

REPORT ON EXAMINATION AS TO THE CONDITION OF

21ST CENTURY PINNACLE INSURANCE COMPANY

WILMINGTON, DELAWARE 19803

AS OF DECEMBER 31, 2021

NAIC GROUP CODE 0069

NAIC COMPANY CODE 10710

FILED

October 27, 2023

Commissioner

New Jersey Department

of

Banking and Insurance

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**State of New Jersey**

**PHILIP D. MURPHY**  
*Governor*

**DEPARTMENT OF BANKING AND INSURANCE**  
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September 26, 2023

Honorable Justin Zimmermann  
Acting Commissioner of Banking and Insurance  
State of New Jersey  
20 West State Street  
Trenton, New Jersey 08625-0325

Commissioner:

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

21st Century Pinnacle Insurance Company  
WILMINGTON, DELAWARE 19803  
NAIC GROUP CODE 0069  
NAIC COMPANY CODE 10710

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

## SCOPE OF EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as “NJDOBI”, has performed a full scope risk-focused examination of the Company.

This risk-focused examination was called by the Commissioner of NJDOBI pursuant to the authority granted by N.J.S.A. 17:23-22 of the New Jersey Revised Statutes.

The examination is part of the coordinated examination of the Farmers Insurance Group being conducted by the California Department of Insurance (“CDI”). The examination was conducted remotely due to the COVID-19 pandemic, and there was no travel by the NJDOBI to the Company’s Home Office located at 3 Beaver Valley Road, Wilmington, DE, 19803. NJDOBI conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (the “NAIC Handbook”). The NAIC Handbook requires that NJDOBI plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. In order to meet these objectives, NJDOBI obtained information regarding the Company’s corporate governance environment, identified and assessed inherent risks to which it is exposed, and evaluated its system of internal controls and procedures used to mitigate those risks identified. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

The NJDOBI examiners were responsible for identifying significant deviations from New Jersey laws and regulations. Additional substantive procedures were performed where deemed necessary.

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

## COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

The full-scope coordinated multi-state risk focused 2017 examination of the Company yielded one reportable recommendation. During the course of this examination, some books and records were not made available to the examination team in accordance with N.J.S.A. 17:23-23(b). “Every person being examined, the person’s officers, attorneys, employees, agents and representatives, shall make freely available to the Commissioner, or the Commissioner’s examiners, the accounts, records, documents, files, information, assets and matters of such person, in the person’s possession or control, relating to the subject of the examination and shall facilitate the examination”.

The NJDOBI examiners did encounter issues during the current examination in regard to the availability and access to books and records. The CDI experienced significant delays in obtaining

access to various supporting documents on behalf of the multistate coordinated examination as detailed in the Accounts and Records section of this Report.

## HISTORY AND KIND OF BUSINESS

On December 16, 1996, the Company was incorporated as a stock insurance company under the laws of the State of New Jersey and commenced operations on January 30, 1997. In accordance with the Company's Certificate of Incorporation, the third paragraph reads as follows: "The kind of insurance to be transacted by the Corporation shall be the kinds of insurance specified by the following paragraphs under N.J.S.A. 17:17-1 of the New Jersey Revised Statutes: "b" and "e". Also, the fifth paragraph reads as follows: "The amount of capital stock of the corporation shall be \$1,200,000 divided into one hundred twenty thousand (120,000) shares of common stock having a par value of ten dollars (\$10.00) per share".

On January 30, 1997, the New Jersey Commissioner of Banking and Insurance issued a Certificate of Authority to the Company. This certificate authorizes AIIC-NJ to transact the kinds of insurance authorized by paragraphs "b" and "e" of N.J.S.A. 17:17-1 et seq. (\*Except that the authority to write Workers' Compensation and Employers' Liability Insurance is specifically excluded.)

Order No. A99-127, pursuant to N.J.S.A. 17:33B-30, transferred all the personal lines of insurance business from the New Hampshire Insurance Company "New Hampshire" to AIU Insurance Company "AIU", which assumed homeowners' insurance policies, and AIIC-NJ, which assumed private passenger automobile insurance policies, on March 26, 1999. New Hampshire represents that it will be fully responsible for all liabilities and obligations arising under any homeowners and/or private passenger automobile insurance policy written by New Hampshire prior to the date such business is non-renewed and/or transferred to AIU or AIIC-NJ pursuant to the terms of this Order.

Order No. A01-148 and Final Decision, in the matter of AIIC-NJ's prior approval filing request, on September 20, 2000, for a private passenger automobile rate increase.

On November 9, 2000, the matter of the rate increase was transmitted to the "Office of Administrative Law" (ALJ) for determination as a contested case pursuant to N.J.S.A. 52:14B-1 through 13. On August 6, 2001, AIIC-NJ filed an emergent application to the Superior Court of N.J., Appellate Division, seeking to have its September 20, 2000 filing deemed approved by operation of law pursuant to N.J.S.A. 17:29A-14c1. The Appellate Division denied AIIC-NJ's request for emergent relief.

The Administrative Law Judge's decision is modified to reflect the Commissioner's conclusion that AIIC-NJ's request for an increase in rates will result in rates that are excessive, and the rate filing is denied. Therefore, it is on August 30, 2001 that the Administrative Law Judge's Initial Decision rendered on June 29, 2001 in this matter is adopted in part and modified in part as the Commissioners' Final Decision. AIIC-NJ appealed the Commissioner's "Order A01-148 and Final Decision" to the New Jersey Superior Court, Appellate Division.

Order No. C01-118, a filing by AIIC-NJ for approval to withdraw from writing private passenger automobile insurance in New Jersey pursuant to N.J.S.A. 17:17-10 and N.J.A.C. 11:2-29.1 et seq. on December 17, 2001. The Department's Commissioner indicated that as an alternative to proceeding to withdraw from New Jersey private passenger automobile insurance market, or making a new rate filing, AIIC-NJ could restructure its business. Within 15 days of this Order, AIIC-NJ shall execute and file a "Stipulation of Dismissal" of AIIC-NJ's appeal to the Superior Court of New Jersey on the "Order A01-148 and Final Decision".

On January 4, 2002, the Superior Court of New Jersey, Appellate Division, has been advised that the Company's appeal of the Commissioner's "Order A01-148 and Final Decision" has been amicably adjusted and the parties have stipulated to the dismissal of this appeal. Accordingly, the appeal is dismissed with prejudice and without cost.

Consent Order C03-108 - Market Stabilization was signed on July 2, 2003, in the Matter of AIIC-NJ and American International Insurance Company of Delaware (AIIC-DE), (collectively, the "AIIC Companies") and the Acting Commissioner entered into Consent Order No. C01-118, on December 17, 2001, which provided for a suspension of the proceedings on the AIIC Companies Plan of Orderly Withdrawal for a period of two years from the date of that Consent Order. Market Stabilization Consent Order C03-108, will provide AIIC Companies the opportunity to evaluate pending changes to the private passenger auto market, analyze the impact upon their business and provides a preferable alternative to withdrawal. If the final benchmarks are not met, then AIIC Companies may either dismiss with prejudice their Plan of Orderly Withdrawal or proceed with their Plan of Orderly Withdrawal.

The Company's amendment to its Certificate of Incorporation was approved by the shareholders and the Board of Directors on June 3, 2004. It was approved by the Deputy Attorney General on June 11, 2004 and filed with the New Jersey Department of Banking and Insurance on June 17, 2004. This amendment updated the third paragraph which reads as follows: "The kind of insurance to be transacted by the Corporation shall be the kinds of insurance specified by the following paragraphs under N.J.S.A. 17:17-1 of the New Jersey Revised Statutes: "a", "b", "d", "e", "f", "g", "h", "i", "j", "k", "l", "m", "n", "o" and N.J.S.A. 17B:17-4 health insurance. Also, the fifth paragraph is amended to read as follows: "The amount of capital stock of the corporation shall be \$4,200,000 divided into one hundred twenty thousand (120,000) shares of common stock having a par value of thirty-five dollars (\$35.00) per share."

NJDOBI filed, on August 23, 2004, a Report on Examination as to the Increase in Capital Stock as at June 30, 2004. The par value of AIIC-NJ's, 120,000 authorized and outstanding common stock shares increased from \$10.00 to \$35.00 and common capital stock increased from \$1,200,000 to \$4,200,000.

On August 23, 2004, the New Jersey Commissioner of Banking and Insurance issued an amended Certificate of Authority to the Company. This certificate authorizes AIIC-NJ to transact the kinds of insurance authorized by paragraphs "a", "b", "e", "f", "g", "i", "j", "k", "l", "m", "n" and "o" of N.J.S.A. 17:17-1 et seq. (\*Except that the authority to write Workers' Compensation and Employers' Liability Insurance is specifically excluded.)

Consent Order C05-01 – Market Continuation was signed on February 4, 2005 in the matter of AIIC-NJ and AIIC-DE, (collectively the “AIIC Companies”). This matter comes before the New Jersey Commissioner of Banking and Insurance pursuant to the authority of N.J.S.A. 17:1-15, N.J.S.A. 17:17-10, N.J.S.A. 17:33B-30 and N.J.A.C. 11:2-29 et seq. and all powers expressed or implied therein upon the June 15, 2001 filing by AIIC-NJ to withdraw from writing New Jersey Private Passenger Auto (NJ-PPA), the “Withdrawal Plan” or the “Plan”, due to the deterioration in its loss ratio without obtaining rate relief approval. On December 17, 2001, the Plan was amended and supplemented by Consent Order C01-118 which provided for the suspension of proceedings on the Withdrawal Plan for a period of two years. This Order provided the AIIC Companies the ability to restructure and stabilize their financial condition and also gave them the option to reactivate the Withdrawal Plan on or before the two-year period. On July 2, 2003, the Market Stabilization Consent Order C03-108 was issued by the Department in order to provide the AIIC Companies with additional time to assess the effects of the reforms to the NJ-PPA insurance laws. On June 9, 2003, substantial reforms to the automobile insurance regulatory scheme were established by the Automobile Insurance Competition and Choice Act, the “Act”, which provides for a private passenger automobile insurance regulatory framework that promotes competition while providing appropriate protections to consumers. AIIC Companies agreed to suspend the Withdrawal Plan according to the time frames and conditions set forth in the Market Stabilization Order as per the “Assessment Period”. This Order also provided that if the AIIC Companies dismiss the Withdrawal Plan, then the Commissioner would permit the de-pooling of AIG’s NJ-PPA from the AIIC-AIG Pool upon determination that the de-pooled affiliates are sufficiently capitalized based on the financial solvency standards. If AIIC Companies proceeds with their Withdrawal Plan, the Commissioner would waive any requirement to surrender affiliates licenses in NJ. Therefore, it is on this date, February 4, 2005, ordered and agreed that the AIIC Companies’ pending Withdrawal Plan is dismissed without prejudice.

The Company’s amendment to its Certificate of Incorporation was approved by the shareholders and the Board of Directors on April 12, 2007. It was approved by the Deputy Attorney General on April 24, 2007 and filed with the New Jersey Department of Banking and Insurance on May 3, 2007. The amendment updated the third paragraph which reads as follows: “The kind of insurance to be transacted by the corporation shall be the kinds of insurance specified by the following paragraphs under N.J.S.A. 17:17-1 and N.J.S.A. 17B:174 of the New Jersey Revised Statutes: “a”, “b”, “e”, “f”, “g”, “i”, “j”, “k”, “l”, “m”, “n”, “o” and “Health Insurance”. The eighth paragraph is amended to read as follows: “The principal officers of this corporation shall be a President, a Vice President, a Secretary, a Treasurer, and such other officers as the Board of Directors may determine to elect in accordance with the provisions of the By-laws of this corporation by resolution adopted by a majority of the entire Board. All officers shall hold office for a term as specified in the By-laws.” Also, the eleventh and twelfth paragraphs are amended in their entirety by deleting the names and addresses of the incorporators and the names, addresses and titles of the initial Board of Directors and Officers of the corporation, respectively.

On May 3, 2007, the New Jersey Commissioner of Banking and Insurance issued an amended Certificate of Authority to the Company. This certificate authorizes AIIC-NJ to transact the kinds of insurance authorized by paragraphs “a”, “b”, “\*e”, “f”, “g”, “i”, “j”, “k”, “l”, “m”, “n” and “o” of N.J.S.A. 17:17-1 et seq. (\* Except that the authority to write Workers’ Compensation and

Employers' Liability Insurance and "Health Insurance" as defined in N.J.S.A. 17B:17-4 may only be written on a reinsurance basis).

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

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

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

The Sellers own directly all the outstanding Capital Stock in each of the following entities: American International Insurance Company of Delaware., AIG Hawaii Insurance Company Inc., American International Insurance Company, AIG Centennial Insurance Company, American International Pacific Insurance Company, New Hampshire Indemnity Company Inc., 21st Century Insurance Group, AIG Marketing, Inc. and Hawaii Insurance Consultants, Ltd. (collectively, the "Companies"). The Companies own, directly or indirectly, all of the outstanding Capital Stock in each of the entities set forth in Schedule 1 (collectively, the "Transferred Subsidiaries"), of which AIG Auto is a party.

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

- Purchase and Sale Agreement, dated as of April 16, 2009, is by and among Farmers Group, Inc. ("FGI"), and Farmers Insurance Exchange ("FIE"), Fire Insurance Exchange ("Fire"), and Truck Insurance Exchange ("Truck"), (FIE, Fire and Truck, collectively the "Exchange Buyers").

FGI will Transfer to the Exchange Buyers all of the rights, title and interest in and to the Companies, of which AIIC is a party, and the Transferred Subsidiaries, of which AIIC-NJ is a party, as set forth on Schedule 2(b).

As a result of this Purchase and Sales Agreement, the Company's parent, AIIC, is owned by the Exchange Buyers in the following percentages: FIE (80%), Fire (10%), and Truck (10%). The Company's stock shares are still owned 100% by their parent, AIIC.



On April 28, 2009, a Multistate Form A was filed regarding the “Acquisition of Control” of or Merger with a Domestic Insurer of the Personal Auto Group Insurers (PAG) of American International Group, Inc. (AIG) by Farmers Group, Inc. (a subsidiary of Zurich Financial Services, LTD.), FIE, Fire and Truck.

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

Effective July 1, 2009, per the approved “Acquisition of Control”, the following agreements were approved by NJDOBI on June 19, 2009:

- Master Termination of Inter-Company Agreements
- Amended and Restated Inter-Company Pooling Agreement
- PCG Business Reinsurance and Administration Agreement

All outstanding shares of American International Insurance Company are owned by FIE (80%), Truck (10%) and Fire (10%). The Company’s new N.A.I.C. Group Code is 0212.

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

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

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

On April 1, 2010, the Company amended its Stock Certificate to reflect 21st Century North America Insurance Company (formerly - American International Insurance Company) owns 100% of the issued and outstanding stock of 21st Century Pinnacle Insurance Company (formerly – American International Insurance Company of New Jersey).

On February 21, 2011, the Custodial Agreement with JP Morgan Chase Bank, N.A. has been amended to reflect the Company’s new name, 21st Century Pinnacle Insurance Company.

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

21st Century Group submitted a withdrawal plan to transfer all their voluntary personal auto business from 21st Century Pinnacle (domestic company), 21st Century Centennial and 21st Century Assurance to Foremost Ins. Co of Grand Rapids, Michigan. The reason for the transfer was to sunset the 21st Century brand in all states except CA and Hawaii. This was an inter-company transfer. The Department reviewed this withdrawal plan and had no concerns.

As of December 31, 2021 – the Company is only licensed in New Jersey per the Schedule T.

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

STATUTORY DEPOSIT

As of December 31, 2021, the Company maintained two securities on deposit with the State of New Jersey, in trust for the benefit and security of the Company’s policyholders.

<u>State</u>	<u>Securities</u>	<u>Par Value</u>
	U.S. Treasury Bond	
New Jersey	6.0 % due February 15, 2026	\$ 150,000
	U.S. Treasury Bond	
New Jersey	0.375% due September 15, 2024	500,000
Total		<u>\$ 650,000</u>

TERRITORY AND PLAN OF OPERATIONS

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

The Company has not written business since 2017. The Company is authorized in the following lines: homeowners’ multiple peril, inland marine, earthquake, workers’ compensation - homeowners portion, private passenger auto, auto physical damage and other liability occurrence business.

21st Century Pinnacle, along with the majority of the companies in the 21st Century Insurance Group discontinued offering new business pursuant to approval from the Department. At the end of 2016, renewals of the remaining in force business was offered to policyholders underwritten by

Bristol West Insurance Company or Homesite Company. As of December 31, 2021, all 21st Century Pinnacle business has been transferred or non-renewed.

### CORPORATE RECORDS

The Company's By-laws were not amended during the exam period.

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

### MANAGEMENT AND CONTROL

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

#### Directors

The Company's By-laws specify that the business and affairs of the Company shall be managed by its Board of Directors, subject to the laws of New Jersey, the Certificate of Incorporation and the By-laws of the Company. The number of directors constituting the Board of Directors shall not be less than five (5) nor more than nine (9). Subject to the foregoing limitation, such number may be designated from time to time by action of the shareholders or of the Board of Directors, or, if the number is not so designated, the number shall be seven (7). The elected Directors shall hold office until their successors have been duly elected and qualified or until the earlier of their death, resignation or removal. Directors shall be elected annually by the shareholders at their annual meeting.

The annual meeting of the Board of Directors will be held as soon as practical after the Shareholders annual meeting. The Board may hold meetings at such place or places within or without the State of New Jersey as the Board may from time to time determine. Each meeting of the Board of Directors shall be presided over by the President or by any Director selected to preside by vote of a majority of the Directors present. At least one Disinterested Director shall be included in any quorum for the transaction of business at any meeting of the Board of Directors.

A listing of the Directors serving the Company as at December 31, 2021 is as follows

<u>Name and Location</u>	<u>Principle Business Affiliation</u>
Kris M. Bidlingmaier Apollo Beach, FL	Head of 21st Century
Joe D. Bryant Moore, OK	Owner, Military Medal Manufacturing
Guy M. Hanson Missoula, MT	Officer/ Director, John Gault Ranch, LLC
Gail N. Jackson Playa del Rey, CA	Physician
Sherman L. Lewis III Pearland, TX	President, The Lewis Group

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4d(3) which states that, “not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity”. However, in accordance with N.J.S.A. 17:27A-4d(5), the provisions of paragraph (3) shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors that substantially meet the requirements of this paragraph. Under N.J.S.A. 17:27A-4d(5), the Company’s ultimate controlling entities are FIE, Fire and Truck (the “Exchange Group”). The Exchange Group has independent members and the Company is compliant with N.J.S.A. 17:27A-4d(3).

#### Committees

The Company does not have an executive, Finance or Audit Committee in place as of December 31, 2021. However, the Company’s parent, the Exchange Group, has committees in place which include an Exchange Executive Committee, Exchange Audit Committee and Farmers Investment Committee.

#### Officers

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

successors shall have been elected and qualified or until the earlier of their death, resignation or removal. The following Officers have been elected and were serving the Company at December 31, 2021:

<u>Name</u>	<u>Office</u>
Kris M. Bidlingmaier	President
Robert P. Howard	Vice President
Victoria L. McCarthy	Vice President
Thomas S. Noh	Vice President and Assistant Treasurer
Theresa L. Harm	Treasurer
James L. Nutting	Actuary

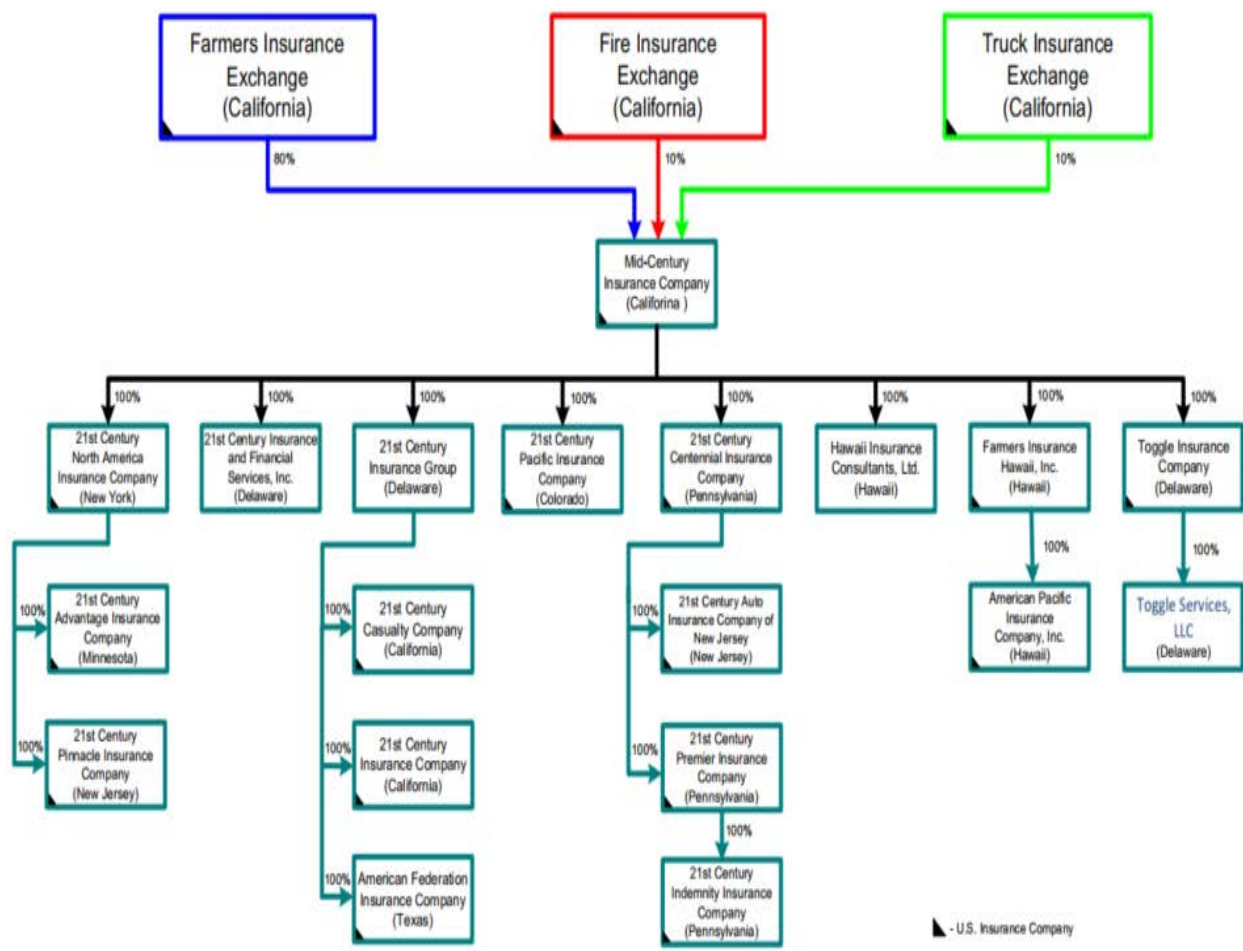
#### REINSURANCE

The Company did not have any material unaffiliated reinsurance agreements in place as of December 31, 2021. The Company is a member of the following mandatory pool: New Jersey Unsatisfied Claims & Judgment Fund.

#### REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

21st Century Pinnacle is a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1 and is subject to the registration requirements of N.J.S.A. 17:27A-3. A reorganization and change in ownership interest were made in all of the 21st Century subsidiaries from the Farmers Insurance Exchange (80%), Fire Insurance Exchange (10%), and Truck Insurance Exchange (10%) to Mid-Century Insurance Company (100%) effective April 1, 2018. All outstanding shares of the Company's stock are owned by 21st Century North America Insurance Company ("21CNAI"), an insurance company domiciled in the state of New York. 21CNAI is a wholly-owned subsidiary of Mid-Century Insurance Company, an insurance company domiciled in the State of California, which in turn is owned by Farmers Insurance Exchange (80%), Fire Insurance Exchange (10%), and Truck Insurance Exchange (10%).

It was determined that the Company filed its holding company registration statements, for the period under examination, in compliance with the requirements and standards of N.J.S.A. 17:27A-3. An abbreviated organizational chart of the Exchanges' holding company system as of December 31, 2021, is as follows (ownership of subsidiaries is 100% unless otherwise noted):



Agreements with Affiliates

Intercompany Pooling Agreement

The Company was a party to an intercompany pooling agreement for part of the examination period. In accordance with the terms and conditions of the agreement, 100% of the net business written by each of the participants is ceded to 21CNAI, the lead company in the Intercompany Pool. Under the terms of the intercompany pooling agreement, liabilities relating to losses with a date of loss prior to July 1, 2009 were ceded to the pool members by 21CNAI based on each pool member’s fixed pooling participation percentage. The pooling percentage for 21st Century Pinnacle was 0%.

Effective June 1, 2016, an Assignment, Transfer, Assumption and Novation Agreement was entered into among 21CNAI, 21st Century Insurance Company of the Southwest (“21CSW”), 21CAUTO, and 21st Century Superior Insurance Company (“21CSI”). In conjunction with these transactions, 21CNAI replaced 21CSW, 21CAUTO, and 21CSI under the pooling agreement with

21CSW, 21CAUTO, and 21CSI no longer being a party to the agreement. Additionally, Amendment No.1 of the 21st Century Intercompany Pooling Agreement, effective January 1, 2017, resulted in the termination of the pool share for the Company and the remaining downstream 21st Century company pool participants.

The pooling agreement was amended pursuant to Amendment No. 2, effective March 29, 2018. Pursuant to the terms of Amendment No. 2, 21st Century National Insurance Company was removed as a pool participant.

The pooling agreement was amended to pursuant to Amendment No. 3, effective August 1, 2018. A third party agreed to buy all the outstanding shares of 21st Century Security Insurance Company. As a result of the sale, 21st Century Security Insurance Company was no longer a participant of the pooling agreement.

Amendment No. 4 of the 21st Century Intercompany Pooling Agreement, was to remove 21<sup>st</sup> Century Preferred Insurance Company from the pooling agreement because a third-party purchaser agreed to acquire all outstanding shares of 21st Century Preferred Insurance Company. As a result of the sale, 21st Century Preferred Insurance Company was no longer a party to the pooling agreement and all ceding companies other than 21st Century Preferred Insurance Company remained parties to the pooling agreement.

Effective January 1, 2021, the 21st Century Intercompany Pooling Agreement was terminated and replaced with a 100% Quota Share Reinsurance Agreement, Service Agreement and Assignment and Assumption Agreement.

#### 100% Quota Share

As a result of the termination of the pooling agreement, Farmers Insurance Exchange entered into a 100% Quota Share Agreement with 21st Century Pinnacle Insurance Company effective January 1, 2021. Under the agreement, 21st Century Pinnacle Insurance Company agrees to cede, and the Farmers Insurance Exchange agrees to assume, a 100% quota-share participation in 21st Century Pinnacle Insurance Company's net losses.

#### Assignment and Assumption Agreement

Effective January 1, 2021, 21st Century Pinnacle Insurance Company entered into an Assignment and Assumption Agreement with 21 CNAI, whereby 21st Century Pinnacle Insurance Company agreed to assign and transfer all respective rights, obligations, duties and liabilities to 21 CNAI. 21CNAI will assume all of the Company's duties, obligation and liabilities under the Pooling Agreement for activity prior to January 1, 2021.

#### Service Agreement

Effective January 1, 2021, Farmers Insurance Exchange entered into a Service Agreement with 21st Century Pinnacle Insurance Company. Farmers Insurance Exchange provides or arranges for

the provision of management services with respect to the business of the Company under the terms of the agreement. The services provided by Farmers Insurance Exchange include investment management services pursuant to Investment Guidelines approved by 21st Century Pinnacle Insurance Company directing Farmers Insurance Exchange to act on behalf of 21<sup>st</sup> Century Pinnacle Insurance Company. As consideration for the investment management services, 21st Century Pinnacle Insurance Company pays Farmers Insurance Exchange an annual amount equal to one-twentieth of one percent (0.05%) of the net invested assets of 21<sup>st</sup> Century Pinnacle Insurance Company.

#### Revolving Credit Facility Agreement

Effective February 21, 2017, 21st Century Pinnacle Insurance Company became a signatory to a Revolving Credit Facility Framework Agreement (the “Framework Agreement”). The Framework Agreement provides a framework whereby short-term loans can be executed on an as needed basis between signatories to the Framework Agreement, all of whom are affiliate insurers within the Farmers Insurance Holding Company system. The short-term loans do not exceed 90 days in duration or in the aggregate 3% of a signatory’s admitted assets. There were no loans for the Registrants under this agreement during 2021.

#### Tax Sharing Agreement

Effective September 1, 2013, the Company entered into a Tax Sharing Agreement with FIE and its various insurance and non-insurance affiliates and subsidiaries. The Exchange is the party primarily responsible for filing and making all tax payments on behalf of the parties to this agreement. Allocation of taxes is based upon separate return calculations with intercompany tax balances payable or receivable being settled in amounts equal to the amounts which would be due to or from federal taxing authorities as if separate returns were filed. Intercompany balances are settled monthly, and the final settlement is made within 30 days after the final filing date of the consolidated return.

#### Agency Agreement

Effective December 9, 2021, FX Insurance Agency, LLC and the other insurers that are part of the Farmers Insurance Group® entered into an Agency Agreement with FX Insurance Agency, LLC. This agreement replaced a previous Agency Agreement among the parties.

#### POLICY ON CONFLICT OF INTEREST

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

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



## ACCOUNTS AND RECORDS

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

The Company records premium and losses through the use of in-house computerized systems. Premiums are derived from direct billing. Various reports are derived from the systems for annual statement and financial report preparation and were used in conjunction with this examination. All claims in New Jersey are processed on the Guidewire Claims System and all policyholder claims services are provided by Farmers' Claims Group. All accounting activity has been transitioned to the Farmers General Ledger, SAP.

During the course of this examination, some books and records were not made available to the examination team in a timely manner in accordance with N.J.S.A. 17:23-23(b). The CDI experienced significant delays in obtaining access to various supporting documentation because the Farmers Insurance Group initially would not provide certain documentation and asserted the documentation was subject to Attorney-Client Privilege (ACP), which resulted in significant delays in the progress and timing of the completion of the examination. The following is the list of compliance findings applicable to the Company that were a result of the limitations in receiving the requested documentation:

1. NAIC Model Audit Regulation (MAR) Section 13, Paragraph B, and N.J.S.A. 11:2-26.13 requires that "Every insurer required to file an audited financial report shall require the accountant to make available for review by Insurance Department examiners, all work papers 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 work papers 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."

In the process of authorizing the release the external audit's auditor's workpapers, Farmers Group, Inc (FGI) obtained the audit workpaper index of the archived workpapers from the external auditor. FGI initially declined to consent to the release of thirteen (13) workpapers listed on the index on the basis of attorney client privilege. All but one (1) of the thirteen (13) withheld documents were later provided. The observed process of reviewing and approving the release of the audit workpapers did not comply with N.J.S.A. 11:2-26.13 and MAR Section 13, paragraph B.

2. NAIC MAR Section 15, Paragraph B–D, and N.J.S.A. 11:2-26.15(c) require an insurer or group of insurers doing business in New Jersey to establish an internal audit (IA) function to provide independent, objective, and reasonable assurance to the insurer's audit

committee and management regarding the insurer's governance, risk management, and internal controls. To ensure that an internal auditor remains objective, the IA function shall be organizationally independent. Organizational independence does not preclude dual-reporting relationships. The IA function shall not defer ultimate judgment of the responsibilities or audit matters to others. Furthermore, the head of the IA function shall report to the Audit Committee regularly, but no less than annually, on the periodic audit plan, factors that may adversely impact the IA function's independence or effectiveness, material findings from completed audits, and the appropriateness of corrective actions implemented by management as a result of audit findings.

During the course of the examination, it was determined that:

- (a) The IA function performs 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 Office of the General Counsel (OGC);
- (b) The IA Reports prepared under the advisement of the legal counsel are not shared directly with the Audit Committee, but with the selected legal counsel from OGC and senior management. IA shares with the Audit Committee a summary of all audit reports concluded during the quarter ; and
- (c) The Internal Controls over Financial Reporting (ICFR) function, which is responsible for testing controls in compliance with MAR regulations, is not aligned under IA, but is a centralized assurance unit within the Companies' Finance Department, reporting directly to the FGI management, therefore, not an independent function despite being responsible for internal control testing.

## TREATMENT OF POLICYHOLDERS AND CLAIMANTS

The Company's complaint handling procedures as well as its complaint logs were reviewed for the years 2018 through 2021. The review of these complaint logs determined that the Company was in compliance with N.J.S.A. 17:29B-4(10) which states: "This record shall indicate the total number of complaints, their classification by line of business, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint."

## CONTINUITY OF OPERATIONS

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. Management should assess how the Company's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion. The Company's comprehensive Business Continuity Plan was reviewed as part of the coordinating examination. There were no exceptions noted or recommendations made.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A Balance Sheet at December 31, 2021

Exhibit B Summary of Operations for the Four-Year Period Ending December 31, 2021

Exhibit C Capital and Surplus Account for the Four-Year Period Ending December 31, 2021

Statement of Assets and Liabilities  
As of December 31, 2021  
Exhibit A

	Current Examination at 12/31/21	Balance Per Company at 12/31/21	Examination Change	Note Number
<u>ASSETS</u>				
Bonds	\$ 19,129,958	\$ 19,129,958	0	1
Cash	726,851	726,851	0	
Receivables from parent, subsidiaries and affiliates	4,383	4,383	0	
Investment Income Due and Accrued	36,689	36,689	0	
	<u>                    </u>	<u>                    </u>	<u>                    </u>	
Total Admitted Assets	<u>\$ 19,897,882</u>	<u>\$ 19,897,882</u>	<u>\$0</u>	
<u>LIABILITIES, CAPITAL AND SURPLUS</u>				
Losses	\$ -	\$ -	\$0	2
Loss Adjustment Expenses	0	0	0	2
Taxes, licenses and fees	0	0		
Amounts Due to Parent, Subsidiaries and Affiliates	0	0	0	
Net deferred tax liability	3,447	3,447	0	
	<u>                    </u>	<u>                    </u>	<u>                    </u>	
Total Liabilities	<u>\$ 3,447</u>	<u>\$ 3,447</u>	<u>\$0</u>	
<u>SURPLUS AND OTHER FUNDS</u>				
Common Capital Stock	\$ 4,200,000	\$ 4,200,000	0	3
Gross Paid In and Contributed Surplus	14,931,990	14,931,990	0	3
Unassigned Funds (Surplus)	762,445	762,445	0	3
	<u>                    </u>	<u>                    </u>	<u>                    </u>	
Total Capital and Surplus	<u>\$ 19,894,435</u>	<u>\$ 19,894,435</u>	<u>\$0</u>	3
Total Liabilities, Surplus and Other Funds	<u>\$ 19,897,882</u>	<u>\$ 19,897,882</u>	<u>\$0</u>	

Statement of Income  
For the Year Ended December 31, 2021  
Exhibit B

Net underwriting gain (loss)	\$ -	\$ -		
Net investment income earned	178,734	252,965	398,156	629,644
Net realized capital gains or (losses)			(12,381)	(20)
Net investment gain (loss)	\$ 178,734	\$ 252,965	\$ 385,775	\$ 629,624
Total other income	\$ -	\$ -	\$ -	\$ -
Net income before dividends to policyholders	\$ 178,734	\$ 252,965	\$ 385,775	\$ 629,624
Dividends to policyholders	-			
Net income, after dividends to policyholders	\$ 178,734	252,965	385,775	629,624
Federal and foreign income taxes incurred	37,620	52,567	91,395	135,330
Net income	\$ 141,114	\$ 200,398	\$ 294,381	\$ 494,295
Surplus as regards policyholders, December 31st prior year	\$ 19,753,235	19,553,393	43,350,710	42,848,994
Net income (losses)	\$ 141,114	\$ 200,398	\$ 294,381	\$ 494,295
Change in net deferred income tax	86	(555)	8,302	7,422
Dividends to stockholders			(23,731,990)	
Surplus adjustment: Paid in	-	0	(368,010)	
Net change in capital and surplus for the year	\$ 141,200	\$ 199,843	\$ (23,797,317)	\$ 501,717
Surplus as regards policyholders, December 31, 2021	\$ 19,894,435	\$ 19,753,235	\$ 19,553,392	\$ 43,350,710

Reconciliation of Capital and Surplus  
For the Period from the Prior Examination  
As of December 31, 2017 to December 31, 2021  
Exhibit C

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Capital and Surplus, Prior Year	<u>\$ 19,753,235</u>	<u>\$ 19,553,392</u>	<u>\$ 43,350,710</u>	<u>\$ 42,848,994</u>
Net Income	\$ 141,114	\$ 200,398	\$ 294,381	\$ 494,295
Change in Net Deferred Income Tax	86	(555)	8,302	7,422
Surplus Adjustments Paid In	0		(368,010)	
Dividends to Stockholders	0		(23,731,990)	
Aggregate Write-ins for Losses in Surplus	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Capital and Surplus	<u>\$ 141,200</u>	<u>\$ 199,843</u>	<u>\$ (23,797,317)</u>	<u>\$ 501,717</u>
Capital and Surplus, Current Year	<u><u>\$ 19,894,435</u></u>	<u><u>\$ 19,753,235</u></u>	<u><u>\$ 19,553,392</u></u>	<u><u>\$ 43,350,710</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1: BONDS

The Company reported an admitted asset for bonds of \$19,129,958 as of December 31, 2021. These amounts will be accepted as stated by this examination.

### NOTE 2: LOSS AND LOSS ADJUSTMENT EXPENSES

At December 31, 2021, the Company reported a net liability for Losses and Loss Adjustment Expenses of \$0. The actuarial review of the Loss and Loss Adjustment Expenses Reserves was performed in conjunction with the coordinating exam.

### NOTE 3: SURPLUS AS REGARDS POLICYHOLDERS

The Company reported surplus as regards to policyholders at December 31, 2021 of \$19,894,435 which consisted of common capital stock of \$4,200,000, gross paid in and contributed surplus of \$14,931,990 and unassigned funds of \$762,445.

## SUMMARY OF EXAMINATION RECOMMENDATIONS

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

### Page

#### Accounts and Records

- 14 It is again recommended that The Company must comply with N.J.S.A. 17:23-23(b). “Every person being examined, the person’s officers, attorneys, employees, agents and representatives, shall make freely available to the Commissioner, or the Commissioner’s examiners, the accounts, records, documents, files, information, assets and matters of such person, in the person’s possession or control, relating to the subject of the examination and shall facilitate the examination”.
- 14 The Company must comply with N.J.S.A. 11:2-26.13 and MAR Section 13, Paragraph B and not interfere with the requirements of the external auditors to provide the state examiners with full access to the external workpapers without company involvement.
- 14 It is recommended that the Companies take necessary steps to adjust the reporting structure for both IA and ICFR to comply with MAR, Section 15, Paragraphs B-D and N.J.S.A 11:2-26.15(c). These steps shall include but are not limited to:
- 1) Ensure IA function is organizational independent, which shall directly report to Audit Committee; however, dual reporting is allowed;
  - 2) The IA function shall not defer ultimate judgment on the responsibilities or audit matters to others. the scope of the IA shall be determined independently based on the operational needs; and
  - 3) Having the ICFR function align with the IA function, whose purpose is to test controls in compliance with MAR, and report directly to the Audit Committee. Dual reporting is allowed.

## SUBSEQUENT EVENTS

There are no significant subsequent events.



CONCLUSION

A risk focused examination was conducted by the undersigned with the assistance of fellow examiners of the NJDOBI examination staff.

The examination was conducted remotely and there was no travel to the Company's home office. The courteous assistance and cooperation of the Company's officers and employees is acknowledged.

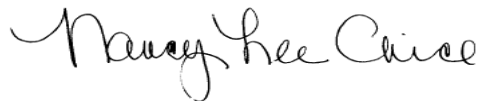
Respectfully Submitted,



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Frank Taylor Phillips, CFE  
Examiner-In-Charge  
Risk and Regulatory Consulting, LLC  
Representing the State of New Jersey  
Department of Banking and Insurance

Under the supervision of



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Nancy Lee Chice, CFE  
CFE Reviewer - Supervisor  
New Jersey Department of Banking and Insurance

EXAMINER'S AFFIDAVIT

21st Century Pinnacle Insurance Company

I, Frank Taylor Phillips, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2021 to the best of my information, knowledge and belief.

Respectfully submitted,

*Frank Taylor Phillips*

Frank Taylor Phillips, CFE  
Examiner-In-Charge  
Risk and Regulatory Consulting, LLC  
Representing the State of New Jersey  
Department of Banking and Insurance

Under the supervision of

*Nancy Lee Chice*

Nancy Lee Chice, CFE  
CFE Reviewer - Supervisor  
New Jersey Department of Banking and Insurance

State of New Jersey  
County of Mercer

Subscribed and sworn to before me,

this Sheila M. Tkacs on  
20<sup>th</sup> day of September, 2023.

*Sheila M. Tkacs*  
Notary Public of New Jersey

My commission expires:  
July 2025