

REPORT ON EXAMINATION AS TO THE CONDITION OF
21ST CENTURY AUTO INSURANCE COMPANY OF NEW JERSEY
WILMINGTON, DELAWARE 19803
AS AT DECEMBER 31, 2017
NAIC GROUP CODE 0069
NAIC COMPANY CODE 10184

FILED

June 26, 2019

Commissioner
Department of Banking & Insurance

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State of New Jersey

PHILIP D. MURPHY
Governor

DEPARTMENT OF BANKING AND INSURANCE

MARLENE CARIDE
Commissioner

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May 17, 2019

Honorable Marlene Caride
Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625-0325

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

21st Century Auto Insurance Company of New Jersey
WILMINGTON, DELAWARE
NAIC GROUP CODE 0069
NAIC COMPANY CODE 10184

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the 21st Century Auto Insurance Company of New Jersey will be referred to in this report as the "Company" or "21st Century Auto".

SCOPE OF EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as “NJDOBI”, has performed a full scope risk focused examination of 21st Century Auto Insurance Company of New Jersey (the “Company” or “21st Century Auto”).

This risk focused examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:23-22 of the New Jersey Revised Statutes.

The examination was made as of December 31, 2017 and addressed the four-year period from January 1, 2014 to December 31, 2017. During this four-year period under examination, the Company’s assets decreased from \$25,926,469 to \$25,370,829, liabilities decreased from \$1,257,549 to \$0 and its surplus to policyholders increased from \$24,668,920 to \$25,370,829.

The examination was conducted at the located at the Company’s Home Office at 3 Beaver Valley Road, Wilmington, DE, 19803. NJDOBI conducted the examination in accordance with the 2017 edition of the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (the “NAIC Handbook”). The NAIC Handbook requires that NJDOBI plan and performs the examination to evaluate the financial condition and identify prospective risks of the Company. In order to meet these objectives, NJDOBI obtained information regarding the Company’s corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated its system of internal controls and procedures used to mitigate those risks identified. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

According to the NAIC Handbook, “One of the increased benefits of the enhanced risk focused approach is to include ... consideration of other than financial risks that could impact the insurer’s future solvency. By utilizing the enhanced approach, the examiner reviewed the “financial” and “enterprise” risks that existed at the examination “as of” date and will be positioned to assess “financial” and “enterprise” risks that extend or commence during the time the examination was conducted and “prospective” risks which are anticipated to arise or extend past the point of examination completion. Using this approach, examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer.”

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

The full scope coordinated multi-state risk focused 2013 examination of the Company yielded no prior reportable recommendations.

HISTORY AND KIND OF BUSINESS

On December 12, 1994, Bayside Casualty Insurance Company was incorporated as a stock insurance company under the laws of the State of New Jersey. On January 23, 1995, Bayside Casualty Insurance Company (Bayside) became a member of the Leucadia National Corporation insurance holding company system through the acquisition of all the issued and outstanding stock of Bayside by Colonial Penn Insurance Company. Also the fifth paragraph of the Company's Certificate of Incorporation reads as follows: "The amount of capital stock of the corporation shall be \$4,200,000 divided into forty two thousand (42,000) shares of common stock having a par value of one hundred dollars (\$100.00) per share." The Company commenced business on January 23, 1995.

The Company was formed in order for Colonial Penn Insurance Company ("CPI") to terminate its reinsurance agreement with the National Consumer Insurance Company pool. The Company assumed the CPI share of the National Consumer Insurance Company business in the New Jersey Private Passenger Voluntary Automobile Insurance Pool.

The Articles of Incorporation were amended twice. The first amendment was approved by the shareholders and the Board of Directors on January 12, 1995. It was filed with the Attorney General of New Jersey and signed in that office on January 17, 1995. This amendment amends paragraphs 2 and 3 of the Articles of Incorporation. Paragraph 2 amends the registered agent upon whom due process could be served. The amendment to paragraph 3 deleted paragraph d which allowed the Company to insure against bodily injury or death by accident, and deleted paragraph g which allowed the Company to insure against defaults of persons in positions of trust. The second amendment was approved by the shareholders and the Board of Directors on May 15, 1995 and May 18, 1995. It was submitted for review by the Attorney General of New Jersey and signed in that office on September 18, 1995. This amendment changes the principal office of the Corporation to Parsippany, New Jersey.

On January 23, 1995, the New Jersey Commissioner of Banking and Insurance issued an initial Certificate of Authority to the Company. This certificate authorizes Bayside Casualty Insurance Company to transact the kinds of insurance authorized by paragraphs "a", "b", "e", "f", "j", "k", "l", "n", "o-1" and "o-3" of N.J.S.A. 17:17-1 et seq.

On January 25, 1995, Bayside and CPI became parties to a guaranty whereby CPI guarantees that this Company will maintain a premium to surplus ratio of 2.0 to 1 for the 5 years beginning April 1, 1995. This was required by the New Jersey Department of Banking and Insurance as a condition of CPI's withdrawal from the New Jersey Voluntary Private Passenger Automobile Insurance Pool.

On November 4, 1997, 100% of the issued and outstanding stock of CPI was sold to General Electric Capital Corporation. On that date, General Electric Capital Corporation contributed all of the issued and outstanding stock of CPI to its affiliate, GE Financial Assurance Holdings, Inc. The ultimate parent is General Electric Company. The purchase by General Electric Capital Corporation was approved by NJDOBI in Order No. A97-110, dated November 3, 1997.

On May 22, 2000, NJDOBI did not fully execute the "Original Consent Order" which approved the withdrawal of Bayside Casualty, pursuant to N.J.A.C. 11:2-29, from writing private passenger automobile business in New Jersey and allowed for the non-renewal of all policies expiring on July 26, 2000 and thereafter. Both parties have been adhering to the terms and conditions of the Original Consent Order since its effective date of May 22, 2000.

On November 30, 2004, NJDOBI issued a fully executed Consent Order No. C04-110, which refers to the Original Consent Order, effective May 22, 2000. The following are the terms and conditions of this Order: 1.) When the last policies expire in New Jersey, the Department shall withdraw the rating system of Bayside Casualty. 2.) Bayside Casualty shall not be required to surrender their Certificate of Authority. 3.) Bayside Casualty and GE Property & Casualty, formally Colonial Penn Insurance Company, shall execute both Reinsurance and Administration Agreement and a Capital and Surplus Guaranty Agreement, and 4.) Bayside Casualty shall not be required to seek a replacement carrier for its New Jersey private passenger automobile business pursuant to N.J.A.C. 11:2-29.5.

The Company's amendment to its Certificate of Incorporation was approved by the shareholders and the Board of Directors on July 17, 2000. It was approved by the Deputy Attorney General on December 18, 2000 and filed with NJDOBI on December 29, 2000. This amendment updated the third paragraph which reads as follows: "The kind of insurance to be transacted by the corporation shall be the kinds of insurance specified under N.J.S.A. 17:17-1 of the New Jersey Revised Statutes is: "b" and "e".

The Company's amendment to its Certificate of Incorporation was approved by the shareholders and the Board of Directors on December 4, 2000. It was approved by the Deputy Attorney General on January 3, 2001 and filed with NJDOBI on March 21, 2001. This amendment updated the second paragraph which reads as follows: "The statutory home office of the corporation in the State of New Jersey, which shall also be its registered office, is to be located at 4 Research Way, Princeton, Township of Plainsboro, County of Middlesex, State of New Jersey, and the registered agent upon whom due process may be served shall be Mark R. O'Leary."

On July 1, 2002 the Company amended its stock certificate to reflect GE Property and Casualty Insurance Company, formerly Colonial Penn Insurance Company, owns 100% of the issued and outstanding stock of Bayside Casualty Insurance Company.

On August 29, 2003, NJDOBI issued Administrative Order No. A03-144 in the matter of the acquisition of control of Bayside Casualty Insurance Company by Lexington Insurance

Company and American International Group, Inc. (the applicants).

The applicants acquired control of Bayside Casualty through the acquisition of all the issued and outstanding shares of GE Property & Casualty Insurance Company by Lexington Insurance Company. The ultimate parent is American International Group, Inc. and the Company's new N.A.I.C. Group Code is 0012.

The Company's amendment to its Certificate of Incorporation was approved by the Board of Directors on August 29, 2003. It was submitted for review with the Deputy Attorney General on April 14, 2004 and filed with NJDOBI on July 20, 2004. This amendment updated the first paragraph to read as follows: "The name of the corporation shall be: AIG Auto Insurance Company of New Jersey." Also, to update the second paragraph to read as follows: "The statutory home office of the corporation in the State of New Jersey, which shall be its registered office, is to be located at 830 Bear Tavern Drive, West Trenton, County of Mercer, State of New Jersey, and the registered agent upon whom process may be served shall be Corporation Services Company."

On April 1, 2004, the Company's parent, GE Property & Casualty Insurance Company, was subsequently renamed "AIG Centennial Insurance Company".

On July 20, 2004, the New Jersey Commissioner of Banking and Insurance issued an amended Certificate of Authority to the Company. This certificate authorizes "AIG Auto Insurance Company of New Jersey" to transact the kinds of insurance authorized by paragraphs "b" and "e" of N.J.S.A. 17:17-1 et seq.

On July 20, 2004, the Company amended its stock certificate to reflect AIG Centennial Insurance Company owns 100% of the issued and outstanding stock of the Company.

On September 1, 2005, the Settlement and Release Agreement, per Consent Order C04-110, was entered into by and between the Company and AIG Centennial Insurance Company. This Settlement and Release Agreement shall operate as a full and final settlement for present and future actual and alleged liabilities for each Company under the Reinsurance and Administration Agreement.

The Company amended and restated, in its entirety, its original Certificate of Incorporation and all amendments thereto. This superseded Certificate of Incorporation was approved by the Board of Directors on April 12, 2007. It was submitted for review with the Deputy Attorney General on April 24, 2007 and filed with the New Jersey Department of Banking and Insurance on May 3, 2007. The amendment updated the third paragraph which reads as follows: "The kinds of insurance to be transacted by the corporation shall be the kinds of insurance specified by the following paragraphs under N.J.S.A. 17:17-1 and 17B:17-4 of the New Jersey Revised Statutes: "a", "b", "e", "f", "g", "i", "j", "k", "l", "m", "n", "o" and "Health Insurance". The seventh paragraph is amended to read as follows: "The principal officers of this corporation shall be a President, a Vice President, a Secretary, a Treasurer, and such other officers as the Board of Directors may determine to elect in accordance with the provisions of the By-laws of this corporation by resolution adopted by a majority of the entire

Board. All officers shall hold office for a term as specified in the By-laws.” Also the tenth and eleventh paragraphs are amended by deleting in their entirety the names and addresses of the incorporators and the names, addresses and titles of the initial Board of Directors and Officers of the corporation, respectively.

On May 3, 2007, the New Jersey Commissioner of Banking and Insurance issued an amended Certificate of Authority to the Company. This certificate authorizes “AIG Auto Insurance Company of New Jersey” to transact the kinds of insurance authorized by paragraphs “a”, “*b”, “*e”, “f”, “g”, “i”, “j”, “k”, “l”, “m”, “n” and “o” of N.J.S.A. 17:17-1 et seq. (*Except that only those kinds of insurance described in paragraphs “b” and “e” may be written on a direct basis.) The rating system for the Company was withdrawn in 2001, as per the condition of Consent Order No. C04-110. This current Certificate of Authority allows the Company to do business on a “Reinsurance Basis Only” due to their 2% participation in the AIG Reinsurance Pool.

On June 9, 2008, the Company amended and restated their By-laws which were filed with NJDOBI on June 30, 2008. This amendment reflects the Board of Director’s approved change to Article VIII – Section 8.3: “Indemnification of Officers, Directors, etc.” which all wording was deleted in its entirety and substituted with the wording in paragraphs: a, b, c, d, e, f and g.

Dated as of April 16, 2009, but effective July 1, 2009, the “Acquisition of Control” of Personal Auto Group Companies (PAG Companies) is detailed in the following agreements:

- Purchase Agreement, dated as of April 16, 2009, is by and among American International Group, Inc. (AIG), AIU Holdings, Inc., New Hampshire Insurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., Lexington Insurance Company, Commerce and Industry Insurance Company, American Home Assurance Company, AIG Casualty Company and The Insurance Company of the State of Pennsylvania (collectively the “Sellers”) and Farmers Group, Inc. (the “Acquirer”).

The Sellers own directly all the outstanding Capital Stock in each of the following entities: American International Insurance Company of Delaware., AIG Hawaii Insurance Company Inc., American International Insurance Company, AIG Centennial Insurance Company, American International Pacific Insurance Company, New Hampshire Indemnity Company Inc., 21st Century Insurance Group, AIG Marketing, Inc. and Hawaii Insurance Consultants, Ltd. (collectively, the “Companies”)

The Companies own, directly or indirectly, all of the outstanding Capital Stock in each of the entities set forth in Schedule 1 (collectively, the “Transferred Subsidiaries”), of which AIG Auto is a party.

As part of the Purchase Agreement, AIG Centennial Insurance Company’s (“AIG-CIC”) capital stock was purchased by the Farmers Group, Inc., however, AIG-CIC still owns 100% of the Company’s common capital stock.

Purchase and Sale Agreement, dated as of April 16, 2009, is by and among Farmers Group, Inc. (“FGI”), and Farmers Insurance Exchange (“FIE”), Fire Insurance Exchange (“Fire”), and Truck Insurance Exchange (“Truck”), (FIE, Fire and Truck, collectively the “Exchange Buyers”). FGI will transfer to the Exchange Buyers all of the rights, title and interest in and to the Companies, of which AIG-CIC is a party, and the Transferred Subsidiaries, of which the Company is a party, as set forth on Schedule 2(b). As a result of this Purchase and Sale Agreement, the Company’s parent, AIG-CIC, is owned by the Exchange Buyers in the following percentages: FIE (80%), Fire (10%), and Truck (10%). The Company’s stock shares are still owned 100% by their parent, AIG-CIC. On April 28, 2009, a Multistate Form A was filed regarding the “Acquisition of Control” of or Merger with a Domestic Insurer of the Personal Auto Group Insurers (PAG) of American International Group, Inc. (AIG) by Farmers Group, Inc. (a subsidiary of Zurich Financial Services, LTD.), FIE, Fire and Truck.

- On June 29, 2009, NJDOBI issued Order No. A09-107, in the matter of the “Acquisition of Control” of the Company and American International Insurance Company of New Jersey by Farmers Group, Inc. (a subsidiary of Zurich Financial Services Ltd.), and subsequently by FIE, Fire and Truck. Based on N.J.S.A. 17:27A-2d(1), the hearing panel and the Department recommend the proposed “Acquisition of Control” to be approved.

All outstanding shares of AIG-CIC are owned by FIE (80%), Truck (10%) and Fire (10%). The Company’s new NAIC Group Code is 0212.

- Effective July 1, 2009, per the approved “Acquisition of Control”, the following agreements were approved by NJDOBI on June 19, 2009:
 - Master Termination of Inter-Company Agreements
 - Amended and Restated Inter-Company Pooling Agreement
 - PCG Business Reinsurance and Administration Agreement

All outstanding shares of 21st Century Centennial Insurance Company are owned by Farmers Insurance Exchange (80%), Truck Insurance Exchange (10%) and Fire Insurance Exchange (10%).

The Company’s Amended and Restated Certificate of Incorporation was approved by the shareholders and the Board of Directors on March 24, 2010. It was approved by the Deputy Attorney General on March 31, 2010 and filed with the New Jersey Department of Banking and Insurance on April 20, 2010. The amendment updated the first paragraph to read as follows: “The name of the corporation shall be: 21st Century Auto Insurance Company of New Jersey”.

On April 1, 2010, the New Jersey Commissioner of Banking and Insurance issued an Amended Certificate of Authority which changed the Company’s name to: “21st Century Auto Insurance Company of New Jersey”.

On April 1, 2010, the Company amended and restated their By-laws which were filed with NJDOBI on April 21, 2010. This amendment reflects the Board of Director’s approved change of the Company’s name from “AIG Auto Insurance Company of New Jersey” to “21st Century Auto Insurance Company of New Jersey”.

On April 1, 2010, the Company amended its stock certificate to reflect 21st Century Centennial Insurance Company (formerly – AIG Centennial Insurance Company) owns 100% of the issued and outstanding stock of 21st Century Auto Insurance Company of New Jersey (formerly – AIG Auto Insurance Company of New Jersey).

As of December 2013, approval was received for the Reciprocal Exchanges, their subsidiaries and affiliated companies to reestablish a separate NAIC Group Code of 0069 and no longer be under the Zurich NAIC Group Code of 0212. As such, Zurich is no longer named as an Ultimate Controlling Person. Farmers Insurance Exchange is named as the sole ultimate controlling person. Farmers Insurance Exchange is a California domiciled inter-insurance exchange owned by its policyholders. Farmers Group, Inc. has been named as a Significant Related Party to the Ultimate Controlling Person.

The principal office of the Company is located at 830 Bear Tavern Drive, West Trenton, New Jersey 08628 and the registered agent upon whom process may be served shall be Corporation Services Company.

STATUTORY DEPOSIT

As of December 31, 2017, the Company maintained two securities on deposit with the State of New Jersey, in trust for the benefit and security of the Company's policyholders.

<u>State</u>	<u>Securities</u>	<u>Par Value</u>
	U.S. Treasury Note	
New Jersey	1.000% due March 15, 2019	\$ 120,000
	U.S. Treasury Bond	
New Jersey	1.250% due October 31, 2018	<u>400,000</u>
Total		<u>\$ 520,000</u>

TERRITORY AND PLAN OF OPERATIONS

The Company is a domestic property and casualty stock insurance company licensed to transact business only in the State of New Jersey.

The Company did not write any direct business during the examination period.

The Company did not assume or cede any business during the examination period.

CORPORATE RECORDS

The Board of Directors governs the business of the Company. Each Director shall be elected by the shareholders at each annual meeting and shall hold office for a term of one year or until his successor shall have been duly elected and qualified. The Board shall consist of not less than three (3) nor more than twenty (20). The number of Directors to serve each year may be fixed annually by the shareholders or at any time between the annual shareholders meetings by vote of the Board of Directors. The presence of the majority holders of the issued and outstanding shares of stock entitled to vote shall constitute a quorum at all meetings of the shareholders.

A review of the minutes of the Board of Directors meetings noted that they were well attended by the Company's Directors, and that the proceedings of the meetings were done in compliance with the Company's State Charter and By-laws. The Board minutes also indicated that the Company's overall transactions and events were adequately supported and approved.

MANAGEMENT AND CONTROL

The business, property and affairs of the Company are managed by the President and his delegated officers under the guidance of the Board of Directors.

Directors

The Company's By-laws specify that the Board of Directors shall consist of not less than three (3) nor more than twenty (20) Directors, one of whom shall be elected as Chairman of the Board. The number of Directors to serve each year may be fixed annually by the Shareholders or at any time between Annual Shareholders Meetings by vote of the Board of Directors. The elected Directors shall hold office until their successors have been duly elected and qualified.

The annual meeting of the Board of Directors shall be held without notice immediately after the Shareholders annual meeting, at the place where the annual Shareholders meeting is held. The Board may hold meetings at such place or places within or without the State of New Jersey as the Board may from time to time determine. The Shareholders annual meeting shall be held on such date as may be fixed by the President, the Chairman of the Board, or a majority of the Directors, at such time and place as the notice calling the meeting shall indicate. The presence of a majority of the Directors in office shall be requisite to and constitute a quorum at all meetings of the Board for the transaction of business. Any action taken by a majority of the Directors present at a meeting at which a quorum is present shall constitute the action of the Board of Directors, except as may be otherwise provided by statute.

A listing of the Directors serving the Company as at December 31, 2017 is as follows:

<u>Name</u>	<u>Principle Business Affiliate</u>
Richard M. Farraro (a) Thousand Oaks, CA	RSM, Western Regional Director
Scott W. Hood Leawood, KS	Rochdale Paragon Group, Senior Consultant
Gail N. Jackson Playa Del Rey, CA	Physician, affiliated with Cedars-Sinai Medical Center
Serman I. Lewis Pearland, TX	The Lewis Group LLP, President and CEO
Gerald A. McElroy (a) La Quinta, CA	Retired-Insight Risk Management Solutions, CEO
Thomas S. Noh (c) Los Angeles, CA	Insurance Executive, FIG
Glenn A. Pfeil (b) Wilmington, DE	21st Century Insurance Company, President

a – Resigned, Guy M. Hanson was elected to the Board of directors on March 20, 2018. Gerald McElroy was replaced by Dale Anne Marlin during 2019.

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

c – no longer a board member in 2019

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4d(3) which states that, “not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity”. However, in accordance with N.J.S.A. 17:27A-4d(5), the provisions of paragraph (3) shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors that substantially meet the requirements of this paragraph. Under N.J.S.A. 17:27A-4d(5), the Company’s ultimate controlling entities are FIE, Fire and Truck (the “Exchange Group”). It has been determined by this examination that the Exchange Group are Reciprocals and are subject to compliance with N.J.S.A. 17:50-1 et. al. Therefore, it has been determined, by NJDOBI - Office of Solvency Regulation Division, that the Company’s controlling entities are exempt from compliance with N.J.S.A. 17:27A-4d(3).

Committees

The Company does not have an Executive, Finance or Audit Committee in place as of December 31, 2017. However, the FGI Group, has committees in place which include an Exchange Executive Committee, Exchange Audit Committee and Farmers Investment Committee.

Officers

The Officers of the Company shall be chosen by the Board of Directors at its first meeting after the election of Directors by the Stockholders and shall consist of the President, one or more Vice-Presidents, a Secretary, a Finance and Administration Officer, and one or more Assistant Vice-Presidents. The Board may also elect with such additional title(s), if any, as the Board may deem appropriate, such Officers and Assistant Officers and agents as it shall deem necessary. Any two or more offices may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity. Officers are elected for one year and shall hold their respective offices until the next annual election of officers by the Board and until their successors shall have been elected and qualified or until the earlier of their death, resignation or removal.

The following Officers have been elected and were serving the Company as at December 31, 2017:

<u>Name</u>	<u>Office</u>
Glenn Alan Pfeil (a)	President
Doren E. Hohl	Secretary
Theresa Harm	Treasurer

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

REINSURANCE

The Company was the named party to the following reinsurance treaties in effect at December 31, 2017:

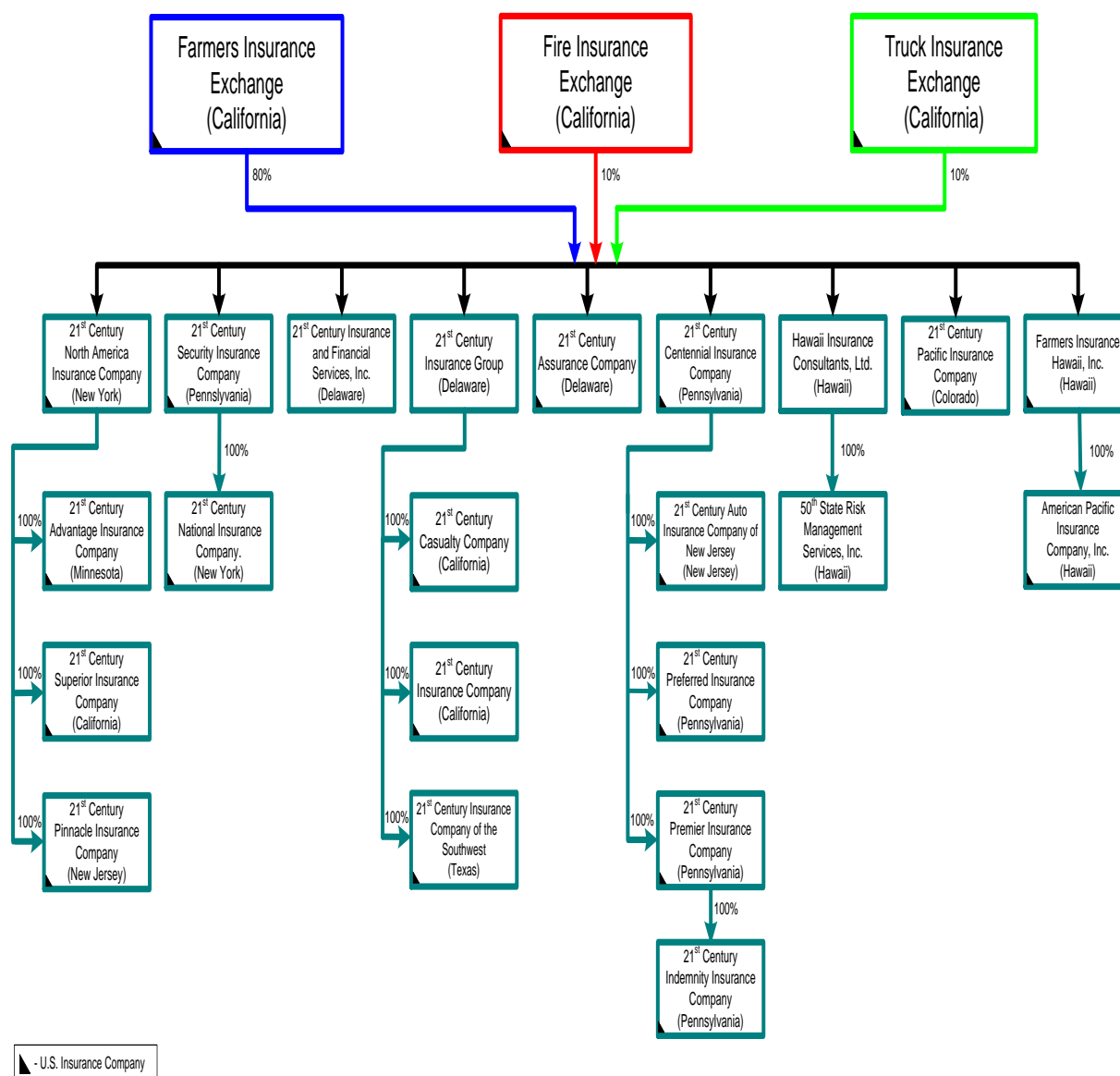
Inter-Company Reinsurance Pooling Agreements

Certain members of Farmers participate in an intercompany reinsurance 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 Inter-Company program in which 21st Century Auto is a party to. The remaining subsidiary and affiliate companies cede their business to FIE but do not participate in the Inter-Company pooling program.

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

21st Century Auto Insurance Company of New Jersey is a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1 and is subject to the registration requirements of N.J.S.A. 17:27A-3. The Company is a wholly owned subsidiary of 21st Century Centennial Insurance Company, who is owned 80% by Farmers Insurance Exchange, 10% by Fire Insurance Exchange, and 10% by Truck Insurance Exchange (the “Reciprocal Exchanges”). It was determined that the Company did file their holding company registration statements, for the period under examination, in compliance with the requirements and standards of N.J.S.A. 17:27A-3.

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):



Agreements with Affiliates

Intercompany Pooling Agreement

Prior to June 1, 2016, the Company was party to an intercompany 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 Intercompany Pool. Under the terms of the intercompany 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. Pooling percentage for 21st CAC was 0%.

The following is a list of member companies in the 21st Century Intercompany 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%
21st Century Assurance Company (21CAC)	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 Century Intercompany Pooling Agreement 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 pooling agreement with 21CSW, 21CAUTO, and 21CSI no longer being a party to the agreement. Additionally, Amendment No.1 of the 21st Century Intercompany 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 Century Intercompany 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. The Exchange 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.

Agreements with Non-affiliates

Management Agreements

Investment Management Agreement: Farmers Group, Inc. (FGI), acting on behalf of the FIE, FIRE and Truck 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 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.

POLICY ON CONFLICT OF INTEREST

The Company participates in the Farmers Code of Business Ethics which addresses employee conduct, professional standards, accountability and compliance, conflicts of interest, fraud policy and guidelines on business ethical matters for all employees, officers and directors. The policy stipulates the various conditions and actions that are and or may be deemed to be inappropriate, potential conflicts of interest and/or violations of said policy statement.

The examination reviewed all officers and directors executed Conflict of Interest statements for the period under examination, noting that there were no apparent or potential conflicts of interest.

ACCOUNTS AND RECORDS

The Company's accounting books and records are maintained at its main administrative office located at 3 Beaver Valley Road, Wilmington, Delaware 19803. Financial information needed in conjunction with the verification of assets and the determination of liabilities was made available in detail and summary form. The general ledger system was tested and reconciled to the annual statement.

The Company records premium and losses through the use of in-house computerized systems. Premiums are derived from direct billing. Various reports are derived from the systems for annual statement and financial report preparation and were used in conjunction with this examination.

During the course of this examination, some books and records were not made available to the examination team in accordance with N.J.S.A. 17:23-23(b). Therefore, it is recommended that:

The Company must comply with N.J.S.A. 17:23-23(b). “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”.

All claims in New Jersey are processed on Farmers HEART Claims System and all policyholder claims services are provided by Farmers’ Claims Group. All accounting activity has been transitioned to the Farmers General Ledger, SAP.

TREATMENT OF POLICYHOLDERS AND CLAIMANTS

The Company’s complaint handling procedures as well as its complaint logs were reviewed for the years 2014 through 2017. The review of these complaint logs determined that the Company was in compliance with N.J.S.A. 17:29B-4(10) which states: “This record shall indicate the total number of complaints, their classification by line of business, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint.”

CONTINUITY OF OPERATIONS

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. Management should assess how the Company’s reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion.

The Company’s comprehensive Business Continuity Plan was reviewed by, Jennan Enterprises, LLC as part of the coordinating examination. There were no exceptions noted or recommendations made.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A - Balance Sheet as at December 31, 2017

Exhibit B - Summary of Operations for the Four-Year Period Ending December 31, 2017

Exhibit C - Capital and Surplus Account for the Four-Year Period Ending December 31, 2017

EXHIBIT A**BALANCE SHEET AT DECEMBER 31, 2017**

	Current Examination at 12/31/2017	Balance per Company at 12/31/2017	Examination Change	Note
<u>Assets</u>				
Bonds	\$24,707,164	\$24,707,164	\$0	1
Stocks:				
Common	0	0	0	
Cash & short-term investments	524,251	524,251	0	
Investment income due and accrued	117,860	117,860	0	
Uncollected premiums and agents' balances	0	0	0	
Deferred premiums and agents' balances	0	0		
Amounts recoverable from reinsurers	0	0	0	
Other amounts receivable under reinsurance				
Contracts	0	0	0	
Current federal and foreign income tax recoverable	0	0	0	
Net deferred tax asset	16,495	16,495	0	
Receivable from parent, subsidiaries and affiliates	5,058	5,058	0	
Total Admitted Assets	<u>\$25,370,829</u>	<u>\$25,370,829</u>	<u>\$0</u>	
<u>Liabilities</u>				
Losses	\$ 0	\$ 0	\$0	
Reinsurance payable on paid losses and LAE	0	0	0	
Loss adjustment expense	0	0	0	2
Commissions payable	0	0	0	
Other expenses	0	0	0	
Taxes, licenses and fees	0	0	0	
Unearned premiums	0	0	0	
Advance premiums	0	0	0	
Ceded reinsurance premiums payable	0	0	0	
Funds held by company under reinsurance treaties	0	0	0	
Provision for reinsurance	0	0	0	
Payable to parent, subsidiaries and affiliates	0	0	0	
Aggregate write-ins for liabilities (Escheat Funds)	0	0	0	
Total Liabilities	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	
<u>Surplus and Other Funds</u>				
Common Capital Stock	\$4,200,000	\$4,200,000	\$0	
Gross Paid In and Contributed Surplus	46,860,000	46,860,000	0	
Unassigned Funds (Surplus)	<u>(25,689,171)</u>	<u>(25,689,171)</u>	<u>0</u>	
Surplus as Regards Policyholders	<u>\$25,370,829</u>	<u>\$25,370,829</u>	<u>\$0</u>	3
Total Liabilities, Surplus and Other Funds	<u>\$25,370,829</u>	<u>\$25,370,829</u>	<u>\$0</u>	

EXHIBIT B**SUMMARY OF OPERATIONS FOR THE FOUR YEAR
PERIOD ENDING DECEMBER 31, 2017**

<u>UNDERWRITING INCOME</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Premiums Earned	\$0	\$0	\$0	\$0
Deductions:				
Losses Incurred	0	\$13,582	(\$65,092)	149,828
Loss Adjustment Expenses Incurred	0	1,566	(36,977)	(27,940)
Other Underwriting Expenses Incurred	0	0	0	0
Total Underwriting Deductions	\$0	\$15,148	(\$102,069)	\$121,888
Net Underwriting Gain or (Loss)	\$0	(\$15,148)	\$102,069	(\$121,888)
<u>INVESTMENT INCOME</u>				
Net Investment Income Earned	\$292,235	\$191,678	\$256,468	\$273,575
Net Realized Capital Gains or (Losses)	(900)	0	221	0
Net Investment Gain or (Loss)	\$291,335	\$191,678	\$256,689	\$273,575
<u>OTHER INCOME</u>				
Net Gain or (Loss) from Agents' Balances Charged Off	\$0	\$0	\$0	\$0
Finance and Service Charges not Included in Premium	0	0	0	0
Aggregate Write-Ins - Miscellaneous Income	0	0	0	0
Total Other Income	\$0	\$0	\$0	\$0
Net Income Before Dividends to Policyholders and before Federal & Foreign Income Taxes	\$291,335	\$176,530	\$358,759	\$151,687
Net Income Before Federal Income Taxes	\$291,335	\$176,530	\$358,759	\$151,687
Federal Income Taxes Incurred	(100,515)	49,789	86,449	27,019
Net Income	\$190,820	\$126,742	\$272,310	\$124,668

EXHIBIT C**CAPITAL AND SURPLUS ACCOUNT FOR THE
FOUR-YEAR PERIOD ENDING DECEMBER 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
NET INCOME	\$190,820	\$126,742	\$272,310	\$124,668
<u>OTHER SURPLUS GAINS OR (-) LOSSES</u>				
Change in Net Unrealized Capital Gains or (-) Losses	\$0	\$0	\$0	\$0
Change in Net Deferred Income Tax	(13,953)	(9,793)	(25,139)	380
Change in Non-admitted Assets	16,880	(16,880)	13,835	22,040
Change in provision for reinsurance	0	0	0	0
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Surplus Gains or (-) Losses	\$2,927	\$26,673	(\$38,974)	\$22,420
Change in Surplus as Regards to Policyholders for the Year	\$193,746	\$100,069	\$261,005	\$147,089
Surplus as Regards Policyholders December 31, Previous Year	<u>\$25,177,083</u>	<u>\$25,077,014</u>	<u>\$24,816,009</u>	<u>\$24,668,920</u>
Surplus as Regards Policyholders December 31, Current Year	<u>\$25,370,829</u>	<u>\$25,177,083</u>	<u>\$25,077,014</u>	<u>\$24,816,009</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: BONDS

The Company reported an admitted asset for bonds of \$24,707,164 at December 31, 2017. These amounts will be accepted as stated by this examination.

NOTE 2: LOSS AND LOSS ADJUSTMENT EXPENSES

At December 31, 2017, the Company reported a net liability for Losses and Loss Adjustment Expenses of \$0. The actuarial review of the Loss and Loss Adjustment Expenses Reserves was performed in conjunction with the coordinated exam.

NOTE 3: SURPLUS AS REGARDS POLICYHOLDERS

The Company reported surplus as regards to policyholders at December 31, 2017 of \$25,370,829 which consisted of common capital stock of \$4,200,000, gross paid in and contributed surplus of \$46,860,000 and unassigned funds of (\$25,689,171).

SUMMARY OF EXAMINATION RECOMMENDATIONS

The full scope coordinated multi-state risk focused examination of the Company yielded one reportable recommendation:

Page

Accounts and Records

- 16 The Company must comply with N.J.S.A. 17:23-23(b). “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”.

SUBSEQUENT EVENTS

Effective April 1, 2018, per the approved Form A exemption request, all outstanding shares of 21st Century Centennial Insurance Company are owned by Mid-Century Insurance Company. Mid-Century Insurance Company is owned by FIE (80%), Truck (10%) and Fire (10%). There were no other significant subsequent events noted.

CONCLUSION

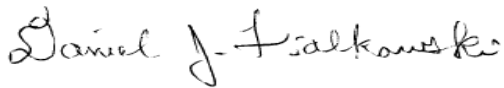
In addition to the undersigned, other representatives of RIS Delaware, appointed by the Commissioner to represent the State of New Jersey, participated in this examination. The courteous cooperation and assistance extended during the course of this examination by the Company are hereby acknowledged.

Respectfully submitted,

A handwritten signature in blue ink, reading "Albert M. Piccoli, Sr." in a cursive script.

Albert M. Piccoli, Sr., CFE
Examiner-in-Charge
Representing State of New Jersey

Under the supervision of:

A handwritten signature in black ink, reading "Daniel J. Fialkowski" in a cursive script.

Daniel Fialkowski, CFE, AIE, FLMI, CPM
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance

EXAMINER'S AFFIDAVIT

21st Century Auto Insurance Company of New Jersey

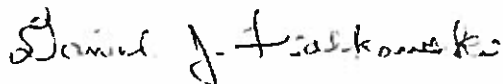
I, Albert M. Piccoli, Sr., do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2017 to the best of my information, knowledge and belief.

Respectfully submitted,



Albert M. Piccoli, Sr., CFE
Examiner-in-Charge
RIS Delaware
Representing the State of New Jersey

Under the supervision of:



Daniel Fialkowski, CFE, AIE, FLMI, CPM
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, on this 12th day of June 2019.



Notary Public

My commission expires: March 26, 2024