

REPORT OF EXAMINATION
OF THE
COAST NATIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

Filed June 15, 2015

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION	1
MANAGEMENT AND CONTROL:.....	4
Management Agreements.....	7
TERRITORY AND PLAN OF OPERATION.....	9
REINSURANCE:	9
Assumed.....	9
Ceded	10
FINANCIAL STATEMENTS:	11
Statement of Financial Condition as of December 31, 2013.....	12
Underwriting and Investment Exhibit for the Year Ended December 31, 2013	13
Reconciliation of Surplus as Regards Policyholders from December 31, 2009 through December 31, 2013.....	14
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	15
Losses and Loss Adjustment Expenses	15
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	15
Current Report of Examination	15
Previous Report of Examination	15
ACKNOWLEDGMENT	16

Los Angeles, California
May 22, 2015

Honorable Dave Jones
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 primary location of its books and records, 900 Pine Island Road, Suite 600, Plantation, Florida 33324. 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 made as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2013. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting

Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This examination was a coordinated examination, in which California was the lead state and examiners from the states of Florida, Michigan, and Ohio participated, and was conducted concurrently with the examinations of the following insurance companies:

Group/Company	NAIC CoCode	Domiciled State
FARMERS INSURANCE GROUP		
Farmers Insurance Co. of Arizona	21598	AZ
Farmers Insurance Exchange	21652	CA
Truck Insurance Exchange	21709	CA
Fire Insurance Exchange	21660	CA
Civic Property & Casualty Co.	10315	CA
Neighborhood Spirit Property & Casualty Co.	10317	CA
Exact Property & Casualty Co.	10318	CA
Mid-Century Insurance Company	21687	CA
Farmers Insurance Co. of Idaho	21601	ID
Farmers New Century Insurance Company	10806	IL
Illinois Farmers Insurance Co.	21679	IL
Farmers Insurance Co. Inc.	21628	KS
Farmers Insurance of Columbus, Inc.	36889	OH
Farmers Insurance Co. of Oregon	21636	OR
Texas Farmers Insurance Co.	21695	TX
Farmers Texas County Mutual Insurance Company	24392	TX
Mid Century Insurance Company of Texas	28673	TX
Farmers Insurance Co. 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	36587	NY
21st Century North America Insurance Company	32220	NY
21st Century Centennial Insurance Company	34789	PA
21st Century Indemnity Insurance Company	43974	PA
21st Century Preferred Insurance Company	22225	PA
21st Century Premier Insurance Company	20796	PA
21st Century Security Insurance Company	23833	PA
21st Century Insurance Company of the Southwest	10245	TX

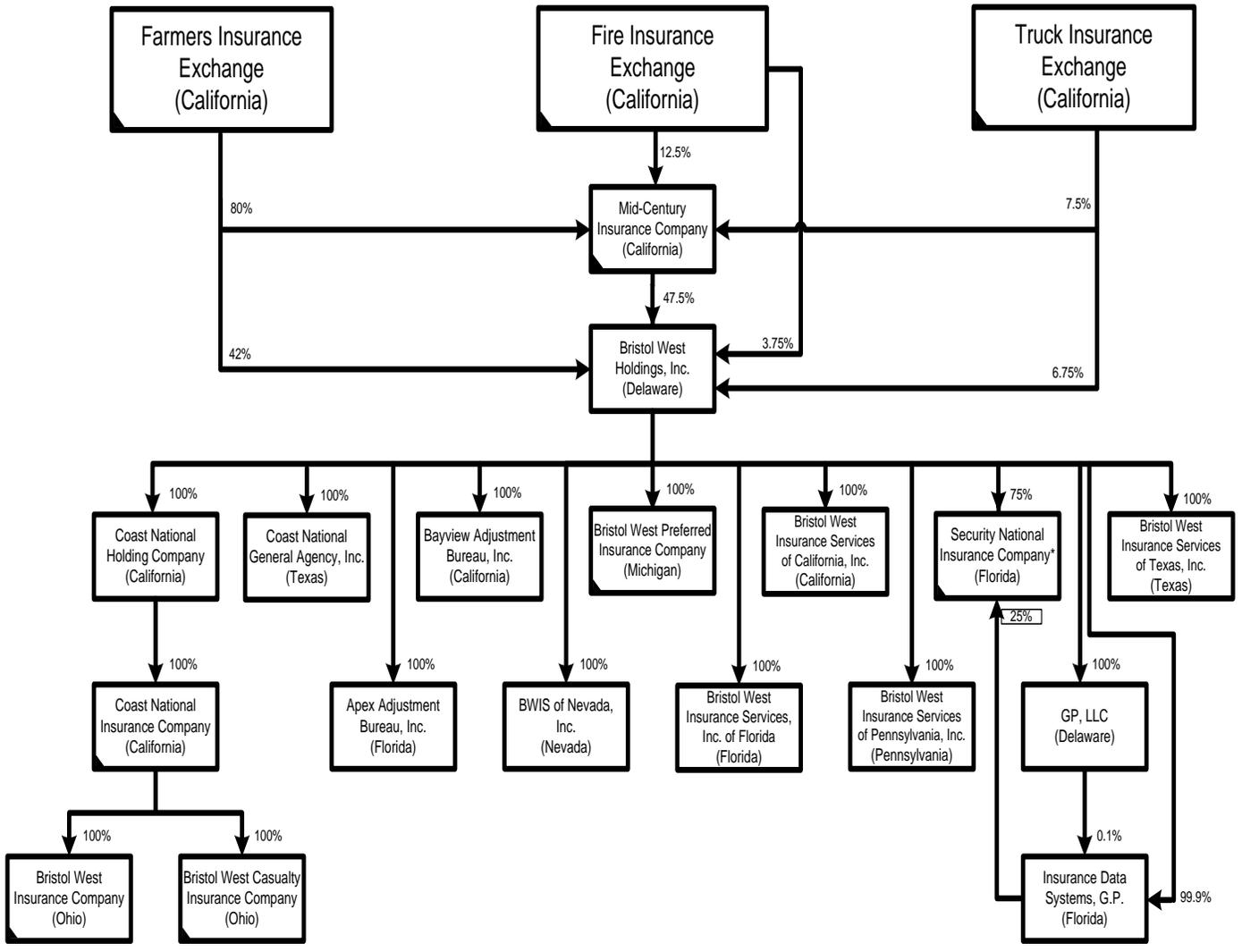
Group/Company	NAIC CoCode	Domiciled State
ZURICH GROUP		
Farmers Reinsurance Company	10873	CA

All of the above companies, with the exception of Farmers Reinsurance Company which is part of the Zurich Group, are part of the Farmers Group of companies.

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: company history; corporate records; fidelity bonds and other insurance; pensions, stock ownership, and insurance plans; growth of company; loss experience; statutory deposits; and accounts and records.

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:



▲ - U.S. Insurance Company

* Shares held by Bristol West Holdings, Inc. are voting shares, while those held by Insurance Data Systems, G.P. are non-voting shares

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, 2013:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Kenneth W. Bentley Los Angeles, California	Vice President of Community Affairs and Education Nestle´ USA, Inc.
Peter D. Kaplan Los Angeles, California	Retired
David W. Louie ^(a) Los Angeles, California	First Vice President CB Richard Ellis, Inc.
Timothy M. Madden Tampa, Florida	President Bristol West Holdings, Inc.
Dale A. Marlin ^(b) Naples, Florida	Retired
Ronald G. Myhan ^(c) Laguna Beach, California	Chief Financial Officer Farmers Insurance Exchange
Donald E. Rodriguez Long Beach, California	Executive Director Boys and Girls Club of Long Beach, CA
John T. Wuo Arcadia, California	President Golden Apple Group International, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Timothy M. Madden	President
Maria E. Aguilera	Vice President and Treasurer
Ronald G. Myhan ^(c)	Vice President
Jeffrey M. Sauls ^(d)	Vice President
Karyn L. Williams	Vice President
Todd M. Williams	Vice President

<u>Name</u>	<u>Title</u>
Eric E. Kappler	Assistant Vice President
James L. Nutting	Actuary
Martin R. Brown	Secretary

The following changes in the board of directors and management occurred subsequent to the examination date:

- (a) Replaced by Maria E. Aguilera as Director, effective March 18, 2014.
- (b) Replaced by Eric E. Kappler as Director, effective March 18, 2014.
- (c) Resigned, effective March 18, 2014.
- (d) Resigned, effective March 18, 2014.

Management Agreements

Service Agreement: The Company entered into a Service Agreement with its ultimate parent, Farmers Insurance Exchange (FIE), effective September 3, 2009. Pursuant to this Agreement, FIE administers policy management, underwriting, claims adjusting, accounting and financial reporting, investment management, statutory filing, and other administrative services necessary for the Company to discharge its obligations to its policyholders, shareholders, and regulators. Compensation for the services except for investment services is based on actual costs incurred. For the investment services, the Company pays FIE an annual charge equal to 0.125% of the average net invested assets computed at the beginning of the year and at the end of the year. The costs incurred by the Company under this Agreement are ceded to FIE per a 100% Quota Share Reinsurance Agreement, thus FIE ultimately bears the cost of these services. Under this Service Agreement, the Company paid FIE \$42.5 million; \$55.2 million; \$75.1 million; and \$45.8 million in 2010, 2011, 2012, and 2013, respectively. The Agreement was approved by the California Department Insurance (CDI) on September 2, 2009.

Tax Sharing Agreement: The Company and FIE are parties to a Tax Sharing Agreement amended and restated, effective September 1, 2013, whereby any tax liability or benefit is computed on a separate tax return basis, as if each member filed its

return separately. FIE is the party primarily responsible for filing and making all tax payments on behalf of the Company and FIE's other subsidiaries. Intercompany balances are settled monthly and the final settlement is made within 30 days after the filing date of the consolidated return. In 2010, 2011, 2012, and 2013, the Company paid FIE \$4.2 million; \$3.4 million; \$3.2 million; and \$3.1 million for its tax share, respectively. The Agreement was approved by the CDI on October 10, 2013.

Agency Agreement: The Company entered into a General Agency Agreement with its affiliate, Bristol West Insurance Services of California, Inc. (BWIS-CA), effective July 9, 1998 and superseded by an amended agreement effective March 25, 2014. Pursuant to this amended agreement, BWIS-CA can enter into agreements with brokers (Producers) to sell private passenger automobile insurance policies issued by the Company in California. BWIS-CA pays commissions to the Producers pursuant to the Company's underwriting guidelines and commission schedules. The Company reimburses BWIS-CA for such commission payments made by BWIS-CA to the Producers. The amended agreement was approved by the CDI on November 7, 2013.

Agency Agreement: The Company entered into a General Agency Agreement with its affiliate, BWIS of Nevada, Inc. (BWIS-NV), effective July 9, 1998 and superseded by an amended agreement effective March 25, 2014. Pursuant to this amended agreement, BWIS-NV can enter into agreements with brokers (Producers) to sell private passenger automobile insurance policies issued by the Company in Arizona and Nevada. BWIS-NV pays commissions to the Producers pursuant to the Company's underwriting guidelines and commission schedules. The Company reimburses BWIS-NV for such commission payments made by BWIS-NV to the Producers. The amended agreement was approved by the CDI on November 7, 2013.

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 \$390 million of direct premiums in 2013.

As of December 31, 2013, 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, 2013, 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	\$ 284,065,237	72.8%
Arizona	31,981,376	8.2%
Washington	24,675,899	6.3%
Mississippi	15,838,203	4.1%
Oregon	10,959,992	2.8%

REINSURANCE

Assumed

The following is a summary of the most significant assumed reinsurance agreements in force as of December 31, 2013:

Effective April 1, 2001, the Company entered into a Quota Share Reinsurance Agreement with Home State County Mutual Insurance Company (HSCM), an insurance company domiciled in the state of Texas. Pursuant to this Agreement, the Company

assumes 100% of the HSCM business produced through Coast National General Agency (formerly Reliant 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 2013, the Company assumed \$13.2 million in premiums from HSCM.

Effective June 1, 2010, the Company entered into an Assumption Reinsurance Agreement with 21st Century Premier Insurance Company (Premier), an affiliate domiciled in Pennsylvania. Pursuant to this Agreement, the Company assumes from Premier on an assumption reinsurance basis the gross liabilities and obligations of Premier under all auto business insurance policies written by Premier (excluding policies covering motorcycles or recreational vehicles) and issued in California. During 2013, the Company assumed no premiums from Premier.

Ceded

The following is a summary of the most significant ceded reinsurance agreement in force as of December 31, 2013:

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

As of December 31, 2013, reinsurance recoverables for all ceded reinsurance totaled \$328.4 million, or 81.5% of surplus as regards policyholders. All of the reinsurance recoverables were from admitted affiliates.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2013

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders from December 31, 2009
through December 31, 2013

Statement of Financial Condition
as of December 31, 2013

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 356,831,066	\$	\$ 356,831,066	
Common stocks	52,458,306		52,458,306	
Cash and short-term investments	16,884,258		16,884,258	
Investment income due and accrued	1,999,288		1,999,288	
Premiums and agents' balances in course of collection	7,692,743	3,733,255	3,959,488	
Premiums, agents' balances and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums)	115,975,278		115,975,278	
Amount recoverable from reinsurers	28,029,434		28,029,434	
Net deferred tax asset	5,102,925	448,789	4,654,136	
Receivables from parent; subsidiaries and affiliates	4,701,726		4,701,726	
Aggregate write-ins for other than invested assets	<u>1,550,652</u>	<u>4,286</u>	<u>1,546,366</u>	
 Total assets	 <u>\$ 591,225,676</u>	 <u>\$ 4,186,330</u>	 <u>\$ 587,039,347</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 74,773	(1)
Reinsurance payable on paid loss and loss adjustment expenses			1,960,577	
Commissions payable, contingent commissions and other similar charges			4,717,549	
Other expenses			666,111	
Taxes, licenses and fees			197,836	
Advance premiums			839,486	
Ceded reinsurance premiums payable			172,948,939	
Payable to parent, subsidiaries and affiliates			317,634	
Aggregate write-ins for liabilities			<u>2,227,345</u>	
 Total liabilities			 183,950,250	
Common capital stock	\$ 3,000,000			
Gross paid-in and contributed surplus		226,278,921		
Unassigned funds (surplus)		<u>173,810,176</u>		
Surplus as regards policyholders			<u>403,089,097</u>	
 Total liabilities, surplus and other funds			 <u>\$ 587,039,347</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2013

Statement of Income

Underwriting Income

Premiums earned		\$ 0
Deductions:		
Losses and loss expenses incurred	\$ (58,914)	
Other underwriting expenses incurred	<u>231,232</u>	
Total underwriting deductions		<u>172,318</u>
Net underwriting loss		(172,318)

Investment Income

Net investment income earned	\$ 10,502,976	
Net realized capital loss	<u>(164,994)</u>	
Net investment gain		10,337,982

Other Income

Aggregate write-ins for miscellaneous income	<u>(825)</u>	
Total other income		<u>(825)</u>
Net income before federal income taxes		<u>10,164,839</u>
Federal income taxes incurred		<u>3,108,232</u>
Net income		<u>\$ 7,056,607</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		\$ 395,717,679
Net income	\$ 7,056,607	
Change in net unrealized capital losses	(1,147,215)	
Change in net deferred income tax	(524,184)	
Change in nonadmitted assets	<u>1,986,210</u>	
Change in surplus as regards policyholders for the year		<u>7,371,418</u>
Surplus as regards policyholders, December 31, 2013		<u>\$ 403,089,097</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2009 through December 31, 2013

Surplus as regards policyholders, December 31, 2009 per Examination				\$ 367,009,352
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 25,727,425	\$		
Net unrealized capital gains	7,072,947			
Change in net deferred income tax	5,096,098			
Change in nonadmitted assets	<u> </u>	<u>1,816,725</u>		
Total gains and losses	<u>\$ 37,896,470</u>	<u>\$ 1,816,725</u>		
Net increase in surplus as regards policyholders				<u>36,079,745</u>
Surplus as regards policyholders, December 31, 2013, per Examination				<u>\$ 403,089,097</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) 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 independent actuarial firm of American Actuarial Consulting Group (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, 2013 reserves for losses and loss adjustment expenses were determined to be within a reasonable range of estimates, and have been accepted for the purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Management and Control - General Agency Agreements (Page 6): It was recommended that the Company amend the contract terms to reflect the current responsibilities with its affiliated general agents and file the agreements with the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). The Company has complied with this recommendation.

Corporate Records (Page 7): It was recommended that the Company implement procedures in its board meetings to ensure compliance with CIC Section 735. The Company has complied with this recommendation.

ACKNOWLEDGMENT

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

Respectfully submitted,

_____/S/_____

Tony L. Tran, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California