REPORT OF EXAMINATION
OF THE
ESURANCE PROPERTY AND CASUALTY
INSURANCE COMPANY
AS OF
DECEMBER 31, 2011

Filed: February 21, 2013

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San Francisco, California
December 17, 2012

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

Esurance Property and Casualty Insurance Company

(hereinafter also referred to as the Company) at its home office located at 650 Davis Street, San Francisco, California 94111.

SCOPE OF EXAMINATION

This is a multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2011. 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.

The examination was coordinated with Wisconsin (the lead state). It was conducted concurrently with other insurance entities in the holding company group (Esurance Insurance Company and Esurance Insurance Company of New Jersey).

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

COMPANY HISTORY

The Company is a wholly-owned subsidiary of Esurance Insurance Company (ESIC), a Wisconsin-domiciled insurance company, which is wholly-owned by Esurance Holdings, Inc. (ESHI), a Delaware corporation. ESHI also wholly owns Esurance Insurance Services, Inc. (EISI), an insurance agency that acts as the Company's agent.

Prior to October 7, 2011, ESHI was ultimately owned by White Mountains Insurance Group, Ltd (WTM). Effective October 7, 2011, WTM sold its entire interest in ESHI and all of ESHI's subsidiaries, including the Company, to The Allstate Corporation (ALLCORP).

The Company is authorized to issue 100,000 shares of common stock with a par value of $130 per share. As of December 31, 2011, there were 20,000 shares outstanding.

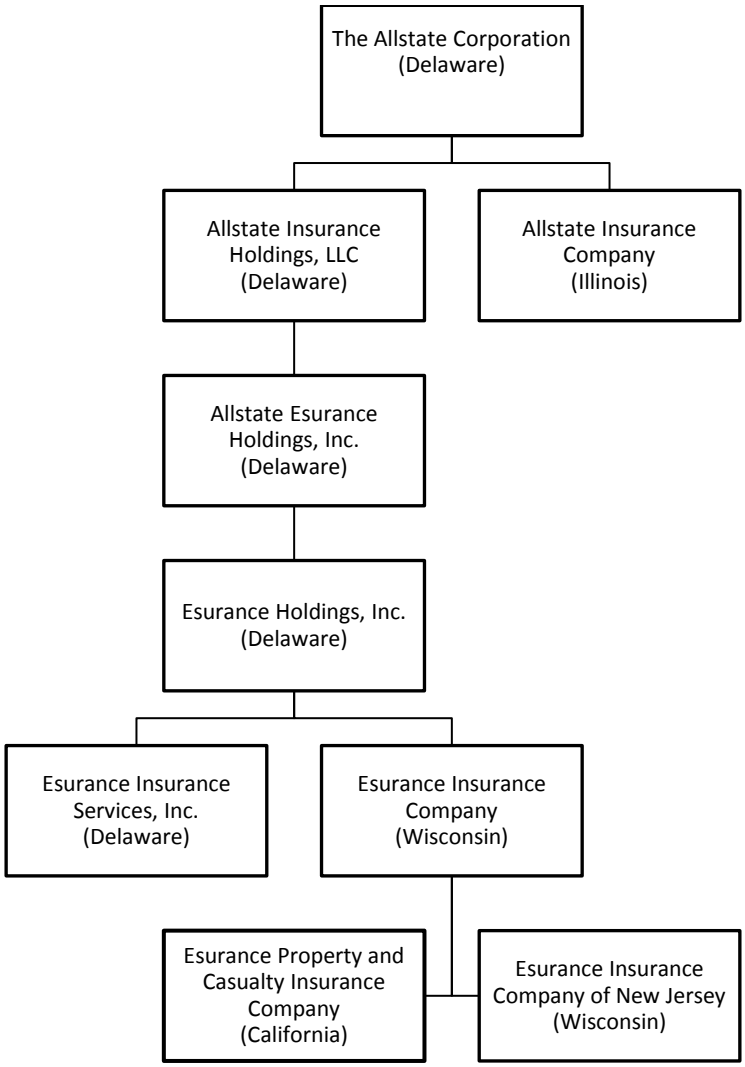
On May 24, 2012, the Company's Board of Directors approved a resolution to issue an additional 3,100 shares of common stock to ESIC for $403,000.

On December 12, 2012, the Company's Board of Directors approved a resolution to pay an ordinary dividend totaling $3,100,000 to its sole shareholder, ESIC.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The Allstate Corporation (ALLCORP) is the ultimate controlling entity of the Company.

The following is an abridged organizational chart depicting the Company within the holding company system (all ownership is 100%):



Members of the board of directors, who are elected annually, oversee management of the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2011:

Directors

Name	Principal Business Affiliation
Gary C. Tolman Mill Valley, California	Chairman, President and Chief Executive Officer Esurance Property and Casualty Insurance Company
Jonathan D. Adkisson San Rafael, California	Vice President, Chief Financial Officer, and Actuary Esurance Property and Casualty Insurance Company
Kerian Bunch Larkspur, California	Vice President, General Counsel and Secretary Esurance Property and Casualty Insurance Company
Christopher M. Henn Corte Madera, California	Vice President and Chief Operating Officer Esurance Property and Casualty Insurance Company
Wayne A. Sharrah Rocklin, California	Vice President and Chief Claims Officer Esurance Property and Casualty Insurance Company
Philip J. Swift [(a)] Novato, California	Vice President and Chief Information Officer Esurance Property and Casualty Insurance Company
John C. Swigart McLean, Virginia	Vice President and Chief Marketing Officer Esurance Property and Casualty Insurance Company

Principal Officers

Name	Title
Gary C. Tolman	Chairman, President and Chief Executive Officer
Jonathan D. Adkisson	Vice President, Chief Financial Officer, Treasurer and Actuary
Kerian Bunch	Vice President, General Counsel and Secretary
Christopher M. Henn	Vice President
Wayne A. Sharrah	Vice President
Philip J. Swift	Vice President
John C. Swigart	Vice President

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

(a) Effective April 6, 2012, Philip J. Swift, Vice President and Chief Information Officer, resigned from the Company. On August 31, 2012, the Company announced that effective September 4, 2012, Elinor C. MacKinnon will serve as a Vice President and Chief Information Officer.

Effective January 20, 2012, Mark D. Pitchford was appointed as Vice President and elected as an additional member of the Board.

Management Agreements

Insurance Management Service Agreement: The Company (i) terminated its previous Insurance Management Service Agreement, effective January 1, 2003 and amended as of January 1, 2008; and (ii) entered into an Insurance Management Service Agreement with Esurance Insurance Services, Inc. (EISI), effective January 1, 2010. Under the terms of this agreement, EISI provides the Company with accounting, tax, audit, functional support services and investment services on a cost basis. The Company paid EISI $1,691,155 in 2010, and $2,177,657 in 2011 for services provided. The Company provided its 30-day prior notice filing with the California Department of Insurance (CDI) in accordance with California Insurance Code (CIC) Section 1215.5(b). The CDI approved this agreement on November 20, 2009.

Agency Agreement: The Company (i) terminated its previous Agency Agreement, effective January 1, 2003 and amended as of January 1, 2004 and January 1, 2007, and (ii) entered into a new Agency Agreement with EISI, effective January 1, 2010. Pursuant to this agreement, the Company appoints EISI as its insurance services representative and agent with regard to the policies of the Company. In conjunction with such appointment, EISI provides services including but are not limited to, underwriting, claims handling, policy administration, reinsurance, and consumer response. Under the new Agency Agreement, the Company shall pay EISI a commission equal to 100% of the actual acquisition costs incurred by EISI in acquiring or renewing policies minus all revenue and fees earned by EISI in connection with policies sold under this new Agency Agreement. The Company also pays 100% of the actual loss adjustment expenses incurred by EISI. The Company paid EISI $3,777,248 in 2010, and $13,647,406 in 2011 for services provided. The Company provided its 30-day prior notice filing with the CDI in accordance with CIC Section 1215.5(b). The CDI approved this agreement on November 20, 2009.

Services and Expense Agreement: The Company entered into an Amended and Restated Service and Expense Agreement with The Allstate Corporation (ALLCORP) and certain affiliated insurance companies, effective October 7, 2011. The agreement provides for cost sharing and allocation of operating expenses among the parties. The Company did not pay any expenses in 2011 related to the Services and Expense Agreement. The Company provided its 30-day prior notice filing with the CDI in accordance with CIC Section 1215.5(b). The CDI approved this agreement on September 30, 2011.

Tax Sharing Agreement: A Tax Allocation Agreement was executed between Fund American Enterprise Holdings, Inc., Esurance Holdings, Inc., Esurance Insurance Services, Inc., Esurance Insurance Company and the Company, effective December 18, 2004 and amended as of December 21, 2007 to add Esurance Insurance Company of New Jersey, as a party thereto. This agreement was terminated with the sale of the Company to ALLCORP on October 7, 2011. Effective October 7, 2011, the Company

entered into a Tax Sharing Agreement with ALLCORP. Pursuant to the agreement, the total federal income tax liability of the Allstate Consolidated Group is allocated to the members of the group under the principles used to determine earnings and profits under Section 1552(a)(2) of the Internal Revenue Code of 1986 and Treasury Regulation Section 1.1502-33(d)(3), using a fixed percentage of one hundred. Accordingly, each member of the Allstate Consolidated Group is generally liable for the same amount of tax it would otherwise pay on a separate return basis. The Company provided its 30-day prior notice filing with the CDI in accordance with CIC Section 1215.5(b). The CDI approved this agreement on September 30, 2011.

Investment Management Agreement: The Company had an Investment Management Agreement, effective July 1, 2002, with White Mountains Advisors, LLC, formerly known as OneBeacon Asset Management, Inc. This agreement was terminated with the sale of the Company to ALLCORP on October 7, 2011. Effective October 7, 2011, the Company entered into an Investment Management Agreement with Allstate Investments, LLC (AILLC). Pursuant to the agreement, AILLC shall serve as the investment manager of the Company's investment assets. In addition, the Company grants AILLC the power and authority to advise, manage, and direct the investment and reinvestment of such assets. The fee charged to the Company by AILLC equals the actual cost for the management of the Company's portfolio. During 2011, the Company paid AILLC $1,582 for services provided. The Company provided its 30-day prior notice filing with the CDI in accordance with CIC Section 1215.5(b). The CDI approved this agreement on September 30, 2011.

TERRITORY AND PLAN OF OPERATION

The Company is domiciled in California and through 2011 was solely engaged in underwriting personal lines automobile insurance. At December 31, 2011, the Company was licensed to transact business in 41 states and the District of Columbia. The states the Company was licensed to transact business in are:

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

The Company wrote business in 16 states during 2011, an increase from 11 states in 2010, having added Alabama, Colorado, Florida, Nevada and New York.

Esurance Insurance Services, Inc. (EISI), an insurance agency that acts as the Company's managing general agent, oversees all elements of its personal lines automobile insurance programs, which includes providing sales and marketing, pricing, product management, customer service and claims adjustment. EISI markets the Company's products directly through its website and over the phone. The Company also sells its product through EISI's Partner Agencies which utilize the internet and other traditional insurance channels.

Under the Agency Agreement and management contracts, EISI generated $216.8 million and $338.1 million in direct premiums for 2010 and 2011 respectively, representing 100% of the Company's direct premiums written in those years. Approximately 79% and 49% of the Company's direct written premiums were generated in the State of California in 2010 and 2011, respectively.

Starting in August 2012, the Company began offering renters policies in Wisconsin through its parent, Esurance Insurance Company (ESIC), and will expand renter's coverage at other states through ESIC and its affiliates.

REINSURANCE

Assumed

The Company did not assume business during the examination period

Ceded

In 2011, the Company had a 90% quota share reinsurance agreement with its parent, Esurance Insurance Company (ESIC). On October 7, 2011, the Company, along with other affiliates, was sold to The Allstate Corporation (ALLCORP). With this sale, the Company's 90% quota share reinsurance agreement with ESIC was commuted and replaced with a 100% quota share reinsurance agreement with Allstate Insurance Company (AIC), effective October 7, 2011. The Company submitted a prior notice application to the California Department of Insurance and received approval pursuant to California Insurance Code Section (CICS) 1011(c) and California Code of Regulation (CCR) Section 2303.15(e) on September 28, 2011.

As the reserves were commuted at cost, there was no income statement impact from the return of reserves to the Company; however, the Company recorded a reduction of ceding commission in the amount of $15,221,400 based on unearned premiums as of October 6, 2011.

Reserve Agreement

Effective October 7, 2011, the Company entered into a Reserve Agreement whereby, in the event certain business ceded under the 100% Quota Share Reinsurance Agreement with AIC is commuted, assets equal to the value of the commuted liabilities are to be transferred to the Company. In the event of a reserve deficiency, AIC is to provide payment to the Company; and in the event of a reserve redundancy, the Company is to provide for payment to AIC. The Company submitted a prior notice application to the

Department of Insurance and received approval pursuant to CIC Section 1011(c) and CCR Section 2303.15(e) on September 28, 2011.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Underwriting and Investment Exhibit for the Year Ended December 31, 2011

Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2011

Statement of Financial Condition
as of December 31, 2011

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 37,916,412	$	$ 37,916,412	
Cash and short-term investments	(352,881)		(352,881)	
Receivable for securities	3,727	3,727	0	
Investment income due and accrued	207,803		207,803	
Net deferred tax asset	6,720,451	6,720,451	0	
Receivables from parent, subsidiaries and affiliates	6,934,289		6,934,289	
Total assets	$ 51,429,801	$ 6,724,178	$ 44,705,623	
Liabilities, Surplus and Other Funds				
Losses and loss adjustment expenses			$ 0	(1)
Current federal and foreign income taxes			594,111	
Payable to parent, subsidiaries and affiliates			12,546,889	
Aggregate write-ins for liabilities			480,032	
Total liabilities			13,621,032	
Common capital stock	$ 2,600,000			
Gross paid-in and contributed surplus	12,566,890			
Unassigned funds (surplus)	15,917,701			
Surplus as regards policyholders			31,084,591	
Total liabilities, surplus and other funds			$ 44,705,623	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2011

Statement of Income

Underwriting Income		
Premiums earned		$ 25,354,536
Deductions:		
Losses incurred	$ 13,736,171	
Loss adjustment expenses incurred	2,053,854	
Other underwriting expenses incurred	22,537,526	
Total underwriting deductions		38,327,551
Net underwriting loss		(12,973,015)
Investment Income		
Net investment income earned	$ 1,402,297	
Net realized capital gains	279,677	
Net investment gain		1,681,974
Net loss before federal and foreign income taxes		(11,291,041)
Federal and foreign income taxes incurred		1,945,698
Net loss		$ (13,236,739)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2010		$ 45,113,034
Net loss	$ (13,236,739)	
Change in net unrealized capital gains	26,335	
Change in net unrealized foreign exchange capital gain	879	
Change in net deferred income tax	5,901,533	
Change in nonadmitted assets	(6,720,451)	
Change in surplus as regards policyholders for the year		(14,028,443)
Surplus as regards policyholders, December 31, 2011		$ 31,084,591

Reconciliation of Surplus as Regards Policyholders
from December 31, 2008 through December 31, 2011

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2008 per Examination			$ 32,828,175
Net loss	$	$ 972,322	
Net unrealized capital gain	13,743		
Change in net unrealized foreign exchange capital gain	879		
Change in net deferred income tax	5,917,985		
Change in non-admitted assets		6,703,869	
Total gains and losses	$ 5,932,607	$ 7,676,191	
Net decrease in surplus as regards policyholders			(1,743,584)
Surplus as regards policyholders, December 31, 2011, per Examination			$ 31,084,591

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

As of December 31, 2011 losses and loss adjustment expenses were zero. The Company cedes 100% of its voluntary gross loss and loss adjustment expenses to Allstate Insurance Company (AIC), an affiliate. There are no disputed balances or uncollectable funds. The assuming affiliated reinsurer is rated “A+” (Superior) by A.M. Best.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

The previous report of examination had no comments or recommendations.

ACKNOWLEDGEMENT

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

Respectfully submitted,

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Gordon M. Curtis, CFE, CISA
Examiner-In-Charge
Contract Examiner
Department of Insurance
State of California