Century Insurance Company's portion of the federal income taxes paid under the Tax Sharing Agreement for 2018, 2019, 2020, and 2021 was \$5,038,278, \$5,755,296, \$5,487,998, and \$4,864,357, respectively.

21st Century Casualty Company's portion of the federal income taxes paid under the Tax Sharing Agreement for 2018, 2019, 2020, and 2021 was \$42,461, \$47,432, \$33,979, and \$17,649, respectively.

#### Related Party Transactions

Revolving Credit Facility Framework Agreement: Effective January 25, 2017, FIE and various affiliates and subsidiaries, including the Companies, became signatories to a Revolving Credit Facility Framework Agreement for the purposes of eliminating the need to maintain large cash balances, or unnecessarily liquidating investments during the monthly reinsurance cash settlement process among participating affiliates.

The revolving credit framework allows participating affiliates to make short-term loans to each other to cover debt arising from the monthly reinsurance settlement process. The loans, executed on an as-needed basis, mature in ninety (90) days, and cannot exceed in the cumulative aggregate three percent (3%) of a borrower's or lenders admitted assets. Loans may be collateralized with a pledge of securities at lender's option, and in any event, must be collateralized if the loan crosses from one calendar year into the next calendar year, such that the loan is secured and perfected as of December 31 of the year the loan was made.

Parties to the agreement will renegotiate the terms of the agreement at least once every three (3) years. The agreement was approved by the CDI on January 18, 2017, pursuant to California Insurance Code (CIC) Section 1215.5(b)(1)(A), as well as by the regulators of the domiciliary states of the FIE's affiliates outside of California. The parties to the agreement are:

21st Century Advantage Insurance Company	21st Century Centennial Insurance Company
21st Century Casualty Company	21st Century Insurance Company
21st Century Indemnity Insurance Company	21st Century North America Insurance Company
21st Century Pacific Insurance Company	21st Century Pinnacle Insurance Company
American Pacific Insurance Company	21st Century Premier Insurance Company
Bristol West Casualty Insurance Company	Bristol West Insurance Company
Bristol West Preferred Insurance Company	Civic Property and Casualty Company
Coast National Insurance Company	Exact Property and Casualty Company
Farmers Insurance Company, Inc.	Farmers Insurance Company of Arizona
Farmers Insurance of Columbus, Inc.	Farmers Insurance Company of Idaho
Farmers Insurance Company of Oregon	Farmers Insurance Company of Washington
Farmers Insurance Exchange	Farmers Insurance Hawaii, Inc.
Farmers New Century Insurance Company	Farmers Specialty Insurance Company
Farmers Texas County Mutual Insurance Company	Foremost County Mutual Insurance Company
Foremost Insurance Company Grand Rapids, Michigan	Foremost Lloyds of Texas
Foremost Property and Casualty Insurance Company	Foremost Signature Insurance Company
Fire Insurance Exchange	Illinois Farmers Insurance Company
Mid-Century Insurance Company	Mid-Century Insurance Company of Texas
Neighborhood Spirit Property and Casualty Company	Security National Insurance Company
Texas Farmers Insurance Company	Truck Insurance Exchange
Toggle Insurance Company	

In 2021, there were four intercompany loans executed among the various affiliates for a total of \$256 million. All were repaid with interest, and there was no outstanding balance by the year-end 2021.

Effective January 1, 2022, 21st Century Indemnity Insurance Company and 21st Century Pacific Insurance Company ceased to be parties to the Framework Agreement as they were sold. Effective April 1, 2023, 21st Century Advantage Insurance Company ceased to be a party to the Framework Agreement as it was sold.

On March 10, 2022, the Companies filed a Form D application with the CDI seeking approval of the Amended and Restated Revolving Credit Facility Framework Agreement. Under the terms of the amended agreement, the loans, executed on an as-needed basis, mature in ninety (90) days, and cannot exceed in the cumulative aggregate the lesser of

three percent (3%) of a borrower's or lenders admitted assets or twenty-five percent (25%) of a borrower's or lenders policyholder surplus. The CDI approved the agreement on March 20, 2023, pursuant to CIC § 1215.5(b).

### TERRITORY AND PLAN OF OPERATION

21st Century Insurance Company is licensed to transact insurance business in the District of Columbia and the following 42 states:

Alabama	Indiana	Nebraska	South Carolina
Alaska	Iowa	Nevada	South Dakota
Arkansas	Kansas	New Jersey	Tennessee
California	Kentucky	New York	Texas
Colorado	Maine	North Carolina	Utah
Connecticut	Maryland	North Dakota	Vermont
Delaware	Michigan	Ohio	Virginia
Florida	Minnesota	Oklahoma	Washington
Georgia	Mississippi	Oregon	West Virginia
Idaho	Missouri	Pennsylvania	Wisconsin
Illinois	Montana		

21st Century Casualty Company is licensed to transact insurance business in the District of Columbia and the following 44 states:

Alabama	Indiana	Montana	Pennsylvania
Alaska	Iowa	Nebraska	Rhode Island
Arkansas	Kansas	Nevada	South Carolina
California	Kentucky	New Jersey	South Dakota
Colorado	Louisiana	New Mexico	Tennessee
Connecticut	Maine	New York	Texas
Delaware	Maryland	North Carolina	Utah
	Massachusetts	North Dakota	Vermont
Georgia	Michigan	Ohio	Virginia
Idaho	Mississippi	Oklahoma	Washington
Illinois	Missouri	Oregon	West Virginia
			Wisconsin

The Companies write private passenger automobile insurance business on a direct basis. The Companies, along with the rest of the companies in the 21st Century Insurance subgroup, stopped offering new business outside of the states of California and Hawaii at the end of 2016, with the remaining book of business being moved to the affiliate group, the Bristol West subgroup, or it was non-renewed by the end of 2018. For the year ended December 31, 2021, 21st Century Insurance Company and 21st Century Casualty Company wrote \$419.1 million and \$0 of direct premiums, respectively.

## REINSURANCE

### Intercompany Pooling Agreement

Effective July 1, 2009, the Companies are parties to the Amended and Restated Intercompany Pooling Agreement (Amended Agreement) with other affiliates under the 21st Century Insurance Group. In accordance with the terms of the Amended Agreement, 100% of the net business written by each of the participants is ceded to 21st Century North America Insurance Company (21st CNAIC), the lead company in the 21st Century Personal Lines Intercompany Pool (Pool). Under the terms of the Amended Agreement, liabilities relating to losses with a date of loss prior to July 1, 2009, are ceded to the pool members by 21st CNAIC, based on each pool member's fixed pooling participation percentage. Losses that have a date of loss on and after July 1, 2009, are ceded to Farmers Insurance Exchange (FIE) by the 21st CNAIC, under a 100% Quota Share Reinsurance Agreement. The Amended Agreement also provides for 21st CNAIC to assume the responsibility and expense to provide for the fourteen companies' management of the other members in the Pool, for which the FIE will provide or arrange for these services. Since 2016, various amendments have been made to the Amended Agreement to remove parties that ceased to affiliate with 21 CNAIC due to the sale of the companies. The Amended Agreement was terminated on a runoff basis, effective January 1, 2021

### Assumed

The Companies have no reinsurance assumed.

### Ceded

Effective January 1, 2021, the Companies entered into 100% Quota Share Reinsurance Agreements separately with FIE. Under the terms of the agreements, each company agrees to cede 100% in the net losses to FIE. FIE is responsible for the costs associated with the issuance and administration of the policies reinsured, including claims adjustment services under the agreement.

## ACCOUNTS AND RECORDS

An examination is conducted to determine the financial condition of insurance companies in accordance with the California Insurance Codes (CIC) § 700(c), 730(b), and (c) 733, 734, and prescribed accounting practices as promulgated by the National Association of Insurance Commissioners (NAIC). One must consider, among other things, the results of financial statement analyses and ratios, have open access to all the books and papers of the company, and conduct the examination in accordance with the NAIC's *Financial Condition Examiners Handbook* (Handbook), which requires the examination to evaluate the insurer's financial condition, assess corporate governance, identify current and prospective risks, and evaluate systems controls and procedures used to mitigate those risks.

During the course of the examination, the California Department of Insurance (CDI) experienced significant delays in obtaining access to various supporting documentation because the Farmers Insurance Group (Group) initially would not provide certain documentation and asserted the documentation was under the protection of the Attorney-Client Privilege (ACP), which resulted in significant delays in the progress and timing of



the completion of the examination. The following is the list of compliance findings that were a result of the limitations in receiving the requested documentation:

1. CIC § 734 requires that every company or person from whom information is sought, and its officers, directors, employees, and agents, shall provide to the examiners appointed pursuant to this article, timely, convenient, and free access at all reasonable hours at its offices to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the company being examined. During the course of this examination, the examiners were not provided full access to all of the information requested from the Group.

Furthermore, CIC § 730(f) requires an admitted insurer to maintain all records necessary to determine its financial condition for the current year plus five previous years. Certain communication and/or documentation to support the review/testing were not maintained due to the Groups' one-year email retention policy.

It is recommended that the Companies adhere to CIC § 734 and § 730(f) by providing full access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail. If the maintenance of such audit trail is against the Groups' policy, then the records should be kept separately within the required maintenance period pursuant to CIC § 730(f).

2. California Code of Regulation (CCR) § 2309.13 and NAIC Model Audit Regulation (MAR) Section 13, Paragraph B, requires that "Every insurer required to file an audited financial report shall require the accountant to make available for review by Insurance Department examiners, all work papers prepared in the conduct of the accountant's audit and any communications related to the audit between the accountant and the insurer, at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the commissioner. The insurer shall require that the accountant retain the audit work papers and communications until the Insurance Department has filed a report on examination covering the period of the audit but no longer than seven (7) years from the date of the audit report."

In the process of authorizing the release of the external audit's audit workpapers, the Group obtained the audit workpaper index of the archived workpapers from the external auditor. The Company initially declined to consent to the release of 13 workpapers listed on the index on the basis of attorney client privilege. All but one of the 13 withheld documents were later provided.. The observed process of reviewing and approving the release of the audit workpaper did not comply with CCR 2309.13 and MAR Section 13, paragraph B. It is recommended that the

Companies comply with CCR 2309.13 and MAR Section 13, Paragraph B and not interfere with the requirements of the external auditors to provide the state examiners with full access to the external workpapers without company involvement.

3. CIC § 900.3 and NAIC MAR Section 15, Paragraph B–D, require an insurer or group of insurers doing business in California to establish an internal audit (IA) function to provide independent, objective, and reasonable assurance to the insurer’s audit committee and management regarding the insurer’s governance, risk management, and internal controls. To ensure that an internal auditor remains objective, the IA function shall be organizationally independent. Organizationally independence does not preclude dual-reporting relationships. The IA function shall not defer ultimate judgment of the responsibilities or audit matters to others. Furthermore, the head of the IA function shall report to the Audit Committee regularly, but no less than annually, on the periodic audit plan, factors that may adversely impact the IA function’s independence or effectiveness, material findings from completed audits, and the appropriateness of corrective actions implemented by management as a result of audit findings.

During the course of the examination, it was determined that:

- (a) The IA function performs a significant number of its audits of key activities under the protection of Attorney-Client Privilege, with the audits being performed under the advisement of the legal counsel within the Office of the General Counsel (OGC);
- (b) The IA Reports prepared under the advisement of the legal counsel are not shared directly with the Audit Committee but with the selected legal counsel from OGC and senior management. IA shares with the Audit Committee a summary of all audit reports concluded during the quarter; and
- (c) The Internal Controls over Financial Reporting (ICFR) function, which is responsible for testing controls in compliance with MAR regulations, is not aligned under IA, but is a centralized assurance unit within the Companies’ Finance Department, reporting directly to the management, therefore, not an independent function despite being responsible for internal control testing.

It is recommended that the Companies take necessary steps to adjust the reporting structure for both IA and ICFR to comply with the CIC Section 900.3 and MAR, Section 15, Paragraphs B-D. These steps shall include but are not limited to:

- 1) Ensure IA function is organizationally independent, which shall directly report to the Audit Committee; however, dual reporting is allowed;

- 2) The IA function shall not defer ultimate judgment on the responsibilities or audit matters to others. the scope of the IA shall be determined independently based on the operational needs; and
- 3) Having the ICFR function align with the IA function, whose purpose is to test controls in compliance with MAR, and report directly to the Audit Committee. Dual reporting is allowed.

### Certificate of Authority Requirements

CIC § 706.7 requires that a domestic insurer shall not enter into a contract of insurance upon the life or person of a resident of, or property or operations located in, a reciprocal state unless it is authorized pursuant to the laws of that state to transact such insurance therein. The commissioner shall, every four years, mail notice to every domestic insurer, specifying the reciprocal states.

The Companies were licensed in various states outside the state of California, and many states require annual renewal of the Certificate of Authority (COA) to continue operations in the state. During the course of this examination, it was noted that there were a material number of COAs provided other than California that were expired with no proof of renewal, and several COAs that were not available for review. The oversight was a result of the frequent change of personnel and the shift in the work environment during and after the pandemic. It is recommended that the Companies adhere to CIC § 706.7 by implementing processes and procedures to obtain, track, and maintain up-to-date Certificates of Authority, company name changes, and proof of payment of licensing fees.

### Vehicle Fraud Assessment

CIC § 1872.8 states, in part, that each insurer doing business in the state of California must pay an annual "Vehicle Fraud Assessment Fee" for each vehicle insured under an insurance policy it issues in California. The fee provides funding for the investigation and prosecution of fraudulent automobile insurance claims and automobile theft in the state of California. CCR § -2698.62(d) requires the Auto Assessment File shall contain vehicle identification, policy number, and transaction for every vehicle for which a policy was in

force for each quarter or any part thereof. The data shall be kept in a computer format for a minimum of five years after each calendar year quarter.

During the course of this examination, it was noted that the Auto Assessment File (AAF) provided did not reconcile with filing and contained duplicate Vehicle Identification Numbers (VINs) for FIE, Truck, and Mid-Century. Although the difference in vehicle count between AAF and filing, and duplicate VINs were immaterial, and no adjustments were requested to be made to the filings, the accuracy of the vehicle counts for FIE, Truck, and Mid-Century were unable to be determined. It is recommended that the Companies establish and implement procedures to ensure the accuracy of the filings and maintain accurate and adequate documentation to support their filing with the CDI to ensure future compliance with CCR § 2698.62(d).

#### Premium Tax Filing

Pursuant to the California Department of Insurance (CDI) Bulletin No. 80-6, "All payments by the insureds which are a part of the cost of insurance are premium and subject to premium tax." During the review of the premium tax return filings under the examination years, it was noted that various policies-related fees collected were not included in the 2020 and 2021 premium tax returns for 21st Century Insurance Company (21st CIC). This resulted in understatement of the taxable income by approximately \$3.4 million and \$2.8 million, in 2020 and 2021, respectively. It is recommended that the Companies amend their 2020 and 2021 premium tax returns to reflect the correct policies-related fees collected. It is further recommended that the Company take necessary action to improve procedures for quality assurance reviews of their premium tax returns for accuracy prior to filing. 21st CIC acknowledged the oversight and filed the amendment to the 2020 and 2021 California premium tax returns during the examination.

Upon being notified by the CDI of the above-mentioned violations, the Companies have acknowledged the oversight and taken corrective actions, although not all violations could

be remediated during the examination. It is recommended that the Companies continue the corrective actions to ensure the full compliance of the required laws and regulations.

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Companies with the California Department of Insurance and present the financial condition of the Companies for the period ending December 31, 2021. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements:

- 21st Century Insurance Company (Page 20)
- 21st Century Casualty Company (Page 24)

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2017 through December 31, 2021

21st Century Insurance Company

The accompanying comments on financial statements items reflect reclassifications to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2017 through December 31, 2021

Summary of Reclassifications as of December 31, 2021

Statement of Financial Condition  
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 1,030,966,308	\$	\$ 1,030,966,308	
Common stocks	59,581,839		59,581,839	
Cash, cash equivalents and short-term investments	19,518,248		19,518,839	
Other invested assets	17,807,602		17,807,602	
Investment income due and accrued	6,534,199		6,534,199	
Uncollected premiums and agents' balances in course of collection	(199,562)		(199,562)	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	(2,805,896)		(2,805,896)	
Amounts recoverable from reinsurers	15,456,506		15,456,506	
Receivable from parent, subsidiaries, and affiliates	<u>38,386,523</u>		<u>38,386,523</u>	
 Total assets	 <u>\$ 1,185,245,766</u>	 <u>\$ -</u>	 <u>\$ 1,185,245,766</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ -	(1)
Net Deferred tax liability			3,577,593	
Ceded reinsurance premiums payable			24,919,215	
Payable to parent, subsidiaries and affiliates			29,353,393	
Payable to securities			<u>885,325</u>	
 Total liabilities			 58,735,527	
 Surplus notes		\$ 487,322,625		
Unassigned funds (surplus)		<u>636,187,615</u>		
Surplus as regards policyholders			<u>1,126,510,240</u>	
 Total liabilities, surplus and other funds			 <u>\$1,185,245,767</u>	



Underwriting and Investment Exhibit  
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned	\$	-
Net underwriting gain/		-

Investment Income

Net investment income earned	\$	26,570,156
Net realized capital gains		<u>5,620,642</u>
Net investment gain		<u>32,190,798</u>
		-
Net income before federal and foreign income taxes		32,190,798
Federal and foreign income taxes incurred		<u>(4,864,357)</u>
Net income		<u>\$ 27,326,441</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$1,091,345,252
Net income	\$	27,326,441
Change in net unrealized capital gains		7,491,308
Change in net deferred income tax		<u>347,238</u>
Change in surplus as regards policyholders for the year		<u>35,164,988</u>
Surplus as regards policyholders, December 31, 2021		<u>\$1,126,510,240</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2017 through December 31, 2021

Surplus as regards policyholders, December 31, 2017 per Examination				\$ 996,135,409
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 112,241,998	\$ -		
Change in net unrealized capital gains	17,745,683			
Change in net deferred income tax	<u>387,150</u>			
Total gains and losses	<u>\$ 130,374,831</u>	<u>\$ -</u>		
Net increase in surplus as regards policyholders				<u>130,374,831</u>
Surplus as regards policyholders, December 31, 2021, per Examination				<u>\$1,126,510,240</u>

21st Century Casualty Company

The accompanying comments on financial statements items reflect reclassifications to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2017 through December 31, 2021

Summary of Reclassifications as of December 31, 2021

Statement of Financial Condition  
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 12,347,154	\$ -	\$ 12,347,154	
Cash, cash equivalents and short-term investments	649,415		649,415	
Investment income due and accrued	13,255	-	13,255	
Amounts recoverable from reinsurers	<u>5</u>	<u>-</u>	<u>5</u>	
Total assets	<u>\$ 13,009,829</u>	<u>\$ -</u>	<u>\$ 13,009,829</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ -	(1)
Net deferred tax liability			620	
Ceded reinsurance premiums payable			(37,648)	
Payable to parent, subsidiaries and affiliates			<u>42,356</u>	
Total liabilities			5,328	
Common stock		\$ 3,300,000		
Gross paid-in and contributed surplus		79,940,622		
Unassigned funds (surplus)		<u>(70,236,121)</u>		
Surplus as regards policyholders			<u>13,004,501</u>	
Total liabilities, surplus and other funds			<u>\$13,009,829</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned	\$	-
Net underwriting gain		-

Investment Income

Net investment income earned	\$	83,713
Net realized capital gains		<u>-</u>
Net investment gain		83,713

Other Income

Total other income		<u>-</u>
Net income before federal and foreign income taxes		83,713
Federal and foreign income taxes incurred		<u>(17,649)</u>
Net income		<u>\$ 66,064</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2017		\$ 12,453,466
Net income	\$	551,766
Change in net deferred income tax	(	<u>731)</u>
Change in surplus as regards policyholders for the year		<u>551,035</u>
Surplus as regards policyholders, December 31, 2021		<u>\$ 13,004,501</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2017 through December 31, 2021

Surplus as regards policyholders, December 31, 2017 per Examination			\$ 12,453,466
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 551,766	\$	
Change in net deferred income tax	<u>1,156</u>	<u>(1,887)</u>	
Total gains and losses	<u>\$ 552,922</u>	<u>\$ (1,887)</u>	
Net increase in surplus as regards policyholders			<u>551,035</u>
Surplus as regards policyholders, December 31, 2021, per Examination			<u>\$ 13,004,501</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

Since the business of the Farmers Insurance Group (Group) was pooled and ceded, it was necessary to review the losses and loss adjustment expenses on a group-wide basis. California Department of Insurance (CDI) retained Risk Regulatory Consulting, Inc. (RRC) for the purpose of assisting this examination in determining the reasonableness of the Group's loss and loss adjustment expense reserves. Based on the analysis performed by RRC and a review of their work by a Casualty Actuary from the CDI, the Group's reserves, including the ceding business from the Companies, were found to be reasonably stated and have been accepted for purposes of this examination.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Accounts and Records (Page 15): It is recommended that the Companies adhere to California Insurance Code (CIC) Sections 734 and 730(f) by providing full access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail. If the maintenance of such audit trail is against the Groups' policy, then the records should be kept separately within the required maintenance period pursuant to CIC Section 730(f).

Accounts and Records (Page 15): It is recommended that the Companies comply with California Code of Regulation (CCR) Section 2309.13 and Model Audit Rule (MAR) Section 13, Paragraph B and not interfere with the requirements of the external auditors

to provide the state examiners with full access to the external workpapers without company involvement.

Accounts and Records (Page 16): It is recommended that the Exchange adhere to California Insurance Code (CIC) It is recommended that the Companies take necessary steps to adjust the reporting structure for both Internal Audit (IA) and Internal Control Over Financial Reporting (ICFR) to comply with the CIC Section 900.3 and National Association of Insurance Commissioner Model Audit Rule (MAR), Section 15, Paragraphs B-D. These steps shall include but are not limited to:

- 1) Ensure IA function is organizationally independent, which shall directly report to the Audit Committee; however, dual reporting is allowed;
- 2) The IA function shall not defer ultimate judgment on the responsibilities or audit matters to others. the scope of the IA shall be determined independently based on the operational needs; and
- 3) Having the ICFR function align with the IA function, whose purpose is to test controls in compliance with MAR, and report directly to the Audit Committee. Dual reporting is allowed.

Accounts and Records – Certificate of Authority Requirements (Page 17): It is recommended that the Companies adhere to CIC § 706.7 by implementing processes and procedures to obtain, track, and maintain up-to-date Certificates of Authority, company name changes, and proof of payment of licensing fees.

Accounts and Records – Vehicle Fraud Assessment (Page 18): It is recommended that the Company establish and implement procedures to ensure that the accuracy of the filings and maintain accurate and adequate documentation to support their filing with the California Department of Insurance to ensure future compliance with California Code of Regulation Section 2698.62(d).

Accounts and Records – Premium Tax Returns (Page 18): It is recommended that the Companies amend their 2020 and 2021 premium tax returns to reflect the correct policies-related fees collected. It is further recommended that the Companies take necessary



action to improve procedures for quality assurance reviews of their premium tax returns for accuracy prior to filing.

#### Previous Report of Examination

Accounts and Records (Page 16): It was recommended that the Companies adhere to CIC Section 734 by providing full access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined and implement procedures to ensure future compliance with CIC Section 734. This is a repeat finding during the current examination; however, the Group has taken actions to remediate the violation.

ACKNOWLEDGMENT

Acknowledgment is made of the assistance extended by the Companies' officers and employees during the course of this examination.

Respectfully submitted,

Dan Judge

Digitally signed by Dan Judge  
DN: DC=net, DC=ren, DC=mcgladrey, OU=Field Resources, OU=Offices, OU=Farmington-CT-01, OU=Users, CN=Dan Judge  
Reason: I am the author of this document  
Location: Billings, MT  
Date: 2023.10.25 15:57:49-0600'  
Foxit PDF Editor Version: 12.1.3

---

Daniel Judge, CFE  
Examiner-In-Charge  
Contract Insurance Examiner  
Department of Insurance  
State of California

Fan, Vivien

Digitally signed by Fan, Vivien  
Date: 2023.10.26 11:29:12 -07'00'

---

Vivien Fan, CFE  
Bureau Chief  
Department of Insurance  
State of California