

REPORT OF EXAMINATION
OF THE

21ST CENTURY SUPERIOR INSURANCE COMPANY
(FORMERLY AMERICAN INTERNATIONAL
INSURANCE COMPANY OF CALIFORNIA, INC.)

AS OF
DECEMBER 31, 2009

Filed June 1, 2011

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Los Angeles, California
April 18, 2011

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

21ST CENTURY SUPERIOR INSURANCE COMPANY

(FORMERLY AMERICAN INTERNATIONAL INSURANCE COMPANY OF CALIFORNIA, INC.)

(hereinafter also referred to as the Company) at the primary location of its books and records and its main administrative office, 3 Beaver Valley Road, Wilmington, Delaware 19803. The Company's statutory home office is located at 2730 Gateway Oaks Drive, Suite 100, Sacramento, California 95833.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

The examination was a coordinated examination and was conducted concurrently with the examination of the Company's affiliated California domestic companies, 21st Century Insurance Company and 21st Century Casualty Company, and other insurance companies in the 21st Century

Personal Auto Group as depicted in the organizational chart in the "Management and Control" section of this report.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; statutory deposits; accounts and records; and sales and advertising.

SUBSEQUENT EVENTS

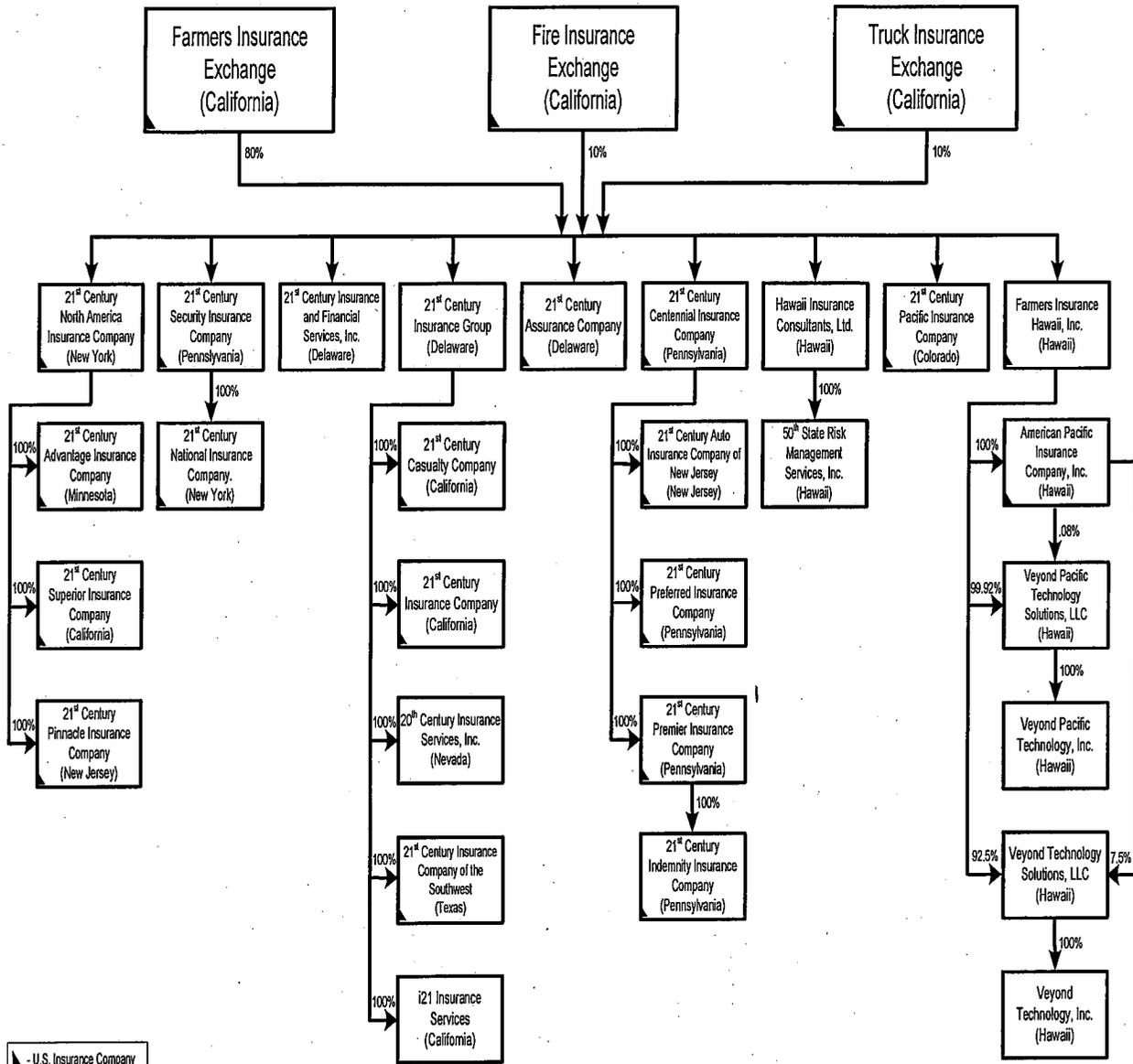
Effective April 1, 2010, the Company's name was changed to 21st Century Superior Insurance Company which was approved by the California Department of Insurance on February 3, 2010.

COMPANY HISTORY

On July 1, 2009, Farmers Group, Inc. (FGI), a Nevada corporation that is an indirect wholly-owned subsidiary of Zurich Financial Services Ltd., purchased the 21st Century Personal Auto Group (21st Century PAG) companies from American International Group, Inc. (AIG) which included the Company's parent, 21st Century North America Insurance Company (21st CNAIC). The purchase of 21st Century PAG companies was effected through the purchase of 100% of the shares of various insurance and non-insurance companies directly or indirectly owned by AIG that comprised 21st Century PAG. Subsequently, on July 1, 2009, FGI sold 80% of the shares of the 21st Century PAG entities to Farmers Insurance Exchange (FIE), and 10% of the shares each to Fire Insurance Exchange (Fire) and Truck Insurance Exchange (Truck). FGI, doing business as Farmers Underwriters Association, is the Attorney-in-Fact for FIE. Fire Underwriters Association is Attorney-in-Fact for Fire. Truck Underwriters Association is the Attorney-in-Fact for Truck. FGI owns 100% of Fire Underwriters Association and Truck Underwriters Association. The California Department of Insurance approved the acquisition of the PAG companies effective July 1, 2009. As a result of the acquisition of the Company's parent, 21st CNAIC, the Company became one of Farmers, Fire and Truck's property and casualty companies.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiaries, depicts the Company's relationship within the holding company system:



Management of the Company is vested in an eight member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jeffrey J. Dailey Los Angeles, California	Executive Vice President – Personal Lines Farmers Group, Inc.
Anthony J. DeSantis Centerville, Delaware	Chairman of the Board of Directors, President, and Chief Executive Officer 21 st Century Insurance and Financial Services, Inc.
William D. Loucks, Jr. Glen Mills, Pennsylvania	Executive Vice President and Chief Operating Officer 21 st Century Insurance and Financial Services, Inc.
Glenn A. Pfeil Wilmington, Delaware	Chief Financial Officer, Executive Vice President, and Treasurer 21 st Century Insurance and Financial Services, Inc.
James A. Porcari, III Alpharetta, Georgia	Senior Vice President – Claims 21 st Century Insurance and Financial Service, Inc.
Donald W. Procopio Aldan, Pennsylvania	Senior Vice President and Chief Actuary 21 st Century Insurance and Financial Services, Inc.
Mhayse G. Samalya Topanga, California	Executive Vice President – Commercial Lines Farmers Group, Inc.
F. Robert Woudstra Los Angeles, California	Chief Executive Officer Farmers Group, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Anthony J. DeSantis	President and Chief Executive Officer
Glenn A. Pfeil	Executive Vice President, Chief Financial Officer, and Treasurer
Karen M. Alejnikov	Senior Vice President
Esta L. Cain	Senior Vice President, General Counsel, and Secretary
William D. Loucks, Jr.	Senior Vice President
James A. Porcari III	Senior Vice President
Donald W. Procopio	Senior Vice President and Chief Actuary
Michael A. Boyd	Vice President
Jeffrey J. Dailey	Vice President
Scott R. Lindquist	Vice President and Assistant Treasurer
Nancy L. Manzano	Vice President
Ronald G. Myhan	Vice President and Assistant Treasurer
Mhayse G. Samalya	Vice President
Anthony W. Tomich	Vice President
F. Robert Woudstra	Vice President

Management Agreements

Managing General Agent Agreement: Effective January 1, 2008, the Company was a party to a managing general agent agreement with 21st Century Insurance and Financial Services, Inc. (21st CIFS), formerly AIG Marketing, Inc. The agreement was terminated, effective June 30, 2009. Any transactions between 21st CIFS and the 21st Century Personal Auto Group (21st Century PAG) companies from July 1, 2009 through December 31, 2009 were solely related to integration and restructuring activities resulting from the acquisition of the 21st Century PAG companies by Farmers Insurance Exchange (FIE), Fire Insurance Exchange, and Truck Insurance Exchange. No services were provided by 21st CIFS subsequent to the July 1, 2009 acquisition by FIE. For 2008 and 2009, payments made by the Company to 21st CIFS totaled \$64,818,141 and \$26,393,965, respectively.

Tax Sharing Agreement: Prior to July 1, 2009, the Company had a written tax sharing agreement with its former ultimate parent, American International Group, Inc. (AIG). The agreement provided that AIG will not charge the Company a greater portion of the consolidated tax liability than would

have been paid by the Company if it had filed a separate federal income tax return. In addition, the agreement provided that the Company will be reimbursed by AIG for tax benefits relating to any net losses or any tax credits of the Company utilized in filing the consolidated return.

Effective July 1, 2009, the Company and its affiliates participate in a tax sharing agreement with FIE. FIE receives from its affiliates the tax they would pay if they had filed separate returns and pays to the affiliates amounts for the tax benefits realized by the consolidated group through utilization of their net losses. In accordance with the tax-sharing agreement, any tax liability or benefit will be computed on a separate return basis, as if each member filed their return separately. Intercompany tax balances are settled monthly based on estimates with the final settlement made annually within 30 days after the return has been filed.

The tax sharing agreement was filed via a Form D filing with all the 21st Century PAG domiciliary state insurance departments on September 23, 2010 with the exception of California. The CDI will accept the verifications of filings from the other states along with a copy of the tax sharing agreement from the Company.

CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the commissioner. The board must also enter that fact in the board minutes. A review of the board minutes disclosed that the officially filed report was presented to the board. However, the board was not informed of the first formally prepared draft by the examiners.

It is recommended that the Company implement procedures to ensure future compliance with CIC Section 735.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company is solely licensed in California. The Company is licensed to transact multiple lines of property and casualty insurance. During the period under examination, the Company wrote personal automobile, allied lines, homeowners, inland marine, ocean marine, earthquake, workers' compensation and other liability insurance.

In 2009, the Company wrote \$121.8 million of direct premiums. The Company is an accredited reinsurer in the State of New York. Prior to the July 1, 2009 acquisition of the Company by Farmers Insurance Exchange, Fire Insurance Exchange, and the Truck Insurance Exchange, the majority of the Company's business was written through an affiliated agency, 21st Century Insurance and Financial Services.

<u>Line of Business</u>	<u>Direct Premiums Written</u>
Homeowners Multiple Peril	\$ 63,204,138
Earthquake	33,186,607
Inland Marine	19,632,996
Allied Lines	2,352,108
Workers' Compensation	1,892,061
Auto Physical Damage	767,016
Ocean Marine	216,939
Private Passenger Auto Liability	577,053
Other Liability	42,642
<u>Total</u>	<u>\$ 121,871,560</u>

LOSS EXPERIENCE

The Company reported net underwriting losses in two of the three years under examination as follows:

Year	Net Underwriting Gain or (Loss)	Net Income Or (Loss)
2007	\$ (2,753,429)	\$ 510,333
2008	(5,995,835)	(2,348,153)
2009	1,642,159	5,308,963

The increase in reported underwriting losses was due to unfavorable loss development of prior year loss and loss adjustment expense (LAE), a general decline in premiums and the addition of four companies to the 21st Century Personal Lines Pool (Pool), effective January 1, 2008. The increase in underwriting gains for 2009 was due to the one time effects of the expense offsets from the various commutation and novation transactions, 100% cession of all post acquisition losses and LAE and an improvement in the Pool's loss ratio from 2008. Also, the Company's share in the Pool decreased from 3% to 1% effective January 1, 2009.

REINSURANCE

Assumed

The Company has reinsurance assumed from the intercompany pooling agreement only.

Ceded

Except for the intercompany pooling agreement, the Company does not have any principal ceded reinsurance treaties in force as of December 31, 2009.

Intercompany Reinsurance Pooling Agreement

Effective July 1, 2009, the Company is a participant in an amended and restated Intercompany Reinsurance Pooling Agreement. The participants and their participation percentage in the pool are as follows:

<u>Pool Participant</u>	<u>Pool Percentage</u>
21 st Century North America Insurance Company	23.00%
21 st Century Centennial Insurance Company	20.00%
21 st Century Insurance Company	20.00%
21 st Century Premier Insurance Company	10.00%
21 st Century Security Insurance Company	8.00%
Farmers Insurance Hawaii, Inc.	4.00%
21 st Century Assurance Company	2.00%
21 st Century Indemnity Insurance Company	2.00%
21 st Century Pacific Insurance Company	2.00%
21 st Century Preferred Insurance Company	2.00%
21 st Century Pinnacle Insurance Company	1.75%
21 st Century Auto Insurance Company of New Jersey	1.50%
21 st Century Advantage Insurance Company	1.00%
21 st Century National Insurance Company	1.00%
21 st Century Superior Insurance Company	1.00%
American Pacific Insurance Company, Inc.	.50%
21 st Century Casualty Company	.25%
21 st Century Insurance Company of the Southwest	0.00%

Under the terms of the pooling agreement, 100% of the net business written by each of the participating companies is ceded to 21st Century North America Insurance Company (21st CNAIC). The liabilities related to losses with a date of loss prior to July 1, 2009 are ceded back to the pool members by 21st CNAIC based on each pool member's pooling participation percentage.

Effective July 1, 2009, under the 100% quota share reinsurance agreement between Farmers Insurance Exchange (FIE), one of the Company's upstream parents, and 21st CNAIC, 21st CNAIC cedes 100% of the net liability for losses with a date of loss on and after July 1, 2009 to FIE. FIE

provides, or arranges for the provision of, management and administrative services at cost for the 21st Century Personal Auto Group business assumed from 21st CNAIC. This agreement was approved by the California Department of Insurance on June 17, 2009.

As of December 31, 2009, reinsurance recoverables for all ceded reinsurance totaled \$143 million, or 580% of surplus as regards policyholders, all of which is a result of the intercompany pooling agreement.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$ 23,271,131	\$	\$ 23,271,131	
Cash and short-term investments	4,508,905		4,508,905	
Investment income due and accrued	312,762		312,762	
Net deferred tax asset	822,401	730,862	91,539	
Receivable from parent, subsidiaries and affiliates	<u>9,223,480</u>	<u> </u>	<u>9,223,480</u>	
 Total assets	 <u>\$ 38,138,679</u>	 <u>\$ 730,862</u>	 <u>\$ 37,407,817</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 9,119,426	(1)
Reinsurance payable on paid losses and loss adjustment expenses			709,371	
Loss adjustment expenses			2,735,454	(1)
Current federal income taxes			65,876	
Ceded reinsurance premiums payable			(20,248)	
Payable to parent, subsidiaries and affiliates			1,100	
Aggregate write-ins for liabilities			<u>128,720</u>	
 Total liabilities			 12,739,699	
 Common capital stock		 \$ 2,600,000		
Gross paid-in and contributed surplus		9,678,380		
Unassigned funds (surplus)		<u>12,389,738</u>		
 Surplus as regards policyholders			 <u>24,668,118</u>	
 Total liabilities, surplus and other funds			 <u>\$ 37,407,817</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income

Premiums earned		\$ 9,485,340
Deductions:		
Losses incurred	\$ 5,420,726	
Loss expense incurred	1,183,862	
Other underwriting expenses incurred	<u>1,238,593</u>	
Total underwriting deductions		<u>7,843,181</u>
Net underwriting gain		1,642,159

Investment Income

Net investment income earned	\$ 1,808,213	
Net realized capital gains	<u>320,370</u>	
Net investment gain		2,128,583

Other Income

Net loss from agents' balances charged off	\$ (77,431)	
Aggregate write ins for miscellaneous income	<u>196,939</u>	
Total other income		<u>119,508</u>
Net income before federal income taxes		3,890,250
Federal income taxes incurred		<u>(1,418,713)</u>
Net income		<u>\$ 5,308,963</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		\$ 20,943,902
Net income	\$ 5,308,963	
Change in net deferred income tax	(2,128,385)	
Change in nonadmitted assets	314,158	
Aggregate write in for losses in surplus	<u>229,480</u>	
Change in surplus as regards policyholders		<u>3,724,216</u>
Surplus as regards policyholders, December 31, 2009		<u>\$ 24,668,118</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

Surplus as regards policyholders, December 31, 2006, per Examination		<u>\$ 22,826,871</u>				
	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>Gain in</u></td> <td style="text-align: center;"><u>Loss in</u></td> </tr> <tr> <td style="text-align: center;"><u>Surplus</u></td> <td style="text-align: center;"><u>Surplus</u></td> </tr> </table>	<u>Gain in</u>	<u>Loss in</u>	<u>Surplus</u>	<u>Surplus</u>	
<u>Gain in</u>	<u>Loss in</u>					
<u>Surplus</u>	<u>Surplus</u>					
Net gain	\$3,471,143	\$				
Change in net deferred tax		1,012,898				
Change in nonadmitted assets		488,278				
Aggregate write-ins for losses in surplus		128,720				
Totals	<u>\$ 3,471,143</u>	<u>\$ 1,629,896</u>				
Net increase in surplus as regards policyholders for the examination		<u>1,841,247</u>				
Surplus as regards policyholders, December 31, 2009, per Examination		<u>\$ 24,668,118</u>				

COMMENTS ON FINANCIAL STATEMENT ITEMS

Losses and Loss Adjustment Expenses

The Company was directed by the California Department of Insurance (CDI), under California Insurance Code section 733(g) to retain the American Actuarial Consulting Group, LLC, (AACG) for the purpose of assisting this examination in determining the reasonableness of the Company's loss and loss adjustment expense reserves. Based on the analysis by AACG and the review of their work by a Casualty Actuary from the CDI, the Company's December 31, 2009 reserves for losses and loss adjustment expenses were determined to be within a reasonable range estimate and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records (Page 7): It is recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code Section 735.

Previous Report of Examination

Accounts and Records: Risk Management and Internal Controls (Page 10): It was recommended that the Company continue to monitor and remediate the control deficiencies as an on-going effort to enhance its control environment. The Company complied with the recommendation.

Comments on Financial Statement Items: Cash and Short-term Investments and Premiums and Considerations: Premiums and Agents' Balances in Course of Collection (Page 15): It was recommended that the Company establish a liability for cash receipts that cannot be identified for a specific purpose in the Remittances and Items Not Allocated account in compliance with Statements

of Statutory Accounting Principles 67, paragraph 4 of the National Association of Insurance Commissioners Accounting Practices and Procedures Manual. The Company complied with the recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Millie Cao, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California