Report of the Examination of

Esurance Property and Casualty Insurance Company

San Francisco, California

As of December 31, 2018

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

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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 PROPERTY AND CASUALTY INSURANCE COMPANY
San Francisco, California

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Esurance Property and Casualty Insurance Company (EPC 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 on October 22, 1987 in California as Pacific Security Insurance Company, and subsequently changed its name to General Accident Reinsurance Company of America. In 2001, the company became part of the White Mountains Insurance Group (White Mountains) pursuant to the White Mountains purchase of the OneBeacon Insurance Group LLC (which was the company's ultimate parent at the time) from the CGU Insurance Group. In 2002, the company changed its name to Esurance Property and Casualty Insurance Company, and in 2003 the company's affiliate, Esurance Insurance Company (EIC) acquired 100% ownership of the company from OneBeacon. In 2011, the company became part of the Allstate Group pursuant to the acquisition of White Mountains, Inc. by the Allstate Corporation, and in 2015 the company re-domesticated from California to Wisconsin.

The company is a member of the Allstate Property and Casualty Group within the "Allstate Protection" segment, and is marketed under the "Esurance" brand, which focuses on personal auto products sold directly to consumers online, through call centers and select agents. The Esurance brand serves self-directed, brand-sensitive customers.

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

California	$ 350,239,964	25.7%
Florida	176,524,856	13.0
Michigan	140,782,967	10.3
Georgia	87,786,194	6.4
Illinois	75,564,636	5.5
Colorado	73,126,778	5.4
Pennsylvania	60,141,411	4.4
All others	398,598,699	29.3
Total	$1,362,765,505	100.0%

The company is licensed in the District of Columbia and all states except Alaska, Massachusetts, New Jersey, North Carolina and Wyoming.

The major products marketed by the company include private passenger auto and auto physical damage. Coverage is sold to consumers through the Esurance Insurance Services, Inc. (EISI) website and over the telephone, pursuant to an Agency Agreement. EPC 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	$ 11,666,035	$19,140	$ 11,685,175	$0
Inland marine	9,582		9,582	0
Other liability – occurrence	856		856	0
Private passenger auto liability	909,018,545	66,373	909,084,918	0
Auto physical damage	431,369,471	2,215	431,371,686	0
Write-ins for other lines of business:				
Fees Recorded as Premium	10,701,016		10,701,016	0
Total All Lines	$1,362,765,505	$87,728	$1,362,853,233	$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 Novato, California	President Esurance Property and Casualty Insurance Company	2020
David Matthew Biewer Burlingame, California	Vice President, Chief Financial Officer & Treasurer Esurance Property and Casualty Insurance Company	2020
Eric Brandt Novato, California	Vice President Esurance Property and Casualty Insurance Company	2020
Charles Sung Lee Piedmont, California	Vice President, General Counsel & Secretary Esurance Property and Casualty Insurance Company	2020
Albert Shih-Po Chang Palo Alto, California	Vice President Esurance Property and Casualty Insurance Company	2020
Grace Mea-Kyong Lee Pleasant Hill, California	Vice President Esurance Property and Casualty Insurance Company	2020
Mark Campbell Simmonds Orinda, California	Vice President Esurance Property and Casualty 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	1,139,665
Mark Simmonds	Vice President	841,188
Grace Mea-Kyong Lee	Vice President	473,270
Albert shih-Po Chang	Vice President	296,009
David A. Pope	Vice President & Controller	248,015
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 incentives, and deferred compensation.

EPC has no employees of its own. Employees providing services to the company are employed by EISI (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 EPC 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*

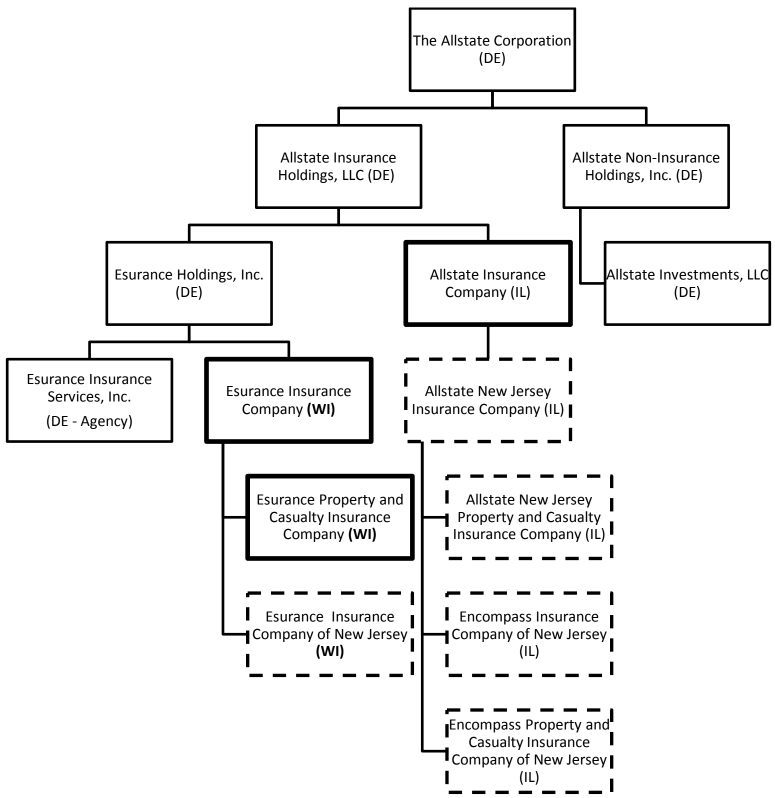
*The Executive Group consists of the following members:

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 Property and Casualty 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 Allstate Corporation's insurance operations. As of December 31, 2018, the financial statements of Allstate Insurance Holdings, LLC 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

Esurance Insurance Company (EIC) markets personal auto, motorcycle, homeowner's and renters' insurance directly to customers online and through select appointed in-house agents and is licensed to write business in the District of Columbia and 50 states of the United States. On October 7, 2011, EIC, along with other affiliates, was sold to Allstate Corporation. EIC cedes 100% of its net underwriting results, after cessions to non-affiliates, to

AIC. As of December 31, 2018, the audited statutory financial statements of EIC reported assets of $193,967,421, liabilities of $27,598,146, and capital and surplus of $166,369,275. Operations for 2018 produced a net income of $2,694,741.

Esurance Insurance Company of New Jersey

Esurance Insurance Company of New Jersey (EICNJ) markets personal auto, homeowners and renters' 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.

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 $287,311,257.

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 $152,922,030.

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 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 $17,754 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 EPC 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 did not assume any business during the examination period (other than participation in mandatory reinsurance pools and associations).

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 Property and Casualty Insurance Company
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 33,840,956	$0	$ 33,840,956
Cash, cash equivalents, and short-term investments	(29,963,438)		(29,963,438)
Receivables for securities	338,687		338,687
Investment income due and accrued	179,850		179,850
Reinsurance:			
Amounts recoverable from reinsurers	2,082,892		2,082,892
Receivable from parent, subsidiaries, and affiliates	97,969,752		97,969,752
Total Assets	$104,448,699	$0	$104,488,699

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

Current federal and foreign income taxes		$ 176,944
Net deferred tax liability		3,560
Ceded reinsurance premiums payable (net of ceding commissions)		1,414,997
Payable to parent, subsidiaries, and affiliates		60,459,489
Write-ins for liabilities:		
Deferred Gain on Intercompany Asset Transfers		8,299
Total Liabilities		62,063,289
Common capital stock	$ 3,003,000	
Gross paid in and contributed surplus	27,566,892	
Unassigned funds (surplus)	11,815,518	
Surplus as Regards Policyholders		42,385,410
Total Liabilities and Surplus		$104,448,699

Esurance Property and Casualty Insurance Company
Summary of Operations
For the Year 2018

Investment Income		
Net investment income earned	$914,040	
Net realized capital gains (losses)	(54,497)	
Net investment gain (loss)		$859,543
Other Income		
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		859,543
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		859,543
Federal and foreign income taxes incurred		191,430
Net Income		$668,113

Esurance Property and Casualty Insurance Company
Cash Flow
For the Year 2018

Premiums collected net of reinsurance			$ 1,607,437
Net investment income			936,289
Total			2,543,726
Benefit- and loss-related payments		$ 580,354	
Federal and foreign income taxes paid (recovered)		287,094	
Total deductions			867,448
Net cash from operations			1,676,278
Proceeds from investments sold, matured, or repaid:			
Bonds	$19,845,608		
Net gains (losses) on cash, cash equivalents, and short-term investments	384		
Miscellaneous proceeds	(330,000)		
Total investment proceeds		19,515,992	
Cost of investments acquired (long-term only):			
Bonds	14,359,993		
Miscellaneous applications	284,624		
Total investments acquired		14,644,617	
Net cash from investments			4,871,375
Cash from financing and miscellaneous sources:			
Dividends to stockholders		1,100,000	
Other cash provided (applied)		(7,938,047)	
Net cash from financing and miscellaneous sources			(9,038,047)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			(2,490,395)
Cash, cash equivalents, and short-term investments:			
Beginning of year			(27,473,044)
End of Year			$(29,963,438)

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

Assets		$104,448,699
Less liabilities		62,063,289
Adjusted surplus		42,385,410
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)		$ 40,385,410
Adjusted surplus (from above)		$42,385,410
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)		$39,585,410

Esurance Property and Casualty 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	$42,827,565	$42,295,036	$41,825,688	$26,444,106	$28,887,896
Net income	668,113	526,407	477,533	378,980	346,584
Change in net unrealized capital gains/losses	(9,749)		759	4,435	4,682
Change in net deferred income tax	(519)	6,122	(8,944)	(5,322)	2,215
Change in nonadmitted assets				3,488	2,730
Surplus adjustments: Paid in				15,000,000	
Dividends to stockholders	(1,100,000)				(2,800,000)
Surplus, End of Year	$42,385,410	$42,827,565	$42,295,036	$41,825,688	$26,444,106

Esurance Property and Casualty 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	3,215%*	2,818%*	2,772%*	2,634%*	3,783%*
#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	11.9*	6.6*	5.1	5.8	8.1*
#7	Gross Change in Surplus	-1	1	1	58*	-8
#8	Change in Adjusted Surplus	-1	1	1	1	-8
#9	Liabilities to Liquid Assets	1,412*	610*	562*	568*	2,668*
#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. 1 measures the company's gross premium to surplus. The exceptional results during the exam period were attributable to the company's 100% quota share reinsurance agreement with AIC in which it cedes premium, loss and expenses to AIC, and capitalizes surplus to the minimum level required. The increase in the exceptional ratio was due to a 12.9% increase in direct premiums written of $156 million compared to prior year. Ratio No. 6 measures the company's investment yield. The exceptional results during the examination period were also related to the company's 100% quota share reinsurance agreement with AIC, in which cash is settled on a basis that leaves only enough cash in accounts to cover checks presented to the bank. This process leads to negative cash, which decreases assets and causes the investment yield to appear higher. The investment yields for 2015 and 2016 were lower due to the company purchasing approximately $17 million in cash equivalents in 2015 and increasing bonds by $10.6 million and receivables for securities by $2.7 million in 2016. These increased assets decreased the investment yield ratio to below the NAIC benchmark of 6.5%. Ratio No. 9 measures the company's liabilities to liquid assets. The exceptional results during the exam period were also related to the company's negative cash, which decreased liquid assets and increased the liabilities to liquid assets ratio. A 13.4% decrease in bonds from $39.1 million at year-end 2017 to $33.8 million at year-end 2018 also contributed to the decrease in liquid assets, which increased the liabilities to liquid assets ratio.

Growth of Esurance Property and Casualty Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	$104,448,699	$62,063,289	$42,385,410	$668,113
2017	115,191,696	72,364,131	42,827,565	526,407
2016	112,578,098	70,283,062	42,295,036	477,533
2015	119,091,613	77,265,925	41,825,688	378,980
2014	113,191,891	86,747,785	26,444,106	346,584
2013	91,140,705	62,252,809	28,887,896	522,972

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	$1,362,853,233	$0	$0	0.0%	0.0%	0.0%
2017	1,206,766,815	0	0	0.0	0.0	0.0
2016	1,172,261,417	0	0	0.0	0.0	0.0
2015	1,101,647,517	0	0	0.0	0.0	0.0
2014	1,000,472,989	0	0	0.0	0.0	0.0
2013	817,987,286	0	0	0.0	0.0	0.0

Admitted assets and liabilities fluctuated significantly throughout the examination period due to the timing of related party receivables and payables attributable to the Amended and Restated Service and Expense Agreement with AIC and its Agency and Insurance Management Service Agreements with EISI. Surplus increased 58.2% in 2015 primarily due to a $15 million capital contribution from its parent, EIC. Gross premium written increased 22.3%, 10.1% and 12.9% in 2014, 2015 and 2018, respectively.

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 and recommendations in the previous examination report.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Direct Premium Written to Policyholder Surplus

Per OCI's December 7, 2015 Bulletin, the direct premium written to policyholder surplus of property and casualty insurers licensed in Wisconsin should not exceed a ratio of 8:1 or 800%. The company's direct premium written to policyholder surplus has exceeded 800% in each of the past five years and has increased in the past three years. It is recommended that the company submit a corrective action plan to OCI for approval that addresses how the company intends to comply with OCI's December 7, 2015 Bulletin pertaining to direct premium written to surplus ratio requirements.

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 13% to $1,362,765,505 at year-end 2018, as compared to $1,206,627,235 at prior year-end 2017. The increase in direct premium is primarily attributable to increased business in the auto and homeowners' business California, Georgia, Michigan, Colorado, and Florida.

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

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Direct Premium Written to Policyholder Surplus—It is recommended that the company submit a corrective action plan to OCI for approval that addresses how the company intends to comply with OCI's December 7, 2015 Bulletin pertaining to direct premium written to surplus ratio requirements.

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