

**EXAMINATION REPORT**  
**OF**  
**21st CENTURY ASSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2017**

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2017 of

**21st CENTURY ASSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: Raymond Brown

Date: 18<sup>th</sup> day of June, 2019



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 19 day of June, 2019.

Trinidad Navarro  
Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF  
21st CENTURY ASSURANCE COMPANY  
AS OF  
DECEMBER 31, 2017

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 that reads "Trinidad Navarro".

Trinidad Navarro  
Insurance Commissioner

Dated this 19 day of June, 2019

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## **SALUTATION**

May 22, 2019

Honorable Trinidad Navarro  
Commissioner of Insurance  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 18.008, dated March 1, 2018, an examination has been made of the affairs, financial condition and management of

### **21st CENTURY ASSURANCE COMPANY**

hereinafter referred to as (the Company) or (21st CAC) and 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 examination was conducted at the administrative office of the Company located at 3 Beaver Valley Road, Wilmington, Delaware, 19803. The report of examination thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

We have performed our multi-state examination of the Company. The last examination was conducted as of December 31, 2013, by the Delaware Department of Insurance (Department). This examination covered the period of January 1, 2014 through December 31, 2017. Our examination was performed as part of the multi-state coordinated examination of the 21st Century Insurance Group of regulated entities wherein California is the lead state. 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 PricewaterhouseCoopers (PwC). Certain auditor work papers of

the 2017 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 significant findings or material changes in financial statements as a result of this examination.

### **COMPANY HISTORY**

21st CAC was incorporated on September 21, 1989, under the laws of the State of Delaware. The Company's name was changed to 21st CAC effective April 1, 2010. The Company and other 21st Century Insurance Group member companies were acquired by Farmers Group, Inc. (FGI), a subsidiary of Zurich Financial Services Group, from AIG effective July 1, 2009. Subsequently on July 1, 2009, FGI sold the 21st Century Insurance member companies to Farmers Insurance Exchange (FIE) (80%), Truck Insurance Exchange (Truck) (10%) and Fire Insurance Exchange (Fire) (10%) collectively, the Exchanges. FGI, doing business as Farmers Underwriters Association, is the Attorney-in-Fact for FIE. Truck Underwriters Association is the Attorney-in-Fact for Truck. Fire Underwriters Association is the Attorney-in-Fact for Fire. FGI owns 100% of Truck Underwriters Association and Fire Underwriters Association. FIE provides or arranges for the provision of management services to the member companies in the 21st Century Intercompany Pool (21st Pool) of which the Company is a member.

### **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, 2017, the Company had 5,000 common shares issued and outstanding totaling \$5,000,000. As of December 31, 2017, the

Company reported gross paid in and contributed surplus of \$13,500,000.

Dividends

The Company's Board of Directors (Board) did not approve or authorize any dividends during the exam 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 one member and 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 and until their successors are elected and qualified except as removed for cause and the successor elected by a special meeting of the stockholder. Directors duly elected and serving as of December 31, 2017, are as follows:

<u>Name</u>	<u>Principle Business Affiliate</u>
Richard M. Farraro (a) Thousand Oaks, CA	RSM, Western Regional Director
Scott W. Hood (a) Leawood, KS	Rochdale Paragon Group, Senior Consultant
Gail N. Jackson Playa Del Rey, CA	Physician, affiliated with Cedars-Sinai Medical Center
Sherman I. Lewis Pearland, TX.	The Lewis Group LLP, President and CEO
Gerald A. McElroy La Quinta, CA	Retired- Insight Risk Management Solutions, CEO
Thomas S. Noh Los Angeles, CA	Insurance executive, FIE



Glenn A. Pfeil (b)  
Wilmington, DE

21st Century Assurance Company –  
President

(a) – Resigned, Guy M. Hanson and Robert P. Howard were elected to the Board of directors on March 20, 2018.

(b) – Retired, replaced by William D. Loucks Jr. as President, effective October 1, 2018.

### Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, Secretary and Treasurer. Any number of offices may be held by the same person. The primary officers serving as of December 31, 2017, were as follows:

<u>Name</u>	<u>Title</u>
Glenn A. Pfeil (a)	President
Doren E. Hohl	Secretary
Theresa L. Harm	Treasurer

(a) – Retired, replaced by William D. Loucks Jr. as President, effective January 4, 2019.

### 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.

During the course of this examination, some books and records were not made available to the examination team in accordance with 18 *Del. C.* § 320(c). Therefore, it is recommended that:

**The Company comply with 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,**

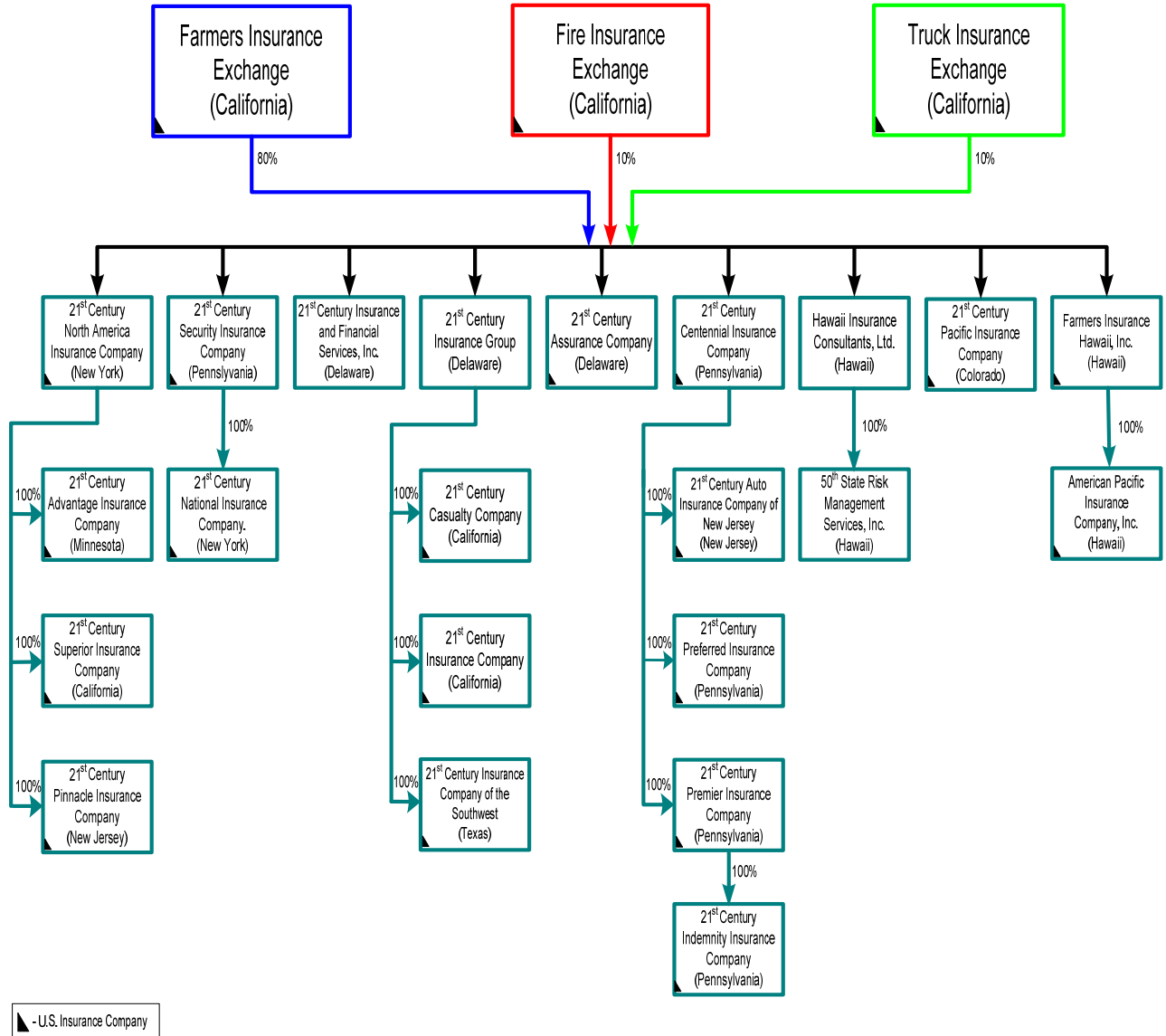
**records, documents, files, information, assets and matters of such person, in the person's possession or control, relating to the subject of the examination and shall facilitate the examination”.**

Insurance Holding Company System

The Company is a member of an insurance holding company system known as the Exchanges as defined under 18 *Del. C.* § 5001 of the Delaware Insurance Code. As noted above, the Company ownership is as follow: FIE (80%), Fire (10%) and Truck (10%). The shareholders are inter-insurance exchanges organized under the laws of the State of California.

An abbreviated organizational chart of the Exchanges holding company system as of December 31, 2017, is as follows (ownership of subsidiaries is 100% unless otherwise noted):

21st Century Assurance Company



Agreements with Affiliates

*Intercompany Pooling Agreement*

The Company is a 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 is ceded to 21st Century North America Insurance Company (21CNAI), 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, will be ceded to the pool members by 21CNAI based on each pool member's fixed pooling participation percentage.

The following is a list of member companies in the 21st Pool and the applicable pooling participation percentages as of December 31, 2017 and December 31, 2016:

Company	NAIC CODE	POOLING PERCENTAGE 12/31/2017	POOLING PERCENTAGE 12/31/2016
21st Century North America Insurance Company (21CNAI) *	32220	100.00%	25.50%
21st Century Centennial Insurance Company (21CCI)	34789	0.00%	20.00%
21st Century Premier Insurance Company (21CPI)	20796	0.00%	10.00%
21st Century Security Insurance Company (21CSEC)	23833	0.00%	8.00%
Farmers Insurance Hawaii, Inc. (FIHI)	28487	0.00%	4.00%
21st Century Superior Insurance Company (21CSI) **	43761	N/A	N/A
21st Century Advantage Insurance Company (21CADV)	25232	0.00%	1.00%
21st Century Preferred Insurance Company (21CPR)	22225	0.00%	2.00%
21st Century Pinnacle Insurance Company (21CPIN)	10710	0.00%	1.75%
21st Century Indemnity Insurance Company (21CII)	43974	0.00%	2.00%
21st Century National Insurance Company (21CNI)	36587	0.00%	1.00%
21st Century Auto Insurance Company of New Jersey (21CAUTO) **	10184	N/A	N/A
American Pacific Insurance Company, Inc. (APIC)	10805	0.00%	0.50%

21st Century Pacific Insurance Company (21CPAC)	23795	0.00%	2.00%
<b>21st Century Assurance Company (21st CAC)</b>	44245	0.00%	2.00%
21st Century Insurance Company (21CIC)	12963	0.00%	20.00%
21st Century Casualty Company (21CCC)	36404	0.00%	0.25%
21st Century Insurance Company of the Southwest (21CSW) **	10245	N/A	N/A

\* - Lead Company

\*\* - Removed from the 21st Pool effective June 1, 2016.

Effective June 1, 2016, an Assignment, Transfer, Assumption and Novation Agreement has been entered into among 21CNAI, 21CSW, 21CAUTO, and 21CSI. In conjunction with these transactions, 21CNAI replaced 21CSW, 21CAUTO, and 21CSI under the 21st Pooling Agreement with 21CSW, 21CAUTO, and 21CSI no longer being a party to the agreement. Additionally, Amendment No.1 of the 21st Pooling Agreement, effective January 1, 2017, resulted in the termination of the pool share for the Company and the remaining downstream 21st Century company pool participants.

#### *100% Quota Share*

Losses with dates of loss on or after July 1, 2009, will be ceded to FIE by 21CNAI under a 100% quota share reinsurance agreement. Under this agreement, 21CNAI will cede 100% of the net liability of the 21st Pool Members for losses with a date of loss on or after July 1, 2009, to FIE.

#### *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 Companies (Farmers), 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.

The parties to this agreement are:

Revolving Credit Facility Framework Agreement Participants

21st Century Advantage Insurance Company	Farmers Insurance Company of Columbus, Inc.
21st Century Assurance Company	Farmers Insurance Company of Idaho
21st Century Casualty Company	Farmers Insurance Company of Oregon
21st Century Centennial Insurance Company	Farmers Insurance Company of Washington
21st Century Indemnity Insurance Company	Farmers Insurance Exchange
21st Century Insurance Company	Farmers Insurance Hawaii, Inc.
21st Century National Insurance Company	Farmers New Century Insurance Company
21st Century North America Insurance Company	Farmers Specialty Insurance Company
21st Century Pacific Insurance Company	Farmers Texas County Mutual Insurance Company
21st Century Pinnacle Insurance Company	Foremost County Mutual Insurance Company
21st Century Preferred Insurance Company	Foremost Insurance Company Grand Rapids, Michigan
21st Century Premier Insurance Company	Foremost Lloyds of Texas
21st Century Security Insurance Company	Foremost Property & Casualty Insurance Company
American Pacific Insurance Company	Foremost Signature Insurance Company
Bristol West Casualty Insurance Company	Fire Insurance Exchange
Bristol West Insurance Company	Illinois Farmers Insurance Company
Bristol West Preferred Insurance Company	Mid-Century Insurance Company
Civic Property and Casualty Company	Mid-Century Insurance Company of Texas
Coast National Insurance Company	Neighborhood Spirit Property and Casualty Company
Exact Property and Casualty Company	Security National Insurance Company
Farmers Insurance Company, Inc.	Texas Farmers Insurance Company

Revolving Credit Facility Framework Agreement Participants

Farmers Insurance Company of Arizona

Truck Insurance Exchange

Agreements with Non-affiliates

*Management Agreements*

Investment Management Agreement: FGI, acting on behalf of FIE, FIRE, and Truck and the subsidiaries of these Exchanges, entered into an Investment Management Agreement with FGI to act as the investment manager of the investment portfolios of these companies. In addition, FGI appointed third party advisors to act as the investment manager, as follows:

- Deutsche Investment Management Americas, Inc.: FGI entered into an Investment Management Agreement dated July 1, 1998, amended January 31, 2009, and April 12, 2011, with its affiliate, Scudder Kemper Investments Inc. (Scudder). In 2002, Scudder was acquired and replaced by Deutsche Asset Management, and the name changed to Deutsche Investment Management Americas, Inc. (Deutsche). Deutsche, a non-affiliate, manages the fixed income and equity asset portfolios. Fees are based on a sliding scale percentage on the value of the portfolio being managed.
- Wells Capital Management, Inc.: FGI, acting on behalf of FIE, FIRE and Truck and subsidiaries of these Exchanges, entered into an Investment Management Agreement, dated March 6, 2015, with Wells Capital Management, Inc., a non-affiliate, to manage the municipal and tax-exempt securities portfolio. Fees are based on a sliding scale percentage on the value of the portfolio being managed.

**TERRITORY AND PLAN OF OPERATION**

As of December 31, 2017, the Company is licensed and/or authorized to transact business in thirty-eight states and the District of Columbia. The Company is predominantly a personal lines property and automobile insurer. 21st CAC, along with the majority of the companies in



the 21st Century Insurance Group, discontinued offering business pursuant to approval from the Department. At the end of 2016, renewals of the remaining in force business was offered to policyholders underwritten by Bristol West Insurance Company, a member of FIG. As of December 31, 2018, all 21st CAC business has been transferred or non-renewed by the end of 2018.

## **REINSURANCE**

### **Inter-Company Reinsurance Pooling Agreements**

Certain members of Farmers participate in the 21st Pooling Agreement, with FIE as the lead company, in which they share in the net premiums and ultimate losses of affiliates. There are fifteen companies that participate in the 21st Pool in which 21st CAC is a party to. The remaining subsidiary and affiliate companies cede their business to FIE but do not participate in the 21st Pool.

The Company reported the following distribution of premiums written for the years ended December 31, 2017:

Private passenger auto liability	\$ 8,564,248	69.10%
Auto physical damage	3,829,378	30.90%
Total Direct	\$ 12,393,626	100.00%
 <b><u>Ceded Premium</u></b>		
Private passenger auto liability	\$ 8,564,248	69.10%
Auto physical damage	3,829,378	30.90%
Total Ceded	\$ 12,393,626	100.00%
 Total Net Premiums Written	 \$ -	

## **FINANCIAL STATEMENTS**

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets and Liabilities as of December 31, 2017
- Statement of Income for the year ended December 31, 2017
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2013 to December 31, 2017

**Statement of Assets and Liabilities**  
**As of December 31, 2017**

	<u>Assets</u>	<u>Non admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 68,784,682		\$ 68,784,682	
Common stocks				
Cash	1,356,011		1,356,011	
Short-term Investments				
Other invested assets				
Receivables for securities				
Subtotals, cash and invested assets	<u>\$ 70,140,693</u>	<u>\$ -</u>	<u>\$ 70,140,693</u>	
Investment income due and accrued	350,581		350,581	
Total	<u><u>\$ 70,491,274</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 70,491,274</u></u>	

		<u>Notes</u>
Losses		1
Reinsurance payable on paid losses and LAE		
Loss adjustment expenses		1
Commissions payable, contingent commissions		
Other expenses		
Taxes, licenses and fees	19,040	
Current federal and foreign income taxes		
Unearned premiums		
Ceded reinsurance premiums payable		
Funds held by company under reinsurance treaties		
Amounts withheld or retained by company for account of others		
Remittances and items not allocated		
Provisions for reinsurance		
Payable to parent, subsidiaries, and affiliates	27,142	
Net deposit liability		
Retro reinsurance reserves		
Deferred ceding commission		
Escheat payable		
Total liabilities	<u>\$ 46,182</u>	
Retroactive reinsurance gain		
Common capital stock	5,000,000	
Gross paid in and contributed surplus	13,500,000	
Unassigned funds (surplus)	<u>51,945,092</u>	
Surplus as regards policyholders	<u>\$ 70,445,092</u>	
Totals	<u>\$ 70,491,274</u>	

**Statement of Income**  
**For the Year Ended December 31, 2017**

		<u>Notes</u>
Premiums earned	\$ -	
Losses incurred		
Loss adjustment expenses incurred		
Other underwriting expenses incurred		
Total underwriting deductions	\$ -	
Net underwriting gain (loss)	\$ -	
Net investment income earned	951,297	
Net realized capital gains or (losses)	(1,731)	
Net investment gain (loss)	\$ 949,566	
Net gain (loss) from agents' or premiums balances charged off		
Miscellaneous and foreign exchange fund		
Net interest on funds held		
Retroactive reinsurance losses		
Total other income	\$ -	
Net income after dividends to policyholders	\$ 949,566	
Dividends to policyholders	-	
Net income, after dividends to policyholders	\$ 949,566	
Federal and foreign income taxes incurred	305,461	
Net income	\$ 644,105	
Surplus as regards policyholders, December 31, 2016	\$ 69,753,727	
Net income (losses)	\$ 644,105	
Change in net unrealized capital gains (losses)		
Change in net unrealized foreign exchange gains (losses)		
Change in net deferred income tax	47,260	
Change in non-admitted assets		
Change in provision for reinsurance		
Surplus adjustment: Paid in		
Dividends to stockholders		
Prior period correction on an error		
Net change in capital and surplus for the year	\$ 691,365	
Surplus as regards policyholders, December 31, 2017	\$ 70,445,092	

**Reconciliation of Capital and Surplus**  
For the Period from the Prior Examination  
As of December 31, 2013 to December 31, 2017

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
01/01/14	\$ 5,000,000	\$ 13,500,000	\$ 47,960,445	\$ 66,460,445
12/31/14 *			1,759,376	1,759,376
12/31/15 *			957,621	957,621
12/31/16 *			576,285	576,285
12/31/17 *			691,365	691,365
	<u>\$ 5,000,000</u>	<u>\$ 13,500,000</u>	<u>\$ 51,945,092</u>	<u>\$ 70,445,092</u>

(\*) Represents net income, change in unrealized capital gains(losses), change in unrealized foreign exchange gain(losses), change in net deferred income tax, change in non- admitted assets, change in provisions for reinsurance.

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There were no changes made to the Financial Statements as a result of this Examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

Note 1:

Losses	\$ 0
Loss Adjustment Expenses	\$ 0

The examination liability for the aforementioned captioned items of \$0 and \$0 are the same as reported by the Company as of December 31, 2017. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Generally Accepted Actuarial Principles and Statutory Accounting Principles, including *NAIC Accounting Practices and Procedures Manual*, Statement of Statutory Accounting Principle No. 55 (SSAP No. 55).

**SUBSEQUENT EVENTS**

On April 1, 2018, the Exchanges contributed 100% of their ownership interest in the 21st Century subsidiaries to Mid-Century Insurance Company, a member of FIG. This non-cash transaction was accounted for as a reorganization and change in ownership interest in all of the 21st Century subsidiaries. The transaction was granted an exemption pursuant to 18 *Del. C.* § 5003(e) (2) (a) by the Department.

The following is a summary of the transfer/cost of the acquired equity for each of the purchased entities:

Purchased Entity	Transfer/Cost of Acquired Equity
21st Century North American Insurance Company	\$364,934,606
21st Century Assurance Company	49,764,837
21st Century Pacific Insurance Company	33,846,757
21st Centennial Insurance Company	303,797,480
Farmers Insurance of Hawaii, Inc.	61,674,560
21st Century Insurance Group	<u>771,815,822</u>
Totals	<u>\$1,585,834,062</u>

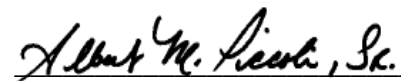
**SUMMARY OF RECOMMENDATIONS**

It is recommended that the Company comply with 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”

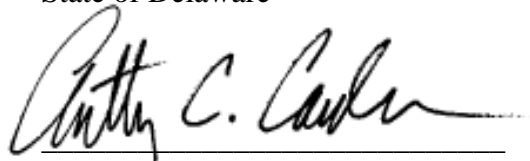
**CONCLUSION**

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS, the Company's outside audit firm, PwC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Albert M. Piccoli, Sr., CFE  
Examiner In-Charge  
State of Delaware



Anthony Cardone, CFE  
Supervising Examiner  
State of Delaware