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Department of Insurance
State of Idaho

Attorneys for the Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:

FARMERS INSURANCE COMPANY
OF IDAHO

Certificate of Authority No. 901
NAIC No. 21601

Docket No. 18-3663-19

**ORDER ADOPTING REPORT
OF EXAMINATION AS OF
DECEMBER 31, 2017**

The State of Idaho, Department of Insurance ("Department"), having conducted an examination of the affairs, transactions, accounts, records, and assets of Farmers Insurance Company of Idaho ("Farmers"), pursuant to Idaho Code § 41-219(1), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Examination of Farmers Insurance Company of Idaho as of December 31, 2017 ("Report"), as filed.

FINDINGS OF FACT

1. Farmers is an Idaho-domiciled insurance company licensed to transact property

insurance; casualty insurance, including workers' compensation; disability insurance, excluding managed care; marine and transportation insurance; and surety insurance in Idaho under Certificate of Authority No. 901.

2. The Department completed an examination of Farmers pursuant to Idaho Code § 41-219(1) on or about May 21, 2019. The Department's findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on June 13, 2019, and a copy of such verified Report was transmitted to Farmers on the same date. A copy of the verified Report is attached hereto as Exhibit A.

4. On or about June 13, 2019, the Department received a Waiver signed by Victoria L. McCarthy, Vice President and Head of Regulatory Strategy and Analytics for Farmers. By execution of such Waiver, a copy of which is attached hereto as Exhibit B, Farmers consented to the immediate entry of a final order by the Director of the Department ("Director") adopting the Report without any modifications; waived its right to make a written submission or rebuttal to the Report; and waived its right to request a hearing and to seek reconsideration or appeal from the Director's final order.

CONCLUSIONS OF LAW

5. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections.

6. Having fully considered the Report, the Director concludes that Farmers meets the

minimum capital and deposit requirements set forth in Idaho Code §§ 41-313(1) and 41-316A.

7. The Director finds that the Report contains a clerical error at page 11 wherein it lists the name of an individual serving on the Farmers Exchange Audit Committee as “Gale A. Marlin” when the correct name is “Dale A. Marlin.”

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED, pursuant to Idaho Code § 41-227(5)(a), that the Report of Examination of Farmers Insurance Company of Idaho as of December 31, 2017 is hereby ADOPTED with one correction to page 11 of the Report to change the name “Gale A. Marlin” to “Dale A. Marlin.”

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in chapter 1, title 74, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty (30) days of the issuance of the adopted Report, Farmers shall file with the Department’s Deputy Chief Examiner affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report and related orders.

IT IS SO ORDERED.

DATED and EFFECTIVE this 14 day of June, 2019.

STATE OF IDAHO
DEPARTMENT OF INSURANCE



DEAN L. CAMERON
Director

NOTIFICATION OF RIGHTS

This Order constitutes a final order of the Director. Any party may file a motion for reconsideration of this final order within fourteen (14) days of the service date of this order. The Director will dispose of the petition for reconsideration within twenty-one (21) days of its receipt, or the petition will be considered denied by operation of law. *See*, Idaho Code § 67-5246(4).

Pursuant to Idaho Code §§ 67-5270 and 67-5272, any party aggrieved by this final order may appeal it by filing a petition for judicial review in the district court of the county in which: (1) the hearing was held; or (2) the final agency action was taken; or (3) the aggrieved party resides or operates its principal place of business in Idaho; or (4) the real property or personal property that was the subject of the agency decision is located. An appeal must be filed within twenty-eight (28) days of: (a) the service date of this final order; or (b) an order denying a petition for reconsideration; or (c) the failure within twenty-one (21) days to grant or deny a petition for reconsideration, whichever is later. *See*, Idaho Code § 67-5273. The filing of a petition for judicial review does not itself stay the effectiveness or enforcement of the order under appeal.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 14th day of June, 2019, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2017 to be served upon the following by the designated means:

Farmers Insurance Company of Idaho
2500 S. 5th Avenue
Pocatello, ID 83204-1923
kathy.ford@farmersinsurance.com

☐ first class mail
☒ certified mail
☐ hand delivery
☒ email

Farmers Insurance Company of Idaho
122 Vista Drive
Pocatello, ID 83201-5824

☒ first class mail
☐ certified mail
☐ hand delivery
☐ email

Nathan Faragher
Chief Examiner, Company Activities Bureau Chief
Idaho Department of Insurance
700 W. State Street, 3rd Floor
P.O. Box 83720
Boise, ID 83720-0043
nathan.faragher@doi.idaho.gov

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☐ certified mail
☐ hand delivery
☒ email

Hermoliva Abejar
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☐ first class mail
☐ certified mail
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☒ email



DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

FARMERS INSURANCE COMPANY OF IDAHO
(a Property & Casualty Insurer)

(NAIC Company Code: 21601)

As of

December 31, 2017



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June 13, 2019

The Honorable Dean L. Cameron
Director of Insurance
State of Idaho
700 West State Street
P.O. Box 83720
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Idaho Code § 41-219(1), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners ("NAIC"), we have conducted an examination as of December 31, 2017, of the financial condition and corporate affairs of:

Farmers Insurance Company of Idaho
122 Vista Drive
Pocatello, Idaho 83201

Hereinafter referred to as the "Company", at its offices in Pocatello, Idaho. The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered.

We have performed our full scope, risk-focused coordinated examination of the Company. The previous examination of the Company was completed as of December 31, 2013. This examination covers the period of January 1, 2014, through December 31, 2017.

This examination was a coordinated examination with California as the lead state of the Farmers Insurance Exchange subgroup of the Farmers Insurance Group. The states of Illinois and Washington participated on the examination and it was conducted concurrently with the examinations of the following insurance entities in the holding company group:

Group/Company	NAIC CoCode	Domiciled State
FARMERS INSURANCE EXCHANGE GROUP		
Farmers Insurance Company of Arizona	21598	AZ
Farmers Insurance Exchange (the Exchange)	21652	CA
Truck Insurance Exchange	21709	CA
Fire Insurance Exchange	21660	CA
Civic Property and Casualty Company	10315	CA
Neighborhood Spirit Property and Casualty Company	10317	CA
Exact Property and Casualty Company	10318	CA
Mid-Century Insurance Company	21687	CA
Farmers Insurance Company of Idaho	21601	ID
Farmers New Century Insurance Company	10806	IL
Illinois Farmers Insurance Company	21679	IL
Farmers Insurance Company Inc.	21628	KS
Farmers Insurance of Columbus, Inc.	36889	OH
Farmers Insurance Company of Oregon	21636	OR
Texas Farmers Insurance Company	21695	TX
Farmers Texas County Mutual Insurance Company	24392	TX
Mid Century Insurance Company of Texas	28673	TX
Farmers Insurance Company of Washington	21644	WA

Group/Company	NAIC CoCode	Domiciled State
COAST NATIONAL/BRISTOL WEST GROUP		
Coast National Insurance Company	25089	CA
Security National Insurance Company	33120	FL
Bristol West Preferred Insurance Company	12774	MI
Bristol West Casualty Insurance Company	11034	OH
Bristol West Insurance Company	19658	OH

Group/Company	NAIC CoCode	Domiciled State
FOREMOST GROUP		
Foremost Insurance Company Grand Rapids, Michigan	11185	MI
Foremost Property and Casualty Insurance Company	11800	MI
Foremost Signature Insurance Company	41513	MI
Farmers Specialty Insurance Company	43699	MI
Foremost County Mutual Insurance Company	29254	TX

Foremost Lloyds of Texas	41688	TX
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Group/Company	NAIC CoCode	Domiciled State
21ST CENTURY INSURANCE GROUP		
21st Century Casualty Company	36404	CA
21st Century Insurance Company	12963	CA
21st Century Superior Insurance Company	43761	CA
21st Century Pacific Insurance Company	23795	CO
21st Century Assurance Company	44245	DE
American Pacific Insurance Company, Inc.	10805	HI
Farmers Insurance Hawaii, Inc.	28487	HI
21st Century Advantage Insurance Company	25232	MN
21st Century Auto Insurance Company of New Jersey	10184	NJ
21st Century Pinnacle Insurance Company	10710	NJ
21st Century National Insurance Company (a)	36587	NY
21st Century North America Insurance Company	32220	NY
21st Century Centennial Insurance Company	34789	PA
21st Century Indemnity Insurance Company	43974	PA
21st Century Preferred Insurance Company	22225	PA
21st Century Premier Insurance Company	20796	PA
21st Century Security Insurance Company (b)	23833	PA
21st Century Insurance Company of the Southwest	10245	TX

(a) 21st Century National Insurance Company was sold to Plymouth Rock Assurance Corporation (Plymouth), effective April 1, 2018.

(b) 21st Century Security Insurance Company (Security) was sold to Plymouth, which assigned its right to acquire Security to High Point Preferred Insurance Company, effective July 23, 2018.

Group/Company	NAIC CoCode	Domiciled State
ZURICH GROUP		
Farmers Reinsurance Company	10873	CA

With the exception of the Farmers Reinsurance Company, which is part of the Zurich Group, all of the above companies are part of the Farmers Insurance Group of companies.

Examination Procedures Employed

The examination was conducted in accordance with the risk-focused examination process pursuant to the NAIC *Financial Condition Examiners Handbook* to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Idaho,

and insurance rules promulgated by the Idaho Department of Insurance ("Department"). The examination process required that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company, including management and governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, and management's compliance with all applicable provisions within Title 41 of the Idaho Code.

The Company retained the services of the certified public accounting firm, PricewaterhouseCoopers LLP, in Los Angeles, California, to audit its financial records for the years under examination. The firm provided the examiners access to requested workpapers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All accounts and activities of the Company were considered during the examination process in accordance with the risk-focused examination process. This included 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.

The examination determined the risks associated with identified key functional activities of the Company's operations and considered mitigating factors. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment.

This examination report includes findings of fact, as mentioned in Idaho Code § 41-227(2) and general information about the Company and its financial condition.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

Status of Prior Examination Findings

There were no exception conditions reported in the prior Report of Examination, dated December 31, 2013, which covered the period from January 1, 2010, to December 31, 2013.

SUMMARY OF SIGNIFICANT FINDINGS

The Company did not properly complete Schedule E – Part 3 – Special Deposits and General Interrogatory 25.2 in the 2017 Annual Statement in accordance with the instructions set forth in the NAIC Annual Statement Instructions in compliance with Idaho Code § 41-210(4) and SSAP

No. 4, Paragraph 6. See the *COMMENTS AND RECOMMENDATIONS* section of this Report for additional information.

Our examination did not disclose any material adverse findings or any adjustments that impacted the Company's reported capital and surplus.

SUBSEQUENT EVENTS

The Board of Directors adopted a resolution on June 6, 2018, to amend Section 11 of the Company's Bylaws to reduce the number of required directors to a range of not less than five nor more than nine. The change in number of directors is in compliance with Idaho Code § 41-2835. The Department approved the form and content of the Bylaws as of November 21, 2018.

On April 1, 2018, the Farmers Insurance Exchange, Fire Insurance Exchange and Truck Insurance Exchange contributed 100 percent of their ownership interest in the 21st Century subsidiaries to their subsidiary, Mid-Century Insurance Company. This non-cash transaction was accounted for as a reorganization and change in ownership interest in all of the 21st Century subsidiaries.

The restructuring transaction qualified for exemption to the Form A requirements under California Insurance Code Section 1215.2(g) and the exemption was granted by the California Department of Insurance on February 27, 2018.

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

<u>Purchased Entity</u>	<u>Transfer/Cost of Acquired Equity</u>
21st Century North America 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	771,815,822
Totals	<u>\$1,585,834,062</u>

In November 2018, the Camp and Woolsey wildfires in California had a major impact on Farmers Insurance Group. The Camp Fire was the deadliest and most destructive fire in California history. The gross loss for the Farmers Insurance Group from the Camp and Woolsey fires was \$2.1 billion and a net loss of \$324.8 million was recorded as of December 31, 2018. Under the Intercompany Reinsurance and Pooling Agreement, the Company's participation is 0.75 percent of the pooled losses. As such, the Company's share of the net loss was \$2.4 million.

The gross and net losses for all catastrophes in the 2018 calendar year (including the Camp and Woolsey fires) were \$3.3 billion and \$1.3 billion, respectively. Under the Intercompany Reinsurance and Pooling Agreement, the Company's participation is 0.75 percent of the pooled losses. As such, the Company's share of the Group's gross and net catastrophe losses was \$24.75 million and \$9.75 million, respectively.

COMPANY HISTORY

General

The Company was organized and incorporated as a stock casualty insurance company on October 29, 1969, under the laws of the State of Idaho. The Company commenced operations on December 31, 1969, conducting multi-line insurance business in Idaho.

The Company was licensed to write business in the State of Idaho. The classes of insurance authorized to be written were disability, property, marine & transportation, and casualty. Effective January 1, 2004, the Company was authorized to write Workers' Compensation business. The Company has accredited reinsurer status in the states of Oregon and California.

Effective January 1, 1999, the Company became a 0.75 percent participant in an Intercompany Reinsurance and Pooling Agreement with fourteen other affiliated members of Farmers Insurance Group. The intercompany reinsurance agreement and the reinsurance pool are described in more detail under the caption, *REINSURANCE*.

Dividends and Capital Contributions

As of the examination date, the Company had 15,040 authorized shares of common stock issued and outstanding with a par value of \$100 per share for a total capital stock of \$1,504,000. The Company's paid in and contributed surplus at December 31, 2017, was \$34,666,448.

The following exhibit reflects the activity in the capital structure of the Company since the previous examination through December 31, 2017:

<u>Year</u>	<u>Shares Issued /(Redeemed)</u>	<u>Common Capital Stock</u>	<u>Gross Paid In & Contributed Surplus</u>	<u>Total Capital & Paid In and Contributed</u>
2014	15,040	\$1,504,000	\$33,162,448	\$34,666,448
2015	15,040	1,504,000	33,162,448	34,666,448
2016	15,040	1,504,000	33,162,448	34,666,448
2017	15,040	1,504,000	33,162,448	34,666,448

Mergers and Acquisitions

There were no mergers and acquisitions during the examination period.

Surplus Debentures

The Company did not issue or own any surplus debentures during the examination period.

CORPORATE RECORDS

The meetings of the Board of Directors and shareholders were conducted on a quarterly and an annual basis, respectively, for all the years under examination.

Investment transactions were approved by the Board of Directors, as required by Idaho Code § 41-704.

The Board of Directors passed a resolution at the September 2, 2015 meeting indicating the Board reviewed and accepted the December 31, 2013 Report of Examination and related documents.

The Company's Articles of Incorporation were amended effective June 27, 2017, to change the location of its home office to 122 Vista Drive, Pocatello, Idaho. The amended Articles of Incorporation were adopted by the Board of Directors on June 7, 2017. The Certificate of Amendment by Stockholders of the Articles of Incorporation were submitted to the Department pursuant to Idaho Code § 41-2805. The form and content of said Articles of Incorporation were approved by the Department as of October 12, 2017.

MANAGEMENT AND CORPORATE GOVERNANCE

The Bylaws of the Company indicated the number of Directors shall be seven in number. The following persons served as Directors of the Company as of December 31, 2017:

<u>Name and Business Address</u>	<u>Principal Occupation</u>
Gisselle Marie Acevedo New Canaan, Connecticut	Child Therapist
Robert Douglas Boyd Pocatello, Idaho	Farmers Insurance Company of Idaho, Head of Territory
Jess Domingo Lete Meridian, Idaho	Farmers Insurance Company of Idaho, Area Sales Manager
James Anthony Ignozzitto Pocatello, Idaho	Farmers Insurance Company of Idaho, Head of Territory
Ronald Lee Marrone Pittsburg, Kansas	Co-Owner of Family Food Services Corporation

Donald Eugene Rodriguez
Long Beach, California

Boys and Girls Club Executive Director

Terry Wayne Tharp
Meridian, Idaho

Farmers Insurance Company of Idaho, Area Sales
Manager

Subsequent to the examination date, Frederick Henry Kruse was appointed June 6, 2018, to replace Gisselle Acevedo. William Steve McCarter was appointed June 26, 2018, to replace Terry Tharp. As previously reported, the Bylaws were amended in June 2018 to reduce the number of directors to not less than five nor more than nine. Effective September 18, 2018, James Ignozzitto is no longer on the Board because of this change. Stanley R. Smith was elected as a Director on September 18, 2018, but subsequently passed away.

The Company's Bylaws provide for principal officers to consist of a President, who shall also be a member of the Board of Directors, one or more Vice Presidents, a Treasurer, and a Secretary and such assistant treasurers and assistant secretaries or other officers as may be elected by the Board of Directors. The following persons served as officers of the Company as of December 31, 2017:

Richard Michael Shriver	President
Doren Eugene Hohl	Secretary
Ronald Gregory Myhan	Vice President & Treasurer
Maite Irakoze-Baur	Vice President
Keith George Daly	Vice President
Victoria Louise McCarthy	Vice President
James Leslie Nutting	Vice President & Actuary
Kirk Anthony Beatty	Assistant Secretary
Margaret S. Giles	Assistant Secretary
Brian H. Kruid	Assistant Secretary
J. Nichole Pryor	Assistant Secretary
James DeNicholas	Assistant Treasurer
Anthony J. Morris	Assistant Treasurer

Subsequent to the examination date, Keith Daly was appointed President on September 18, 2018, to replace Richard Shriver. Robert Paul Howard was appointed Vice President on June 11, 2018, to replace Keith Daly. Parul Sehgal and Lyndsay Spiking were elected as Assistant Secretaries on March 20, 2018.

Audit Committee

In 2009, the Boards of Governors of the Farmers Exchanges created an Exchange Audit Committee to serve as the independent audit committee of the Exchanges, the insurer subsidiaries of the Exchanges, and other related insurers. The following individuals serve on the Farmers Exchange Audit Committee as of December 31, 2017:

<u>Name</u>	<u>Exchange</u>	<u>Independent Status</u>
Guy Hanson, Chair	Fire Insurance Exchange Truck Insurance Exchange	Independent
Donald Jue	Farmers Insurance Exchange	Independent
Frederick Kruse	Farmers Insurance Exchange Fire Insurance Exchange	Independent
Dennis Lorch	Farmers Insurance Exchange Fire Insurance Exchange Truck Insurance Exchange	Independent
Gale A. Marlin	Fire Insurance Exchange	Independent
Gary Martin	Farmers Insurance Exchange Truck Insurance Exchange	Independent
Stanley Smith	Farmers Insurance Exchange Fire Insurance Exchange	Independent

The Company is owned by Farmers Insurance Exchange (80 percent), Fire Insurance Exchange (6.70 percent), and Truck Insurance Exchange (13.30 percent).

Farmers Insurance Exchange, a reciprocal insurer organized, under California Insurance Code Section 1300 et. seq. is provided non-claims services by its Attorney-In-Fact, Farmers Group, Inc., dba Farmers Underwriters Association. Farmers Group, Inc. is a U.S. subsidiary of Zurich Insurance Group, Ltd., a Swiss holding company.

Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange acquired the Foremost Insurance Group, headquartered in Grand Rapids, Michigan, in 2000. The Foremost Group of companies are now directly owned by the Farmers Exchanges (with Farmers Insurance Exchange having the majority ownership) and are now part of the Farmers Insurance Group.

In 2007, the Farmers Exchanges and Mid-Century Insurance Company acquired Bristol West Holdings, Inc. As a result, the Bristol West Group of companies are now indirectly owned by the Farmers Exchanges and Mid-Century Insurance Company (with the Farmers Exchanges currently having the majority ownership) and are now part of the Farmers Insurance Group.

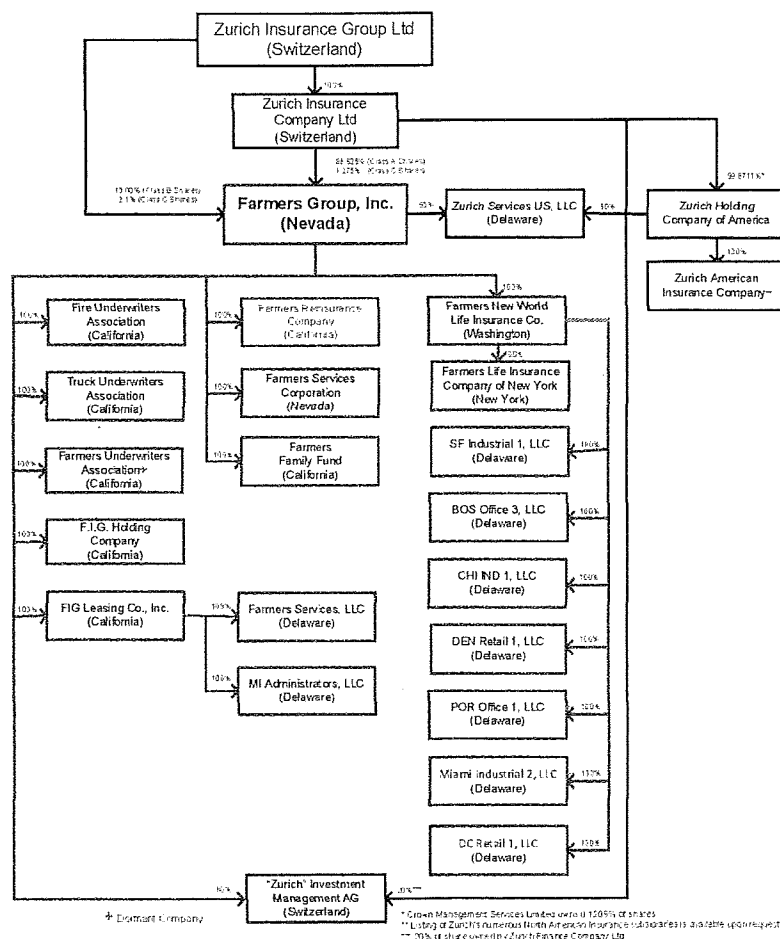
In 2008, the intermediate-level holding structure was reorganized. Farmers Group, Inc. became 87.9 percent owned by Zurich Insurance Company Ltd., 10.375 percent by Zurich Group Holdings, and 1.725 percent by three Partnerships (Zurich RegCaPs II, V, VI) each having Zurich Insurance Company Ltd. as the General Partner and Zurich Group Holdings as the Limited Partner. In 2009, another restructuring occurred, which resulted in Farmers Group, Inc. becoming directly owned 87.9 percent by Zurich Insurance Company Ltd., 10.375 percent by

Zurich Financial Services Ltd., and 1.725 percent by the three Partnerships (Zurich RegCaPs II, V, VI).

In 2009, the Farmers Exchanges acquired the 21st Century Group and its wholly-owned subsidiaries, thus making the 21st Century Group a part of the Farmers Insurance Group. Farmers Insurance Exchange currently has the majority ownership.

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

The following abridged organizational charts show the relationships of the Attorney-In-Fact, Farmers Group, Inc., to its ultimate parent Zurich Insurance Group, Ltd., and of the Farmers Exchanges to their subsidiaries and affiliates as of December 31, 2017:



FARMERS EXCHANGES ORGANIZATION

(NAIC GROUP CODE 0069)

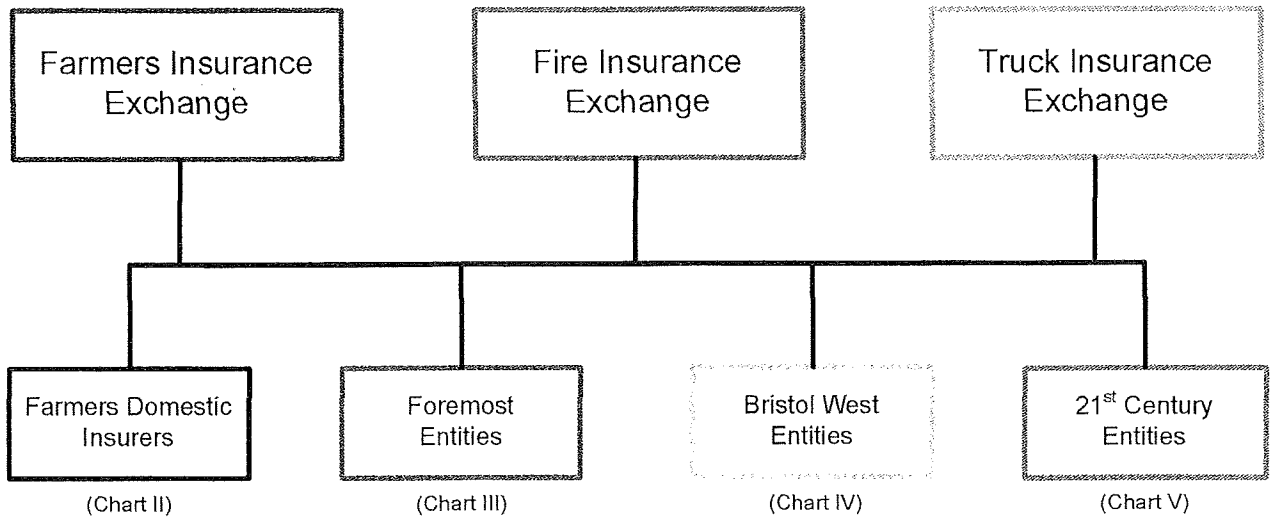


CHART II: EXCHANGES/FARMERS ENTITIES ORGANIZATION

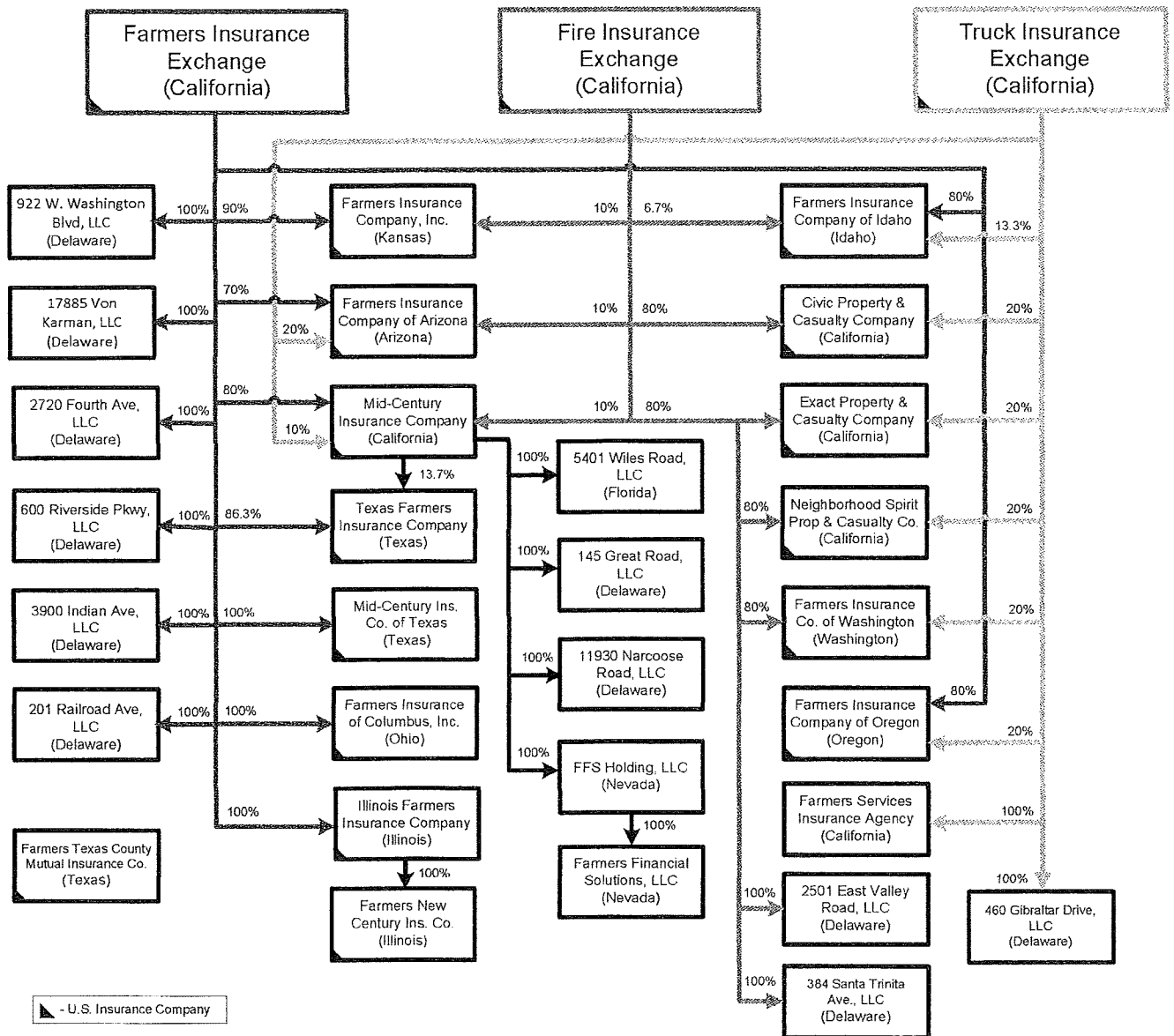


CHART III: EXCHANGES/FOREMOST ORGANIZATION

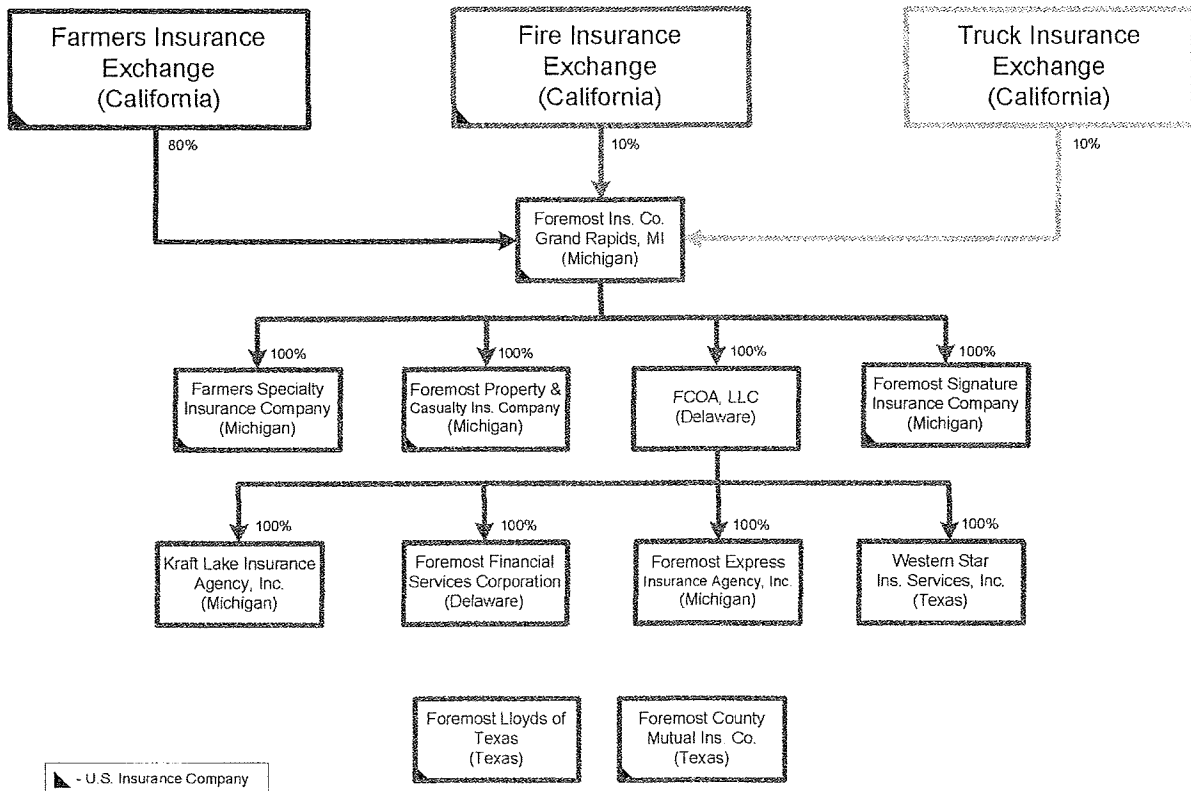


CHART IV: EXCHANGES/FOREMOST ORGANIZATION

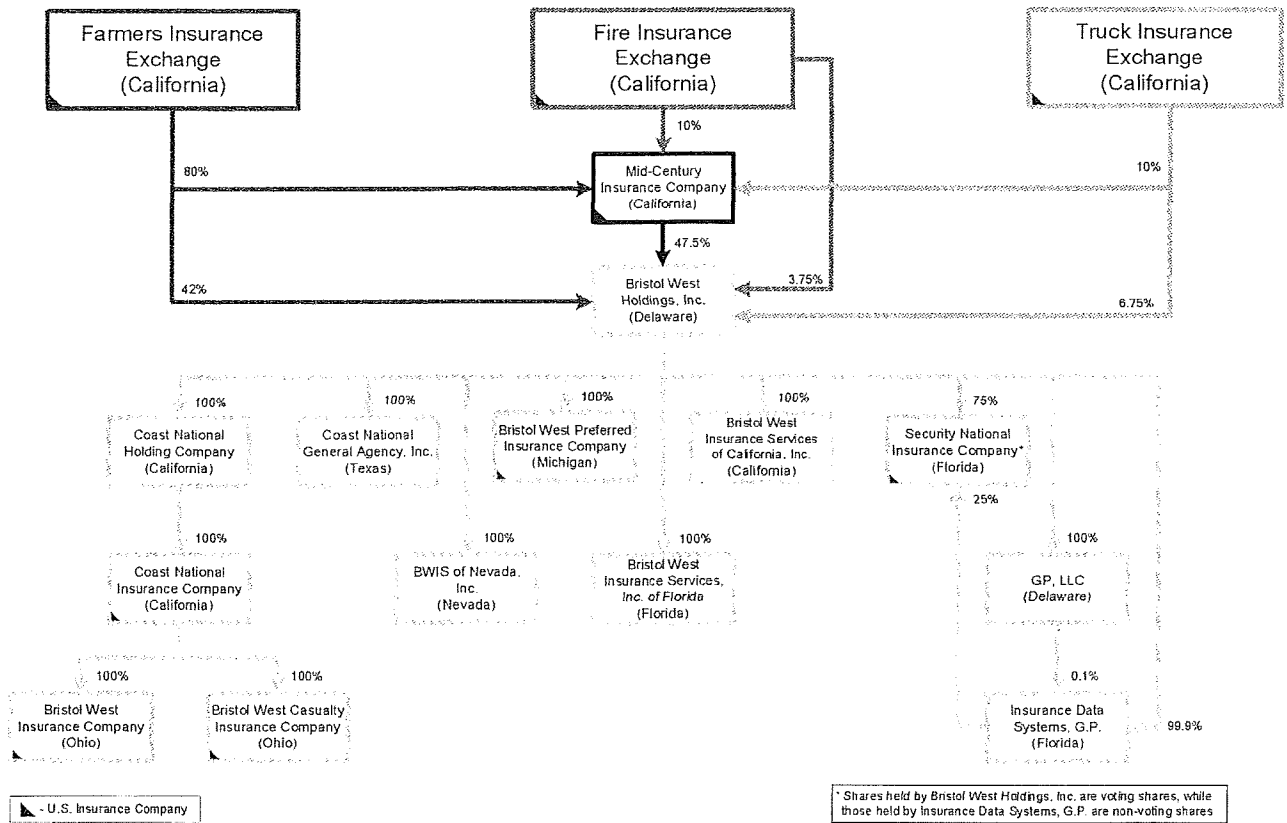
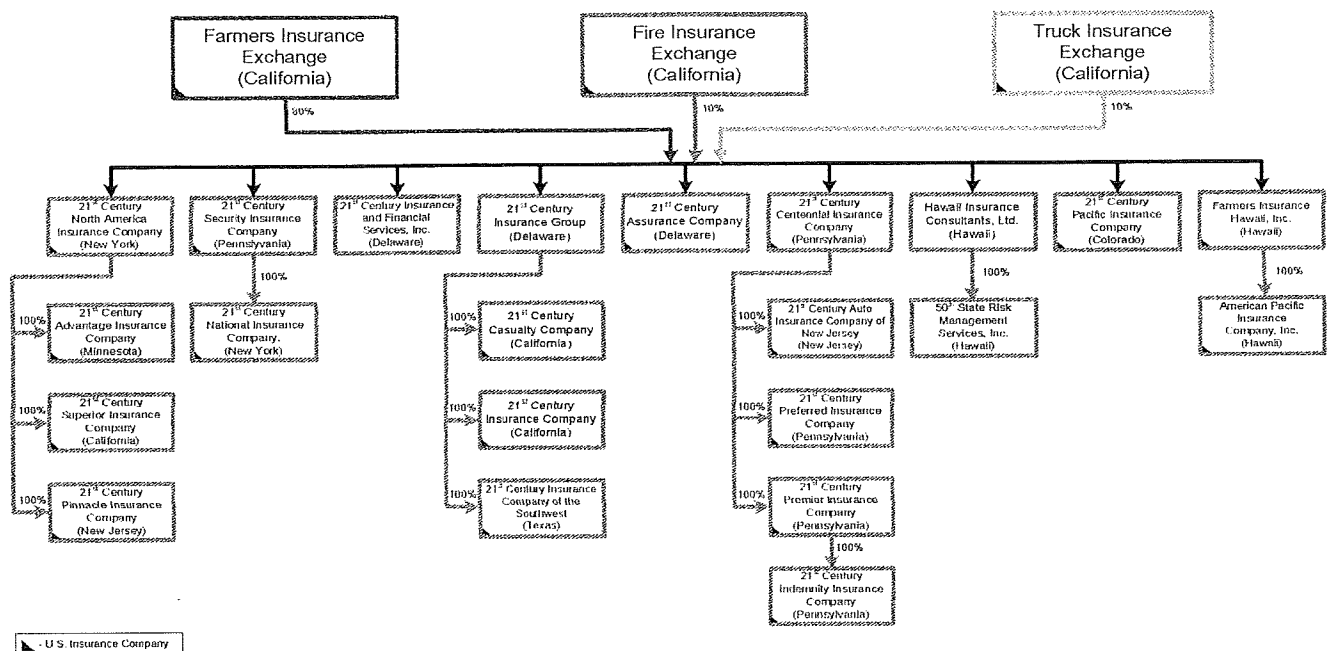


CHART V: EXCHANGES/21ST CENTURY ORGANIZATION



Contracts

Intercompany Service Agreements

Farmers Insurance Exchange and its subsidiaries entered into separate Service Agreements on July 1, 2015. In accordance with the terms of the agreements, Farmers Insurance Exchange provides various services which include policy and premium administration, agents and commissions, including claims adjustment services, accounting and financial reporting services, investment management services, and other administrative services. Farmers Insurance Exchange provides these services at cost which are allocated in accordance with the methods prescribed in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principle ("SSAP") No. 70. Allocations occur prior to the Intercompany Reinsurance and Pooling Agreement (see the *REINSURANCE* caption of this examination report).

The parties acknowledge that Farmers Insurance Exchange shall provide these services either directly or through its attorney-in-fact, agents, representatives or affiliates. However, the Exchange shall continue to be liable at all times. The parties to the Service Agreements are:

Bristol West Casualty Insurance Company
Bristol West Preferred Insurance Company
Coast National Insurance Company

Bristol West Insurance Company
Civic Property and Casualty Company
Exact Property and Casualty Company

Farmers Insurance Company of Arizona
Farmers Insurance Company of Idaho
Farmers Insurance Company of Washington
Farmers New World Life
Illinois Farmers Insurance Company
Mid-Century Insurance Company of Texas
Security National Insurance Company

Farmers Insurance Company of Columbus, Inc.
Farmers Insurance Company of Oregon
Farmers New Century Insurance Company
Foremost Insurance Company, Grand Rapids, Michigan
Mid-Century Insurance Company
Neighborhood Spirit Property and Casualty Company
Texas Farmers Insurance Company

These Service Agreements were approved by the California Department of Insurance on December 9, 2015.

Farmers Insurance Exchange charges a portion of the compensation it pays Farmers Group, Inc., to its subsidiaries based on each company's percentage participation in the Intercompany Reinsurance and Pooling Agreement.

For the years 2014, 2015, 2016, and 2017, the pooled share of the compensation paid by the Exchange and its subsidiaries to Farmers Group, Inc., for its services was as follows (including membership, installment, and policy fees):

Company	Compensation Paid to Farmers Group, Inc. (for Exchange Issued Policies)			
	2017	2016	2015	2014
Farmers Insurance Exchange	\$ 1,431,844,943	\$ 1,414,798,318	\$ 1,371,514,957	\$ 1,370,276,762
Truck Insurance Exchange	214,430,885	211,878,009	205,395,960	205,210,530
Fire Insurance Exchange	207,513,760	205,043,235	198,770,284	198,590,835
Mid-Century Insurance Company	442,696,021	437,425,567	424,043,272	423,660,448
Civic Property and Casualty Company	27,668,501	27,339,098	26,502,704	26,478,778
Exact Property and Casualty Company	27,668,501	27,339,098	26,502,704	26,478,778
Neighborhood Spirit Property and Casualty Company	27,668,501	27,339,098	26,502,704	26,478,778
Subtotals	\$ 2,379,491,112	\$ 2,351,162,423	\$ 2,279,232,585	\$ 2,277,174,909
All Other Subsidiaries	387,359,018	382,747,371	371,037,863	370,702,891
Totals - Compensation Paid	\$ 2,766,850,130	\$ 2,733,909,794	\$ 2,650,270,448	\$ 2,647,877,800
Totals - Membership, Installment, and Policy Fees Paid	\$ 94,726,319	\$ 104,002,073	\$ 104,490,270	\$ 101,774,982

The above amounts paid to Farmers Group, Inc., by Farmers Insurance Exchange and its subsidiaries, do not include the cost of claims adjustment services, nor do they include the payment of claims, commissions, and the payment of premium and income taxes, all of which are the responsibility of Farmers Insurance Exchange and its subsidiaries.

Tax Sharing Agreement

Effective September 1, 2013, the Company entered into a Tax Sharing Agreement with Farmers Insurance Exchange and various insurance and non-insurance affiliates and subsidiaries. Farmers Insurance 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 filing date of the consolidated return. The Agreement was approved by the California Department of Insurance on February 18, 2014.

Revolving Credit Facility Framework Agreement

Effective January 25, 2017, the Farmers Companies, which are all affiliate insurers within the Farmers Insurance Holding Company system, became signatories to a Revolving Credit Facility Framework 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 the cumulative aggregate three percent of a borrower's or lender's admitted assets. Loans may be collateralized with a pledge of securities at the 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 agreement will renegotiate its terms at least once every three years.

In a letter to the Company dated March 27, 2017, the Department indicated it did not object to the Form D filing. The agreement was non-disapproved by the California Department of Insurance on January 18, 2017.

The parties to the agreement are:

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

FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity coverage suggested by the NAIC for an insurer of the Company's size and premium volume is not less than \$1 million. As of December 31, 2017, the Company had sufficient fidelity bond coverage of \$10 million single loss and \$20 million aggregate.

The Company also carried business automobile liability, general liability, Directors and Officers liability, fiduciary liability, property and casualty, and Workers' Compensation and Employers Liability insurance.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Postretirement Benefits

The Company and certain members of Farmers provide certain postretirement benefits to retired employees. For retirees who retired before January 1, 2010, the Company's postretirement benefits plan provides a contributory defined dollar plan for the pre-65 benefit and Premium Reimbursement Account ("PRA") for post-65 benefit. Participants retiring on or after January 1, 2010, are eligible to participate in the Health Retirement Account ("HRA") and the PRA.

Under current plan provisions, health benefits are available for all employees who participated in the Company's group medical benefits plan immediately prior to retirement at age 55 or later with at least 5 years of service. The PRA is not available to those hired after December 31, 2010. Similar to pension obligations, the cost of such benefits is accrued over the service period of the employees based on the actuarially determined cost for the period. Employees who retired before January 1, 2010, are also eligible for a life insurance benefit. Obligations for the postretirement benefits plan are paid from Company assets. There are no assets separated and allocated to this plan.

Pension Plan

Farmers Insurance Exchange and certain members of Farmers participate in non-contributory defined pension plans (the qualified Employees' Pension Plan and the non-qualified Employee Benefits Restoration Plan ("EBRP"), all sponsored by Farmers Group, Inc. As a result, Farmers has no legal obligation for benefits under these Plans.

The Employees' Pension Plan covers substantially all employees of Farmers Group, Inc., Farmers Services, LLC, and the Farmers Exchanges. Prior to January 1, 2009, the plan provided defined benefits based on years of service and the employee's compensation during the last five years of employment. In April 2008, the plan was amended to include cash balance provisions for certain employees, whereas the benefits for the balance of employees was unchanged. The employees covered under the cash balance provisions are those who, as of December 31, 2008, are non-vested in their pension benefits, those who are under the age 40 with less than 10 years of service, and those employees hired on or after January 1, 2009. Farmers Group, Inc.

Employees' Pension Plan was amended on June 23, 2015, to provide a temporary distribution option for vested terminated participants who were already in pay status in the plan. Eligible participants were notified in July 2015 and were extended the option to receive his/her benefits in the form of a lump-sum payment, a single life annuity, a 50 percent qualified joint and survivor annuity or a 75 percent qualified joint and survivor annuity. Lump-sum payments were made as soon as reasonably practicable on or after October 1, 2015, to participants who elected the lump-sum payment under the Farmers Pension Plan Offer.

The Pension Plan was comprehensively amended and restated in November 2015. The restatement included additional plan distribution options for participants who experience a termination of employment on or after December 31, 2015. Such individuals may elect within 180 days of the participant's termination of employment or at any time after the participant's attaining his or her Early Retirement Date or Normal Retirement Date that elect to have his/her benefit paid in a single lump sum. Additionally, participants who experience a termination of employment on or after December 31, 2015, will have the opportunity to elect to have the actuarial equivalent of such participant's vested benefit at his/her Normal Retirement or Early Retirement Date, if greater, paid to him/her in the form of substantially equal installments over a 10-year certain term. On the making of such lump sum or final payment for the 10-year certain installments, neither the participant nor the participant's spouse or beneficiary shall have any further benefit under the Pension Plan.

The Pension Plan was amended on May 20, 2016, to provide a temporary early distribution option for vested terminated participants. Eligible participants were notified in June 2016 and were extended the option to receive his/her benefits in the form of a lump-sum payment, a single life annuity, a 50 percent qualified joint and survivor annuity or a 75 percent qualified joint and survivor annuity. Lump-sum payments were made starting on August 9, 2016, to participants who elected the lump-sum payment under the Farmers Pension Payment Offer.

The Pension Plan was amended on August 17, 2016, under which lump-sum payments may be made or the benefits liability may be increased. On October 20, 2016, Farmers Group, Inc. announced that all pension plan benefits will be frozen effective December 31, 2018. Participants will retain all accrued benefits, including any benefits accrued through December 31, 2018, and will earn only defined contribution retirement benefits starting January 1, 2019.

The Pension Plan was amended on November 29, 2016, to remove Farmers Services, LLC, as a participating employer of the Pension Plan effective January 1, 2017.

Farmers Group, Inc. Pension Plan and the EBRP were amended on October 6, 2016, to modify the provisions to provide for the cessation of benefit accruals in these Plans as of December 31, 2018. As part of this change, beginning January 1, 2019, Farmers will automatically contribute an additional 4 percent of eligible base pay to the employees' 401(k) Savings Plan regardless of the amount contributed by each employee to the 401(k). This new base contribution is in addition to the 6 percent company match now available.

Farmers Group, Inc.'s funding policy for the Employee's Pension Plan is to contribute an amount at least equal to the minimum required contribution under ERISA/PPA. Farmers Group, Inc.'s

policy is to allocate to the Farmers Exchanges their share of the plan cost. The Farmers Exchanges have regularly contributed to the pension plan for their share of the pension cost and the Company expects future contributions to fully satisfy the Farmers Exchanges' portion of the pension liability.

For the fiscal year 2017 plan year, the minimum required pension contribution for Farmers Group, Inc. did not exceed the full funding limitation under the Internal Revenue Code. As a result, for the year ended December 31, 2017, Farmers, Farmers Group, Inc., and its subsidiaries made total contributions to the Plans of \$225 million, of which \$108.4 million came from Farmers. The Company's share of the contributions made in 2018 to the Employees' Pension Plan are currently expected to be \$0.8 million.

Assets of the Employees' Pension Plan are held by an independent trustee primarily in fixed annuity and equity investments. The principal liability is for annuity benefit payments of current and future retirees. Assets of the EBRP are considered Farmers Group, Inc.'s corporate assets and are held in a grantor trust.

The EBRP provides supplemental retirement benefits for employees whose salary is in excess of the maximum recognizable pay under IRS Code § 401(a)(17) and the excess maximum benefit limitation under IRS Code § 145. The Company's share of the EBRP was \$3.1 thousand for the year ended December 31, 2017.

Short Term Incentive Program

Effective January 1, 2009, Farmers Insurance Exchange and certain of the Farmers P&C Companies, participate in a new Short Term Insurance Program (STIP) and a 401(k) Savings Plan approved by the Board of Governors. The STIP is a performance-based plan that provides employees an annual incentive pay based on the achievement of certain goals and individual employee performance. The Company's share of expense under this plan was \$0.81 million as of December 31, 2017.

401(k) Savings Plan

Effective January 1, 2009, Farmers Insurance Exchange and certain of the Farmers' Companies, participate in a 401(k) Savings Program. Contributions are made by eligible employees up to the yearly maximum amounts allowable as defined by the Internal Revenue Service. Farmers Insurance Exchange and the Farmers Companies match eligible employees' contributions up to 6.0% of earned base pay. All eligible employees are 100 percent vested in the 401(k) Savings Plan immediately. The Company's share of expense under this plan was \$0.3 million as of December 31, 2017.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company was licensed in Idaho and as an accredited reinsurer in the states of Oregon and California. The Company's key lines of business are property, marine & transportation, casualty, workers' compensation, and surety business.

Insurance products are marketed through an agency force of more than 48,000 agents, including nearly 13,000 exclusive agents supported by 15 territory offices, 5 service operation segments, and 11,000 claims employees.

GROWTH OF THE COMPANY

The following represents the Company's premium activity and its relationship to surplus over the period of our examination.

	2017	2016	2015	2014
Gross Written Premium	\$ 88,520,535	86,423,553	85,445,118	87,297,727
Reinsurance Assumed	\$106,385,547	110,713,775	111,980,209	105,467,226
Reinsurance Ceded	\$(88,520,535)	(86,423,553)	(85,445,118)	(87,297,727)
Net Premiums Written	\$106,385,547	110,713,775	111,980,209	105,467,226
Policyholder Surplus	\$ 70,435,827	71,603,653	72,265,034	70,086,026
Gross Written Premium to Policyholder Surplus Ratio	151.04%	154.62%	154.96%	150.48%

LOSS EXPERIENCE

The following represents the Company's loss experience and its relationship to net premium income over the period of our examination:

	2017	2016	2015	2014
Net Premium Earned	\$108,906,956	113,493,669	113,875,461	101,869,759
Claims Incurred	\$64,612,800	69,107,668	66,607,455	56,361,430
Claims Adjustment Expenses Incurred (AEI)	11,022,632	11,675,923	11,335,793	10,380,350
Total Claims and Claims AEI	\$75,635,432	80,783,591	77,943,248	66,741,780

Total Claims and Claims AEI
to Net Premium Earned Ratio
(Loss Ratio)

69.45%

71.18%

68.45%

65.52%

REINSURANCE

Intercompany Reinsurance and Pooling Agreement

The Company participates in an Intercompany Reinsurance and Pooling Agreement ("Pooling Agreement") under which the insurers listed below pool their risks and obtain a proportional share of profits and/or losses of the pooled business. The Pooling Agreement became effective on January 1, 1999. Under the Pooling Agreement, business is allocated among the pool participants as follows:

<u>Pool Participant</u>	<u>Percentage</u>
Farmers Insurance Exchange (Lead Insurer)	51.75
Mid-Century Insurance Company	16.00
Truck Insurance Exchange	7.75
Fire Insurance Exchange	7.50
Farmers Insurance Company of Oregon	7.00
Farmers Insurance Company of Washington	2.00
Civic Property and Casualty Company	1.00
Exact Property and Casualty Company	1.00
Neighborhood Spirit Property and Casualty Company	1.00
Texas Farmers Insurance Company	1.00
Farmers Insurance of Columbus, Inc.	1.00
Farmers Insurance Company, Inc.	0.75
Illinois Farmers Insurance Company	0.75
Farmers New Century Insurance Company	0.75
Farmers Insurance Company of Idaho	<u>0.75</u>
Total	<u>100.00</u>

The last amendment to this long-standing Pooling Agreement was approved by the California Department of Insurance on January 12, 1999.

Ceded - Affiliated

An auto physical damage quota share reinsurance agreement, which has been amended over the years, that covers automobile physical damage, was initially entered into on April 1, 2001, between Farmers Insurance Exchange, Farmers Reinsurance Company and Zurich Insurance Company Ltd.

Under this agreement, Farmers Insurance Exchange, on behalf of itself and its pooling participants, cedes up to \$1 billion per year of its automobile physical damage premiums. Through December 31, 2014, the subscribing reinsurers were Farmers Re, with a 10 percent quota share participation, Zurich Insurance Company Ltd., with an 80 percent quota share participation and Swiss Reinsurance Company Ltd., a third-party reinsurer, assuming the remaining 10 percent. Effective January 1, 2015, Farmers Re reduced its quota share participation to 7.14 percent, Zurich Insurance Company Ltd. reduced its participation to 64.29 percent, and Swiss Re increased its participation to 28.57 percent. The auto physical damage agreement was not renewed in 2016 and all recoveries and prior year's business in run-off were settled in 2017.

Farmers Insurance Exchange, on behalf of itself and its pooling participants, began participating in an All Lines Quota Share Reinsurance Agreement effective December 31, 2002, with Farmers Re and Zurich Insurance Company Ltd. This agreement, which has been amended over the years, covers all lines after the auto physical damage agreement has been applied.

The aggregate participation percentage was originally at 10 percent in 2002 and through amendments approved by the California Department of Insurance, the aggregate participation percentage and participants have varied over the years. The following are the amendments during the examination period:

Effective December 31, 2014, the aggregate participation percentage was decreased by 6 percent from 20 percent to 14 percent. Farmers Re reduced its participation to 1 percent and Zurich Insurance Company Ltd. to 9 percent. In addition to this change, Swiss Re replaced Swiss Reinsurance America Corporation with a participation percentage of 4 percent. The California Department of Insurance approved this amendment on March 26, 2015.

Effective December 31, 2015, the aggregate participation percentage was increased by 6 percent from 14 percent to 20 percent. Farmers Re was removed as a participant and Transatlantic Reinsurance Company and Ariel Re Bermuda Limited were added as participants at 4 percent and 1 percent, respectively. In addition, Zurich Insurance Company Ltd., and Swiss Re changed their participation to 8 percent and 7 percent, respectively. The California Department of Insurance approved this amendment on May 3, 2016.

Effective December 31, 2016, the participation percentage was increased by 4 percent from 20 percent to 24 percent. In addition, Hannover Rueck SE and Catlin Reinsurance Switzerland Limited were added as new participants at 2 percent each. The California Department of Insurance approved this amendment on September 26, 2017.

Effective December 31, 2017, the participation percentage was increased by 5 percent from 24 percent to 29 percent. In addition, Zurich Insurance Company Ltd was removed as a participant, and Farmers Re and Munich Reinsurance America, Inc., were added as 1 percent and 5 percent participants, respectively. In addition, Hannover Re and Catlin Re increased their participation to 7 percent and 4 percent, respectively. The California Department of Insurance approved this amendment on March 19, 2018.

Effective December 31, 2018, Trans Re decreased its participation percentage from 4 percent to 3.5 percent, and Catlin Re increased its participation percentages from 4 percent to 4.5 percent. The overall participation remains at 29 percent with all other participating reinsurers' percentages remaining the same. The California Department of Insurance approval of this amendment is still pending.

There are also a series of 100 percent Equipment Breakdown Quota Share Reinsurance Agreements effective November 1, 2000, under which Zurich American Insurance Company reinsures Farmers Insurance Exchange and certain of its affiliates for specified industry programs.

Ceded - Non-affiliated

Catastrophe Reinsurance

On a catastrophe per occurrence excess of loss basis, Farmers Insurance Exchange retains the first \$200 million of loss after satisfying a \$100 million annual aggregate deductible. Coverage is in place up to \$2.5 billion in all states. The residential book in Florida has additional coverage purchased from the Florida Hurricane Catastrophe Fund currently estimated as \$133 million, excess of an \$8 million retention.

On a catastrophe aggregate basis, Farmers Insurance Exchange has \$700 million of coverage split into two \$350 million limits that attach at \$1.3 billion and \$1.85 billion retentions, net of the catastrophe per occurrence excess of loss reinsurance and a per-event deductible that is either \$1 million or \$5 million, depending on whether the event is recognized by Property Claims Service.

The following is a summary of the in-force catastrophe treaties ceding risks to non-affiliated reinsurers that were written with Farmers Insurance Exchange and all of its subsidiaries and affiliates (excluding Farmers Reinsurance Company) as the cedents as of December 31, 2017:

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Underlying Property Catastrophe Excess of Loss	Renaissance Reinsurance Limited (20.47%) Lloyd's Underwriters (17.13%) Various Reinsurers (54.90%)	\$200 million per occurrence	92.50% of \$200 million excess of \$200 million excess of \$100 million annual aggregate deductible (AAD) retention per occurrence, subject to a maximum aggregate recovery of \$600 million during the term of the contract; Coverage for property located in all states

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Property Catastrophe Second Excess of Loss	Lloyd's Underwriters (20.49%) Aspen Bermuda Limited (10.00%) Various Reinsurers (59.51%)	\$400 million per occurrence	Coverage A: 90.0% of \$600 million excess of \$400 million per occurrence; Coverage B: 90.0% of \$600 million excess of \$200 million excess of \$700 million on \$200 million excess of \$100 million retention per occurrence, subject to a maximum aggregate recovery of \$1.2 billion during the term of the contract
Property Catastrophe Third Excess of Loss	Lloyd's Underwriters (23.62%) Everest Reinsurance Company (9.00%) Various Reinsurers (61.38%)	\$1 billion per occurrence	Coverage A: 94.0% of \$500 million excess of \$1 billion per occurrence; Coverage B: 94.0% of \$500 million excess of \$1.2 billion on \$600 million excess of \$400 million-layer, excess of \$700 million on \$200 million excess of \$200 million excess of \$100 million retention per occurrence, subject to a maximum aggregate recovery of \$1 billion during the term of the contract
Property Catastrophe Fourth Excess of Loss	Lloyd's Underwriters (8.95%) Swiss Reinsurance America Corporation (7.50%) Various Reinsurers (77.30%)	\$1.5 billion per occurrence	93.75% of \$250 million excess of \$1.5 billion retention per occurrence, subject to a maximum aggregate recovery of \$500 million during the term of the contract
Property	Lloyd's Underwriters	\$1.75 billion per	Coverage A: 46.25% of

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Catastrophe Fifth Excess of Loss	(9.60%) Everest Reinsurance Company (5.00%) Various Reinsurers (31.65%)	occurrence	\$250 million excess of \$1.75 billion per occurrence; Coverage B: 46.25% of \$250 million excess of \$1 billion on \$500 million excess of \$1.5 billion layer, excess of \$1 billion on \$500 million excess of \$1 billion layer, excess of \$1.2 billion on \$600 million excess of \$400 million layer, excess of \$700 million on \$200 million excess of \$200 million excess of \$100 million, subject to a maximum aggregate recovery of \$500 million during the term of the contract
Property Catastrophe Sixth Excess of Loss	Fidelis Insurance Bermuda Limited (34.33%) Lancashire Insurance Company (U.K) Limited (18.67%) Various Reinsurers (39.50%)	\$2 billion per occurrence	92.50% of \$150 million excess of \$2 billion retention per occurrence, subject to a maximum aggregate recovery of \$300 million during the term of the contract
Property Catastrophe Aggregate Excess of Loss	Lloyd's Underwriters (16.57%) Everest Reinsurance Company (8.57%) Various Reinsurers (67.36%)	\$2 billion per occurrence	92.50% of \$350 million excess of \$2.15 billion, subject to a maximum aggregate recovery of \$700 million during the term of the contract

As noted under the Surplus Loan Note Facility caption in this examination report, Farmers Insurance Exchange has an additional \$500 million of capital available to cover catastrophic losses. The catastrophic losses/events include (1) weather-related losses to insured properties located in any of the contiguous 48 states and the District of Columbia or (2) wild fire and/or

fires following an earthquake, but only for losses to insured properties located in California. The current attachment point for this additional facility is \$2.5 billion. Farmers Insurance Exchange has not borrowed against the current or prior lines of credit on this facility.

For 2017 calendar year catastrophe losses, the total gross and net losses for the Farmers Insurance Group were \$3.1 billion and \$1.4 billion, respectively. Under the Intercompany Reinsurance and Pooling Agreement, the Company's participation is 0.75 percent of the pooled losses. As such, the Company's share of the Group's net catastrophe losses for 2017 was \$10.5 million.

Other Reinsurance

Other reinsurance treaties ceding risks to non-affiliated reinsurers were written with Farmers Insurance Exchange and all of its subsidiaries and affiliates as the cedents. The following is a summary of the principal non-affiliated ceded reinsurance treaties in-force as of December 31, 2017:

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Multiple Lines Excess of Loss (Property, Commercial Liability, and Workers' Compensation)	Layer 1: Lloyd's Underwriters (60.50%) Hannover Ruck SE (12.00%) Various Reinsurers (27.50%)	Layer 1: \$7.5 million per occurrence	Layer 1: 100% of \$17.5 million excess of \$7.5 million, subject to \$17.5 million in occurrence limit and terrorism sub-limit, and \$87.5 million annual treaty aggregate
	Layer 2: Lloyd's Underwriters (65.75%) Hannover Ruck SE (10.00%) Various Reinsurers (14.25%)	Layer 2: \$25 million per occurrence	Layer 2: 90% of \$25 million excess of \$25 million, subject to \$25 million in occurrence limit and terrorism sub-limit, and \$75 million annual treaty aggregate
	Layer 3: Lloyd's Underwriters (69.50%) Hannover Ruck SE (10.00%) Various Reinsurers (10.50%)	Layer 3: \$50 million per occurrence	Layer 3: 90% of \$50 million excess of \$50 million, subject to \$50 million in occurrence limit and terrorism sub-limit, and \$100 million annual treaty aggregate
	Safety National Casualty Corporation (90.00%)	Workers' Compensation per person \$7.5 million per occurrence	Workers' Compensation Per Person: 90% of \$17.5 million excess of \$7.5 million, subject to \$35 million annual treaty aggregate
Equipment	Factory Mutual Insurance	\$0	100% quota share up to \$100

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Breakdown Coverage 100% Quota Share	Company (100%)		million
Commercial Independent Agency Quota Share	Hannover Ruck SE (100%)	Variable quota share, net of All Lines Quota Share Treaty	Variable quota share, net of All Lines Quota Share Treaty
Cyber Liability Insurance Quota Share	Lloyd's Underwriters Syndicate No. 2623 (82.0%)	Underwriting Year 1: 35% quota share	Underwriting Year 1: 65% quota share
	Lloyd's Underwriters Syndicate No. 0623 (18.0%)	Underwriting Year 2: 40% quota share	Underwriting Year 2: 60% quota share
		Underwriting Year 3: 50% quota share	Underwriting Year 3: 50% quota share
General Liability and Liquor Liability Excess of Loss	General Reinsurance Corporation (100%)	\$500,000 per occurrence	100% of \$1.5 million excess of \$500 million retention per occurrence, subject to a maximum aggregate recovery of \$6 million during the term of the contract
Commercial Automobile Underlying Excess of Loss	Lloyd's Underwriters (86.25%) Aspen Insurance UK Limited (8.00%) Various Reinsurers (5.75%)	\$1 million per policy	100% of \$6.5 million excess of \$1 million retention per policy, subject to a maximum aggregate recovery of \$19.5 million for all events discovered during the term of the contract; and a maximum aggregate recovery of \$13 million for all events discovered during the extended discovery period

Effective July 1, 2016, Farmers Insurance Exchange and certain Farmers companies entered into a quota share reinsurance agreement with Hannover Ruck SE, a third-party reinsurer domiciled in Switzerland. This agreement provided for a cession of the quota share of the premiums written and the ultimate net losses sustained in all of the commercial independent agency block of business written by Farmers P&C Companies after the all lines quota share reinsurance agreement has been applied. This agreement was terminated effective January 1, 2018, on a cut-off basis. Upon termination of the agreement, unearned premiums totaling \$70.1 million were

transferred by Hannover Re to Farmers Insurance Exchange. In addition, Farmers Insurance Exchange remitted \$34.4 million of reinsurance commissions to Hannover Re, for acquisition expenses due to the cancellation of this agreement.

New Reinsurance Agreements in 2018

On January 1, 2018, Farmers Insurance Exchange and certain Farmers insurance companies entered into a two-year personal umbrella quota share and excess of loss reinsurance agreement with various third-party reinsurers in which General Reinsurance Corporation is the lead reinsurer. The other subscribing reinsurers are Hannover Re, Swiss America Reinsurance Corporation, and Everest Reinsurance Bermuda Limited, each with varying participating percentages. Under this agreement, Farmers Insurance Exchange cedes 100 percent of its personal umbrella exposure above \$500,000 for each and every loss, with all losses in excess of \$500,000 fully reinsured up to \$21 million. In addition, the agreement provides for the cession of 75 percent of all losses within the first \$500,000 and below.

ACCOUNTS AND RECORDS

The annual independent audits of the Company for the years 2014 through 2017 were performed by PricewaterhouseCoopers LLP, in Los Angeles, California. Their audit reports were made available for the examination.

Document and information requests for the examination of the Company were made in writing. The Company provided the requested documentation and information in a timely manner.

California Insurance Code (CIC) Section 734 requires that every company or person from whom information is sought, and its officers, directors, employees, and agents, shall provide to the examiners appointed pursuant to this article, timely, convenient, and free access at all reasonable hours at its offices to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the company being examined. During the course of this examination, the California examiners were not provided full access to all of the information requested from the Company. It is recommended that the Company adhere to CIC Section 734 by providing full access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined and implement procedures to ensure future compliance with CIC Section 734.

STATUTORY DEPOSITS

As of December 31, 2017, the examination confirmed with the Idaho Department of Insurance that the Company had made provision for the following deposit to be held in trust for the protection of all policyholders and/or creditors through said office of the Director of Insurance, State of Idaho, in compliance with Idaho Code §§ 41-316A, 41-803, and 41-804.

<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
<i>Protection of All Policyholders and/or Creditors:</i>			
US Treasury Note 8/15/20, 2.625, CUSIP 912828NT3	\$1,000,000	\$1,017,343	\$1,000,789
<i>Workers' Compensation:</i>			
US Treasury Note 8/15/20, 2.625, CUSIP 912828NT3	<u>250,000</u>	<u>254,336</u>	<u>250,197</u>
Total	<u>\$1,250,000</u>	<u>\$1,271,679</u>	<u>\$1,250,986</u>

The Company did not properly complete Schedule E – Part 3 – Special Deposits and General Interrogatory 25.2 in the 2017 Annual Statement. See *COMMENTS AND RECOMMENDATIONS* for additional information.

FINANCIAL STATEMENTS

Balance Sheet as of December 31, 2017

Statement of Income, for the Year Ending December 31, 2017

Reconciliation of Surplus, December 31, 2014, through December 31, 2017

Analysis of Changes in Financial Statements Resulting From Examination

Balance Sheet
As of December 31, 2017

ASSETS

Bonds	\$159,765,814
Cash (\$2,056,685), cash equivalents (\$0) and short-term investments (\$0)	<u>2,056,685</u>
Total Invested Assets	\$161,822,499
Investment income due and accrued	\$ 739,350
Uncollected premiums and agents' balances in the course of collection	1,249,460
Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$106,529) earned but unbilled premiums)	17,152,014
Accrued retrospective premiums	8,250
Amounts receivable from reinsurers	4,483,696
Net deferred tax asset	2,732,666
*Aggregate write-ins for other-than-invested assets	<u>433,528</u>
Total Assets	<u><u>\$188,621,463</u></u>

*Business-owned life insurance - cash value: \$433,528.

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LIABILITIES, SURPLUS AND OTHER FUNDS

Losses (Note 1)	\$ 49,483,318
Reinsurance payable on paid losses and loss adjustment expenses	6,852,466
Loss adjustment expenses (Note 1)	13,359,947
Other expenses	130,613
Taxes, licenses and fees	101,240
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$27,725,801)	41,379,891
Advance premium	1,068,614
Ceded reinsurance premiums payable	4,791,145
Payable to parent, subsidiaries and affiliates	115,448
**Aggregate write-ins for liabilities	902,954
Rounding	(1)
Total Liabilities	\$118,185,635
Common capital stock	\$ 1,504,000
Gross paid in and contributed surplus	33,162,448
Unassigned funds (surplus)	35,769,379
Rounding	1
Surplus as regards policyholders	\$ 70,435,827
Total Liabilities and Surplus	\$188,621,463

**Deferred agent/DM compensation liability: \$485,476; Accounts payable: \$397,719; Pooled share of unauthorized reinsurance: \$18,497, and Deferred agent/DM bonus liability: \$1,262.

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Statement of Income
As of December 31, 2017

Premiums earned		\$108,906,956
Total Income		\$108,906,956
Losses incurred	\$64,612,800	
Loss adjustment expenses incurred	11,022,632	
Other underwriting expenses incurred	35,900,414	
***Aggregate write-ins for underwriting deductions	(14,543)	
Total underwriting deductions		111,521,303
Net underwriting gain (loss)		\$(2,614,347)
Net investment income earned	\$ 2,513,981	
Net realized capital gains	14,945	
Net investment gains (losses)	\$ 2,528,926	
Net gain (loss) from agents' or premium balances charged off		\$ (650,700)
Finance and service charges not included in premium		1,565,823
****Aggregate write-ins for miscellaneous income		(77,689)
Total other income		\$ 837,434
Net income (loss) before dividends to policyholders, after capital gains tax and before all other federal income taxes		\$ 752,013
Dividends to policyholders	\$ 5,043	
Rounding		(1)
Net income (loss) after dividends to policyholders, after capital gains tax and before all other federal income taxes		\$ 746,969
Federal and foreign income taxes incurred	\$ (104,666)	
Rounding		(1)
Net Income (Loss)		<u>\$ 851,636</u>

***Pooled share of LAD program income: \$(14,543).

****Miscellaneous (expense/income): \$(73,957) and Premiums for business-owned life insurance: \$(3,732).

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Reconciliation of Surplus
December 31, 2014, through December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Surplus prior reporting year	\$71,603,653	\$72,265,034	\$70,086,026	\$68,328,527
Net income or (loss)	851,636	(342,765)	2,226,383	1,561,159
Change in net unrealized capital gains (losses)	(1,886)	2,003	(583)	1,665
Change in net deferred income tax	(2,198,415)	(176,835)	(169,103)	1,589
Change in nonadmitted assets	176,764	(105,765)	126,750	162,407
Cumulative effect of changes in accounting principles	0	(57,716)	0	0
*****Aggregate write-ins	4,076	19,697	(4,439)	30,679
Rounding	(1)	0	0	0
Net change in surplus	<u>\$(1,167,826)</u>	<u>\$ (661,381)</u>	<u>\$ 2,179,008</u>	<u>\$ 1,757,499</u>
Surplus end of reporting period	<u>\$70,435,827</u>	<u>\$71,603,653</u>	<u>\$72,265,034</u>	<u>\$70,086,026</u>

*****Pooled share of unauthorized reinsurance: \$4,076, \$19,697, \$(4,439), and \$30,679.

Analysis of Changes in Financial Statements Resulting From Examination

There were no adjustments made to surplus in the Report of Examination.

NOTES TO FINANCIAL STATEMENTS

Note (1)	Losses	\$49,483,318
	Loss adjustment expenses	13,359,947

Giovanni Muzzarelli, FCAS, CERA, MAAA, Senior Casualty Actuary of the California Department of Insurance, performed the actuarial review of Farmers Insurance Exchange. He reviewed the actuarial report and concluded that the net loss and loss adjustment expense reserves for the Company were reasonably stated as of December 31, 2017.

COMMENTS AND RECOMMENDATIONS

The Company did not properly complete Schedule E – Part 3 – Special Deposits and General Interrogatory 25.2 in the 2017 Annual Statement in accordance with the instructions set forth in

the NAIC Annual Statement Instructions in compliance with Idaho Code § 41-210(4) and SSAP No. 4, Paragraph 6.

Idaho Code § 41-210(4) states that for any document required to be filed with the Director or the Department of Insurance, the Director may specify the place and manner of filing the document. The Director issues a Bulletin, annually, to adopt the use of the revised Accounting Practices and Procedures Manual of the NAIC ("SSAP").

According to SSAP No. 4, Paragraph 6, assets that are restricted shall be identified in the investment schedules pursuant to the codes in the NAIC Annual Statement Instructions, disclosed in accordance with SSAP No. 1, reported in the general interrogatories and included in any other statutory schedules or disclosure requirements.

Based on the examination's finding, the Company is not in compliance with Idaho Code § 41-210(4), SSAP No. 4, Paragraph 6 and the NAIC Annual Statement Instructions.

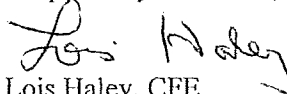
Therefore, it is recommended that the Company properly complete Schedule E – Part 3 – Special Deposits and General Interrogatory 25.2 in accordance with the instructions set forth in the NAIC Annual Statement Instructions in compliance with Idaho Code § 41-210(4) and SSAP No. 4, Paragraph 6. It was noted that the Company properly completed Schedule E in the 2018 Annual Statement.

Our examination did not disclose any other material adverse findings or any adjustments that impacted the Company's reported surplus as regards to policyholders.

ACKNOWLEDGEMENT

Jessie Adamson assisted in the examination of the Company. Hermoliva Abejar, CFE, Deputy Chief Examiner, of the Idaho Department of Insurance, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

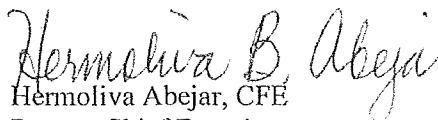
Respectfully submitted,



Lois Haley, CFE

Examiner-in-Charge

Representing the Idaho Department of Insurance



Hermoliva Abejar, CFE

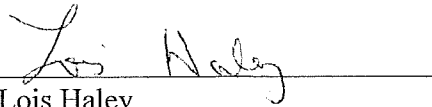
Deputy Chief Examiner

Idaho Department of Insurance

AFFIDAVIT OF EXAMINER

State: Oregon
County: Multnomah

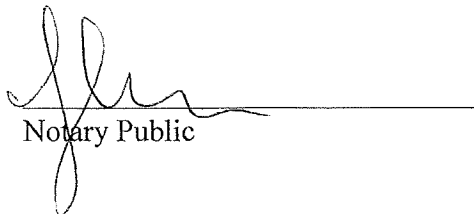
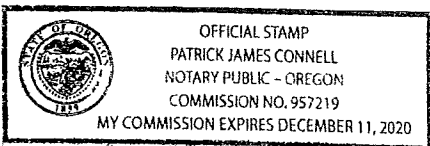
Lois Haley being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of Farmers Insurance Company of Idaho for the period from January 1, 2014 through December 31, 2017, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.



Lois Haley

On behalf of Idaho Department of Insurance

Subscribed and sworn to before me the 13th day of June, 2019, at Portland, Oregon


Notary Public

My Commission Expires: 12/11/2020

BRAD LITTLE
Governor

State of Idaho
DEPARTMENT OF INSURANCE

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

DEAN L. CAMERON
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2017, of the:

FARMERS INSURANCE COMPANY OF IDAHO
122 Vista Drive
Pocatello, Idaho 83201

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 13th day of June 2019, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 13 day of JUNE, 2019

FARMERS INSURANCE COMPANY OF IDAHO

Victoria L. McElanthy

Name (print)

Victoria L. McElanthy

Name (signature)

Vice President + Head of Regulatory
Title
Strategy + Analytics

