Report of the Examination of

Esurance Insurance Company

San Francisco, California

As of December 31, 2018

## TABLE OF CONTENTS

**State of Wisconsin** / OFFICE OF THE COMMISSIONER OF INSURANCE

***Tony Evers,*** *Governor*
***Mark V. Afable****, Commissioner*

***Wisconsin.gov***

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
ociinformation@wisconsin.gov
oci.wi.gov

November 7, 2019

Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

ESURANCE INSURANCE COMPANY
San Francisco, California

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Esurance Insurance Company (EIC, or the company) was conducted in 2015 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2018 and included a review of such 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of the Allstate Insurance Group. The Illinois Department of Insurance acted in the capacity as the lead state for the coordinated examinations. Work performed by the Illinois Department of Insurance was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company 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, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The Allstate Insurance Group is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. The Illinois Department of Insurance performed a review of the independent accountant's work papers and deemed the work papers reliable with alternative or additional examination steps deemed necessary for the completion of the examinations. However, due to the size of the company in comparison to the Allstate Insurance Group, minimal testing was performed on the company, and the independent accountant's work papers were requested on an as needed basis.

## II. HISTORY AND PLAN OF OPERATION

The company was incorporated under the laws of Oklahoma on December 1, 1933, as Tri-State Casualty Insurance Company and commenced business on December 5, 1933. Its initial operations consisted of writing accident liability and worker's compensation coverages on behalf of zinc mine owners in Ottawa County, Oklahoma. Initial operations were abandoned in 1938. The name of the company was changed to Tri-State Insurance Company on June 17, 1949.

The company was part of the CGU Insurance Group from 1990 until June 1, 2001. The company became a part of the insurance holding company system of White Mountains Insurance Group, Ltd. (WMIG) on June 1, 2001, upon the acquisition of the company's then parent, OneBeacon Insurance Group LLC. As a result of the acquisition, WMIG became the ultimate controlling parent of the company. On August 27, 2002, the company changed its name to the one currently used, Esurance Insurance Company. On December 3, 2002, EIC approved a dividend of 100% ownership of its subsidiary, Farmers and Merchants Insurance Company, to its then direct parent, OneBeacon Insurance Company (One Beacon).

The company entered into a Stock Purchase Agreement with OneBeacon effective October 1, 2003, for the purchase of Esurance Property and Casualty Insurance Company (EPC), a California-domiciled company. In accordance with the Stock Purchase Agreement, EIC purchased all of the issued and outstanding shares of EPC's common stock from OneBeacon. EPC is valued on a statutory basis at surplus value.

On December 17, 2004, the company was acquired by White Mountains Holdings (Luxembourg) S.à r.l. (WM Luxembourg) pursuant to a Stock Purchase Agreement by and between OneBeacon and WM Luxembourg. WM Luxembourg then immediately contributed its full stock ownership of the company to Esurance Holdings, Inc. (EHI), an affiliated Delaware holding company owned by WM Luxembourg.

The company redomiciled from Oklahoma to Wisconsin on May 18, 2006. On July 31, 2006, Esurance Insurance Company of New Jersey (EICNJ) was purchased by EHI from OneBeacon, pursuant to the Stock Purchase Agreement by and between EHI and OneBeacon dated July 18, 2006. EHI acquired EICNJ in order to gain a premium tax benefit on its New Jersey writings (as certain premium tax advantages were afforded companies that were licensed in New Jersey prior to 1984). On November 22, 2006, EICNJ was contributed from EHI to EIC. Effective December 31, 2009, the company's affiliate Esurance Insurance Services, Inc. (EISI), merged into its parent company, Esurance Inc. Esurance Inc. survived the merger and assumed the name Esurance Insurance Services, Inc.

Effective May 17, 2011, The Allstate Corporation (Allcorp), a publicly traded company domiciled in Delaware, entered into a Stock Purchase Agreement with WM Luxemburg to acquire, in an all-cash transaction, all of the issued and outstanding capital stock of two direct subsidiaries, Answer Financial Inc. (AFI) and White Mountains, Inc. (WMI), corporations both organized under the laws of Delaware (the sale). AFI is a holding company that owns Insurance Answer Center, LLC (IAC), a licensed insurance agency. WMI is a holding company that directly owned all of the issued and outstanding stock of EHI. EHI directly owns all of the issued and outstanding stock of EIC, which itself directly owns all of the issued and outstanding stock of EICNJ and EPC. The sale was approved by this office on September 26, 2011. Prior to, but in connection with the sale, EIC paid a $46,556,986 extraordinary dividend to EHI on October 3, 2011. The extraordinary dividend transaction was approved by this office on September 28, 2011. The sale closed on October 7, 2011.

Effective the date of the sale, Allcorp contributed the WMI shares to Allstate Insurance Holdings, LLC, a Delaware limited liability company 100% owned by Allcorp. On November 22, 2011, the name was changed from White Mountains, Inc., to Allstate Esurance Holdings, Inc. Effective April 10, 2012, Esurance Holdings, Inc., merged into Allstate Esurance Holdings, Inc. Concurrent with the merger, Allstate Esurance Holdings, Inc., changed its name to Esurance Holdings, Inc. (EHI).

In 2018, the company wrote direct premium in the following states:

| | | |
|---|---|---|
| Texas | $ 121,548,327 | 23.7% |
| Washington | 43,953,032 | 8.6 |
| New York | 34,368,021 | 6.7 |
| Connecticut | 24,652,151 | 4.8 |
| North Carolina | 22,776,623 | 4.4 |
| Louisiana | 22,463,761 | 4.4 |

| | | |
|---|---|---|
| Indiana | 22,141,925 | 4.3 |
| Utah | 20,303,756 | 4.0 |
| South Carolina | 20,180,719 | 3.9 |
| Oregon | 19,145,679 | 3.7 |
| All others | 116,653,755 | 31.5 |
| Total | $513,187,749 | 100.0% |

The company is licensed in the District of Columbia and all states of the United States.

The major products marketed by the company include private passenger auto, auto physical damage, and homeowners' multiple peril. Coverage is sold to consumers through the Esurance Insurance Services, Inc. (EISI) website pursuant to an Agency Agreement, and over the telephone, pursuant to an Agency Agreement. EIC also issues personal policies through select online agents and offers other types of insurance products through distribution agreements with third-party insurers.

The following table is a summary of the net insurance premiums written by the company in 2018. The growth of the company is discussed in the "Financial Data" section of this report.

| Line of Business | Direct Premium | Reinsurance Assumed | Reinsurance Ceded | Net Premium |
|---|---|---|---|---|
| Homeowners multiple peril | $ 94,705,546 | $ 94,760 | $ 94,800,305 | $0 |
| Inland marine | 135,327 | | 135,327 | 0 |
| Earthquake | 5,480 | | 5,480 | 0 |
| Other liability – occurrence | 6,213 | | 6,213 | 0 |
| Private passenger auto liability | 279,893,473 | 9,618,519 | 289,511,993 | 0 |
| Auto physical damage | 135,432,653 | 5,898,358 | 141,331,012 | 0 |
| Write-ins for other lines of business: | | | | |
| Fees recorded as premium | 3,009,057 | | 3,009,057 | 0 |
| Total All Lines | $513,187,749 | $15,611,638 | $528,799,386 | $0 |

## III. MANAGEMENT AND CONTROL

**Board of Directors**

The board of directors consists of seven members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the board may also be members of other boards in the Esurance holding company subsystem. Directors also serve as officers of the company, holding positions noted below. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

| Name and Residence | Principal Occupation | Term Expires |
|---|---|---|
| Jonathan David Adkisson<br>Novato, California | President<br>Esurance Insurance Company | 2020 |
| David Matthew Biewer<br>Burlingame, California | Vice President, Chief Financial Officer & Treasurer<br>Esurance Insurance Company | 2020 |
| Eric Brandt<br>Novato, California | Vice President<br>Esurance Insurance Company | 2020 |
| Charles Sung Lee<br>Piedmont, California | Vice President, General Counsel & Secretary<br>Esurance Insurance Company | 2020 |
| Albert Shih-Po Chang<br>Palo Alto, California | Vice President<br>Esurance Insurance Company | 2020 |
| Grace Mea-Kyong Lee<br>Pleasant Hill, California | Vice President<br>Esurance Insurance Company | 2020 |
| Mark Campbell Simmonds<br>Orinda, California | Vice President<br>Esurance Insurance Company | 2020 |

**Officers of the Company**

The officers serving at the time of this examination are as follows:

| Name | Office | 2018 Compensation* |
|---|---|---|
| Jonathan David Adkisson | President | $1,681,821 |
| David Matthew Biewer | Vice President, Chief Financial Officer & Treasurer | 778,261 |
| Charles Sung Lee | Vice President, General Counsel & Secretary | 473,469 |
| Eric Brandt | Vice President, Chief Claims Officer | 1,139,665 |
| Mark Simmonds | Vice President, Product Management | 841,188 |
| Grace Mea-Kyong Lee | Vice President, Human Resources | 473,270 |
| David A. Pope | Vice President & Controller | 248,015 |
| Albert Shih-Po Chang | Vice President | 296,009 |
| Claude A. Wagner | Vice President & Chief Actuary | 149,093 |

*The “2018 Compensation” reported above represents total gross compensation paid to each individual on behalf of all companies in the holding company system, and includes salary, bonus, long-term incentive plans, and deferred compensation.

EIC has no employees of its own. Employees providing services to the company are employed by EISC (see Insurance Management Services Agreement under Section IV. Affiliated Companies).

**Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. At the time of the examination, the Audit Committee of Allstate Insurance Holdings, LLC, was authorized to act as the Audit Committee for EIC for purposes of the Model Audit Rule. The following are the committees at the time of the examination, which are comprised of employees of affiliate EISI:

**Security Governance Committee**
Albert Chang, Chair, Managing Director, & Chief Information Officer
Jonathan Adkisson, President
David Biewer, Managing Director, Chief Financial Officer & Treasurer
Charles Lee, Vice President, General Counsel & Secretary

**Compliance Committee**
Stephen Geist, Chair, Director of Compliance
David Palmer, Director of Risk Management
Claude Wagner, Vice President & Chief Actuary
Executive Group*

**Risk Management Committee**
David Palmer, Chair, Director of Risk Management
Executive Group*

*****The Executive Group consists of the following members:

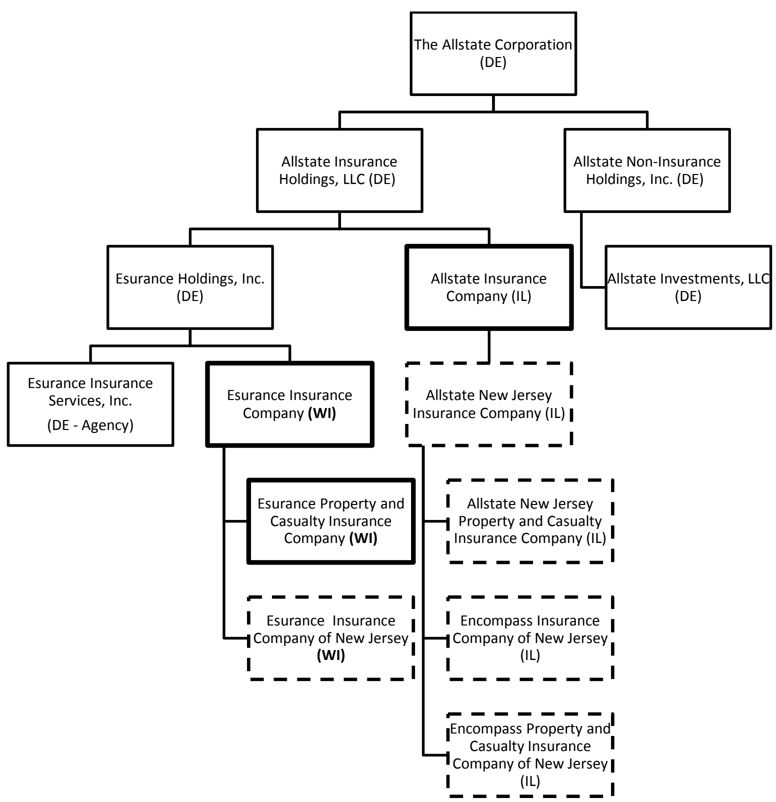
Jonathan Adkisson, President
David Biewer, Managing Director, Chief Financial Officer & Treasurer
Albert Chang, Managing Director & Chief Information Officer
Eric Brandt, Managing Director & Chief Claims Officer
Mark Simmonds, Vice President & Chief Product Officer
Charles Lee, Vice President, General Counsel & Secretary
Grace Lee, Vice President of Human Resources

## IV. AFFILIATED COMPANIES

Esurance Insurance Company is a member of a holding company system. The Allstate Corporation is the ultimate controlling entity of the company. The abbreviated organizational chart below depicts the principal relationships among the affiliates in the group that are important to the Esurance holding company subsystem. A brief description of the significant affiliates follows the organizational chart.

**Organizational Chart**

**As of December 31, 2018**




**<u>Note</u>:**

1. The companies with bold borders are part of the "Allstate Insurance Group," which includes Wisconsin-domiciled Esurance Insurance Company, and Esurance Property and Casualty Insurance Company.

2. The companies with dotted borders are part of the "Allstate New Jersey Group," which includes Wisconsin-domiciled Esurance Insurance Company of New Jersey.

**The Allstate Corporation**

The Allstate Corporation was incorporated under the laws of the state of Delaware on November 5, 1992, to serve as the holding company for Allstate Insurance Company. Its business is conducted principally through Allstate Insurance Company, Allstate Life Insurance Company and their affiliates (collectively, "Allstate"). Allstate provides personal property and casualty insurance business, life insurance and retirement and investment products. As of December 31, 2018, the consolidated audited financial statements of Allstate reported assets of $112,249 million, liabilities of $90,937 million, and shareholders' equity of $21,312 million. Operations for 2018 produced net income of $2,252 million.

**Allstate Insurance Holdings, LLC**

Allstate Insurance Holdings, LLC (AIH) was formed as a Delaware limited liability company on February 6, 2008. AIH is the intermediate holding company for the majority of Allcorp's insurance operations. As of December 31, 2018, the financial statements of AIH reported assets of $4,383,484,771, liabilities of $837 and equity of $4,383,483,935. Operations for 2018 produced net income of $3,147.

**Allstate Insurance Company**

Allstate Insurance Company (AIC) is a property and casualty insurance company domiciled in the state of Illinois. AIC is licensed to write property and casualty business in 49 states, the District of Columbia, Puerto Rico and Canada and offers a broad range of personal and commercial insurance products. Effective October 7, 2011, AIC entered into separate 100% quota share reinsurance agreements and reserve agreements with both EIC and EPC. As of December 31, 2018, the audited statutory financial statements of AIC reported assets of $49,167,388,931, liabilities of $32,303,291,383, and capital and surplus of $16,864,097,548. Operations for 2018 produced net income of $2,732,639,484.

**Allstate New Jersey Insurance Company**

Allstate New Jersey Insurance Company (ANJ) is a property and casualty insurance company domiciled in the state of Illinois. ANJ is licensed to write business in New Jersey and Illinois but at the present time only writes business in New Jersey. ANJ offers all of the major property and casualty personal product lines; however, its primary focus is auto and homeowner's insurance. Effective October 7, 2011, ANJ entered into a 100% quota share reinsurance agreement and a reserve agreement with EICNJ. As of December 31, 2018, the audited statutory financial statements of ANJ reported assets of $2,544,094,032, liabilities of $1,721,979,003, and capital and surplus of $822,115,029. Operations for 2018 produced a net income of $165,028,862.

**Esurance Holdings, Inc.**

Esurance Holdings, Inc. (EHI) is an intermediate holding company for the Esurance group of companies that consists of three insurance companies, EIC, EPC and EICNJ (collectively, Esurance), and one non-insurance company, EISI. As of December 31, 2018, the consolidated financial statements of Esurance Holdings Inc. reported assets of $674,276,039, liabilities of $16,071,662, and equity of $658,204,377. Operations for 2018 produced a net loss of $1,897,845.

**Esurance Insurance Services, Inc.**

Esurance Insurance Services, Inc. (EISI) is a service and management company of the Esurance group of companies, which includes EIC, EICNJ, and EPC. All the company's employees are employees of EISI, and the services provided by EISI are covered under Agency and Insurance Management agreements with each of the Esurance companies. As of December 31, 2018, the unaudited financial statements of EISI reported assets of $164,171,502, liabilities of $93,191,093, and equity of $70,980,410. Operations for 2018 produced a net loss of $1,569,745.

**Esurance Insurance Company of New Jersey**

Esurance Insurance Company of New Jersey (EICNJ) markets personal auto, homeowner's and renter's insurance directly to customers online and through select independent agents. EICNJ began writing business in 2007. EICNJ is licensed to write business in the District of Columbia and 25 states of the United States, but at the present time, only writes business in New Jersey. As of December 31, 2018, the audited statutory financial statements of EICNJ reported assets of $16,550,019, liabilities of $4,455,885, and capital and surplus of $12,094,134. Operations for 2018 produced a net income of $125,774.

**Esurance Property and Casualty Insurance Company**

Esurance Property and Casualty Insurance Company (EPC) markets personal auto, motorcycle, homeowner's and renter's insurance directly to customers online and through select independent agents and is licensed to write business in the District of Columbia and 45 states of the United States. As of December 31, 2018, the audited statutory financial statements of EPC reported assets of $104,448,699, liabilities of $62,063,289, and capital and surplus of $42,385,410. Operations for 2018 produced a net income of $668,113.

**Allstate Non-Insurance Holdings, Inc.**

Allstate Non-Insurance Holdings, Inc. is a holding company for various non-insurance related enterprises within the Allstate holding company structure. It was formed as a Delaware corporation on November 17, 1997. As of December 31, 2018, the financial statements of Allstate Non-Insurance Holdings, Inc. reported assets of $2,561,228,079, liabilities of $24,187,310, and equity of $2,537,040,770. Operations for 2018 produced a net income of $1,578,601.

**Allstate Investments, LLC**

Allstate Investments, LLC (AILLC) was formed as a Delaware limited liability company on November 8, 2001. It provides investment advisory services for Allstate affiliates. Effective October 7, 2011, EIC entered into an Investment Management Agreement with AILLC. As of December 31, 2018, the financial statements of Allstate Investments, LLC reported assets of $13,538,516, liabilities of $13,487,681, and equity of $50,835. Operations for 2018 produced a net income of $45,835.

**Agreements with Affiliates**

Affiliated reinsurance agreements are discussed in the section of the report titled "Reinsurance."

**Agency Agreement**

Effective January 1, 2010, the company entered into an Agency Agreement with EISI pursuant to which the company appoints EISI as its insurance services representative and agent with regard to the policies of the company. In connection with such appointment, EISI provides services including but not limited to underwriting, claims handling, policy administration, and consumer response. Under the Agency Agreement, the company shall pay EISI the following amounts within 30 days following the end of each calendar month:

a. An agency commission equal to 100% of the actual acquisition costs incurred by EISI in acquiring or renewing policies under the Agency Agreement, minus all other revenue and fees earned by EISI in connection with policies sold under this agreement.

b. 100% of the actual loss adjustment expenses incurred by the agent in the prior calendar month.

The company amended and restated its 2010 Agency Agreement, effective June 1, 2013, to reflect the expansion of the company's property and casualty offerings beyond private passenger automobile insurance.

The company amended its 2010 Agency Agreement, effective December 6, 2019, to update the remittance time to EISI from 30 days to 120 days. Commissions and fees paid under this agreement in 2018 were $110,745,930.

**Insurance Management Service Agreement**

Effective January 1, 2010, the company entered into an Insurance Management Service Agreement with EISI, the company's managing general agent. The agreement provides for accounting, tax, audit and functional support services. As compensation for management services rendered to the company, the company authorizes EISI to retain all fees not included in premium and it will reimburse all of EISI's actual and reasonable expenses to the extent that those expenses exceed installment and other fees retained by EISI that are not otherwise being reimbursed under the Agency Agreement. Any amount owed by the company to EISI at the end of each month should be settled within 30 days following the end of the month.

The company amended its 2010 Insurance Management Service agreement effective December 6, 2019, to update the remittance time to EISI from 30 days to 120 days. Management service fees paid under this agreement in 2018 were $52,348,022.

**Service and Expense Agreement**

Effective October 7, 2011, EIC entered into an Amended and Restated Service and Expense Agreement with Allcorp and certain affiliated insurance companies. According to this agreement, parties provide to each other, at cost, certain services and facilities including marketing, claims, underwriting, and policyholder services. Costs are defined as the actual costs and expenses incurred by the party providing the services which are attributable to the services and facilities under this agreement, such as: salaries and benefits, space rental, overhead expenses, building maintenance services, furniture and other office equipment, and supplies and special equipment. All payments made to Allstate for Service and Expense payments are made by EISI and allocated down to the insurance companies through management fees. EISI paid $57,199,378 of expenses on behalf of EIC, EPC, and EICNJ in 2018.

**Investment Management Agreement**

Effective October 7, 2011, the company entered into an Investment Management Agreement with Allstate Investments, LLC (AILLC), whereby AILLC provides investment management services and advice subject to and in accordance with the investment objectives, restrictions, and strategies set forth in the Investment Policy and Investment Plan adopted by the company's board of directors with respect to its investment portfolio. The fee for services is equal to AILLC's fully burdened basis point charge for the management of such investment portfolio, which is AILLC's actual cost of managing the portfolio, including the provision of all administrative, reporting or other services required to manage the portfolio and provide services. AILLC charges the company for services via the monthly expense allocation process, and payments are made through the monthly intercompany settlement process. The company incurred $42,235 in investment expenses in 2018.

**Tax Sharing Agreement**

Effective October 7, 2011, the company entered into a Tax Sharing Agreement between Allcorp and its various subsidiaries. According to this agreement, the regular federal income tax liability of each member shall be determined pursuant to the principles used to determine earnings and profits under section 1552 (a) (2) of the Internal Revenue Code of 1986 and Treasury Regulation section 1.1502-33 (d) (3) using a fixed rate of 100%. Accordingly, each member of the Allstate Group is generally liable for the same amount of tax it would otherwise pay on a separate return basis. If Allcorp is subject to an alternative minimum tax liability, such liability is allocated to each member according to the ratio of (i) the excess of any member's separate return tentative minimum tax over the member's separate return regular tax to (ii) the sum of such excess amounts for all members of the group.

## V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

**Ceding Contracts**

As of December 31, 2018, all business written by the company was 100% reinsured by Allstate Insurance Company. The company, as an affiliate of AIC, participates in the group's nationwide excess catastrophe reinsurance program. This program provides $4.5 billion of personal lines property reinsurance coverage less a $500 million retention subject to percentages of reinsurance placed in each of its nine layers. Per occurrence layer nine provides a limit of $500 million that may be used to provide reinsurance protection on a per occurrence basis subject to a $4 billion retention, or on an aggregate basis subject to a $3.75 billion retention. The reinsurance program limits apply to all the ceding companies under the contract as a group, and not separately to each ceding company.

Effective October 7, 2011, the company entered into a Reserve Agreement with AIC, which provides that, upon commutation of all or a portion of the business previously ceded under the Quota Share Reinsurance Agreement between AIC and EIC effective October 7, 2011, the reserves attributable to the commuted liability shall be subject to a quarterly true-up between the parties.

**Assuming Contracts**

The company has a 100% quota share reinsurance agreement with Home State County Mutual Insurance Company (Home State), domiciled in Texas, with an initial effective date of November 1, 2001, which was subsequently amended on January 1, 2002, January 1, 2003, and January 1, 2004. This agreement was originally made and entered into by and between Home State and Folksamerica Reinsurance Company. The company replaced Folksamerica Reinsurance Company as the reinsurer on January 1, 2003. As a Texas county mutual insurer, Home State writes private passenger and commercial automobile liability and physical damage insurance in the non-standard market through licensed independent managing general agents. According to this agreement, the company assumes a 100% quota share in respect to all liability, including loss adjustment expenses, related to private passenger automobile policies issued by Home State covering risks situated in Texas, which are produced by its affiliate, EISI. In consideration of the acceptance by the company of 100% of the liability of insurance business reinsured under this agreement, the company receives 100% of the net premium. The agreement affords an agency commission to Home State of 13.5% of all net premium written and a provisional loss adjustment expense commission of 10% and 3% of all premium written in the current and the prior calendar year, respectively. The agreement also affords a ceding commission ranging from 2% to 2.5% based on net premiums and policy fees collected. This agreement can be terminated on a run-off basis by either party giving the other 120 days' advance written notice.

In August 2010, the company amended and restated a transfer and assumption agreement with Bedivere Insurance Company (Bedivere) originally entered into January 1, 2003. The amended and restated agreement clarifies the intent of the parties that all liabilities and obligations whatsoever of the company of any kind and description have been assumed by Bedivere, except for liabilities and obligations relating to personal auto policies produced by EISI. The company's Notes to Financial Statements include the value of the remaining outstanding liabilities transferred through the agreement, estimated to be $7.6 million at December 31, 2018.

Effective September 28, 2011, the company entered into Trust Agreements with Bedivere, EICNJ and Wells Fargo Bank, N.A. (Wells Fargo). Pursuant to the Trust Agreement, Bedivere secures payments of all amounts assumed by Bedivere under the transfer and assumption agreements between itself and the company. Wells Fargo, as trustee, maintains a trust account funded by Bedivere, as grantor, for the sole use and benefit of the company and EICNJ.

## VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2018, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

**Esurance Insurance Company**
**Assets**
**As of December 31, 2018**

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|---|---|---|
| Bonds | $ 98,198,638 | $0 | $ 98,198,638 |
| Stocks: | | | |
| Common stocks | 54,479,545 | | 54,479,545 |
| Cash, cash equivalents, and short-term investments | (10,539,123) | | (10,539,123) |
| Investment income due and accrued | 585,723 | | 585,723 |
| Reinsurance: | | | |
| Amounts recoverable from reinsurers | 3,139,098 | | 3,139,098 |
| Receivable from parent, subsidiaries, and affiliates | 48,103,540 | | 48,103,540 |
| Total Assets | $193,967,421 | $0 | $193,967,421 |

**Esurance Insurance Company**
**Liabilities, Surplus, and Other Funds**
**As of December 31, 2018**

| | | |
|---|---|---|
| Reinsurance payable on paid loss and loss adjustment expenses | | $ 106,226 |
| Current federal and foreign income taxes | | 420,985 |
| Net deferred tax liability | | 12,008 |
| Ceded reinsurance premiums payable (net of ceding commissions) | | 746,325 |
| Payable to parent, subsidiaries, and affiliates | | 26,277,430 |
| Write-ins for liabilities: | | |
| Deferred Gain on Intercompany Asset Transfers | | 35,172 |
| Total Liabilities | | 27,598,146 |
| Write-ins for special surplus funds: | | |
| Common capital stock | $ 3,000,000 | |
| Preferred capital stock | 500,000 | |
| Gross paid in and contributed surplus | 158,278,736 | |
| Unassigned funds (surplus) | 4,590,539 | |
| Surplus as Regards Policyholders | | 166,369,275 |
| Total Liabilities and Surplus | | $193,967,421 |

**Esurance Insurance Company**
**Summary of Operations**
**For the Year 2018**

| | | |
|---|---|---|
| **Investment Income** | | |
| Net investment income earned | $3,466,718 | |
| Net realized capital gains (losses) | (277,300) | |
| Net investment gain (loss) | | $3,189,418 |
| **Other Income** | | |
| Net income (loss) before dividends to policyholders and before federal and foreign income taxes | | 3,189,418 |
| Net income (loss) after dividends to policyholders but before federal and foreign income taxes | | 3,189,418 |
| Federal and foreign income taxes incurred | | 494,677 |
| Net Income | | $2,694,741 |

**Esurance Insurance Company**
**Cash Flow**
**For the Year 2018**

| | | | |
|---|---|---|---|
| Premiums collected net of reinsurance | | | $ (129,937) |
| Net investment income | | | 3,332,562 |
| Total | | | 3,202,625 |
| Benefit- and loss-related payments | | $(1,854,610) | |
| Federal and foreign income taxes paid (recovered) | | 762,809 | |
| Total deductions | | | (1,091,801) |
| Net cash from operations | | | 4,294,426 |
| | | | |
| Proceeds from investments sold, matured, or repaid: | | | |
| Bonds | $41,637,647 | | |
| Net gains (losses) on cash, cash equivalents, and short-term investments | (310) | | |
| Miscellaneous proceeds | 72,616 | | |
| Total investment proceeds | | 41,709,953 | |
| Cost of investments acquired (long-term only): | | | |
| Bonds | | 40,308,782 | |
| Net cash from investments | | | 1,401,171 |
| | | | |
| Cash from financing and miscellaneous sources: | | | |
| Dividends to stockholders | | 1,200,000 | |
| Other cash provided (applied) | | (2,329,685) | |
| Net cash from financing and miscellaneous sources | | | (3,529,685) |
| | | | |
| **Reconciliation:** | | | |
| Net Change in Cash, Cash Equivalents, and Short-Term Investments | | | 2,165,912 |
| Cash, cash equivalents, and short-term investments: | | | |
| Beginning of year | | | (12,705,036) |
| | | | |
| End of Year | | | $(10,539,124) |

**Esurance Insurance Company**
**Compulsory and Security Surplus Calculation**
**December 31, 2018**

| | | |
|---|---|---|
| Assets | | $193,967,421 |
| Less security surplus of insurance subsidiaries | | 5,600,000 |
| Less liabilities | | 27,598,146 |
| Adjusted surplus | | 160,769,275 |
| Annual premium: | | |
| Lines other than accident and health | $0 | |
| Factor | 20% | |
| Compulsory surplus (subject to a minimum of $2 million) | | 2,000,000 |
| Compulsory Surplus Excess (Deficit) | | $158,769,275 |
| Adjusted surplus (from above) | | $160,769,275 |
| Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%) | | 2,800,000 |
| Security Surplus Excess (Deficit) | | $157,969,275 |

**Esurance Insurance Company**
**Analysis of Surplus**
**For the Five-Year Period Ending December 31, 2018**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

| | **2018** | **2017** | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|
| Surplus, beginning of year | $165,210,737 | $164,218,754 | $162,441,253 | $178,233,669 | $187,632,211 |
| Net income | 2,694,741 | 1,415,750 | 1,240,034 | 1,563,841 | 4,271,868 |
| Change in net unrealized capital gains/losses | (333,885) | 666,778 | 544,963 | 450,448 | (2,370,432) |
| Change in net deferred income tax | (2,317) | 9,455 | (7,496) | (19,957) | 5,130 |
| Change in nonadmitted assets | | | | 13,252 | (5,108) |
| Surplus adjustments: | | | | | |
| Paid in | | | | (15,944,992) | (7,471,663) |
| Dividends to stockholders | (1,200,000) | (1,100,000) | | (1,855,008) | (3,828,337) |
| Change in treasury stock | | | | | |
| Surplus, End of Year | $166,369,275 | $165,210,737 | $164,218,754 | $162,441,253 | $178,233,669 |

**Esurance Insurance Company**
**Insurance Regulatory Information System**
**For the Five-Year Period Ending December 31, 2018**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

| | Ratio | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| #1 | Gross Premium to Surplus | 318% | 286% | 283% | 279% | 252% |
| #2 | Net Premium to Surplus | 0 | 0 | 0 | 0 | 0 |
| #3 | Change in Net Premiums Written | 0 | 0 | 0 | 0 | 0 |
| #4 | Surplus Aid to Surplus | 0 | 0 | 0 | 0 | 0 |
| #5 | Two-Year Overall Operating Ratio | 0 | 0 | 0 | 0 | 0 |
| #6 | Investment Yield | 2.5 | 1.4* | 1.3* | 1.5* | 3.1 |
| #7 | Gross Change in Surplus | 1 | 1 | 1 | -9 | -5 |
| #8 | Change in Adjusted Surplus | 1 | 1 | 1 | 0 | -1 |
| #9 | Liabilities to Liquid Assets | 31 | 30 | 17 | 19 | 16 |
| #10 | Agents' Balances to Surplus | 0 | 0 | 0 | 0 | 0 |
| #11 | One-Year Reserve Development to Surplus | 0 | 0 | 0 | 0 | 0 |
| #12 | Two-Year Reserve Development to Surplus | 0 | 0 | 0 | 0 | 0 |
| #13 | Estimated Current Reserve Deficiency to Surplus | 0 | 0 | 0 | 0 | 0 |

Ratio No. 6 measures the company's investment yield. The exceptional results in 2015, 2016, and 2017 were due to the company not receiving a dividend from its affiliate EPC, which is counted toward net investment income. Additionally, in 2015, cash and invested assets decreased substantially due to the company maintaining short-term investments of $19.6 million in 2014, for which it had none in 2015.

**Growth of Esurance Insurance Company**

| Year | Admitted Assets | Liabilities | Surplus as Regards Policyholders | Net Income |
|---|---|---|---|---|
| 2018 | $193,967,421 | $27,598,146 | $166,369,275 | $ 2,694,741 |
| 2017 | 191,541,098 | 26,330,361 | 165,210,737 | 1,415,750 |
| 2016 | 179,014,289 | 14,795,535 | 164,218,754 | 1,240,034 |
| 2015 | 178,985,422 | 16,544,169 | 162,441,253 | 1,563,841 |
| 2014 | 195,943,522 | 17,709,853 | 178,233,669 | 4,271,868 |
| 2013 | 196,025,065 | 8,392,854 | 187,632,211 | 11,735,661 |

| Year | Gross Premium Written | Net Premium Written | Premium Earned | Loss and LAE Ratio | Expense Ratio | Combined Ratio |
|---|---|---|---|---|---|---|
| 2018 | $528,799,386 | $0 | $0 | 0.0% | 0.0% | 0.0% |
| 2017 | 471,931,423 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| 2016 | 464,070,415 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| 2015 | 453,966,730 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| 2014 | 448,383,921 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| 2013 | 417,581,999 | 0 | 0 | 0.0 | 0.0 | 0.0 |

The company cedes 100% of its net retained business to Allstate Insurance Company pursuant to a 100% Quota Share Reinsurance Agreement. The company's direct premiums written grew by 12% to $513,187,749 at year-end 2018, as compared to $457,720,488 at prior year-end 2017. The increase in direct premium is primarily attributable to increased homeowners and auto business in Texas, New York, and Washington.

**Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2018, is accepted.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were no specific comments or recommendations in the previous examination report.

**Summary of Current Examination Results**

There were no adverse or material findings as a result of the current examination of the company.

## VIII. CONCLUSION

The company has been a member of the Allstate Insurance Group since 2011 and cedes 100% of its net underwriting results, after cessions to non-affiliates, to Allstate Insurance Company through a quota share reinsurance agreement.

The company’s direct premiums written grew 12% to $513,187,749 at year-end 2018, as compared to $457,720,488 at prior year-end 2017. The increase in direct premium is primarily attributable to increased homeowners and auto business in Texas, New York and Washington.

The examination resulted in no recommendations. There were no adjustments to surplus and no reclassifications of account balances.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

## X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

| Name | Title |
|---|---|
| John Coyle | Insurance Financial Examiner |
| Abdel-Aziz Kondoh | Insurance Financial Examiner |
| Karl Albert, CFE | Workpaper Review Specialist |
| David Jensen, CFE | IT Specialist |

Respectfully submitted,

Shelly Bueno

Shelly Bueno
Examiner-in-Charge