

Report of Examination of

Bristol West Insurance Company
Independence, Ohio

As of December 31, 2013

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Columbus, Ohio
May 22, 2015

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Bristol West Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2009. The Department’s current examination covers the period of January 1, 2010 through December 31, 2013.

Representatives of the California Department of Insurance, as the Coordinating State regulator of Farmers Insurance Exchange and its affiliated property and casualty insurers, led the multi-state coordinated examination. The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and corporate governance, identify and assess current and prospective risks, and evaluate the Company’s system of controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management as well as evaluating the overall financial statement presentation, management’s compliance with Statements of Statutory Accounting Principles (“SSAPs”) and annual statement instructions when applicable to domestic state regulations.

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

For each year under examination, the certified public accounting firm of PriceWaterhouseCoopers, LLP provided an unqualified opinion on the combined statutory financial statements of Farmers Insurance Exchange and its affiliated property and casualty insurers. The independent auditors’ reports and supporting work papers were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
Kenneth W. Bentley	Vice President, Community Affairs and Education, Nestle' USA, Inc.
Peter D. Kaplan	Retired
David W. Louie	First Vice President, CB Richard Ellis, Inc.
Timothy M. Madden	President, Bristol West Insurance Group
Dale Anne Marlin	Retired
Ronald G. Myhan	Chief Financial Officer, Farmers Insurance Exchange
Donald E. Rodriguez	Executive Director, Boys and Girls Club of Long Beach, CA
John T. Wuo	President, Golden Apple Group International, Inc.

Officers

As of the examination date, the following officers were serving in the designated position:

Name	Title
Timothy M. Madden	President
Maria E. Aguilera	Vice President and Treasurer
Ronald G. Myhan	Vice President
Jeffrey M. Sauls	Vice President
Karyn L. Williams	Vice President
Todd M. Williams	Vice President
Eric E. Kappler	Assistant Vice President
James L. Nutting	Actuary
Martin R. Brown	Secretary

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is an indirect wholly owned subsidiary of Bristol West Holdings, Inc., which is an indirect wholly owned subsidiary of Farmers Insurance Exchange, Fire Insurance Exchange and Truck Insurance Exchange. Farmers Insurance Exchange is an inter-insurance exchange owned by its policyholders and organized under the laws of the State of California. Through its 80% direct and indirect stock ownership interest in the Company, Farmers Insurance Exchange is an Ultimate Controlling Person.

Farmers Group, Inc. (“FGI”) is a Nevada corporation and the attorney-in fact for Farmers Insurance Exchange. FGI provides certain non-claims administrative services for Farmers Insurance Exchange pursuant to a power of attorney provided by Farmers Insurance Exchange policyholders, and therefore, FGI is also considered an Ultimate Controlling Person.

FGI is an indirect wholly owned subsidiary of Zurich Insurance Group Ltd. (“Zurich”), a Swiss company. Neither FGI nor Zurich holds any ownership interest in Farmers Insurance Exchange, and Farmers Insurance Exchange does not hold any ownership interest in FGI or Zurich. Farmers Insurance Exchange and FGI are separate and distinct Ultimate Controlling Persons.

Territory and Plan of Operations

The Company markets non-standard private passenger automobile liability and auto physical damage policies through an exclusive agency force and independent agents. The Company is licensed to operate in thirty-eight states and the District of Columbia. During 2013, the largest states in terms of direct premium written were as follows: Colorado, \$37.2 million (18.6%); Pennsylvania, \$18.1 million (9.0%); Indiana, \$15.4 million (7.7%); and Illinois, \$14.8 million (7.4%).

The following schedule illustrates the Company’s direct premium written in 2013 by line of business:

Line of Business	Premium	Percent
Private passenger auto liability	\$ 140,613,846	70.2%
Auto physical damage	<u>59,705,979</u>	<u>29.8%</u>
Total	<u>\$ 200,319,825</u>	<u>100.0%</u>

On March 1, 2010, Farmers Insurance Exchange and the Company entered into a Service Agreement pursuant to which Farmers Insurance Exchange provides various services, including claims adjustment services, accounting and financial reporting services, investment management services, preparation of insurance policies, billing and collections, and other administrative services to the Company at cost. The Service Agreement was filed with, and approved by, the Department.

Reinsurance

The Company and Farmers Insurance Exchange are parties to a 100% Quota Share Reinsurance Agreement, dated as of January 1, 2010, pursuant to which the Company cedes a 100% quota share participation in its net losses to Farmers Insurance Exchange. This agreement supersedes the 90% Quota Share Reinsurance Agreement effective January 1, 2007 between the parties. The Quota Share Reinsurance Agreement was filed with, and approved by, the Department.

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company’s external auditors, are reflected in the following:

- Statement of Assets, Liabilities, Capital and Surplus
- Statement of Income
- Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2013**

Bonds	\$ 50,252,995
Cash, cash equivalents, and short term investments	8,981,904
Other invested assets	<u> </u>
Subtotal, cash and invested assets	59,234,899
Investment income due and accrued	230,484
Uncollected premiums	1,962,522
Deferred premiums booked but not yet due	39,787,126
Amounts recoverable from reinsurers	18,023,580
Net deferred tax assets	1,094,246
Receivable from affiliates	449,855
Miscellaneous assets	<u>34,873</u>
Total admitted assets	<u>\$ 120,817,586</u>
Losses	\$ 3,262,402
Loss adjustment expenses	103,814
Commissions payable	2,357,526
Other expenses	218,709
Taxes, licenses and fees	332,092
Advance premiums	450,502
Ceded reinsurance premiums payable (net of ceding commissions)	66,217,407
Payable to parent, subsidiaries and affiliates	2,421,346
Miscellaneous liabilities	<u>1,837,538</u>
Total liabilities	<u>77,201,336</u>
Common capital stock	3,000,000
Gross paid in and contributed surplus	18,000,000
Unassigned funds	<u>22,616,250</u>
Total capital and surplus	<u>43,616,250</u>
Total liabilities, capital and surplus	<u>\$ 120,817,586</u>

Statement of Income
As of December 31, 2013

Premiums earned	\$ <u>0</u>
Losses incurred	2,201,122
Loss adjustment expenses incurred	351,517
Other underwriting expenses incurred	<u>(1,232)</u>
Total underwriting deductions	<u>2,551,407</u>
Net underwriting gain (loss)	<u>(2,551,407)</u>
Net investment income earned	1,528,890
Net realized capital gains (losses)	<u>(251,689)</u>
Net investment gain	<u>1,277,201</u>
Miscellaneous income	<u>6,642</u>
Total other income	<u>6,642</u>
Net income (loss) before federal income taxes	(1,267,564)
Federal income taxes incurred	<u>(754,638)</u>
Net income (loss)	<u><u>\$ (512,926)</u></u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

Capital and surplus, December 31, 2009	\$ <u>40,853</u>
Net income	6,265
Change in net unrealized capital gains	1
Change in net deferred income tax	713
Change in non-admitted assets	<u>(4,216)</u>
Change in surplus during the exam period	<u>2,763</u>
Capital and surplus, December 31, 2013	<u><u>\$ 43,616</u></u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed James Nutting, FCAS, MAAA, Senior Vice President and Chief Actuary, Farmers Group, Inc., to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Nutting prepared an Actuarial Report supporting the Opinion.

The California Department of Insurance retained American Actuarial Consulting Group, LLC ("AACG") to perform an actuarial review of the loss and loss adjustment expense reserves of the insurance entities in the Bristol West Insurance Group as of December 31, 2013.

Thomas Botsko, ACAS, MAAA, the Department's Chief Property and Casualty Actuary, reviewed the Actuarial Report provided by Mr. Nutting and the results of the AACG actuarial analysis. Based on his review of the reports, Mr. Botsko determined the conclusions reached by Mr. Nutting in the Actuarial Report are appropriate and reasonable.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

Total Assets	<u>\$ 120,817,586</u>
Liabilities	77,201,336
Capital and Surplus	<u>43,616,250</u>
Total Liabilities, Capital and Surplus	<u>\$ 120,817,586</u>

Subsequent Events

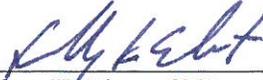
The Department is not aware of any events occurring subsequent to the examination date that would have a material impact on the financial position of the Company.

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company and its affiliates during the course of this examination.

In addition to the undersigned, Thomas Botsko, ACAS, MAAA; and Methuselah Nyangoro, AES, CISA, CFE, CPA; of the Department, participated in this examination.

Respectfully,



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2013.

Jeffrey K. Ebert 5/29/15
Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 29 day of May, 2015.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017