

Report on Examination

of

**FARMERS PROPERTY AND CASUALTY INSURANCE COMPANY
FARMERS CASUALTY INSURANCE COMPANY
FARMERS DIRECT PROPERTY AND CASUALTY INSURANCE COMPANY
FARMERS GROUP PROPERTY AND CASUALTY INSURANCE COMPANY**

Warwick, Rhode Island

as of

December 31, 2021



State of Rhode Island
Department of Business Regulation
Insurance Division



State of Rhode Island
DEPARTMENT OF BUSINESS REGULATION
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Insurance Division

ADOPTION ORDER

The attached Report on Examination as of December 31, 2021, of the condition and affairs of

FARMERS PROPERTY AND CASUALTY INSURANCE COMPANY
FARMERS CASUALTY INSURANCE COMPANY
FARMERS DIRECT PROPERTY AND CASUALTY INSURANCE COMPANY
FARMERS GROUP PROPERTY AND CASUALTY COMPANY

was recently completed by duly qualified examiners, pursuant to the provisions of the Rhode Island General Laws.

Due consideration has been given to the comments of the examiners regarding the operation of the Companies and their financial condition, as reflected in the Report.

It is therefore ORDERED that said Report be, and is hereby, adopted and filed and made an official record of this Department as of this date.

Department of Business Regulation

Dated: October 30, 2023

Elizabeth Kelleher Dwyer
Superintendent of Insurance

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September 26, 2023

Ms. Elizabeth Kelleher Dwyer
Superintendent of Insurance
State of Rhode Island
Department of Business Regulation
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Dear Superintendent Dwyer:

In accordance with your instructions and pursuant to Chapters 13.1 and 35 of Title 27 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2021 of the financial condition and affairs of

**FARMERS PROPERTY AND CASUALTY INSURANCE COMPANY
FARMERS CASUALTY INSURANCE COMPANY
FARMERS DIRECT PROPERTY AND CASUALTY INSURANCE COMPANY
FARMERS GROUP PROPERTY AND CASUALTY INSURANCE COMPANY**

located at 700 Quaker Lane, Warwick, Rhode Island. The report of such examination is herewith submitted.

The above companies are referred to within this report collectively as the “Farmers P&C Group,” or “the Companies.” The Companies were previously examined as of December 31, 2016, and both the current and prior examinations were conducted by the Insurance Division of the State of Rhode Island (“Insurance Division”).

SCOPE OF EXAMINATION

The last examination of the Companies covered the five-year period from January 1, 2012 through December 31, 2016. The current examination covered the five-year period from January 1, 2017 through December 31, 2021, and was performed in compliance with the above-mentioned sections of the General Laws of the State of Rhode Island, as amended. The current examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”) risk-focused examination process and was performed in conjunction with the full-scope coordinated multi-state risk-focused examination (“Coordinated Exam”) of the Farmers Insurance Group (henceforth, “Farmers”). The Lead State for the Coordinated Exam was California. The states of Arizona, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Kansas, Michigan, Minnesota, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Texas, and Washington participated in the Coordinated Exam, which included the following insurers:

FARMERS INSURANCE EXCHANGE GROUP

6301 Owensmouth Avenue, Woodland Hills, CA

<u>Company</u>	<u>NAIC #</u>	<u>Domicile</u>
Farmers Insurance Company of Arizona	21598	AZ
Civic Property and Casualty Company	10315	CA
Neighborhood Spirit Property and Casualty Company	10317	CA
Exact Property and Casualty Company	10318	CA
Farmers Reinsurance Company	10873	CA
Farmers Insurance Exchange	21652	CA
Fire Insurance Exchange	21660	CA
Mid-Century Insurance Company	21687	CA
Truck Insurance Exchange	21709	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

21st CENTURY INSURANCE GROUP

6301 Owensmouth Avenue, Woodland Hills, CA

21st Century Insurance Company	12963	CA
21st Century Casualty Company	36404	CA
21st Century Pacific Insurance Company ¹	23795	CO
Toggle Insurance Company		
f/k/a 21st Century Assurance Company	44245	DE
American Pacific Insurance Company, Inc.	10805	HI
Farmers Insurance Hawaii, Inc.	28487	HI
21st Century Advantage Insurance Company ²	25232	MN
21st Century Auto Insurance Company of New Jersey ¹	10184	NJ
21st Century Pinnacle Insurance Company	10710	NJ
21st Century North America Insurance Company	32220	NY
21st Century Premier Insurance Company	20796	PA

¹ Effective January 3, 2022, 21st Century Pacific Insurance Company, 21st Century Auto Insurance Company of New Jersey, and 21st Century Indemnity Insurance Company were sold, and are no longer a part of Farmers.

² Effective April 3, 2023, 21st Century Advantage Insurance Company was sold, and is no longer a part of Farmers.

21st Century Indemnity Insurance Company ¹	43974	PA
21st Century Centennial Insurance Company	34789	PA
American Federation Insurance Company	10245	TX
f/k/a 21st Century Insurance Company of the Southwest		

BRISTOL WEST INSURANCE GROUP

5701 Stirling Road, Davie, FL

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

FOREMOST INSURANCE GROUP

5600 Beech Tree Lane, Caledonia, MI

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

FARMERS WORKPLACE SOLUTIONS GROUP

700 Quaker Lane, Warwick, RI

Economy Fire & Casualty Company	22926	IL
Economy Preferred Insurance Company	38067	IL
Economy Premier Assurance Company	40649	IL
Farmers Casualty Insurance Company	40169	RI
f/k/a Metropolitan Casualty Insurance Company		
Farmers Direct Property and Casualty Insurance Company	25321	RI
f/k/a Metropolitan Direct Property and Casualty Insurance Company		
Farmers Group Property and Casualty Insurance Company	34339	RI
f/k/a Metropolitan Group Property and Casualty Insurance Company		
Farmers Property and Casualty Insurance Company	26298	RI
f/k/a Metropolitan Property and Casualty Insurance Company		
Farmers Lloyds Insurance Company of Texas	13938	TX
f/k/a Metropolitan Lloyds Insurance Company of Texas		

The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Companies, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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

This examination report includes significant findings of fact and general information about the Companies and their financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but were separately communicated to other regulators and/or the Companies.

SUMMARY OF SIGNIFICANT FINDINGS

The following is a summary of significant findings of fact resulting from the current examination, including material adverse findings, significant non-compliance findings (such as non-compliance with state law(s), Statements of Statutory Accounting Principles (“SSAPs”), annual financial statement instructions, etc.), or material changes in the financial statements.

No.	Finding	Page No.
1	By not instructing the independent accounting firm to provide the Examination Team with all workpapers prepared in the conduct of the independent accounting firm’s audit, the Farmers P&C Group is in violation of Rhode Island Code of Regulations §230-RICR-20-45-7.13(B).	22
2	As neither the Internal Audit function nor the Internal Controls over Financial Reporting function is organizationally independent, the Farmers P&C Group is in violation of Rhode Island Code of Regulations §230-RICR-20-45-7.15(C).	24
3	By refusing to provide full access to all books and records, and by not facilitating the examination to the full extent possible, Farmers P&C Group is in violation of Rhode Island General Laws §27-13.1-4(b).	25
4	Farmers Property and Casualty Insurance Company did not report intercompany reinsurance balances in accordance with the NAIC Annual Statement Instructions.	53

COMPANY HISTORY

Farmers Property and Casualty Insurance Company

Farmers Property and Casualty Insurance Company (“Farmers P&C”), then known as Metropolitan Property and Liability Insurance Company, was incorporated on August 31, 1972, under the laws of the State of Delaware. It commenced business on December 8, 1972, and on December 12, 1988, its name was changed to MetLife Property and Casualty Insurance Company. Subsequently, on January 11, 1990, the Delaware Department of Insurance approved a name change from MetLife Property and Casualty Insurance Company to Metropolitan Property and Casualty Insurance Company. Effective February 10, 1995, Farmers P&C redomesticated from Delaware to Rhode Island. The “Petition for Redomestication” was formally approved by the appropriate regulatory agencies of both states. In April 2021, the name was changed to Farmers Property and Casualty Insurance Company after the majority of the MetLife Auto & Home business, including the company, was acquired by Farmers Insurance Exchange, Fire Insurance Exchange, and Truck Insurance Exchange (each an “Exchange” and collectively the “Exchanges”). All of Farmers P&C’s outstanding common capital stock is owned by the Farmers Insurance Exchange (80%), Fire Insurance Exchange (10%) and Truck Insurance Exchange (10%). The Exchanges are interinsurance exchanges organized under the laws of the State of California. The brand “MetLife Auto & Home” was used when referring to the collective business written by Met P&C and its subsidiaries before their acquisition by the Exchanges.

Farmers Casualty Insurance Company

Farmers Casualty Insurance Company (“Farmers Cas”), formerly known as Metropolitan Casualty Insurance Company, was incorporated on October 7, 1981, under the laws of the State of Delaware. It commenced business on April 1, 1982. Effective February 10, 1995, Farmers Cas redomesticated from Delaware to Rhode Island. The “Petition for Redomestication” was formally approved by the appropriate regulatory agencies of both states. Farmers Cas is a wholly owned subsidiary of Farmers P&C, and thus became an indirect wholly owned subsidiary of the Exchanges in April 2021. After the acquisition, Metropolitan Casualty Insurance Company’s name was changed to Farmers Casualty Insurance Company.

Farmers Direct Property and Casualty Insurance Company

Farmers Direct Property and Casualty Insurance Company (“Farmers Direct”) was incorporated on May 24, 1949, under the laws of the State of Georgia as the Great Southern Insurance Company. It commenced business on June 1, 1949. On April 25, 1952, its name was changed to Southern General Insurance Company, and on October 4, 1972, its name was changed to First General Insurance Company.

Farmers Direct became affiliated with MetLife Auto & Home on January 10, 1985, when its then-parent was acquired by Metropolitan Life Insurance Company through the purchase of Charter Security Life Insurance Company. Direct stock ownership of Farmers Direct was transferred in December 1986 to Metropolitan Property and Liability Insurance Company (now Farmers P&C). Effective February 1, 1993, the company redomesticated from Georgia to Rhode Island. The “Petition for

Redomestication” was formally approved by the appropriate regulatory agencies of both states. Effective February 13, 1998, the company’s name was changed to Metropolitan Direct Property and Casualty Insurance Company. As a wholly owned subsidiary of Farmers P&C, the company became an indirect wholly owned subsidiary of the Exchanges in April 2021. After the acquisition, the company’s name was changed to Farmers Direct Property and Casualty Insurance Company.

Farmers Group Property and Casualty Insurance Company

Farmers Group Property and Casualty Insurance Company (“Farmers Group”) was incorporated on December 10, 1976, under the laws of the State of Delaware, as Metropolitan Reinsurance Company. It commenced business on December 1, 1977 and became a subsidiary of Metropolitan Property and Casualty Insurance Company. Effective April 3, 1992, its name was changed to Metropolitan Group Property and Casualty Insurance Company. Effective February 10, 1995, Farmers Group redomesticated from Delaware to Rhode Island. The “Petition for Redomestication” was formally approved by the appropriate regulatory agencies of both states. As a wholly owned subsidiary of Farmers P&C, the company became an indirect wholly owned subsidiary of the Exchanges in April 2021. After the acquisition, the company’s name was changed to Farmers Group Property and Casualty Insurance Company.

MANAGEMENT AND CONTROL

Board of Directors

The Certificates of Incorporation of each company in the Farmers P&C Group state that all corporate powers and authority of the company (except as at the time otherwise provided by law, by the Certificate of Incorporation or by the Bylaws of the company) shall be vested in and exercised by the Board of Directors.

The number of directors shall be determined from time to time by the Board, but such number shall not be less than three. The directors shall be elected annually by the shareholders to hold office until the next annual meeting of the shareholders. Each director shall hold office until the expiration of the term for which such director is elected and until a successor has been elected and has qualified, or until such director's earlier death, resignation, or removal.

As of December 31, 2021, the members of the Boards of Directors of the Companies are as follows:

Name	Business Affiliation	Term Expires	Farmers Cas	Farmers Direct	Farmers Group	Farmers P&C
Darla A. Finchum ³	Head of Workplace Solutions for Farmers Group, Inc.	None	•	•	•	•
Guy M. Hanson	Business Owner	None	•	•	•	•
Peter A. Klute ⁴	Head of Exchanges Finance Operations	None	•	•	•	•
Sherman L. Lewis, III ⁴	Business Owner	None	•	•	•	•
Ronald G. Myhan	Retired	None	•	•	•	•

Committees

The Bylaws of each company in the Farmers P&C Group stipulate that the Board of Directors, by resolution adopted by a majority of the Board, may designate one or more committees of the Board.

In accordance with 230-RICR-20-45-7 (“Annual Financial Reporting”), the Boards have exercised the election of the ultimate controlling person to designate the Audit Committee and have accordingly delegated their audit responsibilities to the Exchange Audit Committee. The Exchange Audit Committee includes at least one Board Member from each of the Exchanges, and serves as the Audit Committee for the Exchanges and their subsidiaries. The Exchange Audit Committee is, in general, responsible for overseeing management’s design and conduct of accounting and financial reporting processes and audits of the financial statements. Management is responsible for preparing the financial

³ Effective December 12, 2022, Shannon M. Bowes was elected to replace Darla A. Finchum as Director.

⁴ Effective March 21, 2023, Gisselle M. Acevedo and Kenneth W. Bentley replaced Peter A. Klute and Sherman L. Lewis as Directors.

statements and for designing and implementing internal controls over financial reporting. The external auditors are responsible for auditing those financial statements. The Exchange Audit Committee is fully independent. As of December 31, 2021, the Exchange Audit Committee comprised the following members:

Exchange Audit Committee

Scott W. Hood
Thomas G. Allen
Marla B. Bleavins
Donald Jue
Janice G. Scott

In addition, the directors have delegated oversight of the invested assets of the Farmers P&C Group to the FGI Investment Committee. The responsibility of the FGI Investment Committee includes recommending investment strategy and objectives for the various portfolios; monitoring the portfolios for compliance with established strategy, objectives and guidelines as well as with relevant laws and regulations; monitoring the portfolios for performance results; and overseeing the portfolio risk control. The Boards of Directors maintain the responsibility of approving the Investment Risk Policy Statement and to annually ratify the securities acquisitions and dispositions. As of December 31, 2021, the Investment Committee comprised the following members:

FGI Investment Committee

Jeffrey J. Dailey
Keith G. Daly
Giles E. Harrison
Stephen J. McAnena
Thomas S. Noh
Maite Irakoze Baur

Officers

The officers of the Companies shall be elected or appointed by the Boards of Directors and shall hold office at the pleasure of the Boards until the election, or appointment, and qualification of a successor.

The officers serving each company, and their respective titles as of December 31, 2021, are as follows:

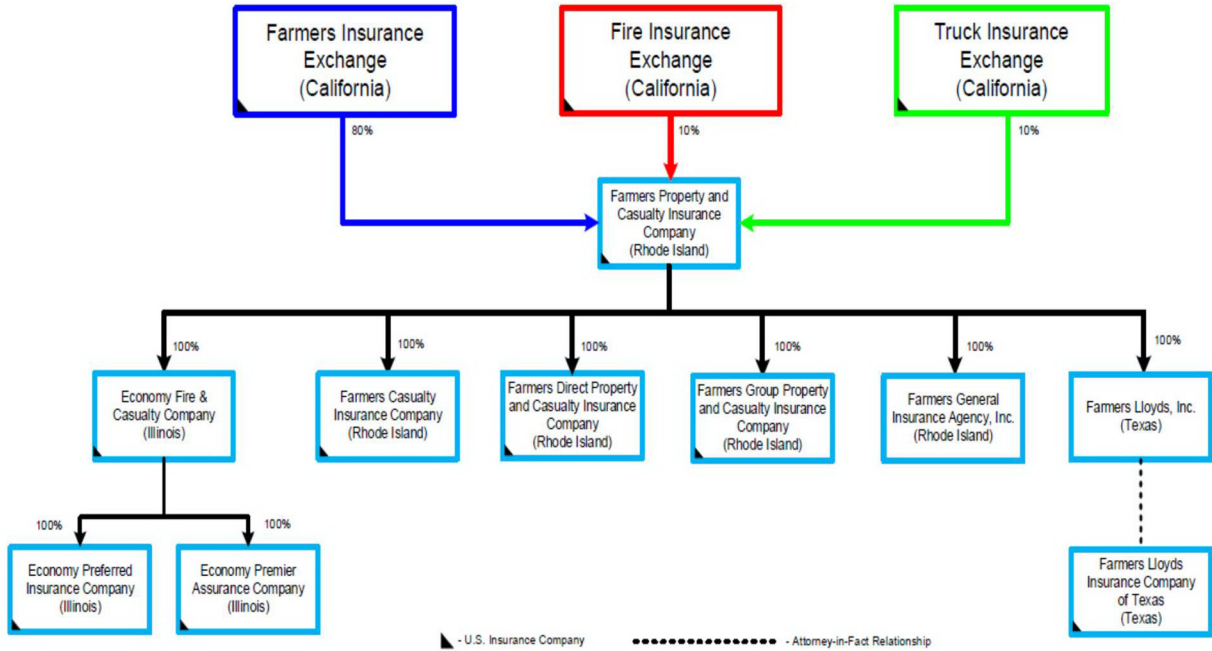
Name	Title	Farmers Cas	Farmers Direct	Farmers Group	Farmers P&C
Darla A. Finchum ⁵	President	•	•	•	•
Michael J. Bednarick	Vice President & Chief Financial Officer	•	•	•	•
Robert P. Howard	Vice President	•	•	•	•
Peter A. Klute	Vice President & Treasurer	•	•	•	•
James L. Nutting	Vice President & Actuary	•	•	•	•
Jennifer N. Pryor	Secretary	•	•	•	•
Ellen Marie Tierney	Vice President	•	•	•	•

Organizational Structure

As discussed within the “Company History” section above, Farmers P&C and its directly and indirectly owned subsidiaries were acquired in April 2021. The Farmers P&C Group is currently owned by three affiliated insurers in the following percentages: Farmers Insurance Exchange (80%), Fire Insurance Exchange (10%) and Truck Insurance Exchange (10%). Each of these three shareholders is an interinsurance exchange organized under the laws of the State of California. Farmers Insurance Exchange is the ultimate controlling person due to its 80% direct stock ownership interest in Farmers P&C.

⁵ Effective December 12, 2022, Shannon M. Bowes was elected to replace Darla A. Finchum as President.

The following represents an abbreviated organizational chart of the Farmers Group as of December 31, 2021:



Intercompany Agreements

Service Agreement

On April 9, 2021, Farmers Insurance Exchange and Farmers P&C, along with its direct and indirect wholly owned subsidiaries, Farmers Cas, Farmers Direct, Farmers Group, Farmers Lloyds Insurance Company of Texas, Farmers Lloyds, Inc., Economy Fire & Casualty Company, Economy Preferred Insurance Company and Economy Premier Assurance Company entered into a Service Agreement, pursuant to which Farmers Insurance Exchange will provide 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 Farmers P&C and its subsidiaries.

Agency Agreements

Effective January 1, 2019, FX Insurance Agency, LLC (“FX”) entered into an Agency Agreement with Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange, and various other insurers in the Farmers Insurance Group, under which FX shall sell, solicit, and service insurance for the Companies. Effective December 9, 2021, the agreement was amended to add additional parties, including Farmers P&C, Farmers Cas, Farmers Direct, and Farmers Group.

Effective October 6, 2021, Farmers General Insurance Agency, Inc. (“FGIA”) entered into an Agency Agreement with Farmers P&C, Farmers Cas, Farmers Direct, Farmers Group, and various other insurers in the Farmers Insurance Group, under which FGIA shall sell, solicit, and service insurance for the Companies.

TERRITORY AND PLAN OF OPERATION

The Farmers P&C Group collectively is licensed to transact business in all states and the District of Columbia. The Companies are engaged in the property and casualty insurance business, and their primary business is the direct sale of automobile (65%) and homeowners insurance (33%), but it also underwrites and markets other property and casualty coverages (2%). The Farmers P&C Group began offering commercial property and casualty insurance in August 2014. Also in 2014, the Farmers P&C Group introduced the Business Owner's Policy ("BOP") in five (5) states to expand its product portfolio and support business growth objectives. In 2015, the Companies introduced their commercial automobile product and commercial umbrella products in select states. Throughout 2016, the Companies continued to expand availability of the BOP to thirty-five (35) states. By the end of 2016, commercial automobile coverage was being marketed in twelve (12) states. In 2021, the Farmers P&C Group discontinued offering commercial property and casualty insurance. Runoff of this business was concluded in 2022.

Personal lines insurance is offered directly to employees at their employer's worksite, as well as through a variety of retail distribution channels, including Farmers exclusive agents, group marketing, direct response marketing, and independent insurance agents.

The Farmers P&C Group had previously been structured by functional areas (i.e., claims, pricing, sales, underwriting, etc.). Commencing July 1, 2015, the Farmers P&C Group migrated to a Product Management approach, where operations are divided into three areas: (1) Agency Product Management, (2) Group Benefits Product Management, and (3) Countrywide Product Management. In 2019, the

Product Management function was further consolidated into one unit which is focused on state and region, and is responsible for the growth and profitability of those geographies inclusive of all channels. Countrywide Product Management has more of a support and coordination role, including development of long-term strategy and supporting capabilities. Examples of these include research, product and capability development, portfolio management, and field underwriting. Sales are divided between Independent Agency Sales, Exclusive Agent Sales and Group Benefits Sales, reflecting the Farmers P&C Group’s major channels.

The Farmers P&C Group utilizes multiple insurers to service a broad cross section of customers. The primary market split among preferred and standard risks served by each company is shown below:

Automobile Insurance	Market
Farmers Property and Casualty Insurance Company	Standard Customers
Farmers Casualty Insurance Company	Preferred Customers
Farmers Group Property and Casualty Insurance Company	Standard Customers
Farmers Direct Property and Casualty Insurance Company	Standard Customers
Farmers Lloyds Insurance Company of Texas	Texas only
Economy Fire & Casualty Company	Standard Customers
Economy Preferred Insurance Company	Standard Customers
Economy Premier Assurance Company	Standard Customers
Property Insurance	Market
Farmers Property and Casualty Insurance Company	Standard Customers
Farmers Group Property and Casualty Insurance Company	Standard Customers
Farmers Lloyds Insurance Company of Texas	Texas only
Economy Fire & Casualty Company	Standard Customers
Economy Preferred Insurance Company	Standard Customers
Economy Premier Assurance Company	Standard Customers

REINSURANCE

Assumed Reinsurance

Restated Quota Share Reinsurance Treaty

Effective January 1, 1991 (“Attachment Date”), Farmers P&C entered into a 100% Quota Share and Pooling Agreement (“Intercompany Agreement”) with its subsidiary companies, Farmers Cas and Farmers Direct. Farmers Group was added in 1992, and Farmers Lloyds Insurance Company of Texas was added in 1993.

During 2000, a Restated Quota Share Reinsurance Treaty (“Treaty”) was filed with the states of Illinois, Rhode Island, and Texas, the domiciliary states for the Treaty participants. An intercompany reinsurance agreement had been in place between certain members of the Farmers P&C Group since January 1, 1991, and the Treaty superseded the original reinsurance agreement and added the purchased Economy Companies to the reinsurance arrangement. After extensive discussions and correspondence with the three states, the Treaty was approved, and became effective as of January 1, 2001. Under the terms of the Treaty, each subsidiary obligates itself to cede, and Farmers P&C obligates itself to accept, a 100% interest in the liability on all business in force as of January 1, 2001 or written thereafter.

With respect to the Economy Companies, both Economy Preferred Insurance Company and Economy Premier Assurance Company are obligated to cede, and Economy Fire & Casualty Company (“EF&C”) is obligated to accept, a 100% interest in the liability on all business in force as of January 1, 2001, or written thereafter, and EF&C, in turn, is obligated to cede, and Farmers P&C is obligated to accept, a 100% interest of its gross net liability on all business in force as of January 1, 2001, or written thereafter.

Other Assumed Reinsurance

The Farmers P&C Group's assumed reinsurance, which is relatively insignificant, consists primarily of mandatory pools, associations, and facilities.

Ceded Reinsurance

Property Catastrophe Excess of Loss

For the 2021 contract year, protection against hurricane losses in Florida was obtained through the state-run Florida Hurricane Catastrophe Fund, which provides a maximum recoverable amount of \$23 million in excess of \$11 million. For other regions, on January 1, 2021, the Farmers P&C Group entered into an annual catastrophe excess of loss treaty under which the maximum recoverable amount was \$157.5 million for each and every loss occurrence in excess of \$225 million. In the Northeast only, the Farmers P&C Group entered into annual treaties in which the maximum recoverable amount is \$150 million for each and every loss occurrence in excess of \$400 million. In addition, effective July 2, 2021, Farmers P&C entered into a \$100 million in excess of \$400 million treaty for hurricane coverage covering the east coast from Maine to Georgia, which covers the combination of both the Farmers and former Met P&C Group CAT losses after application of the CAT programs placed on January 1.

100% Quota Share Reinsurance Agreement

Upon the acquisition of the Farmers P&C Group by the Exchanges on April 8, 2021, Farmers P&C, as the ceding insurer, and Farmers Insurance Exchange, as the reinsurer, entered into a 100% Quota Share Reinsurance Agreement pursuant to which Farmers P&C cedes to Farmers Insurance Exchange, and

Farmers Insurance Exchange assumes, a 100% quota share participation in Farmers P&C's net losses.

Property Per Risk Excess of Loss

The Farmers P&C Group's property per risk excess of loss coverage effective through June 30, 2021, provides up to \$10 million of coverage for each loss in excess of \$15 million with a maximum recovery of \$10 million. Effective July 1, 2021, the treaty provides \$15 million coverage in excess of \$5 million with a maximum recovery of \$15 million.

Casualty Excess of Loss

The Farmers P&C Group's casualty excess of loss coverage effective through June 30, 2021, is \$10 million excess of \$15 million with a maximum recovery of \$8.4 million. Effective July 1, 2021, the program covers \$15 million excess of \$5 million with a maximum recovery of \$9 million.

Other Ceded Reinsurance

The Farmers P&C Group's other ceded reinsurance consists primarily of mandatory state-run pools, associations, facilities, mine subsidence programs, and federal flood insurance. Farmers P&C Group cedes 100% of its directly written flood insurance to the National Flood Insurance Program.

ACCOUNTS AND RECORDS

The accounts and records of the Companies, or duplicates of those records, are maintained at their statutory home office located in Warwick, Rhode Island.

Independent Audit

Farmers is audited annually by an independent accounting firm, and audited financial reports were filed with the Insurance Division for all years under examination, as required pursuant to 230-RICR-20-45-7 (“Annual Financial Reporting”). The independent accounting firm’s workpapers relating to its 2021 audit were reviewed, and utilized to supplement the examination process and to avoid duplication of work, where deemed appropriate.

During the course of the examination, the Examination Team requested that Farmers direct its independent accounting firm, Ernst & Young LLP (“EY”), to provide the Examination Team with access to all workpapers relating to the 2021 Combined Statutory Audit of Farmers Insurance Exchange and Its Affiliates. In the process of authorizing the release of the external auditor’s audit workpapers, Farmers obtained the audit workpaper index of the archived workpapers from the external auditor. Farmers initially declined to consent to the release of 13 workpapers listed on the index on the basis of attorney client privilege. All but one of the 13 withheld documents were later provided.

Section 7.13(B) of Rhode Island Code of Regulations §230-RICR-20-45-7 (“Annual Financial Reporting”) states: *“Every insurer required to file an audited financial report pursuant to this Regulation, shall require the accountant to make available for review by insurance department*

examiners, all workpapers prepared in the conduct of the accountant's audit and any communications related to the audit between the accountant and the insurer, at the offices of the insurer, at the insurance department or at any other reasonable place designated by the commissioner. The insurer shall require that the accountant retain the audit workpapers and communications until the insurance department has filed a report on examination covering the period of the audit but no longer than seven (7) years from the date of the audit report."

By not instructing the independent accounting firm to provide the Examination Team with all work papers prepared in the conduct of the independent accounting firm's audit, the Farmers P&C Group is in violation of Rhode Island Code of Regulations §230-RICR-20-45-7.13(B).

Recommendation #1

It is recommended that the Farmers P&C Group comply with §230-RICR-20-45-7.13(B) by requiring its independent accounting firm to make available for review by insurance department examiners, without interference, all workpapers prepared in the conduct of the independent accounting firm's audit and any communications related to the audit between the accountant and the insurer.

Internal Audit

Farmers has established an Internal Audit ("IA") function to provide independent, objective, and reasonable assurance to the Audit Committee and to management regarding Farmers' governance, risk management, and internal controls. This assurance is provided by performing general and specific

audits, reviews, and tests, and by employing other techniques deemed necessary to protect assets, evaluate control effectiveness and efficiency, and evaluate compliance with policies and regulations.

During the course of the examination, the Examination Team reviewed Farmers' Internal Audit function and noted based on the organizational chart that the Head of Internal Audit reports functionally to the Audit Committee, and administratively to the Office of the General Counsel ("OGC"). The Internal Audit function performed a significant number of its audits of key activities under the protection of Attorney-Client Privilege, with the audits being performed under the advisement of the legal counsel within the OGC. The Internal Audit reports prepared under the advisement of legal counsel are not shared directly with the Audit Committee, but with the selected legal counsel from the OGC and senior management. Internal Audit shares with the Audit Committee a summary of all audit reports concluded during the quarter.

Farmers also has an Internal Controls over Financial Reporting ("ICFR") function, which is responsible for testing controls in compliance with Model Audit Rule ("MAR") and Sarbanes-Oxley ("SOX") requirements. The ICFR function is not aligned under IA, but is a centralized assurance unit within Farmers' Finance Department. Therefore, ICFR is also not an independent function, although it is responsible for most internal controls testing.

Section 7.15(C) of Rhode Island Code of Regulations §230-RICR-20-45-7 ("Annual Financial Reporting") states: *"Independence – In order to ensure that internal auditors remain objective, the*

*Internal audit function must be **organizationally independent**. Specifically, the Internal Audit function will not defer ultimate judgment on audit matters to others, and shall appoint an individual to head the Internal Audit function who will have **direct and unrestricted access to the board of directors**. Organizational independence does not preclude dual-reporting relationships.”*

Therefore, as neither the Internal Audit function nor the Internal Controls over Financial Reporting function is organizationally independent, the Farmers P&C Group is in violation of §230-RICR-20-45-7.

Recommendation #2

It is recommended that the Farmers P&C Group adjust the reporting structure of IA and/or ICFR as necessary to comply with §230-RICR-20-45-7.15(C) and to ensure the Internal Audit function is organizationally independent.

Corporate Records

Records of meetings of the Boards of Directors and committees thereof held during the period under examination were reviewed. The meetings appeared to be held in accordance with the Companies' Bylaws, and did not contain evidence of any actions contrary to the Companies' charters, Bylaws, or the laws of the State of Rhode Island, except as noted elsewhere in this report.

During the course of the examination, Farmers initially withheld various documentation requested by the Examination Team, often asserting that such documentation was subject to attorney-client privilege and/or work product protection. Some of the documentation was later provided, but with much of the information redacted. In other instances, documents were provided only after significant delays. Ultimately, Farmers' lack of cooperation significantly impeded the examiners' ability to conduct an effective and efficient examination.

Rhode Island General Laws ("RIGL") §27-13.1-4(b) requires, in part: *“Every company or person from whom information is sought, its officers, directors, and agents shall provide to the examiners appointed under subsection (a) **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. The officers, directors, employees, and agents of the company or person must facilitate the examination and aid in the examination so far as it is in their power to do so.**”*

Therefore, by refusing to provide full access to all books and records, and by not facilitating the examination to the full extent possible, the Farmers P&C Group is in violation of RIGL §27-13.1-4(b).

Recommendation #3

It is recommended that the Farmers P&C Group comply with RIGL §27-13.1-4(b) by providing insurance department examiners with 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, as well as full access to relevant members of management and staff who can assist the examiners and aid in the examination.

It is further recommended that the Farmers P&C Group update its policies and procedures relating to statutory examinations as may be necessary in order to ensure full compliance with the applicable examination statutes.

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the Farmers P&C Group for the period ending December 31, 2021, and reflect any examination adjustments to the amounts reported in the statutory financial statements filed by the Companies with the Rhode Island Insurance Division. The nature and amount of any such adjustments is discussed further in the accompanying comments on financial statements, which should be considered an integral part of the financial statements.

Comparative Statement of Assets
December 31, 2021 and December 31, 2016

Comparative Statement of Liabilities, Surplus, and Other Funds
December 31, 2021 and December 31, 2016

Statement of Income
Year Ended December 31, 2021

Reconciliation of Capital and Surplus
December 31, 2016 to December 31, 2021

Analysis of Examination Adjustments
December 31, 2021

FARMERS PROPERTY AND CASUALTY INSURANCE COMPANY
Comparative Statement of Assets
December 31, 2021 and December 31, 2016

	December 31, 2021	December 31, 2016	Increase (Decrease)
Bonds	\$ 2,785,405,343	\$ 2,881,506,666	\$ (96,101,323)
Stocks:			
Preferred stocks	28,467,836	42,322,330	(13,854,494)
Common stocks	710,024,452	923,206,208	(213,181,756)
Mortgage loans:			
First liens	283,202,130	-	283,202,130
Real Estate:			
Properties occupied by the company	-	131,681	(131,681)
Properties held for the production of income	-	8,984,870	(8,984,870)
Cash, cash equivalents and short-term investments	(18,149,178)	(135,724,696)	117,575,518
Derivatives	-	7,240,200	(7,240,200)
Other invested assets	19,152,924	188,555,767	(169,402,843)
Receivables for securities	3,511,891	631,192	2,880,699
Aggregate write-ins for other-than-invested assets	123,773	2,196	121,577
Investment income due and accrued	27,614,287	37,014,632	(9,400,345)
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	14,429,771	13,738,722	691,049
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,223,900,540	1,153,431,193	70,469,347
Reinsurance:			
Amounts recoverable from reinsurers	4,339,646	5,078,770	(739,124)
Funds held by or deposited with reinsured companies	48,417	48,699	(282)
Net deferred tax asset	27,837,314	146,463,908	(118,626,594)
Guaranty funds receivable or on deposit	4,636,409	1,119,304	3,517,105
Receivables from parent, subsidiaries and affiliates	37,870,602	-	37,870,602
Aggregate write-ins for other-than-invested assets	53,160,552	356,951,527	(303,790,975)
 Total Assets	 \$ 5,205,576,709	 \$ 5,630,703,169	 \$ (425,126,460)

FARMERS PROPERTY AND CASUALTY INSURANCE COMPANY
Comparative Statement of Liabilities, Surplus, and Other Funds
December 31, 2021 and December 31, 2016

	December 31, 2021	December 31, 2016	Increase (Decrease)
Losses	\$ 878,696,732	\$ 1,260,657,677	\$ (381,960,945)
Reinsurance payable on paid loss and loss adjustment expenses	35,900	38,623	(2,723)
Loss adjustment expenses	189,015,475	288,020,600	(99,005,125)
Commissions payable, contingent commissions, and other significant changes	61,227,140	45,107,115	16,120,025
Other expenses	14,857,757	29,244,154	(14,386,397)
Taxes, licenses and fees	15,115,602	15,425,511	(309,909)
Current federal and foreign income taxes	-	4,019,901	(4,019,901)
Unearned premiums	-	1,662,121,497	(1,662,121,497)
Advanced premium	24,922,849	24,652,137	270,712
Dividends declared and unpaid:			
Stockholders	-	648,830	(648,830)
Policyholders	-	1,200,000	(1,200,000)
Ceded reinsurance premiums payable	1,750,712,155	6,262,427	1,744,449,728
Funds held by company under reinsurance treaties	2,734	-	2,734
Amounts withheld or retained by company for account of others	-	2,586,785	(2,586,785)
Remittances and items not allocated	7,125,101	2,472,826	4,652,275
Payables to parent, subsidiaries and affiliates	151,307,677	5,884,596	145,423,081
Derivatives		29,674	(29,674)
Payable for securities	99,040		99,040
Aggregate write-ins for liabilities	6,050,451	11,241,540	(5,191,089)
Total Liabilities	3,099,168,613	3,359,613,893	(260,445,280)
Common capital stock	4,200,000	3,000,000	1,200,000
Preferred capital stock	-	315,000,000	(315,000,000)
Gross paid in contributed capital	1,099,902,428	1,101,058,129	(1,155,701)
Unassigned funds (surplus)	1,002,305,668	852,031,147	150,274,521
Surplus as regards policyholders	2,106,408,096	2,271,089,276	(164,681,180)
Total Liabilities, Surplus and Other Funds	\$ 5,205,576,709	\$ 5,630,703,169	\$ (425,126,460)

FARMERS PROPERTY AND CASUALTY INSURANCE COMPANY
Statement of Income
Year Ended December 31, 2021

UNDERWRITING INCOME

Premiums earned	\$ 886,065,515
Losses incurred	553,487,750
Loss adjustment expenses incurred	64,380,351
Other underwriting expenses incurred	231,877,050
Total underwriting deductions	849,745,151
Net underwriting gain or (loss)	36,320,364

INVESTMENT INCOME

Net investment income earned	119,441,030
Net realized capital gains or (losses)	90,956,093
Net investment gain or (loss)	210,397,123

OTHER INCOME

Net gain (loss) from agents' balances or premium balances charged off	(9,627,131)
Finance and service charges not included in premiums	1,524,308
Aggregate write-ins for miscellaneous income	11,764,551
Total other income	3,661,728
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	250,379,215
Federal and foreign income taxes incurred	(79,972,237)
Net income (loss)	\$ 330,351,452

FARMERS PROPERTY AND CASUALTY INSURANCE COMPANY
Reconciliation of Capital and Surplus
December 31, 2016 to December 31, 2021

Capital and Surplus, December 31, 2016			\$ 2,271,089,276
	<u>Gains</u>	<u>Losses</u>	
Net income	1,660,354,319		
Change in net unrealized capital gains or (losses)		(193,467,602)	
Change in unrealized foreign exchange capital gain		(754,187)	
Change in net deferred income tax		(120,289,685)	
Change in nonadmitted assets	44,489,116		
Capital changes: Paid In	1,200,000		
Capital changes: Transferred from surplus		(315,000,000)	
Surplus adjustments: Paid in		(1,155,700)	
Dividend to stockholders		(1,166,085,604)	
Aggregate write-ins for gains and losses in surplus		(73,971,837)	
Total gains and losses	<u>1,706,043,435</u>	<u>(1,870,724,615)</u>	
Net change in Capital and Surplus for the period			<u>(164,681,180)</u>
Capital and Surplus, December 31, 2021			<u>\$ 2,106,408,096</u>

FARMERS PROPERTY AND CASUALTY INSURANCE COMPANY
Analysis of Examination Adjustments
December 31, 2021

The examination of Farmers P&C, performed as of December 31, 2021, resulted in a reclassification of certain amounts reported in its 2021 Annual Statement filing, as presented below:

Summary of Reclassifications				
Annual Statement Line Item	Balance per Annual Statement	Increase	(Decrease)	Adjusted Balance
<i>Payable to parent, subsidiaries and affiliates</i>	\$ 1,896,441,314		1,745,133,637	\$ 151,307,677
<i>Ceded reinsurance premiums payable (net of ceding commissions)</i>	\$ 5,578,518	1,745,133,637		\$ 1,750,712,155

No adjustments to capital or surplus were made as a result of the examination.

FARMERS CASUALTY INSURANCE COMPANY
Comparative Statement of Assets
December 31, 2021 and December 31, 2016

	December 31, 2021	December 31, 2016	Increase (Decrease)
Bonds	\$ 70,823,634	\$ 53,544,168	\$ 17,279,466
Cash, cash equivalents and short-term investments	6,464,948	2,403,026	4,061,922
Receivables for securities	-	25,238	(25,238)
Investment income due and accrued	255,606	567,341	(311,735)
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	3,826,229	11,497,232	(7,671,003)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	145,949,760	133,968,737	11,981,023
Current federal and foreign income tax recoverable	-	3,287	(3,287)
Net deferred tax asset	-	175,782	(175,782)
Guaranty funds receivable or on deposit	-	2,475	(2,475)
Aggregate write-ins for other-than-invested assets	-	1,425	(1,425)
Total Assets	<u>\$ 227,320,177</u>	<u>\$ 202,188,711</u>	<u>\$ 25,131,466</u>

FARMERS CASUALTY INSURANCE COMPANY
Comparative Statement of Liabilities, Surplus, and Other Funds
December 31, 2021 and December 31, 2016

	December 31, 2021	December 31, 2016	Increase (Decrease)
Losses	\$ -	\$ -	\$ -
Net deferred tax liabilities	238,664	-	238,664
Ceded reinsurance premiums payable	151,550,833	145,465,968	6,084,865
Payables to parent, subsidiaries and affiliates	4,015,712	70,550	3,945,162
Payables for securities	-	438	(438)
Aggregate write-ins for liabilities	22,155	-	22,155
Total Liabilities	155,827,364	145,536,956	10,290,408
Common capital stock	3,000,000	3,000,000	-
Gross paid in and contributed surplus	48,329,518	38,329,518	10,000,000
Unassigned funds (surplus)	20,163,295	15,322,236	4,841,059
Surplus as regards policyholders	71,492,813	56,651,754	14,841,059
Total Liabilities, Surplus and Other Funds	\$ 227,320,177	\$ 202,188,710	\$ 25,131,467

FARMERS CASUALTY INSURANCE COMPANY
Statement of Income
Year Ended December 31, 2021

UNDERWRITING INCOME

Net underwriting gain or (loss)	\$	-
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INVESTMENT INCOME

Net investment income earned		1,569,006
Net realized capital gains or (losses)		180,759
Net investment gain or (loss)		1,749,765

OTHER INCOME

Net gain (loss) from agents' balances or premium balances charged off		(3,680,821)
Finance and service charges not included in premiums		539,598
Aggregate write-ins for miscellaneous income		3,145,863
Total other income		4,640
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		1,754,405
Federal and foreign income taxes incurred		3,955,534
Net income (loss)	\$	(2,201,129)

FARMERS CASUALTY INSURANCE COMPANY
Reconciliation of Capital and Surplus
December 31, 2016 to December 31, 2021

Capital and Surplus, December 31, 2016			\$ 56,651,754
	<u>Gains</u>	<u>Losses</u>	
Net income	4,990,564		
Change in net deferred income tax		(1,132,945)	
Change in nonadmitted assets	983,440		
Surplus adjustments: Paid in	<u>10,000,000</u>		
Total gains and losses	<u>15,974,004</u>	<u>(1,132,945)</u>	
Net change in Capital and Surplus for the period			<u>14,841,059</u>
Capital and Surplus, December 31, 2021			<u>\$ 71,492,813</u>

FARMERS CASUALTY INSURANCE COMPANY
Analysis of Examination Adjustments
December 31, 2021

The examination of Farmers Cas, performed as of December 31, 2021, did not disclose any material misstatements to the financial statements contained in its 2021 Annual Statement filing. Accordingly, the amounts reported by Farmers Cas have been accepted for purposes of this report.

FARMERS DIRECT PROPERTY AND CASUALTY INSURANCE COMPANY
Comparative Statement of Assets
December 31, 2021 and December 31, 2016

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2016</u>	<u>Increase</u> <u>(Decrease)</u>
Bonds	\$ 45,173,681	\$ 25,585,509	\$ 19,588,172
Cash, cash equivalents and short-term investments	9,635,501	5,623,739	4,011,762
Receivables for securities		402,935	(402,935)
Investment income due and accrued	195,678	247,030	(51,352)
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	2,991,623	3,143,896	(152,273)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	108,951,365	106,337,068	2,614,297
Net deferred tax asset	28,072	1,200,389	(1,172,317)
Guaranty funds receivable or on deposit	-	2,873	
Aggregate write-ins for other-than-invested assets	824,800	145,013	679,787
Total Assets	<u>\$167,800,720</u>	<u>\$142,688,452</u>	<u>\$ 25,115,141</u>

FARMERS DIRECT PROPERTY AND CASUALTY INSURANCE COMPANY
Comparative Statement of Liabilities, Surplus, and Other Funds
December 31, 2021 and December 31, 2016

	December 31, 2021	December 31, 2016	Increase (Decrease)
Losses	\$ -	\$ -	\$ -
Current federal and foreign income taxes	-	17,578	(17,578)
Ceded reinsurance premiums payable	114,623,443	109,480,963	5,142,480
Payable to parent, subsidiaries and affiliates	3,340,379	632,278	2,708,101
Aggregate write-ins for liabilities	840,020	-	840,020
Total Liabilities	<u>118,803,842</u>	<u>110,130,819</u>	<u>8,673,023</u>
Common capital stock	3,000,000	3,000,000	-
Gross paid in and contributed surplus	31,620,722	18,620,721	13,000,001
Unassigned funds (surplus)	<u>14,376,156</u>	<u>10,936,912</u>	<u>3,439,244</u>
Surplus as regards policyholders	<u>48,996,878</u>	<u>32,557,633</u>	<u>16,439,245</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 167,800,720</u>	<u>\$ 142,688,452</u>	<u>\$ 25,112,268</u>

FARMERS DIRECT PROPERTY AND CASUALTY INSURANCE COMPANY
Statement of Income
Year Ended December 31, 2021

UNDERWRITING INCOME

Net underwriting gain or (loss)	\$	-
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INVESTMENT INCOME

Net investment income earned		1,195,376
Net realized capital gains or (losses)		297,007
		1,492,383
Net investment gain or (loss)		1,492,383

OTHER INCOME

Net gain (loss) from agents' balances or premium balances charged off		(8,047,103)
Finance and service charges not included in premiums		292,273
Aggregate write-ins for miscellaneous income		7,758,105
		3,275
Total other income		3,275
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		1,495,658
Federal and foreign income taxes incurred		3,271,158
		3,271,158
Net income (loss)	\$	(1,775,500)

FARMERS DIRECT PROPERTY AND CASUALTY INSURANCE COMPANY
Reconciliation of Capital and Surplus
December 31, 2016 to December 31, 2021

Capital and Surplus, December 31, 2016 \$ 32,557,633

	<u>Gains</u>	<u>Losses</u>
Net income	3,307,477	
Change in net deferred income tax		(1,335,738)
Change in non-admitted assets	1,467,508	
Surplus adjustments: Paid in	<u>13,000,000</u>	
Total gains and losses	17,774,985	<u>(1,335,738)</u>

Net change in Capital and Surplus for the period \$ 16,439,247

Capital and Surplus, December 31, 2021 \$ 48,996,880

FARMERS DIRECT PROPERTY AND CASUALTY INSURANCE COMPANY
Analysis of Examination Adjustments
December 31, 2021

The examination of Farmers Direct, performed as of December 31, 2021, did not disclose any material misstatements to the financial statements contained in its 2021 Annual Statement filing. Accordingly, the amounts reported by Farmers Direct have been accepted for purposes of this report.

FARMERS GROUP PROPERTY AND CASUALTY INSURANCE COMPANY
Comparative Statement of Assets
December 31, 2021 and December 31, 2016

	December 31, 2021	December 31, 2016	Increase (Decrease)
Bonds	\$ 277,917,838	\$ 382,589,752	\$ (104,671,914)
Cash, cash equivalents and short-term investments	10,985,835	6,798,780	4,187,055
Receivables for securities	76	302,581	(302,505)
Investment income due and accrued	2,268,551	4,474,670	(2,206,119)
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	2,311,726	598,659	1,713,067
Deferred premiums, agents' balances and installments booked but deferred and not yet due	240,420,865	273,875,189	(33,454,324)
Reinsurance:			
Amounts recoverable from reinsurers	920,927	13,867,965	(12,947,038)
Funds held by or deposited with reinsured companies	-	73,798	(73,798)
Current federal and foreign income tax recoverable	-	4,644,993	(4,644,993)
Net deferred tax asset	300,782	6,683,952	(6,383,170)
Guarantee funds receivable or on deposit	-	73,312	(73,312)
Receivables from parent, subsidiaries and affiliates	-	1,741,294	(1,741,294)
Aggregate write-ins for other-than-invested assets	10,129,440	-	10,129,440
Total Assets	<u>\$ 545,256,040</u>	<u>\$ 695,724,945</u>	<u>\$ (150,468,905)</u>

FARMERS GROUP PROPERTY AND CASUALTY INSURANCE COMPANY
Comparative Statement of Liabilities, Surplus, and Other Funds
December 31, 2021 and December 31, 2016

	December 31, 2021	December 31, 2016	Increase (Decrease)
Losses	\$ -	\$ -	\$ -
Reinsurance payable on paid loss and loss adjustment expenses	488,332	1,079,424	(591,092)
Ceded reinsurance premiums payable	257,069,070	273,876,587	(16,807,517)
Funds held by company under reinsurance treaties	311,537	297,399	14,138
Provision for reinsurance	505,097	4,501,542	(3,996,445)
Payable to parent, subsidiaries and affiliates	15,188,152	-	15,188,152
Aggregate write-ins for liabilities	10,240,183	2,249,862	7,990,321
Total Liabilities	<u>283,802,371</u>	<u>282,004,814</u>	<u>1,797,557</u>
Common capital stock	3,000,000	3,000,000	-
Gross paid in and contributed surplus	192,546,568	192,546,568	-
Unassigned funds (surplus)	<u>65,907,101</u>	<u>218,173,563</u>	<u>(152,266,462)</u>
Surplus as regards policyholders	<u>261,453,669</u>	<u>413,720,131</u>	<u>(152,266,462)</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 545,256,040</u>	<u>\$ 695,724,945</u>	<u>\$ (150,468,905)</u>

FARMERS GROUP PROPERTY AND CASUALTY INSURANCE COMPANY
Statement of Income
Year Ended December 31, 2021

UNDERWRITING INCOME

Net underwriting gain or (loss)	\$	-
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INVESTMENT INCOME

Net investment income earned		9,192,872
Net realized capital gains or (losses)		1,711,408
		10,904,280
Net investment gain or (loss)		10,904,280

OTHER INCOME

Net gain (loss) from agents' balances or premium balances charged off		(17,415,680)
Finance and service charges not included in premiums		497,644
Aggregate write-ins for miscellaneous income		16,938,015
		19,979
Total other income		19,979
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		10,924,259
Federal and foreign income taxes incurred		15,032,718
		15,032,718
Net income (loss)	\$	(4,108,459)

FARMERS GROUP PROPERTY AND CASUALTY INSURANCE COMPANY
Reconciliation of Capital and Surplus
December 31, 2016 to December 31, 2021

Capital and Surplus, December 31, 2016		\$ 413,720,131
	<u>Gains</u>	<u>Losses</u>
Net income	50,073,305	
Change in net unrealized capital gains or (losses)	16,282	
Change in net deferred income tax		(11,825,643)
Change in non-admitted assets		(526,851)
Change in provision for reinsurance	3,996,445	
Dividend to stockholders	<u> </u>	<u>(194,000,000)</u>
Total gains and losses	54,086,032	(206,352,494)
Net change in Capital and Surplus for the period		<u>(152,266,462)</u>
Capital and Surplus, December 31, 2021		<u>\$ 261,453,669</u>

FARMERS GROUP PROPERTY AND CASUALTY INSURANCE COMPANY
Analysis of Examination Adjustments
December 31, 2021

The examination of Farmers Group, performed as of December 31, 2021, did not disclose any material misstatements to the financial statements contained in its 2021 Annual Statement filing. Accordingly, the amounts reported by Farmers Group have been accepted for purposes of this report.

COMMENTS ON FINANCIAL STATEMENTS

ASSETS

Bonds

\$ 3,179,320,496

The above amount is the aggregate net admitted value of bonds owned by the Companies as of December 31, 2021. The amounts attributable to each company are detailed below, and are the same amounts as those reported in their respective 2021 Annual Statements.

Farmers P&C	\$ 2,785,405,343
Farmers Cas	70,823,634
Farmers Direct	45,173,681
Farmers Group	277,917,838

All of the bonds owned at year-end 2021 were held in accordance with custodial agreements with third parties, excluding approximately 0.36% of the combined bond portfolio, or \$11,519,247, which was held in the form of special deposits with various states.

The quality designations of all securities included in the Companies' bond portfolios were reviewed based upon criteria established by the NAIC's Securities Valuation Office. It was noted that 72.1% of the combined bond portfolio were designated NAIC 1, which are bonds of the "highest" quality, according to the NAIC Designation system, while 21.5% were designated NAIC 2 ("high" quality).

The aggregate book/adjusted carrying value of bonds owned by the Companies at December 31, 2021 represents 51.7% of their combined total admitted assets. The book/adjusted carrying value, fair value, actual cost, and par value of each company's bond portfolio reported at December 31, 2021 are as follows:

	Book/Adjusted Carrying Value	Fair Value	Actual Cost	Par Value
Farmers P&C	\$ 2,785,405,343	\$ 2,923,081,489	\$ 2,808,743,427	\$ 2,762,947,263
Farmers Cas	70,823,634	72,448,531	71,332,294	70,303,720
Farmers Direct	45,173,681	46,619,544	45,562,783	44,812,043
Farmers Group	277,917,835	291,863,987	281,946,239	273,574,213
Total	\$ 3,179,320,493	\$ 3,334,013,551	\$ 3,207,584,743	\$ 3,151,637,239

Stocks

\$ 738,492,288

The above amount represents the total admitted value of stocks owned by the Companies at December 31, 2021, and consists of \$28,467,836 in preferred stocks and \$710,024,452 in common stocks. The amounts attributable to each Company are detailed below, and are the same amounts as those reported in their respective 2021 Annual Statements.

	Preferred Stocks	Common Stocks	Total
Farmers P&C	\$ 28,467,836	\$ 710,024,452	\$ 738,492,288
Farmers Cas	-	-	-
Farmers Direct	-	-	-
Farmers Group	-	-	-

Mortgage Loans on Real Estate – First Liens**\$ 283,202,130**

The above amount represents the total value of first liens on mortgage loans on real estate owned by the Companies at December 31, 2021. The amounts attributable to each company are detailed below, and are the same amounts as those reported in their respective 2021 Annual Statements.

Farmers P&C	\$ 283,202,130
Farmers Cas	-
Farmers Direct	-
Farmers Group	-

Deferred Premiums, Agents' Balances and Installments
Booked but Deferred and Not Yet Due**\$ 1,719,222,530**

The above amount represents the total value of premiums deferred and not yet due the Companies at December 31, 2021. The amounts attributable to each company are detailed below, and are the same amounts as those reported in their respective 2021 Annual Statements.

Farmers P&C	\$ 1,223,900,540
Farmers Cas	145,949,760
Farmers Direct	108,951,365
Farmers Group	240,420,865

LIABILITIES

Losses and Loss Adjustment Expenses

\$ 1,067,712,207

The above amount represents the combined net loss and loss adjustment expense (“LAE”) reserves held by the Companies at December 31, 2021. The amounts attributable to each company are detailed below.

	<u>Losses</u>	<u>LAE</u>	<u>Total</u>
Farmers P&C	\$ 878,696,732	\$ 189,015,475	\$ 1,067,712,207
Farmers Cas	-	-	-
Farmers Direct	-	-	-
Farmers Group	-	-	-

The significant actuarially determined amounts above are the same as those reported in the Companies’ 2021 Annual Statements. The Companies’ reported reserves were reviewed for reasonableness by Risk & Regulatory Consulting, LLC (“RRC”), consulting actuaries for the California Department of Insurance, the Lead State for the Coordinated Exam. RRC relied upon the underlying data reported by the Companies, which was tested by the Examination Team without exception. RRC’s analysis included a review of the actuarial assumptions and methods utilized in determining the reserves, and such tests of actuarial calculations as deemed necessary.

Based upon the review performed by RRC, the Companies’ reported reserves were found to be calculated in accordance with commonly accepted reserving methods and are based on appropriate actuarial factors given the risk exposures under the policy provisions. RRC also concluded that the reported reserves make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Companies, under the terms of their policies and agreements.

Ceded Reinsurance Premiums Payable**\$ 2,273,955,501**

The above amount is the aggregate amount of ceded premiums payable by the Companies at December 31, 2021, under the reinsurance agreements described in the “Reinsurance” section of this report. The amounts attributable to each company are detailed below.

Farmers P&C	\$ 1,750,712,155
Farmers Cas	151,550,833
Farmers Direct	114,623,443
Farmers Group	257,069,070

The amounts reported above for Farmers Cas, Farmers Direct, and Farmers Group are the same amounts as reported in their respective 2021 Annual Statement.

The amount shown above for Farmers P&C is \$1,745,133,637 greater than the amount reported by the Company in its 2021 Annual Statement, and reflects an examination adjustment to reclassify a portion of the balance in “Payable to Parent, Subsidiaries, and Affiliates” to “Ceded Reinsurance Premiums Payable,” as explained below.

During the course of the examination, the Examination Team noted that Farmers Property and Casualty Insurance Company was reporting amounts related to the 100% Quota Share agreement with Farmers Insurance Exchange (“FIE”) on Page 3, Line 19 (“Payable to Parent, Subsidiaries and Affiliates”) of the Annual Statement.

Per the NAIC 2021 Property/Casualty Annual Statement Instructions (“Annual Statement Instructions”), amounts relating to intercompany reinsurance transactions should be excluded from Line 19, and should instead be reported through the appropriate reinsurance accounts. Specifically, the ceded unearned premiums included within Page 3, Line 19 should be reported as Ceded Reinsurance Premiums Payable on Page 3, Line 12. As a result, Farmers P&C did not report intercompany reinsurance balances in accordance with the Annual Statement Instructions.

After discussion between Farmers, the California Department of Insurance, and the Rhode Island Insurance Division, it was agreed that FIE and Farmers P&C would record a correcting entry to reclassify the intercompany reinsurance balances, and that the reclassification would be done on a prospective basis. A review of the June 30, 2023 Quarterly Statement for Farmers P&C indicated that Farmers P&C has made the correcting entry and has included the related footnote disclosure.

Recommendation #4

It is recommended that Farmers Property and Casualty Insurance Company report intercompany reinsurance balances in accordance with the NAIC Annual Statement Instructions.

Payable to Parent, Subsidiaries, and Affiliates

\$ 173,851,920

The above amount is the aggregate amount payable to parent, subsidiaries, and affiliates by the Companies at December 31, 2021. The amounts attributable to each company are detailed below.

Farmers P&C	\$ 151,307,677
Farmers Cas	4,015,712
Farmers Direct	3,340,379
Farmers Group	15,188,152

The amounts reported above for Farmers Cas, Farmers Direct, and Farmers Group are the same amounts as those reported in their respective 2021 Annual Statements.

The amount shown above for Farmers P&C is \$1,745,133,637 less than the amount reported by the Company in its 2021 Annual Statement, and reflects an examination adjustment to reclassify a portion of the balance in “Payable to Parent, Subsidiaries, and Affiliates” to “Ceded Reinsurance Premiums Payable,” as detailed within the “Ceded Reinsurance Premiums Payable” section above.

SUBSEQUENT EVENTS

A review of financial information, the Companies' records, and the minutes to meetings of the Boards of Directors and their various committees for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Companies' operations or financial statements. In addition, an inquiry was made of the Companies' management regarding subsequent events. Based upon our review, there were no significant events and/or transactions which occurred subsequent to the period covered by this examination.

SUMMARY OF RECOMMENDATIONS

No.	Recommendation	Page No.
1	It is recommended that the Farmers P&C Group comply with §230-RICR-20-45-7.13(B) by requiring its independent accounting firm to make available for review by insurance department examiners, without interference, all workpapers prepared in the conduct of the independent accounting firm's audit and any communications related to the audit between the accountant and the insurer.	22
2	It is recommended that the Farmers P&C Group adjust the reporting structure of IA and/or ICFR as necessary to comply with §230-RICR-20-45-7.15(C) and to ensure the Internal Audit function is organizationally independent.	24
3	<p>It is recommended that the Farmers P&C Group comply with RIGL §27-13.1-4(b) by providing insurance department examiners with 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, as well as full access to relevant members of management and staff who can assist the examiners and aid in the examination.</p> <p>It is further recommended that the Farmers P&C Group update its policies and procedures relating to statutory examinations as may be necessary in order to ensure full compliance with all applicable examination statutes.</p>	26

4	It is recommended that Farmers Property and Casualty Insurance Company report intercompany reinsurance balances in accordance with the NAIC Annual Statement Instructions.	53
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CONCLUSION

We have applied verification procedures to the data and information contained in this report using sampling techniques and other examination procedures as deemed appropriate. While sampling and other examination procedures do not give complete assurance that all errors and irregularities will be detected, had any been detected during the course of this examination, such errors and/or irregularities would have been disclosed in this report. Other than what has been noted in the body of this report, we were not informed of, and did not become aware of, any errors or irregularities that could have a material effect on the financial condition of the Companies as presented in this report.

Participating in the examination with the undersigned were various staff insurance examiners from the Rhode Island Insurance Division.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joseph R. Rapczak", written over a horizontal line.

Joseph R. Rapczak, CPA, CIA, CFE
Insurance Examiner-in-Charge
Rhode Island Insurance Division