REPORT OF EXAMINATION
OF THE
21st CENTURY INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

Filed June 24, 2015

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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

21st CENTURY INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 3 Beaver Valley Road, Wilmington, Delaware 19803. The Company's statutory home is office located at 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California 95833.

SCOPE OF EXAMINATION

We have performed a 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, with California as the lead state. Examiners from the states of Delaware, New Jersey, New York, and Pennsylvania participated in this examination which was conducted concurrently with the examinations of the following insurance companies:

Group/Company	NAIC CoCode	Domiciled State
FARMERS INSURANCE GROUP		
Farmers Insurance Company of Arizona	21598	AZ
Farmers Insurance Exchange	21652	CA
Truck Insurance Exchange	21709	CA
Fire Insurance Exchange	21660	CA
Civic Property & Casualty Company	10315	CA
Neighborhood Spirit Property & Casualty Company	10317	CA
Exact Property & 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
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	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: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; and statutory deposits.

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 which included the Company's parent, 21st Century Insurance Group from American International Group (AIG). 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; and 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 and subsequent sale, as described above, of the 21st Century PAG companies from AIG, effective July 1, 2009.

Capitalization

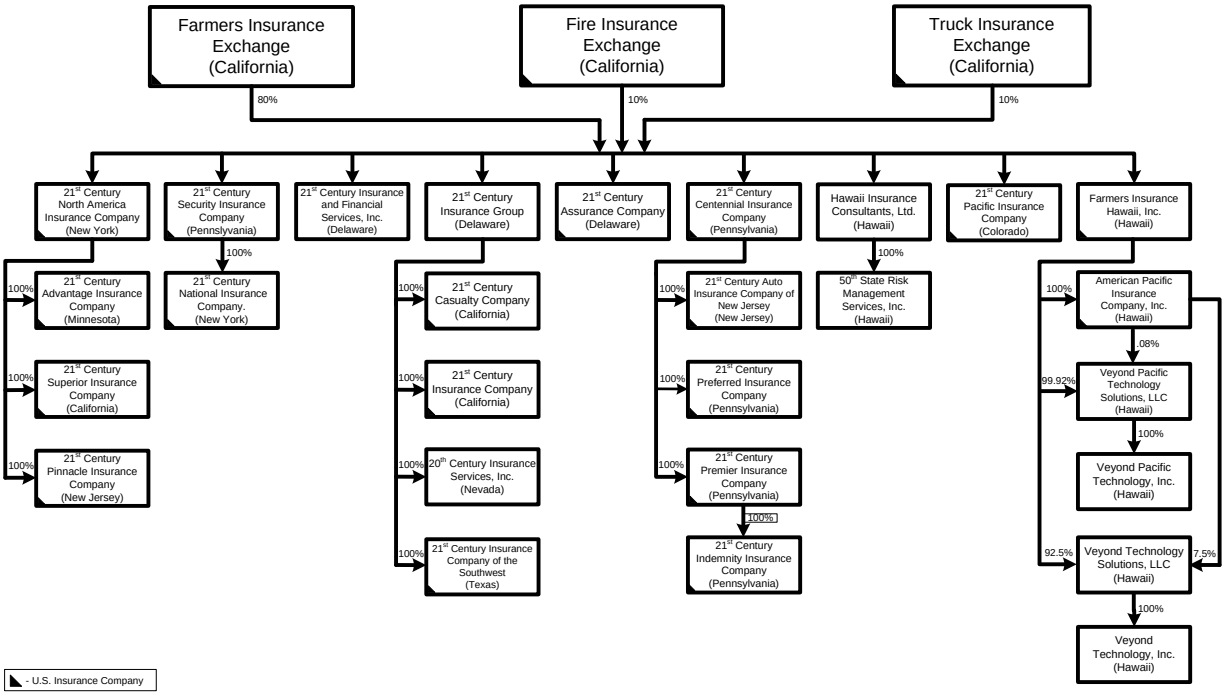
The Company is authorized to issue 10,000 shares of common stock with a par value of $300 per share. As of December 31, 2013, there were 10,000 shares issued and outstanding.

Dividends Paid to Parent

In 2013, the Company paid an ordinary cash dividend of $55 million to its immediate parent, 21st Century Insurance Group.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The following organizational chart shows the interrelationship of the Company with its ultimate parents, along with its subsidiaries within the holding company system. All ownership is 100% unless denoted otherwise:



Management of the Company is vested in the board of directors of not less than five but not more than 20 members who are elected annually. Following are members of the board and principal officers of the Company serving at December 31, 2013:

Directors

Name and Location	Principal Business Affiliation
Kenneth W. Bentley Los Angeles, California	Retired
Anthony J. DeSantis [(a)] Centerville, Delaware	President of Personal Lines Farmers Group, Inc.
Peter D. Kaplan [(a)] Los Angeles, California	Retired
David W. Louie [(a)] Los Angeles, California	Commercial Real Estate Broker
Dale A. Marlin [(a)] Naples, Florida	Retired
Ronald G. Myhan Laguna Beach, California	Chief Financial Officer Farmers Insurance Exchange
Donald E. Rodriquez [(a)] Long Beach, California	Executive Director Boys and Girls Club of Long Beach
John T. Wuo Arcadia, California	President and Chief Executive Officer Golden Apple Group International

Principal Officers

Name	Title
William D. Loucks Jr. [(b)]	President and Chief Executive Officer
Glenn A. Pfeil	Vice President, Treasurer and Chief Financial Officer
Doren E. Hohl[(c)]	Secretary
Karen M. Alejnikov[(d)]	Vice President
Michael A. Boyd	Vice President
Bryan F. Murphy[(e)]	Vice President
Ronald G. Myhan	Vice President
Donald W. Procopio[(e)]	Vice President
Jeffrey M. Sauls[(e)]	Vice President
Karyn L. Williams	Vice President
Jeffrey L. Pepper	Assistant Treasurer
James L. Nutting	Actuary

[a] Resigned. Theresa L. Harm, Shannon L. Kelley, Glenn A. Pfeil, and Ronald L. Marrone were elected to the board of directors in 2014.
[b] Replaced by Glenn A. Pfeil as President in 2014
[c] Replaced by Maura C. Popp in 2014
[d] Retired effective May 7, 2014
[e] Replaced by Keith G. Daly, Shannon L. Kelly, and Victoria L. McCarthy. Theresa L. Harm was appointed Treasurer in 2014 and subsequently replaced on the Board and as Treasurer by Kim Sato on December 15, 2014.

Management Agreement

Tax Sharing Agreement: The Company, Farmers Insurance Exchange (FIE), and FIE subsidiaries 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 subsidiaries. Intercompany balances are settled monthly and the final settlement is made within 30 days after the final filing date of the consolidated return. In 2010, 2011, 2012 and 2013, the Company paid to/recovered from FIE $(1,126,630), $6,043,163, $5,313,001, and $7,698,235, respectively, for its tax share. The Agreement was approved by the California Department of Insurance on February 18, 2014.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance business in the following 42 states and the District of Columbia:

Alabama	Alaska	Arkansas
California	Colorado	Connecticut
Delaware	Florida	Georgia
Idaho	Illinois	Indiana
Iowa	Kansas	Kentucky
Maine	Maryland	Michigan
Minnesota	Mississippi	Missouri
Montana	Nebraska	Nevada
New Jersey	New York	North Carolina
North Dakota	Ohio	Oklahoma
Oregon	Pennsylvania	South Carolina
South Dakota	Tennessee	Texas

Utah	Vermont	Virginia
Washington	West Virginia	Wisconsin

The Company writes private passenger automobile insurance business on a direct basis. In 2013, the Company wrote a total of $539,414,048 of direct premium, 99.6%, or $537,187,768, of the premiums were written in California with the remainder written in Alaska and Tennessee.

REINSURANCE

Intercompany Pooling Agreement

The Company is party to an Intercompany Pooling Agreement, The Amended and Restated Intercompany Pooling Agreement (the "Amended Agreement"). In accordance with the terms of the Amended Agreement, 100% of the net business written by each of the participants is ceded to 21st Century North America Insurance Company (21st CNAIC), the lead company in the 21st Century Personal Lines Intercompany Pool (the "Pool"). This Agreement also allows for 21st CNAIC to perform all administrative duties for all members of the Pool.

Under the terms of the Amended Agreement, liabilities relating to losses with a date of loss prior to July 1, 2009 are ceded to the pool members by 21st CNAIC based on each pool member's fixed pooling participation percentage. Losses which have a date of loss on and after July 1, 2009 are ceded to Farmers Insurance Exchange (FIE) by 21st CNAIC under a 100% quota share reinsurance agreement. 21st CNAIC cedes all administrative responsibilities acquired in the Amended Agreement to FIE as a result of this Agreement.

The following is a list of member companies in the 21st Century Personal Lines Intercompany Pool and the applicable pooling percentages as of December 31, 2013:

Pool Participants	Pool Share (%)
21st Century North America Insurance Company	23.00%

21st Century Insurance Company	20.00%
21st Century Centennial Insurance Company	20.00%
21st Century Premier Insurance Company	10.00%
21st Century Security Insurance Company	8.00%
Farmers Insurance Hawaii, Inc.	4.00%
21st Century Preferred Insurance Company	2.00%
21st Century Pacific Insurance Company	2.00%
21st Century Assurance Company	2.00%
21st Century Indemnity Insurance Company	2.00%
21st Century Pinnacle Insurance Company	1.75%
21st Century Auto Insurance Company of New Jersey	1.50%
21st Century Superior Insurance Company	1.00%
21st Century Advantage Insurance Company	1.00%
21st Century National Insurance Company	1.00%
American Pacific Insurance Company, Inc.	0.50%
21st Century Casualty Company	0.25%
21st Century Insurance Company of the Southwest	0.00%

Assumed

Other than a participation in the aforementioned Amended Agreement, the Company has no reinsurance assumed.

Ceded

Other than a participation in the aforementioned Amended Agreement, the Company has no reinsurance ceded.

As of December 31, 2013, reinsurance recoverables for all ceded reinsurance totaled $340.5 million, or 39.5% of surplus as regards policyholders. All but $935,000 of the ceded reinsurance recoverables were attributable to the Amended Agreement.

ACCOUNTS AND RECORDS

As part of this examination, a review was made of the Company's general controls over its information systems. The review focused on information technology governance, logical access, physical security, change management, and disaster recovery/business continuity plan. As a result of the review, deficiencies were noted primarily in the area of access controls. These findings were presented to the Company along with recommendations to strengthen its controls. Many of the issues have been remediated at the time of this report. It is recommended that the Company continue to address the recommendations made regarding its information systems controls.

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

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 834,851,567	$	$ 834,851,567	
Cash and short-term investments	4,988,823		4,988,823	
Other invested assets	30,215,916		30,215,916	
Investment income due and accrued	5,291,209		5,291,209	
Amount recoverable from reinsurers	35,000		35,000	
Net deferred tax asset	27,117,040	21,659,475	5,457,565	
Total assets	$ 902,499,555	$21,659,475	$ 880,840,080	
Liabilities, Surplus and Other Funds				
Losses and loss adjustment expenses			$ 15,785,468	(1)
Reinsurance payable on paid loss and loss adjustment expenses			650,352	
Payable to parent, subsidiaries and affiliates			2,746,950	
Total liabilities			19,182,770	
Common capital stock		$ 3,000,000		
Gross paid-in and contributed surplus		450,822,625		
Unassigned funds (surplus)		407,834,685		
Surplus as regards policyholders			861,657,310	
Total liabilities, surplus and other funds			$ 880,840,080	

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	$ 2,810,478	
Total underwriting deductions		2,810,478
Net underwriting loss		(2,810,478)
Investment Income		
Net investment income earned	$ 26,043,642	
Net realized capital loss	(984,385)	
Net investment gain		25,059,257
Net income before federal and foreign income taxes		22,248,779
Federal income taxes incurred		7,253,189
Net income		$ 14,995,590

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		$ 897,403,795
Net income	$ 14,995,590	
Change in net unrealized capital gains	1,123,078	
Change in net deferred income tax	2,624,202	
Change in nonadmitted assets	510,645	
Dividends to Stockholders	(55,000,000)	
Change in surplus as regards policyholders for the year		(35,746,485)
Surplus as regards policyholders, December 31, 2013		$ 861,657,310

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

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2009 per Examination			$ 802,032,666
Net income	$ 96,000,883	$	
Net unrealized capital gains	15,985,808		
Change in net deferred income tax	2,624,203	23,100,261	
Change in nonadmitted assets	20,113,393		
Cumulative effect of changes in accounting principles	2,135,200		
Dividends to stockholders		55,000,000	
Aggregate write-ins for gains and losses in surplus	865,418		
Total gains and losses	$ 137,724,905	$ 78,100,261	
Net increase in surplus as regards policyholders			59,624,644
Surplus as regards policyholders, December 31, 2013, per Examination			$ 861,657,310

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

Accounts and Records (Page 10): Some deficiencies were noted primarily in the area of access controls and many of these have been remediated. It is recommended that the Company continue to address the recommendations made regarding its information systems controls.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the effort to cooperate and assist by the Company's officers and employees during the course of this examination.

Respectfully submitted,

_____/S/_____

William M. Fedak, CFE
Examiner-In-Charge
Contract Examiner
California Department of Insurance

_____/S/_____

Richard Kramer, CFE
Examiner-In-Charge
Contract Examiner
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