REPORT OF EXAMINATION
OF THE
FARMERS REINSURANCE COMPANY
AS OF
DECEMBER 31, 2013

Filed June 26, 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

FARMERS REINSURANCE COMPANY

(hereinafter also referred to as the Company) at its statutory home office and main administrative office located at 4680 Wilshire Boulevard, Los Angeles, California 90010.

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 (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 with participation from examiners from the states of Illinois and Washington, and 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 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
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

With the exception of the Company, which is part of the Zurich Group, all the above companies 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: fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of the company; loss experience; and statutory deposits.

COMPANY HISTORY

The Company was organized on August 21, 1997 and commenced business on December 30, 1997. The Company is 100% owned by Farmers Group, Inc. (FGI).

Capitalization

The Company had 3,750,000 shares of $100 par value common stock authorized of which 50,000 shares were issued and outstanding as of December 31, 2013. The Company had 3,750,000 shares of $100 par value preferred stock authorized of which 538,000 shares were issued and outstanding as of December 31, 2013.

Certificate of Contribution

On December 19, 2013, the Farmers Insurance Exchange received approval from the California Department of Insurance to repay the outstanding certificate of contribution issued to the Company on December 31, 2008 and due December 31, 2013, in the amount of $150 million.

Dividends to Shareholders

The Company declared and paid a total of $300 million, in ordinary cash dividends to its parent, FGI, during the examination period ($100 million in 2010, 2011, and 2013).

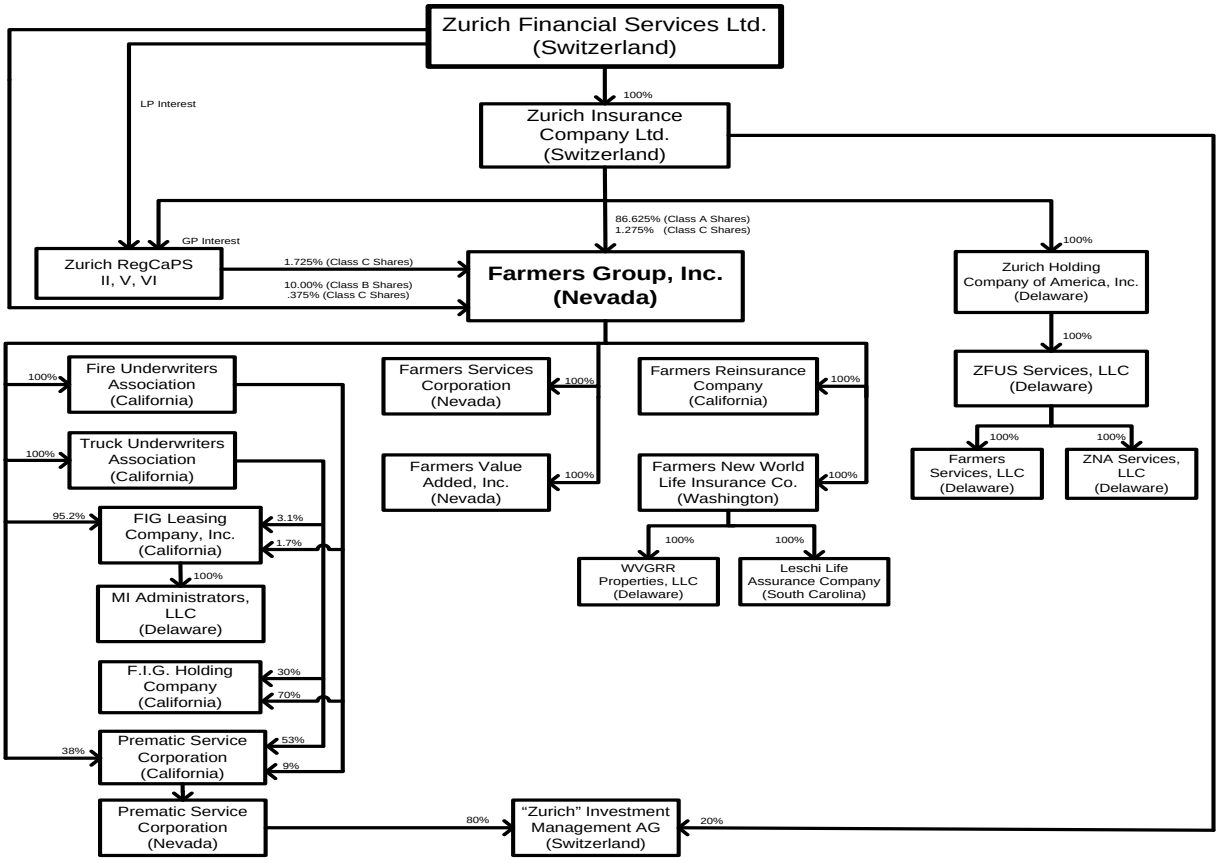
MANAGEMENT AND CONTROL

As of December 31, 2013, the Company is 100% owned by Farmers Group, Inc. (FGI), a Nevada holding company. FGI is a U.S. subsidiary of Zurich Financial Services (ZFS), a Swiss holding company.

In 2008, the intermediate-level holding structure was re-organized. FGI, dba Farmers Underwriters Association, became 87.9% owned by Zurich Insurance Company Ltd. (ZIC), 10.375% by Zurich Group Holdings (ZGH), and 1.725% by three Partnerships (Zurich RegCaPs II, V, VI) each having ZIC as the General Partner and ZGH as the Limited Partner. In 2009, another restructuring occurred, which resulted in FGI becoming directly owned 87.9% by ZIC, 10.375% by ZFS, and 1.725% by the three Partnerships (Zurich RegCaPs II, V, VI).

With the approval of the California Department of Insurance (CDI) in December 2013, a unique National Association of Insurance Commissioners (NAIC) Group Code has been assigned to the Farmers Group of companies (previously part of the Zurich NAIC Group Code 0212 and now included in the Farmers Group Code 0069). As such, ZIC is no longer named as the ultimate controlling party. However, disclosure continues to be provided in the Holding Company Annual Registration Statements regarding the relationship with ZIC and transactions involving entities with the ZIC NAIC Group Code 0212.

The following abridged organizational charts show the relationships of FGI to its ultimate parent ZFS, and of the Farmers Exchanges (Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange) to their subsidiaries and affiliates as of December 31, 2013:



FARMERS EXCHANGES ORGANIZATION

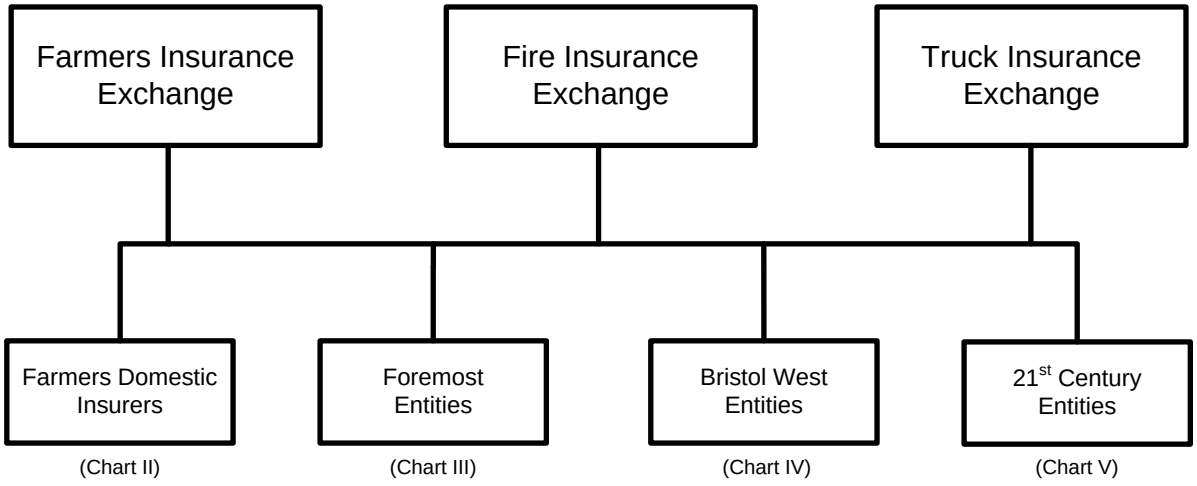


CHART II: EXCHANGES/FARMERS ENTITIES ORGANIZATION

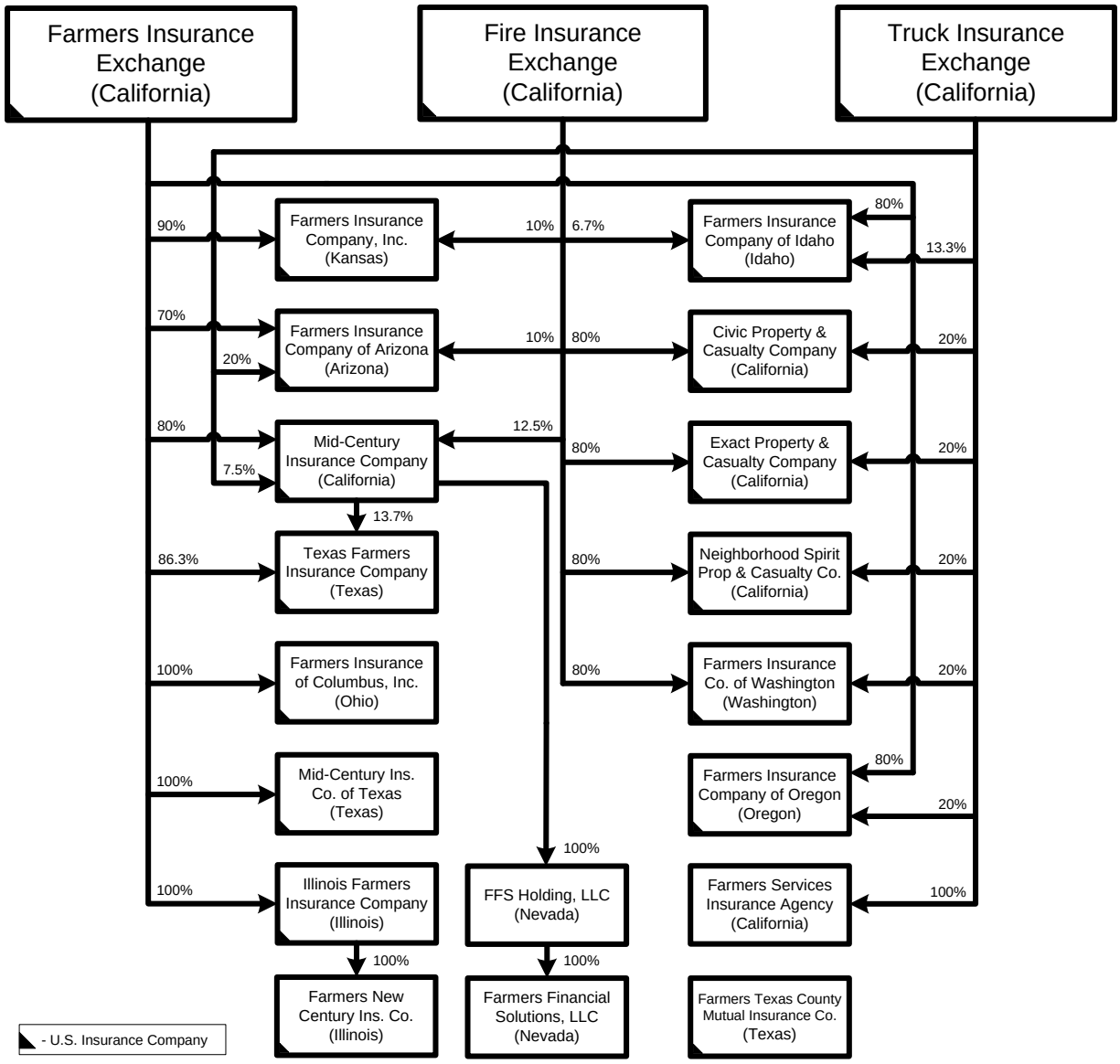


CHART III: EXCHANGES/FOREMOST ORGANIZATION

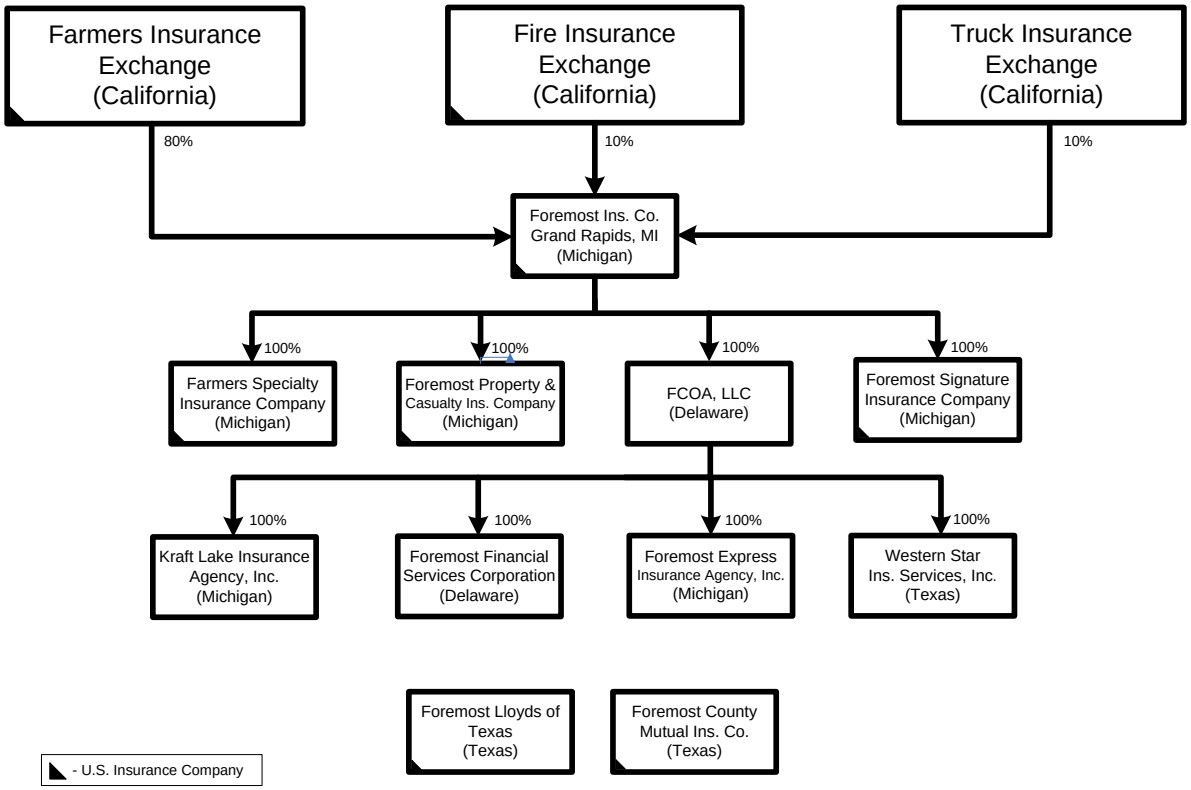


CHART IV: EXCHANGES/BRISTOL WEST ORGANIZATION

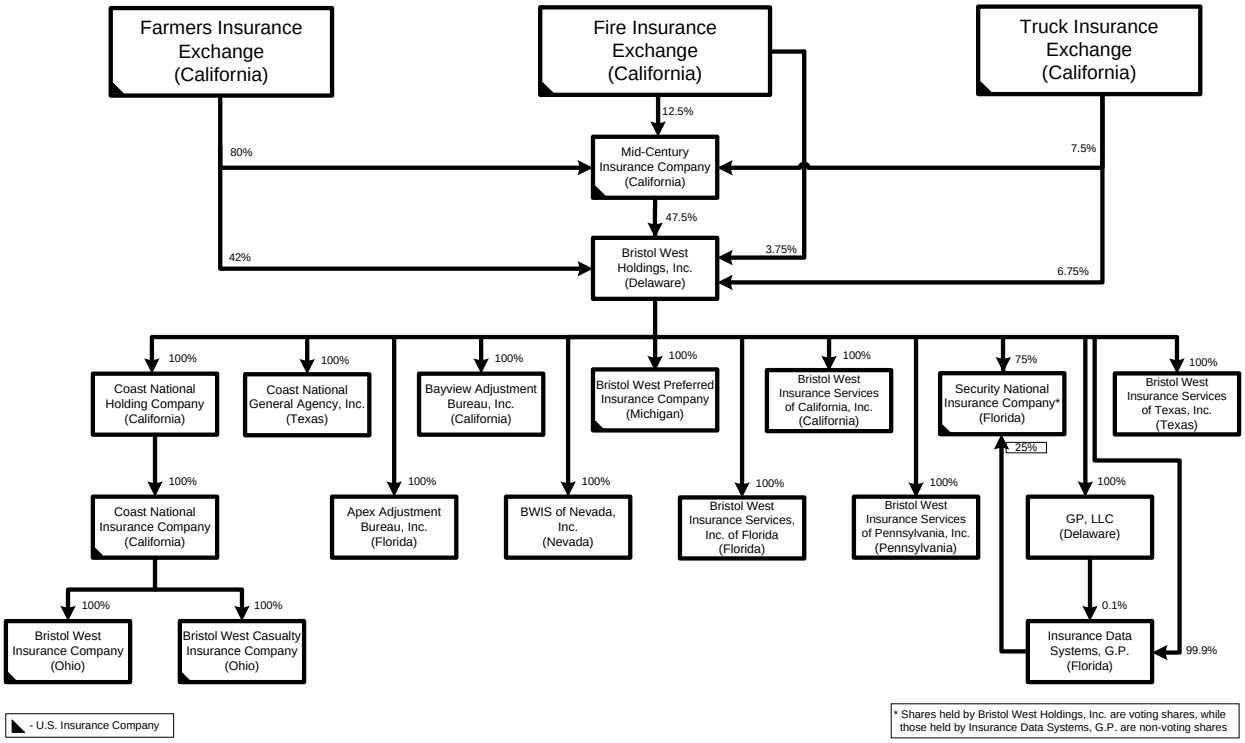
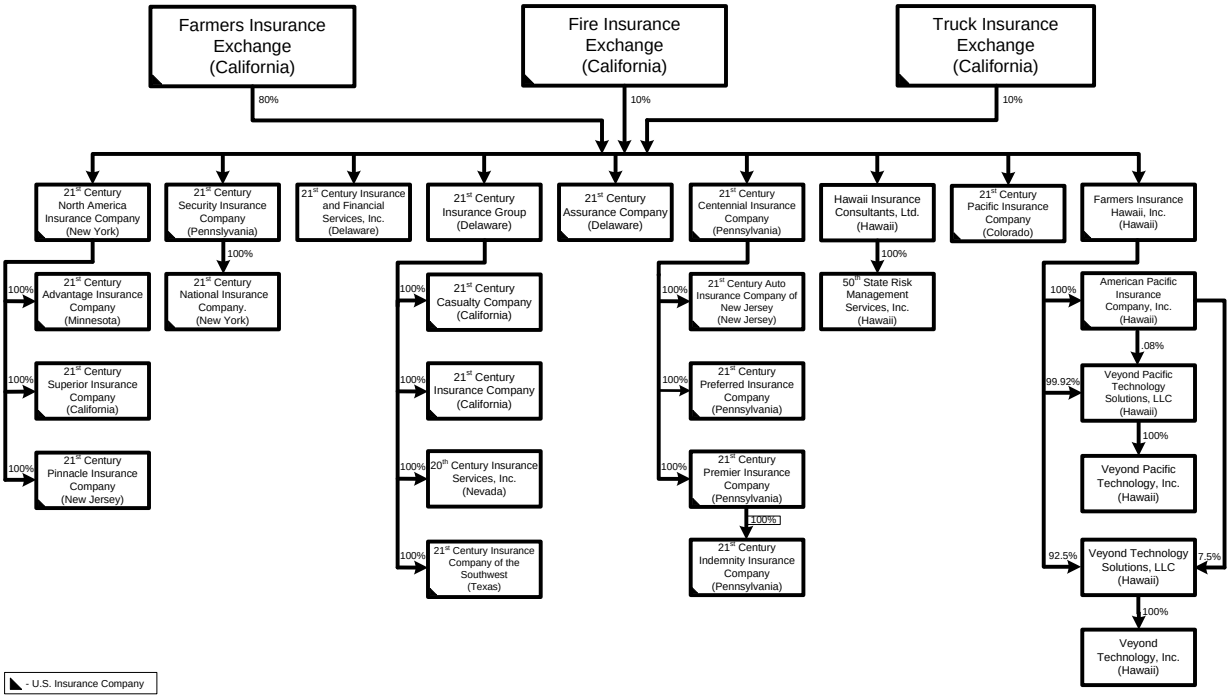


CHART V: EXCHANGES/21st CENTURY ORGANIZATION



Management of the Company is vested in a board of directors elected annually of not less than three members. A listing of the members of the board and principal officers serving on December 31, 2013 follows:

Board of Directors

Name and Location	Principal Business Affiliation
Scott R. Lindquist Westlake Village, California	Chief Financial Officer, Farmers Group, Inc.
Simon J. Noonan Beverly Hills, California	President of Business Insurance

As of December 31, 2013, there was one fewer director than required by the bylaws. This was due to a resignation of one board member on December 9, 2013. The board member's replacement was appointed effective January 1, 2014. The Company is currently in compliance with its bylaws.

Principal Officers

Name	Title
Scott R. Lindquist	President
Peter A. Klute	Chief Financial Officer
Anthony J. Morris	Treasurer
Doren E. Hohl	Secretary
Peter Teuscher	Vice President
James L. Nutting	Vice President
Karyn L. Williams	Vice President
Jeffrey M. Sauls	Vice President

Intercompany Service Agreements

Service Agreement - Effective March 1, 2012, the Company and Farmers Group, Inc. (FGI) entered into a Service Agreement pursuant to which FGI will provide various services, including the collection of premiums, payment of claims, accounting and financial reporting services, investment management services, preparation of forms and reports for filing with the appropriate governmental agencies, information technology services, tax services, legal services, regulatory compliance and legislative services, and other administrative services to the Company. This Agreement was approved by the CDI on February 10, 2012. The Company was not charged for these services during the examination period.

Investment Management Agreements

Service Agreement - The Company and Zurich Alternative Asset Management entered into an Amended and Restated Service Agreement on September 1, 2012. The Agreement pertains to a specific group of real estate investments with fund managers. The Agreement calls for evaluating and executing redemptions and sales of investments managed under this agreement, taking appropriate action with fund managers, monitoring of the fund managers, sign off on investment sales, providing performance information, maintaining records of capital calls and distributions for all investments managed under the agreement and providing all necessary documentation for all operational funding aspects for each investment.

Service Agreement - On March 1, 2012, the Company and FGI entered into a Service Agreement. The Agreement calls for a variety of services including investment management services pursuant to investment guidelines approved by the Company directing. FGI will adhere to the investment guidelines, which may be amended by the Company from time to time. This Agreement was approved by the California Department of Insurance (CDI) on February 10, 2012.

Tax Sharing Agreement

Effective January 13, 2011, the Company entered into a Tax Sharing Agreement with Farmers Group, Inc. (FGI) and various insurance and non-insurance subsidiaries of FGI. A tax sharing agreement utilized by Fire Insurance Exchange that was approved by the CDI on August 17, 2010 was used as a template for the Company's current agreement with FGI and, as such, the CDI indicated that no separate approval of this Agreement was necessary.

Allocation of taxes is based upon separate return calculations with intercompany tax balances (payable or receivable) being settled in amounts equal to the amounts which would be due to or from federal taxing authorities as if separate returns were filed.

The Company's portion of the federal income taxes paid or (recovered) under the tax sharing agreement for 2010, 2011, 2012, and 2013 was $40,620,919, ($3,173,764), $7,400,000, and $14,400,000, respectively.

Securities Lending Agreement

In 1999, the Farmers Insurance Exchange (Exchange) filed with the CDI a securities lending agreement with an affiliate, Zurich Capital Markets Trust Company (Zurich). In December 2001, the Exchange changed its securities lending agent from Zurich to the Bank of New York Western Trust (BNY), a non-affiliate, as Zurich exited the securities lending business. Collateral is defined in the Securities Lending Agreement as government securities and cash. The Agreement also stipulated that BNY establish a custodial custody account in the name of the Exchange for the purpose of holding collateral and approved investments pertaining to securities lending transactions. The custodian was Wall Street Portfolio Advisors, a division of BNY. The Agreement was amended and restated, effective May 24, 2005. The amended Agreement is between

FGI on behalf of the Company and The Bank of New York. The Agreements conformed to the securities lending limits specified in CDI Bulletin 82-2.

CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the commissioner. The board must also enter the fact in the board minutes. A review of the board minutes did not indicate such information was entered regarding the officially filed 2009 examination report or the first formally prepared draft by the examiners. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 735.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance business only in California as a multiple line property and casualty insurer.

Although owned by Farmers Group Inc. (FGI), the attorney-in-fact for the Farmers Insurance Group (Farmers), the Company operates as one of the Farmers property and casualty companies.

The Company does not write any direct business and its book of business consists solely of the premium it assumes from its affiliate, Farmers Insurance Exchange, under the terms of a 2012 Automobile Physical Damage Reinsurance Agreement and a 2009 All Lines Quota Share Reinsurance Agreement. In 2013, the Company assumed $517.6 million of premiums under the terms of these reinsurance agreements. The principal lines assumed by the Company were automobile physical damage ($192.5 million),

private passenger automobile liability ($148.2 million), and homeowners multiple peril ($97.4 million).

REINSURANCE

Assumed

The Company assumed quota share risks from affiliated reinsurers, Farmers Insurance Exchange (FIE), Fire Insurance Exchange (Fire), Truck Insurance Exchange (Truck), and certain of their subsidiaries as cedents in the following treaties:

Effective January 1, 2012, the Company's affiliate, FIE, entered into a 2012 Automobile Physical Damage Agreement of Reinsurance (APDAR), a quota share reinsurance agreement that covers automobile physical damage. Under the Agreement, FIE, on behalf of itself and its pooling participants, cedes up to $1 billion per year of its automobile physical damage premiums. Through December 31, 2012, the subscribing reinsurers were the Company, with a 20% quota share participation, and Zurich Insurance Company (Zurich), with a 80% quota share participation. Effective January 1, 2013, the Company reduced its quota share participation from 20% to 12.5%.

Effective January 1, 2014, the APDAR agreement was amended such that the Company assumed 10% ($100 million) of the ceded annual premiums while Zurich continues to assume 20% ($800 million) of the annual ceded premiums. The remaining $100 million of the APDAR premiums is assumed by a non-affiliated reinsurer on the same terms as the Company and Zurich. The CDI approved this Agreement on January 31, 2014.

FIE, effective June 30, 2009, entered into an All Lines Quota Share Agreement of Reinsurance, a quota share reinsurance agreement that covers all lines after the APDAR agreement has been applied. Zurich and the Company were the original subscribing reinsurers. Their aggregate participation was originally at 37.5%, and was subsequently reduced from 37.5% to 35% effective December 31, 2009, from 35% to 25% effective

June 30, 2010, and from 25% to 12% effective December 31, 2010. Effective December 31, 2011, the aggregate participation was increased from 12% to 20%. Effective December 31, 2012, the Company's quota share participation was reduced from 4% to 2.5%, thus reducing the aggregate participation of Zurich and the Company from 20% to 18.5%. An amendment, effective December 31, 2013, reduced the Company's quota share participation from 2.5% to 2.0%, thus reducing the aggregate participation of Zurich and the Company from 18.5% to 18%. The CDI approved the December 31, 2013 amendment to this Agreement on January 31, 2014.

The Company's assumed premiums during 2010, 2011, 2012, and 2013 were $838.8 million, $705.8 million, $790.5 million, and $517.6 million, respectively, from participation in the above-mentioned quota share treaties.

Ceded

The Company does not cede any reinsurance.

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 (IT) 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	$ 1,161,929,366	$	$ 1,161,929,366	
Cash, cash equivalents and short-term investments	68,465,415		68,465,415	
Other invested assets	75,045,069		75,045,069	
Investment income due and accrued	10,729,706		10,729,706	
Uncollected premiums and agents' balances in course of collection	59,831,551		59,831,551	
Funds held by or deposited with reinsured companies	7,389,798		7,389,798	
Net deferred tax asset	16,589,091		16,589,091	
Receivable from parent, subsidiaries and affiliates	199,656		199,656	
Total assets	$ 1,400,179,652	$ 0	$ 1,400,179,652	

Liabilities, Surplus and Other Funds			
Losses and loss adjustment expenses		$ 269,260,250	(1)
Reinsurance payable on paid loss and loss adjustment expenses		45,617,404	
Current federal and foreign income taxes		1,385,633	
Unearned premiums		134,214,642	
Aggregate write-ins for liabilities		15,343	
Total liabilities		450,493,272	
Aggregate write-ins for special surplus funds	$ 579,661		
Common capital stock	5,000,000		
Preferred capital stock	53,800,000		
Gross paid in and contributed surplus	575,600,000		
Unassigned funds (surplus)	314,706,719		
Surplus as regards policyholders		949,686,380	
Total liabilities, surplus and other funds		$1,400,179,652	

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

Statement of Income

Underwriting Income		
Premiums earned		$ 553,894,752
Deductions:		
Losses incurred	$ 322,957,752	
Loss adjustment expenses incurred	58,792,920	
Other underwriting expenses incurred	164,035,077	
Total underwriting deductions		545,785,749
Net underwriting gain		8,109,003
Investment Income		
Net investment income earned	$ 45,225,211	
Net realized capital gains	5,773,449	
Net investment gain		50,998,660
Other Income		
Aggregate write-ins for miscellaneous income	$ 61,932	
Total other income		61,932
Net income before federal income taxes		59,169,595
Federal income taxes incurred		10,851,184
Net income		$ 48,318,411

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		$1,015,460,688
Net income	$ 48,318,411	
Change in net unrealized capital losses	(9,307,805)	
Change in net deferred income tax	(4,784,914)	
Dividends to stockholders	(100,000,000)	
Change in surplus as regards policyholders for the year		(65,774,308)
Surplus as regards policyholders, December 31, 2013		$ 949,686,380

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

Surplus as regards policyholders, December 31, 2009 per Examination			$1,019,393,671
	Gain in Surplus	Loss in Surplus	
Net income	$ 236,020,548	$	
Change in net unrealized capital gains	12,349,543		
Change in net deferred income tax		20,581,147	
Change in nonadmitted assets	1,858,104		
Dividends to stockholders		300,000,000	
Aggregate write-ins for gains and losses in surplus	645,661		
Total gains and losses	$ 250,873,856	$ 320,581,147	
Net decrease in surplus as regards policyholders			(69,707,291)
Surplus as regards policyholders, December 31, 2013, per Examination			$ 949,686,380

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 (CIC) Section 733(g), to retain the American Actuarial Consulting Group, LLC, (AACG) for the purpose of assisting this examination in determining the reasonableness of the Company's loss and loss adjustment expense reserves. Since the business of the Company was pooled, it was necessary to review the losses on a group-wide basis. 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 reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records (Page 15): It is recommended that the Company implement procedures to ensure future compliance with California Insurance Code Section 735.

Accounts and Records (Page 17): It is recommended that the Company continue to address the recommendations made regarding its information systems controls.

Previous Report of Examination

Management and Control - Management Agreement (Page 10): It was recommended that the Company execute a written management agreement with the Farmers Group, Inc. (FGI) and submit the agreement to the California Department of Insurance for approval pursuant to CIC Section 1215.5. The Company complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and the employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Richard M. Stone, CFE
Examiner-In-Charge
Contract Insurance Examiner
Department of Insurance
State of California