REPORT OF EXAMINATION
OF THE

FIRST AMERICAN PROPERTY AND
CASUALTY INSURANCE COMPANY

AS OF
DECEMBER 31, 2019

Insurance Commissioner

FILED ON May 12, 2021

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Los Angeles, California
March 31, 2021

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FIRST AMERICAN PROPERTY AND CASUALTY INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's home office is located at 4 First American Way, Santa Ana, California 92707.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2015. This examination covered the period from January 1, 2016 through December 31, 2019.

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 Company's 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 Company 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 Company's 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 Company.

This was a coordinated examination with Nebraska as the lead state of the First American Title Insurance Company of the First American Title Group. It was conducted concurrently with other insurance entities in the holding company group, including First American Title Insurance Company, First American Title Insurance Company of Louisiana, First American Property and Casualty Insurance Company, First American Specialty Insurance Company, First American Title Guaranty, and Ohio Bar Title Insurance Company. The following states participated on the examination: California, Louisiana, Ohio, and Texas.

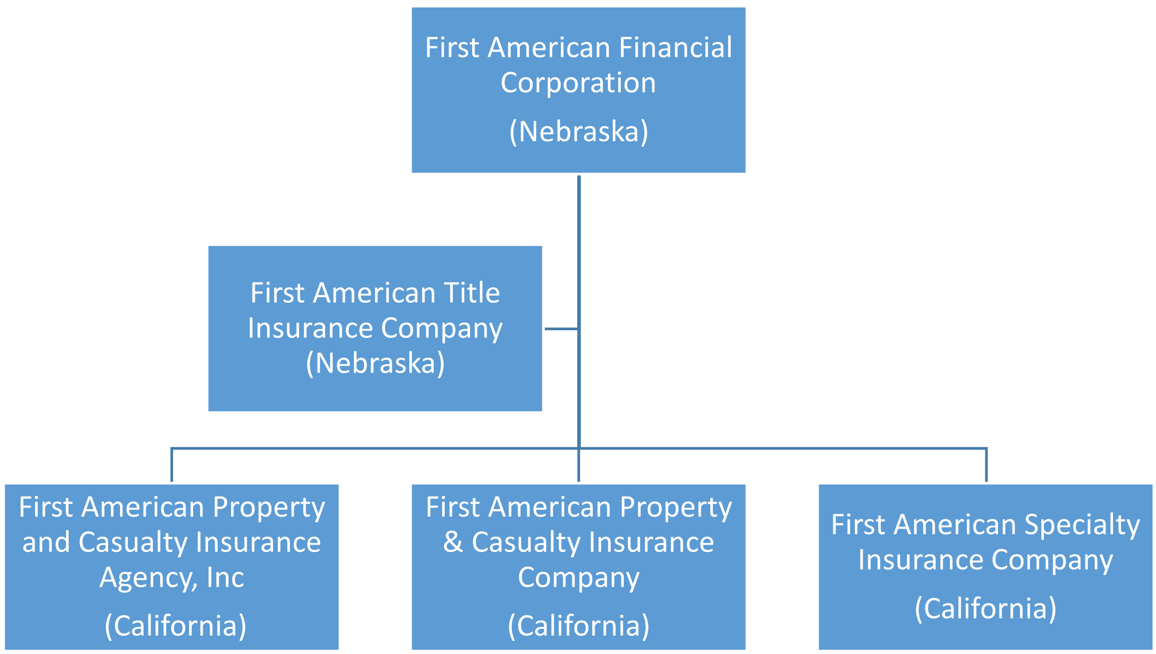
COMPANY HISTORY

Capital Contribution

On March 1, 2021, the California Department of Insurance approved the reporting of a $10,000,000 capital contribution from First American Financial Corporation (FAFC) to be recognized as Type I subsequent admitted asset receivable in its December 31, 2020 Annual Statement, pursuant to Statement of Statutory Accounting Principles No.72.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of First American Financial Corporation, a Nebraska corporation. The following abridged organizational chart depicts the Company's relationship within the holding company system. All ownership is 100%:



Management of the Company is vested in a six-member board of directors elected annually, all of whom are also officers of the Company. A listing of the members of the board and principal officers serving on December 31, 2019 follows:

Directors

Name and Location	Principal Business Affiliation
Scott Jeffrey Callender Lake Forest, California	Chief Operating Officer First American Property and Casualty Insurance Company First American Specialty Insurance Company
Larry Milton Davidson Santa Ana, California	President First American Property and Casualty

Name and Location	Principal Business Affiliation
	Insurance Company First American Specialty Insurance Company
Dennis Joseph Gilmore Santa Ana, California	Chief Executive Officer First American Financial Corporation
Richard Louis Leza Jr. Dove Canyon, California	Chief Financial Officer First American Property and Casualty Insurance Company First American Specialty Insurance Company
Jeffrey Scott Robinson [a] Santa Ana, California	Corporate Deputy General Counsel First American Financial Corporation
Mark Edward Seaton Santa Ana, California	Chief Financial Officer First American Financial Corporation

Principal Officers

Name	Title
Larry Milton Davidson	President
Zachary Zaharek	Secretary
Richard Louis Leza Jr.	Chief Financial Officer and Treasurer
Scott Jeffrey Callender	Vice President, Chief Operating Officer
Cinthia Carter	Vice President Operations/Underwriting
Kenneth David DeGiorgio	Executive Vice President
Mathew Hugh McCreadie	Vice President, Treasurer
Valerie Peterson	Vice President, Claims
Jeffrey Scott Robinson [a]	Vice President
James Hoggs Rogers	Vice President, Chief Investment Officer

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

(a) On April 20, 2020, Jeffrey Scott Robinson was replaced by Greg L. Smith on the Company's board of directors. Mr. Robinson also was replaced by Greg L. Smith as Vice President.

Management Agreements

Tax Reimbursement Agreement: Effective June 1, 2015, the Company entered into a

Federal Tax Sharing Agreement with its parent, First American Financial Corporation (FAFC), and was approved by the California Department of Insurance (CDI) on May 21, 2015. Under the terms of this agreement, the tax liability of the Company will be computed as if each member filed a separate stand-alone return. The costs associated with the services are limited to actual costs incurred. Any additional tax payable or refund due will be settled within thirty days after such refund is received by from the IRS or notification of the proper amount due. The federal income tax liablity paid/(recovered) by the Company for 2016, 2017, 2018 and 2019 were $193,172, ($1,128,234), ($648,757) and $1,204,183, respectively.

Management and Services Agreement: The Company and its affiliates are parties to a Management and Services Agreement with First American Title Insurance Company (FATICO). In August 2014, FATICO re-domesticated from California to Nebraska. The agreement was amended, effective March 6, 2015, to reflect the change in the state of domicile of the Company to the state of Nebraska. The agreement was approved by the CDI on August 18, 2015. FATICO will provide services to its affiliates that include, but are not limited to, accounting and auditing; title plant and policy production; information technology; other functional support services as further defined in the service agreement. Services & use of facilities provided by FATICO to affiliates is based on actual cost without a profit factor being built into that cost. The cost or expense for services by FATICO allocated to the affiliates shall be paid by the affiliates to FATICO within thirty days after the end of each calendar quarter. Expenses are allocated in accordance with a method in conformity with Statement of Statutory Accounting Principles (SSAP) No.70 of the National Association of Insurance Commissioners Accounting Practices and Procedures Manual. Payments made to FATICO for 2016, 2017, 2018, and 2019, were $12,168,446, $12,885,761, $13,863,587, and, $11,817,072, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was licensed to transact multiple lines of property and casualty insurance business in all 50 states and the District of Columbia. The

Company offers primarily homeowner and renter insurance marketed through two general agents, First American Property & Casualty Insurance Agency, Inc., an affiliate, and Multifamily Community Insurance Agency. In 2019, the Company had $87.3 million in direct premiums written. The majority of the direct premium was written in the states of California, $43.2 million (49%); Washington, $17.8 million (20%); Arizona, $8.1 million (9%); Nevada, $2.9 million (3%); and Oregon, $2.4 million (3%). The 16% remainder of direct written premiums were generated from across the rest of the contiguous US states. During the examination period, the Company marketed its current insurance products in the western region of the United States. Subsequently in the first quarter of 2021, the Company notified the California Department of Insurance of its intention to enter into Renewal Right Agreements with Liberty Mutual Insurance Company, and Heritage Insurance Holdings, Inc. Details of the Renewal Right Agreement will be discussed in the "Subsequent Events" section.

LOSS EXPERIENCE

A review of the Company's loss experience during the examination period discloses a continued trend of net underwriting losses as follows:

Year	Net Underwriting Income or (Loss)	Net Income or (Loss)	Surplus
2016	$ (3,112,765)	$ 707,770	$43,588,039
2017	$ (7,513,215)	$ (1,484,380)	$40,383,116
2018	$ (6,229,551)	$ (2,312,234)	$34,554,163
2019	$ (4,232,860)	$ 708,796	$35,196,440
2020	$ (20,818,724)	$ (9,731,780)	$ 33,408,020

The Company experienced net underwriting losses for all four years under the examination and net losses for two years under the examinaiton. The underwriting results of the Company were primarily attributable to adverse development on the losses and losses adjustment expenses, which were largely driven by the wildfires throughout

California and rainstorms across the west coast during the examination period. The adverse development continued into the year 2020 and resulted in a significant decrease in reported surplus.

REINSURANCE

Assumed

The Company does not assume reinsurance.

Ceded

The following is a summary of the principal ceded reinsurance treaties in-force as of December 31, 2019:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Excess Catastrophe: First Layer	Various authorized and unauthorized domestic foreign and alien companies led Lloyds Syndicates	$5 million per occurrence	$15 million excess $5 million, Ultimate Net Loss in respect of each Loss Occurrence
Second Layer	Various authorized and unauthorized domestic foreign and alien companies led Lloyds Syndicates	$20 million per occurrence	$20 million excess $20 million, Ultimate Net Loss in respect of each Loss Occurrence
Third Layer	Various authorized and unauthorized domestic foreign and alien companies led Lloyds Syndicates	$40 million per occurrence	$60 million excess $40 million, Ultimate Net Loss in respect of each Loss Occurrence
Fourth Layer	Various authorized and unauthorized domestic foreign and alien companies led Lloyds Syndicates	$100 million per occurrence	$10 million excess $100 million, Ultimate Net Loss in respect of each Loss Occurrence
Quota Share and Excess of loss on Personal Umbrella Liability	General Re Corp-Authorized	10% of first $2,000,000 each occurrence of Net Loss	(a) 90% of the policy limits up to and including $2,000,000 each occurrence of Net Loss sustained by the Company; plus (b) 100% of Net Loss sustained by the Company in excess of the first $2,000,000 each occurrence up to and including $5,000,000 each occurrence

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Quota Share and Excess of loss on Personal Umbrella Liability	Various unauthorized companies	5% of first $1,000,000 each occurrence of Net Loss	(a) 95% of the policy limits up to and including $1,000,000 each occurrence of Net Loss sustained by the Company; plus (b) 100% of Net Loss sustained by the Company in excess of the first $1,000,000 each occurrence up to and including $4,000,000 each occurrence
Facultative	General Re Corp-Authorized	$1.75 million	$5.75M in all risk per occurrence; $18M in all occurrences
Catastrophe Reimbursement on Florida Losses only	Florida Hurricane Catastrophe Fund-Authorized	55% on ultimate paid losses plus 95% of ALAE	45% of Ultimate paid losses (Ult Net Paid) an excess of Company's Retention Plus 5% of reimbursed Loss Adjustment Expense Allowance (ALAE) .
Residential Earthquake Quota Share	Palomar Specialty Insurance Company- Authorized	$0	100% of earthquake shock under standalone residential earthquake policies (including earthquake endorsements to the Company's personal lines policies).

In addition to the commercial reinsurance program listed in the above table, the Company writes flood business through the National Flood Insurance Program (NFIP) as part of the Write Your Own (WYO) flood insurance program. The NFIP was established pursuant to the National Flood Insurance Act of 1968 and is administered by the Federal Insurance Administration of the Federal Emergency Management Agency (FEMA). The NFIP is designed to involve private insurers in a WYO flood insurance program financially backed by FEMA at no risk to the insurer.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2015 through December 31, 2019

Statement of Financial Condition as of December 31, 2019

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 86,032,185	$	$ 86,032,185	
Common stocks	10,210,188		10,210,188	
Cash and short-term investments	8,915,521		8,915,521	
Other invested assets	833,921		833,921	
Receivable for securities	763		763	
Investment income due and accrued	576,874		576,874	
Premiums and agents' balances in course of collection	362,403	310,999	51,403	
Premiums, agents' balances and installments booked but deferred and not yet due (including $0 earned but unbilled premiums)	4,917,692		4,917,692	
Other amounts receivable under reinsurance contracts	1,831,989		1,831,989	
Net deferred tax asset	3,346,365		3,346,365	
Electronic data processing equipment and software	5,109,260	4,859,260	250,000	
Furniture and equipment	67,918	67,918	0	
Receivable from parent, subsidiaries and affiliates	590		590	
Aggregate write-ins for other than invested assets	13,815,446	13,815,446	0	
Total assets	$ 136,021,115	$ 19,053,623	$ 116,967,491	

Liabilities, Surplus and Other Funds			Notes
Losses and loss adjustment expenses		$ 21,722,611	(1)
Commissions payable, contingent commissions and other similar charges		1,569,739	
Other expenses		868,022	
Taxes, licenses and fees		1,532,996	
Current federal and foreign income taxes (including $609,281 on realized capital gains)		3,280,819	
Unearned premiums		46,257,275	
Advance premiums		1,342,525	
Funds held by company under reinsurance treaties		251,683	
Amounts withheld or retained by company for account of others		449,118	
Payable to parent, subsidiaries and affiliates		995,085	
Payable for securities		3,215,879	
Aggregate write-ins for liabilities		285,297	
Total liabilities		81,771,049	
Common capital stock	$ 5,000,000		
Gross paid-in and contributed surplus	17,765,000		
Unassigned funds (surplus)	12,431,440		
Surplus as regards policyholders		35,196,440	
Total liabilities, surplus and other funds		$ 116,967,489	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2019

Statement of Income

Underwriting Income		
Premiums earned		$ 61,667,781
Deductions:		
Losses and loss expenses incurred	$ 40,385,478	
Other underwriting expenses incurred	25,515,158	
Total underwriting deductions		65,900,636
Net underwriting loss		(4,232,855)
Investment Income		
Net investment income earned	$ 2,639,962	
Net realized capital gain	2,889,590	
Net investment gain		5,529,552
Other Income		
Net loss from agents' or premium balances charged off (amount recovered $0 amount charged off $0)	$ (151,550)	
Finance and service charges not included in premiums	767,838	
Total other income		616,288
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		1,912,985
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		1,912,985
Federal and foreign income taxes incurred		1,204,183
Net income		$ 708,802

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		$ 34,554,161
Net income	$ 708,802	
Change in net unrealized capital loss	(237,032)	
Change in net deferred income tax	1,293,300	
Change in nonadmitted assets	(1,100,036)	
Aggregate write-ins for losses in surplus	(22,755)	
Change in surplus as regards policyholders for the year		642,279
Surplus as regards policyholders, December 31, 2019		$ 35,196,440

Reconciliation of Surplus as Regards Policyholders from December 31, 2015 through December 31, 2019

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2015			$ 40,648,191
Net loss	$	$ 2,380,048	
Net unrealized capital gains	620,793		
Change in net deferred income tax	370,663		
Change in nonadmitted assets		4,288,390	
Aggregate write-ins for gains and losses in surplus	225,223		
Total gains and losses	$ 1,216,679	$ 6,668,438	
Net decrease in surplus as regards policyholders			(5,451,759)
Surplus as regards policyholders, December 31, 2019			$ 35,196,432

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

As Nebraska was the lead state, the California Department of Insurance (CDI) relied on the Nebraska Department of Insurance (NDI) Actuary to evaluate the losses and loss adjustment expense reserves as of December 31, 2019. Based on an analysis by the NDI Actuary and peer review by Casualty Actuary from the CDI, the Company's December, 31, 2019 reserves for losses and loss adjustment expenses appear reasonable and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) pandemic. The pandemic has triggered unprecedented government mandates and health and safety measures that have significantly impacted the United States and global financial markets. The examination reviewed the potential impact of the pandemic on the Company and noted minimal impact on the Company's business operations as of the date of this report. However, significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy, and the Company at large. The California Department of Insurance (CDI) continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

Through the 3rd quarter, 2020 press release from its Parent Company, First American Financial Corporation (FAFC), FAFC initiated a process for the sale of the property and casualty business. On January 19, 2021, the FAFC notified the CDI of its intention of entering two Renewal Right Agreements with Liberty Mutual Insurance Company (Liberty), a Massachusetts corporation, and Heritage Insurance Holdings, Inc. (Heritage), a Delaware corporation, with an effective date of January 18, 2021. On March 9, 2021, the Company received notification from the CDI no objection to the Company moving forward with their renewal right agreement.

Under the terms of the agreements, the Company will promote and facilitate the underwrite and renewal of the in-force policies with Liberty and Heritage and completely withdraw from writing personal lines of business. In return, the Company will receive $5.29 million in compensation for transferring the book of business from Liberty and there will not be any compensation from Heritage, as the agreement was entered as an accommodation to maximize the number of policyholders who would be afforded new policies. The policies in which not underwritten or renew by Liberty and Heritage will be placed with a third-party carrier by the First American Property and Casualty Agency, Inc. The Company anticipates the renewal transferring process be completed by year-end 2022. As a result of the business strategy changes, the Company has significantly decreased the staffing in all departments. To ensure adequate claims handling function, the Company contracted with a Third-Party Administrator, Global Risk Solutions, Inc. (GRS), through the Company's affiliates, FATCO Holdings, LLC (FATCO). GRS will be compensated on a per claim basis and billed to FATCO monthly. The Company will then reimburse FATCO through First American Title Insurance Company under the terms of the "Management and Services Agreement" mentioned under the "Management and Control" section.

Upon the approval of the Renewal Right Agreements and completion of the transferring of all existing business, the Company will withdraw its license from the private passenger automobile line of business in the state of California.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Management and Control – Corporate Records (Page 7): A review of the board minutes disclosed that neither the officially filed report of examination nor the formally prepared draft by the examiner was presented to the board. It is recommended that the Company implement procedures to ensure future compliance with California Insurance Code (CIC) Section 735. The Company has complied with this recommendation.

Accounts and Records – Information System Controls (Page 9): As the result of the review of the Company's information systems controls, recommendations for improving these controls were presented to the Company. The Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems. The Company has complied with this recommendation.

<u>ACKNOWLEDGMENT</u>

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

Respectfully submitted,

Oseguera, Ralph

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Date: 2021.05.03 15:13:24 -07'00'

Ralph Oseguera, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Fan, Vivien

Digitally signed by Fan, Vivien
Date: 2021.05.03 16:03:19 -07'00'

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