

EXAMINATION REPORT
OF
TOGGLE INSURANCE COMPANY
AS OF
DECEMBER 31, 2021

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
OF
TOGGLE INSURANCE COMPANY
AS OF
DECEMBER 31, 2021

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in blue ink, which appears to read "Trinidad Navarro", is written above a horizontal line.

Trinidad Navarro
Insurance Commissioner

Dated this 13th day of October, 2023

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September 26, 2023

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street, Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Examination Certification No. 22.011, dated January 11, 2022, an examination has been made of the affairs, financial condition and management of

TOGGLE INSURANCE COMPANY

hereinafter referred to as Toggle or the Company. The Company was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 3 Beaver Valley Road, Wilmington, Delaware 19803. The administrative offices of the Company are located at 6301 Owensmouth Avenue, Woodland Hills, California 91367.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The previous examination was conducted as of December 31, 2017, by the Department and covered the three-year period from January 1, 2014 through December 31, 2017 while the Company was still organized as the 21st Century Assurance Company (21CAC). This examination covers the four-year period from January 1, 2018 through December 31, 2021.

The examination was performed as part of the multi-state coordinated examination of the Farmers Insurance Exchange (FIE) of regulated entities wherein California is the lead state. The examination was conducted concurrently with that of the Company's domiciled affiliates within Farmers. Twenty-two states participated in this coordinated examination. To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified

during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Ernst & Young (E&Y). Certain auditor work papers of the 2021 E&Y audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material changes in the Company's Financial Statements as a result of this examination. The following findings were noted:

The lead state attempted to obtain access to the E&Y work papers. In the process of authorizing the release of the external auditor's audit work papers, the Company obtained the audit work paper index of the archived work papers from the external auditor. The Company initially declined to consent to the release of 13 work papers listed on the index on the basis of attorney client privilege. All but one of the 13 withheld documents were later provided. The Company is in violation of 18 *Del. C.* § 320(c) "Every person being examined, the person's officers, attorneys, employees, agents and representatives, shall make freely available to the Commissioner, or the Commissioner's examiners, the accounts, records, documents, files, information, assets and matters of such person, in the person's possession or control, relating to the subject of the examination and shall facilitate the examination." Therefore:

It is recommended the Company comply with 18 *Del. C.* § 320(c) and provide requested work papers in a timely manner.

COMPANY HISTORY

Effective December 9, 2019, 21CAC changed its name to Toggle. Toggle is a Delaware domiciled insurer and the primary underwriting company for Toggle®, a brand within Farmers. Toggle commenced writing business in October 2018 as a direct-to-consumer insurance company. The first product brought to market was a renter's insurance product. The Company is now focused on building scale by expanding into additional states and developing complimentary insurance products including automobile coverages.

Capitalization

The Company's Certificate of Incorporation authorizes the issue of 5,000 shares of common stock with a \$1,000 par value. As of December 31, 2021, the Company had 5,000 common shares issued and outstanding totaling \$5,000,000. All outstanding common shares of the Company are owned by Mid-Century Insurance Company (MCIC). As of December 31, 2021, the Company reported gross paid in and contributed surplus of \$13,500,000.

Dividends

The Company did not pay shareholder dividends during the examination period.

MANAGEMENT AND CONTROL

Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and Bylaws, the property and affairs of the Company must be managed by or under the direction of its Board. The Board shall not have less than three members and no more than ten. The total number of directors shall be determined by the Board.

Each Director is elected annually by the stockholder and holds office until the next annual election or until their successors are elected. The Directors must be at least eighteen (18) years of

age and a majority must be citizens of the United States. Directors duly elected and serving as of December 31, 2021, are as follows:

<u>Name</u>	<u>Title</u>
Joe Dennis Bryant	Owner, Military Medal Manufacturing
Guy Meade Hanson	Officer/Director, John Gault Ranch, LLC
Gail Nanette Jackson	Physician
Sherman Lenard Lewis III	President, The Lewis Group
Stephanie Taylor Lloyd	Head, New Venture, Farmers

Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a Chief Executive Officer, Chief Financial Officer, President, Secretary, Treasurer and one or more Vice-Presidents. Any number of offices may be held by the same person. The primary officers serving as of December 31, 2021, were as follows:

<u>Name</u>	<u>Title</u>
Stephanie Taylor Lloyd	President
Thomas Sangkyu Noh	Treasurer and Vice-President
Doren Eugene Holh	Secretary
Edward Fabian Sayago	Secretary

Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* § 1304. In addition, review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* § 4919.

In the process of authorizing the release of the external auditor's audit work paper, the Company obtained the audit work paper index of the archived work papers from the external

auditor. The Company initially declined to consent to the release of 13 work papers listed on the index on the basis of attorney client privilege. All but one of the 13 withheld documents were later provided. The Company is in violation of 18 *Del. C.* § 320(c) “Every person being examined, the person’s officers, attorneys, employees, agents and representatives, shall make freely available to the Commissioner, or the Commissioner’s examiners, the accounts, records, documents, files, information, assets and matters of such person, in the person’s possession or control, relating to the subject of the examination and shall facilitate the examination.” Therefore:

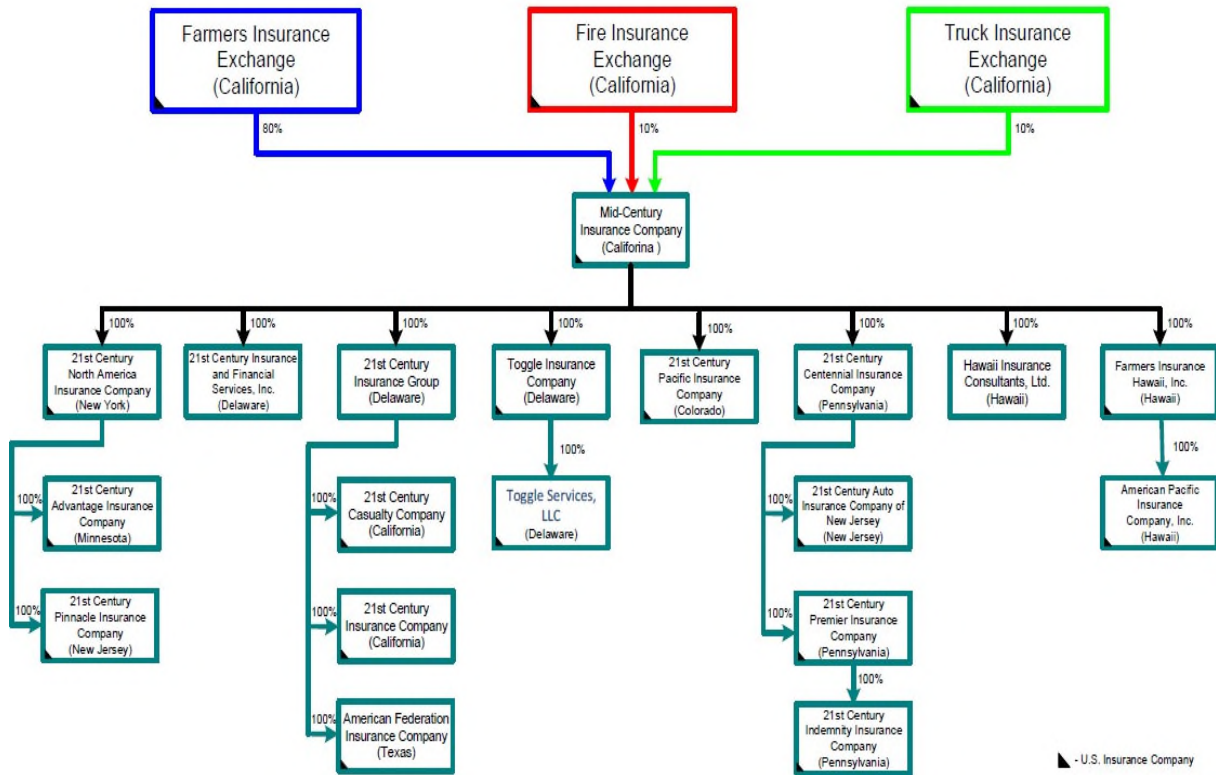
It is recommended the Company comply with 18 *Del. C.* § 320(c) and provide requested work papers in a timely manner.

Insurance Holding Company System

The Company is a member of an insurance holding company system known as Farmers Insurance Group (Farmers Group) as defined under 18 *Del. C.* § 5001 of the Delaware Insurance Code. As noted above, the Company is a wholly-owned subsidiary of MCIC, which in turn is owned by Farmers Insurance Exchange (FIE) (80%), Fire Insurance Exchange (10%) and Truck Insurance Exchange (10%).

The following is an organizational chart of the Farmers Insurance Group insurance holding company system as of December 31, 2021:

EXCHANGES/21st CENTURY ORGANIZATION



An abbreviated organizational chart of the Farmers Insurance Group holding company system as of December 31, 2021, is as follows:

- Farmers Insurance Exchange (80%)
- Fire Insurance Exchange (10%)
- Truck Insurance Exchange (10%)
- Mid-Century Insurance Company (CA 21687) (100%)
- Toggle Insurance Company (DE 23850) (100%)**

Agreements with Affiliates

The following is a summary of the Company’s significant affiliated agreements in-force as of December 31, 2021:

Tax Sharing Agreement

Effective September 1, 2013, the Company entered into a Tax Sharing Agreement with FIE and its various insurance and non-insurance affiliates and subsidiaries. FIE is the party primarily responsible for filing and making all tax payments on behalf of the parties to this agreement. 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. Intercompany balances are settled monthly and the final settlement is made within 30 days after the final filing date of the consolidated return.

Revolving Credit Facility Framework Agreement

Effective January 25, 2017, as filed and approved by the Department, the Farmers Group, all of whom are affiliate insurers within the Farmers Insurance Holding Company system, became signatories to a Revolving Credit Facility Framework Agreement (Facility Agreement) for the purposes of eliminating the need to maintain large cash balances or unnecessarily liquidating investments during the monthly reinsurance cash settlement process among participating affiliates.

The revolving credit framework allows participating affiliates to make short term loans to each other to cover debt arising from the monthly reinsurance settlement process. The loans, executed on an as-needed basis, mature in ninety days and cannot exceed in the cumulative aggregate three percent (3%) of a borrower's or lender's admitted assets. Loans may be collateralized with a pledge of securities at lender's option, and in any event, must be collateralized if the loan crosses from one calendar year into the next calendar year such that the loan is secured and perfected as of December 31 of the year the loan was made. Parties to the Facility Agreement will renegotiate its terms at least once every three years. There are no outstanding balance with

Toggle Insurance Company

the Company as of the examination date.

Service Agreements

Effective January 1, 2021 and as a result of the termination of the 21st Pooling Agreement, FIE entered into a Service Agreement with the Company. The agreement was approved by the Department.

General Agency Agreements

Effective January 1, 2019, FX Insurance Agency, LLC entered into an Agency Agreement with the Company, Texas Farmers Insurance Company, Farmers Texas County Mutual Insurance Company, Mid-Century Insurance Company of Texas, Foremost County Mutual Insurance Company, Foremost Lloyds of Texas, American Federation Insurance Company, and other insurers. The agreement was amended to include additional parties, which included Farmers Lloyds of Texas and Economy Fire & Casualty Company, effective December 9, 2021.

Effective September 1, 2021, Farmers General Agency, Inc. (Farmers Agency) entered into an agency agreement with the Company. Whereby Farmers Agency sells and service insurance policies thru in-house agents of the Farmers Agency.

Unaffiliated Agreements

The Company is party to certain unaffiliated agreements. The following is the most significant of the unaffiliated agreements in effect as of December 31, 2021.

Effective June 12, 2020 Toggle entered into a General Agency Agreement with Jetty Insurance Agency LLC (Jetty). Through this agreement, Toggle became the reinsurer for renters and surety insurance produced, serviced and managed by Jetty and underwritten by State National Insurance Company, Inc. (SNIC) and National Specialty Insurance Company (NSIC).

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2021, the Company is licensed in Delaware and in forty-nine states and the District of Columbia. The Company is not licensed in California.

Plan of Operation

Toggle first launched renters insurance in October 2018 in Illinois and Wisconsin and then expanded to another 23 states over the next 14 months. These 25 states represent approximately 67% of the U.S. renter population. The goal is to make Toggle renters insurance available to the remaining states in the next year as well as launch auto and homeowner products.

Toggle's marketing strategy consists of building brand awareness and purchase intent with "in-market" consumers leveraging social media display ads.

Toggle was designed to operate with, and in conjunction with, the 21st Century sub-group (21st Century) of companies under the Farmers and 21st Century brands. The idea is to "embed" the Toggle products with the operational efficiency and profitability of 21st Century.

REINSURANCE

The Company reported the following distribution of premiums written for the years ended December 31, 2021 and the prior examination date of December 31, 2017:

	<u>2021</u>	<u>%GPW</u>	<u>2017</u>	<u>% GPW</u>
Direct Business	\$ 6,443,012	27.9%	\$12,393,626	100%
Reinsurance assumed from non-affiliates	16,613,045	72.1%	0	0%
Gross premiums written	<u>\$ 23,056,067</u>	<u>100%</u>	<u>\$ 12,393,626</u>	<u>100%</u>
Reinsurance ceded to affiliates	\$ 23,056,067	100%	\$ 12,393,626	100%
Reinsurance ceded to non-affiliates	0	0%	0	0%
Total ceded	<u>\$ 23,056,067</u>	<u>100%</u>	<u>\$ 12,393,626</u>	<u>100%</u>
Net premiums written	<u>\$ 0</u>	<u>0%</u>	<u>\$ 0</u>	<u>0%</u>

Affiliated Reinsurance

The Company was party to an intercompany pooling agreement (21st Pooling Agreement). In accordance with the terms and conditions of the agreement, 100% of the net business written by each of the participants was ceded to 21st Century North America Insurance Company (21CNAIC), the lead company in the 21st Pool. Under the terms of the 21st Pooling Agreement, liabilities relating to losses with a date of loss prior to July 1, 2009, were ceded to the pool members by 21CNAIC based on each pool member's fixed pooling participation percentage. The 21st Pooling Agreement was terminated January 1, 2021 on a run-off basis.

Assumed Reinsurance

Effective June 12, 2020, Toggle entered into a Quota Share Reinsurance Agreement with SNIC and NSIC to assume business written through its General Agency Agreement with Jetty. Through this arrangement, Toggle became the assuming reinsurer for renters and surety insurance

produced, serviced and managed by Jetty. Jetty assists consumers with financing down payments for homes and rental properties.

Ceded Reinsurance

Effective January 1, 2021, and as a result of the termination of the 21st Pooling Agreement, the Company entered into a 100% Quota Share Agreement with FIE whereby the Company cedes 100% of its business to FIE. The agreement was approved by the Department.

FINANCIAL STATEMENTS

Financial Statements as reported and filed by the Company with the Department are reflected in the following:

- Statement of Assets as of December 31, 2021
- Statement of Liabilities, Surplus and Other Funds as of December 31, 2021
- Statement of Income for the Year Ended December 31, 2021
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2017 to December 31, 2021

Statement of Assets
as of December 31, 2021

	Assets	Non admitted Assets	Net Admitted Assets
Bonds	\$ 67,553,290	\$ -	\$ 67,553,290
Cash and cash equivalents	6,730,202	-	6,730,202
Other invested assets	1,521,845	1,521,845	-
Subtotals, cash and invested assets	<u>\$ 75,805,337</u>	<u>\$ 1,521,845</u>	<u>\$ 74,283,492</u>
Investment income due and accrued	146,138	-	146,138
Uncollected premiums and agents' balances	(14,692)	-	(14,692)
Deferred premiums, agents' balances and installments booked but deferred and not due	(206,568)	-	(206,568)
Amounts recoverable from reinsurers	1,423,006	-	1,423,006
Receivable from parent, subsidiary and affiliates	1,073,993	-	1,073,993
Aggregate write-ins for other than invested assets	26,578	-	26,578
Total Assets	<u><u>\$ 78,253,793</u></u>	<u><u>\$ 1,521,845</u></u>	<u><u>\$ 76,731,947</u></u>

Statement of Liabilities, Surplus and Other Funds
as of December 31, 2021

		<u>Notes</u>
Losses	\$ -	1
Reinsurance payable on paid losses and loss adjustment expense	-	
Loss adjustment expense	-	1
Commissions payable, contingent commissions and other similar charges	-	
Other expenses	-	
Taxes, licenses and fees	-	
Current federal and foreign income taxes	-	
Net deferred tax liability	10,664	
Unearned Premiums	-	
Ceded reinsurance premiums payable	2,762,424	
Amounts withheld or retained by company for account of others	-	
Provision for reinsurance	-	
Payable to parent, subsidiaries and affiliates	-	
Payable for securities lending	-	
Aggregate write-ins for liabilities	-	
Total liabilities	\$ 2,773,088	
Common capital stock	\$ 5,000,000	
Gross paid in and contributed surplus	13,500,000	
Unassigned funds (surplus)	55,458,860	
Capital and Surplus	\$ 73,958,860	
Total liabilities, surplus and other funds	\$ 76,731,947	

Summary of Income
for the Year Ended December 31, 2021

Premiums earned	\$	-
 DEDUCTIONS:		
Losses incurred	\$	-
Loss adjustment expenses incurred		-
Other underwriting expenses incurred		-
Total underwriting deductions	<u>\$</u>	<u>-</u>
 Net underwriting gains (losses)	 <u>\$</u>	 <u>-</u>
 INVESTMENT INCOME:		
Net investment income earned	\$	742,988
Net realized capital gains		(997)
Net investment gain	<u>\$</u>	<u>741,991</u>
 OTHER INCOME (LOSS):		
Aggregate write-ins for miscellaneous income		<u>25</u>
Total other income	<u>\$</u>	<u>25</u>
 Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	 <u>\$</u>	 <u>742,016</u>
 Federal and foreign income taxes incurred		<u>347,198</u>
Net income	<u>\$</u>	<u><u>394,818</u></u>

Reconciliation of Capital and Surplus
for the Period from the Prior Examination
as of December 31, 2017 to December 31, 2021

	Common Capital Stock	Gross Paid-in & Contributed Surplus	Unassigned Funds	Total
December 31, 2017	\$ 5,000,000	\$ 13,500,000	\$ 51,945,092	\$ 70,445,092
2018 Other Changes	(1) -	-	6,393	6,393
2018 Net Income	-	-	970,174	970,174
December 31, 2018	<u>\$ 5,000,000</u>	<u>\$ 13,500,000</u>	<u>\$ 52,921,659</u>	<u>\$ 71,421,659</u>
2019 Other Changes	(1) -	-	(7,040)	(7,040)
2019 Net Income	-	-	1,326,407	1,326,407
December 31, 2019	<u>\$ 5,000,000</u>	<u>\$ 13,500,000</u>	<u>\$ 54,241,026</u>	<u>\$ 72,741,026</u>
2020 Other changes	(1) -	-	(143,201)	(143,201)
2020 Net Income	-	-	863,992	863,992
December 31, 2020	<u>\$ 5,000,000</u>	<u>\$ 13,500,000</u>	<u>\$ 54,961,817</u>	<u>\$ 73,461,817</u>
2021 Other Changes	(1) -	-	102,225	102,225
2021 Net Income	-	-	394,818	394,818
December 31, 2021	<u>\$ 5,000,000</u>	<u>\$ 13,500,000</u>	<u>\$ 55,458,860</u>	<u>\$ 73,958,860</u>

- (1) Change in net unrealized capital gains (losses less capital gains tax, change in net unrealized foreign exchange capital gains (losses), change in net deferred income taxes, change in non-admitted assets, change in provision for reinsurance.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes made to the Company's Financial Statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Losses	\$ 0
Loss Adjustment Expenses	0

The examination liabilities for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2021. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Actuarial Principles and Standards of Practice and Statutory Accounting Principles, including NAIC *Accounting Practices and Procedures Manual*, Statement of Statutory Accounting Principle No. 55 *Unpaid Claims, Losses and Loss Adjustment Expenses* (SSAP 55).

SUBSEQUENT EVENTS

Subsequent events were evaluated through the date that this examination report was available to be issued. No material events were deemed appropriate to report.

SUMMARY OF RECOMMENDATIONS

In the process of authorizing the release of the external auditor's audit work papers, the Company obtained the audit work paper index of the archived work papers from the external auditor. The Company initially declined to consent to the release of 13 work papers listed on the index on the basis of attorney client privilege. All but one of the 13 withheld documents were later provided. The Company is in violation of 18 *Del. C.* § 320(c) "Every person being examined, the person's officers, attorneys, employees, agents and representatives, shall make freely available to the Commissioner, or the Commissioner's examiners, the accounts, records, documents, files,

information, assets and matters of such person, in the person's possession or control, relating to the subject of the examination and shall facilitate the examination." Therefore:

It is recommended the Company comply with 18 Del. C. § 320(c) and provide requested work papers in a timely manner.

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the Consulting Actuary, the Company's outside audit firm, E&Y and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Craig Jackson, CPA, CFE
Examiner In-Charge
State of Delaware



Anthony Cardone, CPA, CFE
Supervising Examiner
State of Delaware

Toggle Insurance Company

I, Craig Jackson, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to Examination Certification No. 22.011.

A handwritten signature in black ink, appearing to read "Craig Jackson", written in a cursive style.

Craig Jackson, CPA, CFE