

Report of the Examination of
Esurance Insurance Company of New Jersey
San Francisco, California
As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

Wisconsin.gov

November 7, 2019

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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 OF NEW JERSEY
San Francisco, California

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Esurance Insurance Company of New Jersey (EICNJ, 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 New Jersey 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 New Jersey 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 New Jersey 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 Iowa on October 22, 1919, as Inter-State Liability Insurance Company, and commenced business on October 27, 1919. The company's name was changed in 1923 to Hawkeye Casualty Company of Iowa and was revised in 1940 to Hawkeye Casualty Company. On July 1, 1950, the company's name was revised again to Hawkeye-Security Insurance Company, concurrent with the merger of the Security Fire Insurance Company with and into the company.

The company was part of the CGU Insurance Group from 1991 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 November 21, 2001, the company's name was changed to Homeland Central Insurance Company.

On July 31, 2006, the company was purchased by Esurance Holdings, Inc. (EHI) from OneBeacon Insurance Company (OneBeacon), pursuant to the Stock Purchase Agreement by and between EHI and OneBeacon dated July 18, 2006. EHI acquired Homeland Central Insurance Company in order to gain a tax benefit on its New Jersey writings. Certain premium tax advantages were afforded companies that were licensed in New Jersey prior to 1984. On November 22, 2006, the company was contributed from EHI to Esurance Insurance Company (EIC), a wholly owned subsidiary of EHI.

The company redomiciled from Iowa to Wisconsin on December 15, 2006. Concurrent with its re-domestication, the company changed its name to the one currently used, Esurance Insurance Company of New Jersey.

Effective May 17, 2011, The Allstate Corporation (Allcorp), a publicly traded company domiciled in Delaware, entered into a Stock Purchase Agreement with White Mountains Holdings (Luxembourg) S.à r.l. (WM Luxembourg) 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 Esurance Property and Casualty Insurance Company (EPC). The sale was approved by the Wisconsin Office of the Commissioner of Insurance on September 26, 2011. The sale closed on October 7, 2011.

Effective on 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.

The company began to write premium under its current plan of operation in 2007. The company is licensed in 25 states and the District of Columbia, but it currently writes only in New Jersey.

In addition to auto insurance policies, the company began offering renters' insurance policies in June 2013 and homeowners' insurance policies in November 2016. The company markets personal insurance policies through its affiliate Esurance Insurance Services, Inc. (EISI) pursuant to an Agency Agreement. The Agency Agreement is further discussed in the section of this report entitled "Affiliated Companies." The target market includes consumers with a propensity to use the internet and other technology-enhanced distribution channels to purchase insurance and manage their accounts. Coverage is sold to consumers through EISI's website and over the telephone, pursuant to an Agency Agreement.

The following tables summarize 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.

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

New Jersey	\$78,017,696	100.0%
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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	\$ 2,586,969	\$2,478	\$ 2,589,447	\$0
Inland marine	3,812		3,812	0
Other liability – occurrence	240		240	0
Private passenger auto liability	57,568,218		57,568,218	0
Auto physical damage	17,711,016		17,711,016	0
Write-ins for other lines of business: Fees recorded as premium	<u>147,441</u>	<u> </u>	<u>147,441</u>	<u>0</u>
Total All Lines	<u>\$78,017,696</u>	<u>\$2,478</u>	<u>\$78,020,174</u>	<u>\$0</u>

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 Insurance Company of New Jersey	2020
David Matthew Biewer Burlingame, California	Vice President, Chief Financial Officer & Treasurer Esurance Insurance Company of New Jersey	2020
Eric Brandt Novato, California	Vice President Esurance Insurance Company of New Jersey	2020
Charles Sung Lee Piedmont, California	Vice President, General Counsel & Secretary Esurance Insurance Company of New Jersey	2020
Albert Shih-Po Chang Palo Alto, California	Vice President Esurance Insurance Company of New Jersey	2020
Grace Mea-Kyong Lee Pleasant Hill, California	Vice President Esurance Insurance Company of New Jersey	2020
Mark Campbell Simmonds Orinda, California	Vice President Esurance Insurance Company of New Jersey	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

Name	Office	2018 Compensation*
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 incentive plans, and deferred compensation.

EICNJ has no employees of its own. Employees providing services to the company are employed by EISI. EICNJ has entered into an Insurance Management Services Agreement with EISI for services provided. The Insurance Management Services Agreement is further discussed in the section of this report entitled, "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 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:

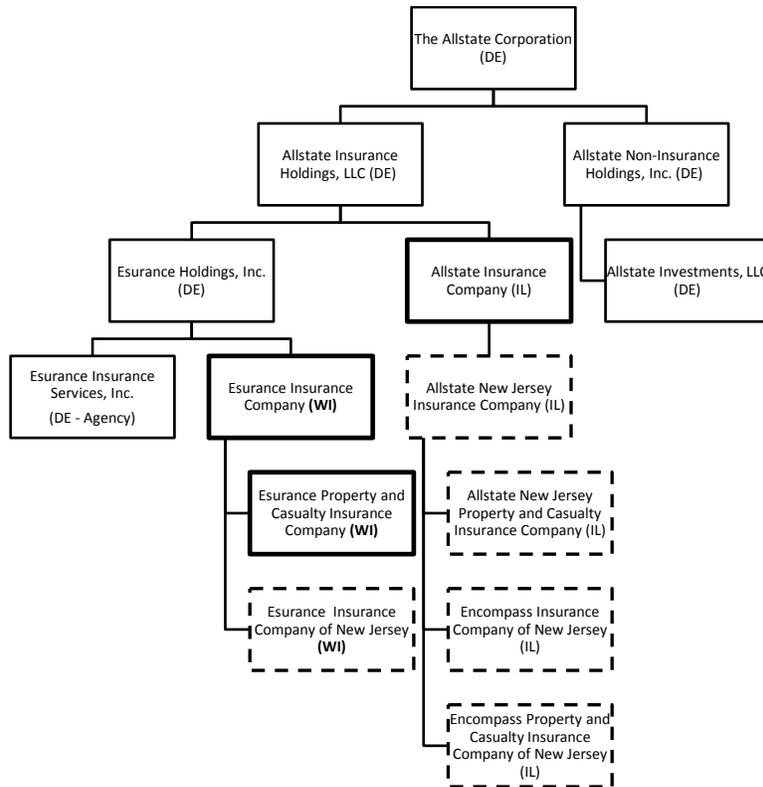
Jonathan Adkisson, President
David Biewer, Managing Director, Chief Financial Officer & Treasurer
Albert Chang, Managing Director & Chief Information Officer
Eric Brandt, Managing Director & Chief Claims Officer
Mark Simmonds, Vice President & Chief Product Officer
Charles Lee, Vice President, General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

IV. AFFILIATED COMPANIES

Esurance Insurance Company of New Jersey 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



Note:

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 renter's 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 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 \$16,882,369.

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 \$6,928,306.

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 \$4,187 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 New Jersey Insurance Company. The company, as an affiliate of ANJ, participates in the group's catastrophe reinsurance program. The New Jersey Excess Catastrophe Reinsurance Agreement provides 31.66%, 31.67%, and 31.67%, respectively, of \$400 million of limits in excess of a provisional \$150 million retention, a \$142 million retention and a \$139 million retention, respectively. Each contract includes one reinstatement of limits per contract year with premium due. The reinsurance premium and retention are subject to redetermination for exposure changes on an annual basis

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

In 2005, the company entered into a Transfer and Assumption Agreement, with Bedivere Insurance Company (Bedivere), formerly known as OneBeacon Insurance Company, whereby Bedivere assumed as its own direct liability all of the Company's then outstanding obligations for business other than the personal auto insurance written by the Company's agent EISI. The company's Notes to Financial Statements include the value of the remaining outstanding liabilities transferred through the agreement, estimated to be \$5.6 million at December 31, 2018.

Effective September 28, 2011, the company entered into a Trust Agreement with Bedivere, EIC 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 EIC.

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 Insurance Company of New Jersey
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 8,495,863	\$0	\$ 8,495,863
Cash, cash equivalents, and short-term investments	1,265,017		1,265,017
Investment income due and accrued	43,303		43,303
Receivable from parent, subsidiaries, and affiliates	<u>6,745,836</u>	<u>—</u>	<u>6,745,836</u>
Total Assets	<u>\$16,550,019</u>	<u>\$0</u>	<u>\$16,550,019</u>

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

Current federal and foreign income taxes		\$ 30,293
Net deferred tax liability		5,690
Payable to parent, subsidiaries, and affiliates		4,413,477
Write-ins for liabilities:		
Deferred Gain on Intercompany Asset Transfers		<u>6,425</u>
 Total Liabilities		 4,455,885
 Common capital stock	 \$2,800,000	
Gross paid in and contributed surplus	7,897,441	
Unassigned funds (surplus)	<u>1,396,693</u>	
 Surplus as Regards Policyholders		 <u>12,094,134</u>
 Total Liabilities and Surplus		 <u>\$16,550,019</u>

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

Investment Income

Net investment income earned	\$227,820	
Net realized capital gains (losses)	<u>(56,685)</u>	
Net investment gain (loss)		\$171,135

Other Income

Net income (loss) before dividends to policyholders and before federal and foreign income taxes		171,135
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Net income (loss) after dividends to policyholders but before federal and foreign income taxes		171,135
Federal and foreign income taxes incurred		<u>45,361</u>

Net Income		<u>\$125,774</u>
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Esurance Insurance Company of New Jersey
Cash Flow
For the Year 2018

Premiums collected net of reinsurance			
Net investment income			\$ 202,983
Benefit- and loss-related payments			
Federal and foreign income taxes paid (recovered)			<u>64,665</u>
Net cash from operations			138,318
Proceeds from investments sold, matured, or repaid:			
Bonds	\$3,965,256		
Net gains (losses) on cash, cash equivalents, and short-term investments	<u>167</u>		
Total investment proceeds		\$3,965,423	
Cost of investments acquired (long-term only):			
Bonds		<u>3,721,283</u>	
Net cash from investments			244,140
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			230,505
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			612,962
Cash, cash equivalents, and short-term investments:			
Beginning of year			<u>652,054</u>
End of Year			<u>\$1,265,017</u>

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

Assets		\$16,550,019
Less liabilities		<u>4,455,885</u>
Adjusted surplus		12,094,134
Annual premium:		
Lines other than accident and health	\$0	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 10,094,134</u>
Adjusted surplus (from above)		\$ 2,000,000
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%)		<u>2,800,000</u>
Security Surplus Excess (Deficit)		<u>\$ 9,294,134</u>

**Esurance Insurance Company of New Jersey
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	\$11,970,736	\$11,840,442	\$11,563,967	\$11,497,206	\$11,428,529
Net income	125,774	132,526	76,284	64,653	63,945
Change in net unrealized capital gains/losses	105		379	2,217	2,341
Change in net deferred income tax	(2,481)	(2,232)	(188)	(109)	(268)
Change in nonadmitted assets					2,659
Capital changes: Paid in	_____	_____	200,000	_____	_____
Surplus, End of Year	<u>\$12,094,134</u>	<u>\$11,970,736</u>	<u>\$11,840,442</u>	<u>\$11,563,967</u>	<u>\$11,497,206</u>

**Esurance Insurance Company of New Jersey
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	645%	558%	593%	655%	727%
#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	2.4	2.0*	1.1*	0.8*	0.8*
#7 Gross Change in Surplus	1	1	2	1	1
#8 Change in Adjusted Surplus	1	1	1	1	1
#9 Liabilities to Liquid Assets	45	22	25	29	51
#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 from 2014 to 2017 were due to smaller amounts of capital being invested only in bonds. The

company increased its investment in unaffiliated bonds in 2016 by about 28.12 percent to \$4.1 million compared to \$3.2 million at year-end 2015, which was the main contributor to increased investment income. The company increased its treasury bonds by \$1.85 million in 2017 compared to prior year-end 2016, which was partially offset by a \$763 thousand decrease in unaffiliated bonds; however, the company's investment income increased for both types of bonds. The company's investment income experienced an overall increase in 2018 compared to 2017, consistent with its increase in treasury bonds by \$847 thousand, and decrease in unaffiliated bonds by \$1.15 million.

Growth of Esurance Insurance Company of New Jersey

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	\$16,550,019	\$4,455,885	\$12,094,134	\$125,774
2017	14,039,118	2,068,382	11,970,736	132,526
2016	14,142,690	2,302,248	11,840,442	76,284
2015	14,339,609	2,775,642	11,563,967	64,653
2014	17,546,392	6,049,186	11,497,206	63,945
2013	14,652,972	3,224,443	11,428,529	106,032

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	\$78,020,174	\$0	\$0	0.0%	0.0%	0.0%
2017	66,802,404	0	0	0.0	0.0	0.0
2016	70,174,908	0	0	0.0	0.0	0.0
2015	75,746,756	0	0	0.0	0.0	0.0
2014	83,528,505	0	0	0.0	0.0	0.0
2013	89,390,420	0	0	0.0	0.0	0.0

The company's admitted assets increased about \$2.9 million in 2014 attributable to cash equivalents of approximately \$3 million, which it did not have in 2013, and decreased about \$3.2 million in 2015 attributable to the company's short-term investments of about \$3 million in 2014 decreasing to \$0. Liabilities increased \$2.8 million in 2014 compared to year-end 2013 due to a \$2.9 million payable for securities, which was non-existent at year-ends 2013 and 2015. The company's admitted assets increased about \$2.5 million in 2018 compared to year-end 2017

primarily attributable to a \$2.2 million increase in receivables from ANJ. Liabilities increased about \$2.4 million in 2018 attributable to a \$2.4 million increase in payables to EISI compared to year-end 2017. These results are consistent with the \$11.2 million or 16.8% increase in gross premium written.

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

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 New Jersey Group since 2011 and cedes 100% of its net underwriting results, after cessions to non-affiliates, to Allstate New Jersey Insurance Company through a quota share reinsurance agreement.

The company's direct premiums written grew 17% to \$78,017,696 at year-end 2018, as compared to \$66,801,322 at prior year-end 2017. The increase in direct premium is primarily attributable to increased business in its private passenger auto liability line.

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

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination did not result in any comments or recommendations.

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
Examiner-in-Charge