

REPORT OF EXAMINATION
OF THE
21ST CENTURY CASUALTY COMPANY
AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed June 28, 2011

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Los Angeles, California
May 6, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Business Regulation
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV-Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

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

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

21ST CENTURY CASUALTY COMPANY

(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 6301 Owensmouth Avenue, Woodland Hills, California 91367.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2009. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. 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 conducted concurrently with the examination of the Company's California affiliates, 21st Century Superior Insurance Company and 21st Century Insurance Company, and the 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: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; loss experience; accounts and records; business in force by states; and sales and advertising.

COMPANY HISTORY

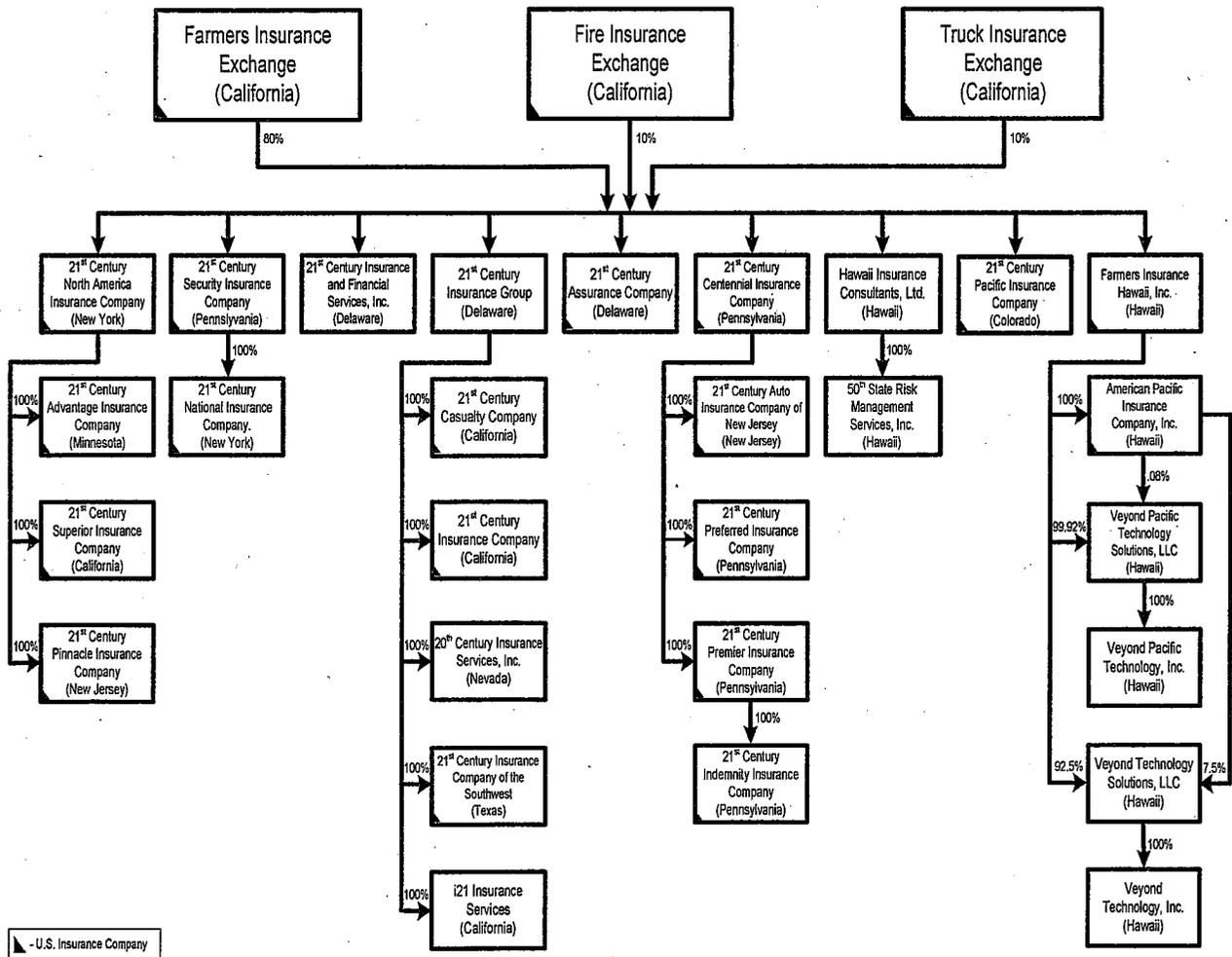
On September 27, 2007, American International Group, Inc. (AIG), indirectly purchased the remaining 39.2% shares of the Company's immediate parent, 21st Century Insurance Group (21st CIG). Prior to the purchase, AIG indirectly owned approximately 60.8% of the outstanding shares of 21st CIG. As a result of the transaction, 21st CIG became an indirect wholly-owned subsidiary of AIG, a holding company incorporated in the State of Delaware.

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 AIG which included the Company's parent, 21st CIG. The purchase of the 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 the 21st Century PAG. Subsequent 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 FGI's acquisition of the 21st Century PAG companies from AIG effective July 1, 2009.

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:



As of December 31, 2009, management of the Company was vested in an eleven-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>
Karen Moller Alejnikov Valley Forge, Pennsylvania	Executive Vice President - Operations 21 st Century Insurance and Financial Services, Inc.
Jeffrey John Dailey Los Angeles, California	Executive Vice President – Personal Lines Farmers Group, Inc
Anthony James DeSantis Centerville, Delaware	Chairman of the Board, President, and Chief Executive Officer 21 st Century Insurance and Financial Services, Inc.
William Donald Loucks, Jr Glen Mills, Pennsylvania	Executive Vice President and Chief Operating Officer 21 st Century Insurance and Financial Services, Inc.
Ronald Gregory Myhan Los Angeles, California	Executive Vice President – Finance Farmers Insurance Exchange
Glenn Alan Pfeil Wilmington, Delaware	Chief Financial Officer, Executive Vice President, and Treasurer 21 st Century Insurance and Financial Services, Inc.
James Anthony Porcari, III Alpharetta, Georgia	Senior Vice President – Claims 21 st Century Insurance and Financial Services, Inc.
Donald Walter Procopio Aldan, Pennsylvania	Senior Vice President and Chief Actuary 21 st Century Insurance and Financial Services, Inc.

Name and Residence

Principal Business Affiliation

Mhayse Gokul Samalya
Topanga, California

Executive Vice President – Commercial Lines
Farmers Group, Inc.

Anthony William Tomich
Thousand Oaks, California

Vice President – Finance
21st Century Insurance and Financial Services,
Inc.

F. Robert Woudstra
Los Angeles, California

Chief Executive Officer
Farmers Group, Inc.

Principal Officers

Name

Title

Anthony James DeSantis
Glenn Alan Pfeil

President and Chief Executive Officer
Executive Vice President Chief Financial Officer, and
Treasurer

Esta Lee Cain

Senior Vice President, General Counsel, and
Secretary

Donald Walter Procopio
Karen Moller Alejnikov
James Anthony Porcari, III
William Donald Loucks, Jr.

Senior Vice President and Chief Actuary
Senior Vice President
Senior Vice President
Senior 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 Century Insurance and Financial Services (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 (Fire), and Truck Insurance Exchange (Truck). No services were provided by 21st CIFS subsequent to the July

1, 2009 acquisition by FIE, Fire and Truck. For 2008 and 2009, payments made by the Company to 21st CIFS totaled \$2,372,110 and \$1,299,503, 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 the utilization of their net losses. 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.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed to write property and casualty lines of business in the following 42 states and the District of Columbia:

Alabama	Louisiana	Nevada	South Dakota
Alaska	Kansas	New Jersey	Tennessee
Arkansas	Kentucky	New York	Texas
California	Maine	North Carolina	Utah
Colorado	Maryland	North Dakota	Vermont
Delaware	Massachusetts	Ohio	Virginia
Georgia	Michigan	Oklahoma	Washington
Idaho	Mississippi	Oregon	West Virginia
Illinois	Missouri	Pennsylvania	Wisconsin
Indiana	Montana	Rhode Island	
Iowa	Nebraska	South Carolina	

In 2009, the Company wrote \$17.5 million of direct premiums. Of the direct premiums written, \$10.4 million (59.5%) was written in California, \$6.1 million (34.8%) was written in Ohio, and \$1 million (5.7%) was written in Tennessee.

The principal lines of business written are private passenger auto liability and auto physical damage which amounted to 63.1% and 36.9% respectively of the Company's total premiums written. The Company's business is written through direct marketing and internet sales.

REINSURANCE

Assumed

The Company has reinsurance assumed from the intercompany pool 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 (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.	0.50%
21 st Century Casualty Company	0.25%
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 participation percentage.

Effective July 1, 2009, under the terms of a 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 PAG 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 \$10.8 million or 92.3% of surplus as regards policyholders, all of which were the 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, 2007 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	\$ 5,662,657	\$	\$ 5,662,657	
Cash and short-term investments	8,465,777		8,465,777	
Investment income due and accrued	94,951		94,951	
Net deferred tax asset	301,995	274,962	27,033	
Receivable from parent, subsidiaries and affiliates	<u>589,758</u>		<u>589,758</u>	
 Total assets	 <u>\$ 15,115,138</u>	 <u>\$ 274,962</u>	 <u>\$ 14,840,176</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 2,279,856	(1)
Reinsurance payable on paid losses and loss adjustment Expenses			177,343	
Loss adjustment expenses			683,863	(1)
Current federal income taxes			18,040	
Aggregate write-ins for liabilities			<u>6,436</u>	
 Total liabilities			 3,165,538	
 Common capital stock		\$ 3,300,000		
Gross paid-in and contributed surplus		79,940,622		
Unassigned funds (surplus)		<u>(71,565,984)</u>		
 Surplus as regards policyholders			 <u>11,674,638</u>	
 Total liabilities, surplus and other funds			 <u>\$ 18,840,176</u>	

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

Statement of Income

Underwriting Income

Premiums earned		\$ 2,371,335
Deductions:		
Losses incurred	\$ 1,355,140	
Loss expense incurred	295,921	
Other underwriting expenses incurred	<u>309,644</u>	
Total underwriting deductions		<u>1,960,705</u>
Net underwriting gain		410,630

Investment Income

Net investment income earned	\$ 269,241	
Net realized capital losses	<u>(19,969)</u>	
Net investment gain		249,272

Other Income

Net loss from agents' balances charged off	\$ (19,358)	
Aggregate write ins for miscellaneous income	<u>49,235</u>	
Total other income		<u>29,877</u>
Net gain before federal income taxes		689,779
Federal income taxes incurred		<u>281,872</u>
Net income		<u>\$ 407,907</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		\$ 11,246,134
Net income	\$ 407,907	
Change in net deferred income tax	219,522	
Change in nonadmitted assets	(159,389)	
Aggregate write ins for losses in surplus	<u>(39,536)</u>	
Change in surplus as regards policyholders		<u>428,504</u>
Surplus as regards policyholders, December 31, 2009		<u>\$ 11,674,638</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2009

Surplus as regards policyholders, December 31, 2007, per Examination		\$ 11,185,928
	Gain in <u>Surplus</u>	Loss in <u>Surplus</u>
Net income	\$ 499,223	\$
Change in net deferred tax	303,985	
Change in nonadmitted assets		274,962
Aggregate write-ins for losses in surplus	<u> </u>	<u>39,536</u>
Totals	<u>\$ 803,208</u>	<u>\$ 314,498</u>
Net increase in surplus as regards policyholders for the examination		<u>488,710</u>
Surplus as regards policyholders, December 31, 2009, per Examination		<u>\$ 11,674,638</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company was directed by the California Department of Insurance (CDI), under CIC 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, 2009 reserves for losses and loss adjustment expenses were determined to be within a reasonable range of estimate, and have been accepted for the purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Corporate Records (Page 8): It was recommended that the board of directors comply with its bylaws. The Company has complied with this 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/

Gint Prismantas, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California