

REPORT OF EXAMINATION
OF THE
COAST NATIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2017



Insurance Commissioner

FILED 6-28-19

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Los Angeles, California
May 16, 2019

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

COAST NATIONAL INSURANCE COMPANY

(hereinafter also referred to as the Company) at the former administrative office of Farmers Insurance Exchange located at 4680 Wilshire Boulevard, Los Angeles, California 91010. The Company's statutory home office is located at 333 South Anita Drive, Suite 150, Orange, California 92868.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2013. This examination covered the period from January 1, 2014 through December 31, 2017.

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 examination was a coordinated examination with California as the lead state of the Bristol West subgroup of the Farmers Insurance Group of companies. The coordinated group examination also included Farmers Reinsurance Company, which is part of the Zurich Group:

Group/Company	NAIC CoCode	Domiciled State
FARMERS INSURANCE EXCHANGE GROUP		
Farmers Insurance Company of Arizona	21598	AZ
Farmers Insurance Exchange (the 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

Group/Company	NAIC CoCode	Domiciled State
FARMERS INSURANCE EXCHANGE GROUP (continued)		
Mid Century Insurance Company of Texas	28673	TX
Farmers Insurance Company of Washington	21644	WA

Group/Company	NAIC CoCode	Domiciled State
COAST NATIONAL/BRISTOL WEST GROUP		
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
FOREMOST GROUP		
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
21ST CENTURY INSURANCE GROUP		
21st Century Casualty Company	36404	CA
21st Century Insurance Company	12963	CA
21st Century Superior Insurance Company	43761	CA
21st Century Pacific Insurance Company	23795	CO
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	10184	NJ
21st Century Pinnacle Insurance Company	10710	NJ
21st Century National Insurance Company (a)	36587	NY
21st Century North America Insurance Company	32220	NY
21st Century Centennial Insurance Company	34789	PA
21st Century Indemnity Insurance Company	43974	PA

Group/Company	NAIC CoCode	Domiciled State
21ST CENTURY INSURANCE GROUP (continued)		
21st Century Preferred Insurance Company	22225	PA
21st Century Premier Insurance Company	20796	PA
21st Century Security Insurance Company (b)	23833	PA
21st Century Insurance Company of the Southwest	10245	TX

- (a) 21st Century National Insurance Company was sold to Plymouth Rock Assurance Corporation (Plymouth), effective April 1, 2018.
- (b) 21st Century Security Insurance Company (Security) was sold to Plymouth, which assigned its right to acquire Security to High Point Preferred Insurance Company, effective August 1, 2018.

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

COMPANY HISTORY

On July 3, 2007, Farmers Group, Inc. (FGI), a Nevada corporation, acquired 100% of the common stock of Bristol West Holdings, Inc. (BWH) for \$713.5 million. BWH owned a number of non-insurance entities, and five insurance entities domiciled in various states as follows: Coast National Insurance Company (CA), Security National Insurance Company (FL), Bristol West Preferred Insurance Company (MI), Bristol West Casualty Insurance Company (OH), and Bristol West Insurance Company (OH). FGI also assumed \$100 million of BWH's debt obligations, which FGI immediately paid after the closing of the acquisition transactions.

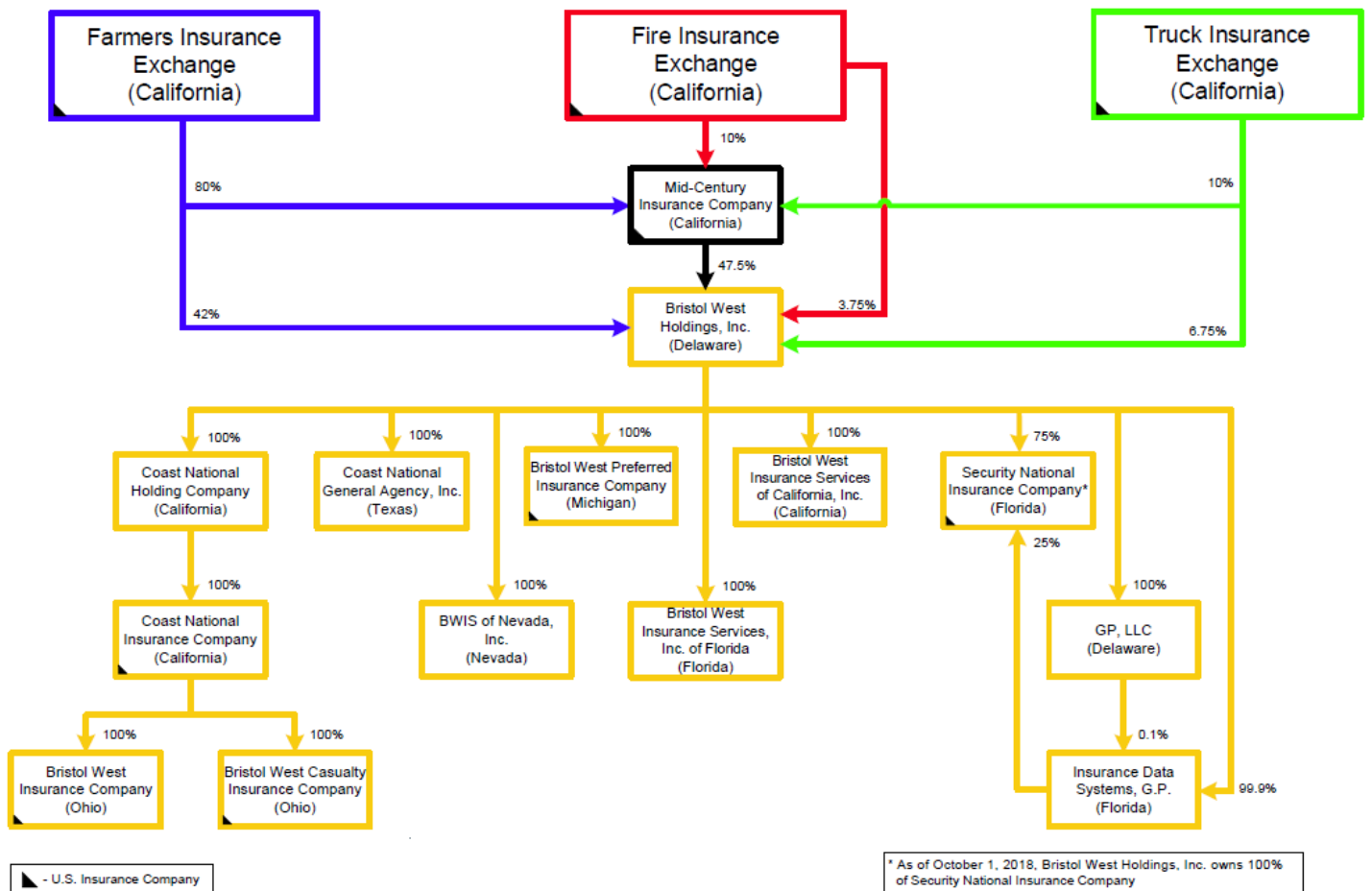
On July 3, 2007, FGI sold the five Bristol West insurance entities for \$420 million to four of its subsidiaries: Farmers Insurance Exchange (42.0%), Truck Insurance Exchange (6.75%), Fire Insurance Exchange (3.75%), and Mid-Century Insurance Company (47.5%).

Capitalization

The Company is authorized to issue 500,000 shares of common stock with a par value of \$150 per share. As of December 31, 2017, there were 20,000 shares issued and outstanding.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The following abridged chart shows the relationships of the Company with its ultimate parents, along with its subsidiaries, and depicts the Company's relationship within the holding company system:



Management of the Company is vested in the board of directors, which consists of not less than five but not more than 15 members who are elected annually. Following are members of the board and principal officers of the Company serving at December 31, 2017:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Marla B. Bleavins ^(a) Los Angeles, California	Deputy Executive Director and Chief Financial Officer Port of Los Angeles
Thomas D. Brown Clive, Iowa	Owner Brown Truck Leasing Corporation
Eric E. Kappler Bay Village, Ohio	President Bristol West Insurance Group
Janice G. Scott ^(b) Lodi, California	Dentist
Todd M. Williams Oviedo, Florida	Vice President Bristol West Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Eric E. Kappler	President
Maria E. Aguilera	Vice President & Treasurer
Maite I. Baur	Vice President
Victoria L. McCarthy	Vice President
Ronald G. Myhan ^(c)	Vice President
Todd M. Williams	Vice President
Martin R. Brown	Secretary

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

- (a) Replaced by Ottie J. Wallace as Director, effective March 19, 2019.
- (b) Replaced by Daniel E. Rodriguez as Director, effective June 6, 2018.
- (c) Replaced by Thomas S. Noh as Officer, effective June 1, 2019.

Management Agreements

Tax Sharing Agreement: Effective September 1, 2013, the Company entered into a Tax Sharing Agreement with Farmers Insurance Exchange (Exchange), and its various insurance and non-insurance affiliates and subsidiaries. The Exchange 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 as if separate returns were filed. Intercompany balances are settled monthly, with the final settlement made within 30 days after the final filing date of the consolidated return. This agreement was approved by the California Department of Insurance (CDI) on February 18, 2014, pursuant to California Insurance Code (CIC) Section 1215.5(b)(4) as well as by the regulators of the domiciliary states of the Exchange's affiliates outside of California. The Company's portion of the federal income taxes paid under the Tax Sharing Agreement for 2014, 2015, 2016, and 2017 was \$3,079,676, \$2,577,423, \$3,924,677, and \$2,753,558, respectively.

Service Agreement: On July 1, 2015, the Exchange and the Company entered into a Service Agreement pursuant to which the Exchange will provide, or arrange for the provision of, various services, 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 Company. The Exchange shall provide or arrange for the provision of services at its cost. This agreement was approved by the CDI on December 9, 2015.

Revolving Credit Facility Framework Agreement: Effective January 25, 2017, all insurers within the Farmers Insurance Holding Company System, became signatories to a Revolving Credit Facility Framework Agreement (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 and 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 the lender's option, and in any event, must be collateralized if the loan crosses from one calendar year to the next, 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 Section 1215.5(b)(1)(A), as well as by the regulators of the domiciliary states of the Exchange's affiliates outside of California.

TERRITORY AND PLAN OF OPERATION

The Company specializes in non-standard private passenger automobile liability and physical damage coverage. Its business is produced through both independent and exclusive agents. The Company wrote a total of \$351.3 million of direct premiums in 2017.

As of December 31, 2017, the Company was licensed to transact multiple lines of property and casualty insurance in the states of Arizona, California, Georgia, Mississippi, Nevada, Oregon, Pennsylvania, Tennessee, and Washington. For the year ended December 31, 2017, the majority of premiums were written in the following five states:

<u>State</u>	<u>Direct Written Premium</u>	<u>Percentage of Total</u>
California	\$ 215,482,449	61.30%
Arizona	44,269,056	12.60%
Washington	33,020,209	9.40%
Mississippi	16,902,649	4.80%
Georgia	13,187,970	3.80%

REINSURANCE

Assumed

The following is a summary of the most significant assumed reinsurance agreements in force as of December 31, 2017:

Effective April 1, 2001, the Company entered into a Quota Share Reinsurance Agreement with Home State County Mutual Insurance Company (HSCM), domiciled in the state of Texas. Pursuant to this Agreement, the Company assumes 100% of the HSCM business produced through Coast National General Agency, an affiliate, who acts as HSCM's managing general agent. The ceding commission paid by the Company to HSCM can range from 1% to 3% of net premiums written. During 2017 the Company assumed \$2 million in premiums from HSCM.

Ceded

The following is a summary of the most significant ceded reinsurance agreements in force as of December 31, 2017:

Effective July 1, 2008 and amended July 1, 2009, the Company entered into a 100% Quota Share Reinsurance Agreement with Farmers Insurance Exchange (Exchange), wherein the Company cedes all of its direct and assumed personal and commercial insurance to the Exchange.

As of December 31, 2017, reinsurance recoverables for all ceded reinsurance totaled \$278 million, or 64% of surplus as regards policyholders. All of the reinsurance recoverables were from admitted affiliates.

ACCOUNTS AND RECORDS

California Insurance Code (CIC) Section 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 Company. It is recommended that the Company 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.

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, 2017. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. No adjustments made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders from December 31, 2013
through December 31, 2017

Statement of Financial Condition
as of December 31, 2017

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 397,565,511	\$	\$ 397,565,511	
Common stocks	55,091,487		55,091,487	
Cash and short-term investments	13,125,958		13,125,958	
Investment income due and accrued	2,579,132		2,579,132	
Premiums and agents' balances in course of collection	8,788,171	4,691,418	4,096,753	
Premiums, agents' balances and installments booked but deferred and not yet due	94,752,446		94,752,446	
Amount recoverable from reinsurers	19,157,896		19,157,896	
Net deferred tax asset	2,613,879		2,613,879	
Guaranty funds receivable or on deposit	13,072		13,072	
Receivable from parent, subsidiaries and affiliates	775,983		775,983	
Aggregate write-ins for other than invested assets	<u>65,837</u>		<u>65,837</u>	
 Total assets	 <u>\$ 594,529,372</u>	 <u>\$ 4,691,418</u>	 <u>\$ 589,837,954</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 37,510	(1)
Reinsurance payable on paid loss and loss adjustment expenses			119,537	
Commissions payable, contingent commissions and other similar charges			4,427,504	
Other expenses			4,338,506	
Taxes, licenses and fees			672,784	
Advance premium			689,829	
Ceded reinsurance premiums payable			142,968,214	
Amounts withheld or retained by company for account of others			8,620	
Payable to parent, subsidiaries and affiliates			696,350	
Aggregate write-ins for liabilities			<u>1,096,975</u>	
 Total liabilities			 155,055,829	
Common capital stock	\$ 3,000,000			
Gross paid-in and contributed surplus		226,278,921		
Unassigned funds (surplus)		<u>205,503,204</u>		
Surplus as regards policyholders			<u>434,782,125</u>	
 Total liabilities, surplus and other funds			 <u>\$ 589,837,954</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income

Premiums earned	\$	0
Deductions:		
Losses and loss expenses incurred	\$	<u>(812)</u>
Total underwriting deductions		<u>(812)</u>
Net underwriting gain		812

Investment Income

Net investment income earned	\$	10,168,610
Net realized capital gain		<u>1,567,860</u>
Net investment gain		11,736,470

Other Income

Aggregate write-ins for miscellaneous income	\$	<u>104,647</u>
Total other income		<u>104,647</u>

Net income before federal and foreign income taxes		<u>11,841,929</u>
Federal and foreign income taxes incurred		<u>3,012,564</u>
Net income		<u>\$ 8,829,365</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		\$ 427,042,342
Net income	\$	8,829,365
Change in net unrealized capital gains		(270,352)
Change in net deferred income tax		(2,520,308)
Change in nonadmitted assets		<u>1,701,078</u>
Change in surplus as regards policyholders for the year		<u>7,739,783</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 434,782,125</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2013 through December 31, 2017

Surplus as regards policyholders, December 31, 2013			\$ 403,089,097
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 31,855,302	\$	
Net unrealized capital gains	2,758,321		
Change in net deferred income tax		2,415,507	
Change in nonadmitted assets	<u> </u>	<u>505,088</u>	
Total gains and losses	<u>\$ 34,613,623</u>	<u>\$ 2,920,595</u>	
Net increase in surplus as regards policyholders			<u>31,693,028</u>
Surplus as regards policyholders, December 31, 2017			<u>\$ 434,782,125</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2017 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 10): It is recommended that the Company provide the examiners with 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 to ensure future compliance with California Insurance Code Section 734.

Previous Report of Examination

None.

ACKNOWLEDGMENT

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

Respectfully submitted,

/S/ _____

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

/S/ _____

Sayaka T. Dillon, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California