Report

of the

Examination of

Esurance Insurance Company of New Jersey

San Francisco, California

As of December 31, 2013

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 18, 2015

Honorable Theodore K. Nickel
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 2012 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 and 2015 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

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

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendation made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

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 redomestication 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. The company wrote $89.4 million in direct premium in 2013.

In addition to auto insurance policies, the company began offering renters' insurance policies in June 2013. 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 Web site and over the telephone.

The following table is a summary of the net insurance premiums written by the company in 2013. 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
Homeowner's multiple peril	$ 122,598	$0	$ 122,598	$0
Private passenger auto liability	69,145,687	0	69,145,687	0
Commercial auto liability				
Auto physical damage	19,707,075	0	19,707,075	0
Write-ins for other lines of business:				
Fees recorded as premium	415,060	0	415,060	0
Total All Lines	$89,390,420	$0	$89,390,420	$0

III. MANAGEMENT AND CONTROL

Board of Directors

As of December 31, 2013, the board of directors consisted of six 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, and do not receive compensation specific to their service as directors.

As of December 31, 2013, the board of directors consisted of the following persons:

Name and Residence	Principal Occupation	Expiry
Gary C. Tolman Mill Valley, California	Chairman, President, and Chief Executive Officer Esurance Insurance Company	2014
Charles S. Lee Piedmont, California	Vice President, General Counsel and Secretary Esurance Insurance Company	2014
Jonathan D. Adkisson San Rafael, California	Vice President, Treasurer, and Chief Financial Officer Esurance Insurance Company	2014
Christopher M. Henn Kentfield, California	Vice President Esurance Insurance Company	2014
Elinor C. Mackinnon San Francisco, California	Vice President Esurance Insurance Company	2014
Mark D. Pitchford San Francisco, California	Vice President Esurance Insurance Company	2014

The following changes in management occurred subsequent to December 31, 2013:

Effective March 24, 2014, Alan S. Gellman was appointed as Vice President and elected to the board.

Effective October 13, 2014, Eric Brandt, was appointed as Vice President and elected to the board.

Effective May 1, 2015, Gary C. Tolman retired as Chairman, President, and Chief Executive Officer and was succeeded in his capacity as President by Jonathan D. Adkisson.

Vice President and Chief Actuary David Biewer resigned on November 28, 2014. Effective June 1, 2015, he returned to the company and was appointed Vice President and Chief Financial Officer and elected to the board of directors. Iva Yuan was appointed Vice President and Chief Actuary effective June 1, 2015. The position of Treasurer has not been filled.

Christopher M. Henn resigned on March 27, 2015, from the board of directors and as Vice President.

Officers of the Company

The officers serving at December 31, 2013, were as follows:

Officer	Office	2013 Compensation
Gary C. Tolman	Chairman, President and Chief Executive Officer	$3,285,807
Jonathan D. Adkisson	Treasurer, Chief Financial Officer and Vice President	1,491,385
Charles S. Lee	Secretary, General Counsel and Vice President	278,305
David M. Biewer	Vice President and Chief Actuary	695,482
Christopher M. Henn	Vice President	1,292,916
Mark D. Pitchford	Vice President	750,022
Elinor C. Mackinnon	Vice President	450,777
Jeffrey L. Huebbers	Vice President	115,816

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.” The “2013 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. Several components of compensation in 2013 were impacted by the sale of Esurance Insurance Company and affiliates to Allcorp in October 2011.

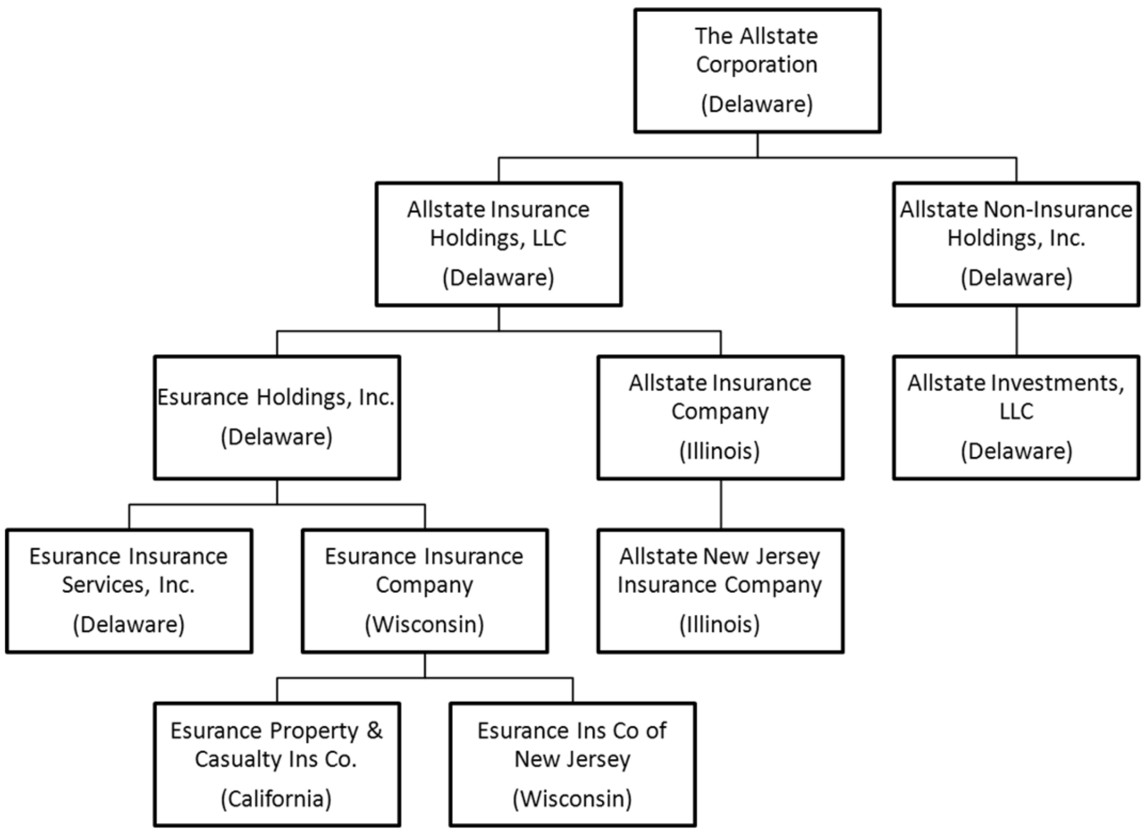
Committees of the Board

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 Esurance Insurance Company of New Jersey for purposes of the Model Audit Rule.

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, 2013



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. Allcorp is the largest publicly held personal lines insurer in the United States. Its business is conducted principally through Allstate Insurance Company, Allstate Life Insurance Company and their affiliates (collectively, including The Allstate Corporation, "Allstate"). Allstate provides personal property and casualty insurance business, life insurance and retirement and investment products. As of December 31, 2013, the consolidated audited financial statements of Allstate reported assets of $123,520 million, liabilities of $102,040 million, and shareholders' equity of $21,480 million. Operations for 2013 produced net income of $2,263 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, 2013, the consolidated audited financial statements of Allcorp included AIH with assets of $5,244 million and a net worth of $5,244 million.

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 50 states, the District of Columbia, and Puerto Rico 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, 2013, the audited statutory financial statements of AIC reported assets of $43,733,281,987, liabilities of $26,478,545,265, and capital and surplus of $17,254,736,722. Operations for 2013 produced net income of $2,465,455,987.

Allstate New Jersey Insurance Company

Allstate New Jersey Insurance Company (ANJIC) is a property and casualty insurance company domiciled in the state of Illinois. ANJIC is licensed to write business in New Jersey and Illinois but at the present time only writes business in New Jersey. ANJIC 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, ANJIC entered into a 100% quota share reinsurance agreement and a reserve agreement with EICNJ. As of December 31, 2013, the audited statutory financial statements of ANJIC reported assets of $2,680,703,566, liabilities of $1,749,795,339, and capital and surplus of $930,908,228. Operations for 2013 produced a net income of $162,736,189.

Esurance Holdings, Inc.

Esurance Holdings, Inc., is an intermediate holding company for the Esurance group of companies, which consists of three insurance companies, EIC, EPC and EICNJ (collectively, Esurance), and one non-insurance company, EISI. Effective October 7, 2011, Allcorp acquired all of the issued and outstanding capital stock of White Mountains, Inc., a holding company which directly owned EHI. Allcorp contributed the WMI shares to AIH, a Delaware limited liability company 100% owned by Allcorp. Effective November 22, 2011, the name was changed from White Mountains, Inc., to Allstate Esurance Holdings, Inc. On April 10, 2012, EHI merged into Allstate Esurance Holdings, Inc. Concurrent with the merger, Allstate Esurance Holdings, Inc., changed its name to Esurance Holdings, Inc. As of December 31, 2013, the consolidated financial statements of Allcorp included EHI with assets of $1,757 million, liabilities of $1,188 million, and net worth of $569 million. Operations for 2013 produced a net loss of $55 million.

Esurance Insurance Services, Inc.

Effective December 31, 2009, the company's affiliate, EISI, merged into its parent company, Esurance Inc. Esurance Inc. survived the merger and assumed the name Esurance Insurance Services, Inc. EISI is a service and management company of the Esurance group of companies, which includes EIC, EICNJ and EPC. All of 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 EIC, EICNJ and EPC. As of December 31, 2013, the unaudited financial statements of EISI reported assets of $167 million, liabilities of $89 million, and net worth of $78 million. Operations for 2013 produced a net income of $15 million.

Esurance Insurance Company

EIC is the principal insurance company in the Esurance group and is the direct parent of EPC and EICNJ. EIC markets personal auto, motorcycle, renters' insurance and homeowner's insurance directly to customers online and through select independent agents and is licensed to write business in the District of Columbia and 47 states of the United States. As of December 31, 2013, the audited statutory financial statements of EIC reported assets of $196,025,065, liabilities of $8,392,854, and capital and surplus of $187,632,211. Operations for 2013 produced net income of $11,735,661.

Esurance Property and Casualty Insurance Company

Esurance Property and Casualty Insurance Company (EPC) markets personal auto, motorcycle, homeowner's, and renters' 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. On October 7, 2011, EPC, along with other affiliates, was sold to Allcorp. With the sale to Allcorp, the 90% quota share reinsurance agreement between EIC and EPC was commuted and replaced with a 100% quota share reinsurance agreement with Allstate Insurance Company, effective as of October 7, 2011. As of December 31, 2013, the audited statutory financial statements of EPC reported assets of $91,140,705, liabilities of $62,252,809, and capital and surplus of $28,887,896. Operations for 2013 produced a net income of $522,972.

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, 2013, the consolidated audited financial statements of Allcorp included Allstate Non-Insurance Holdings, Inc., with assets of $640 million, liabilities of $7 million, and net worth of $633 million.

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, EICNJ entered into an Investment Management Agreement with AILLC. As of December 31, 2013, the audited consolidated financial statements of Allcorp included AILLC with assets of $1 million and liabilities of $1 million.

Agreements with Affiliates

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

Agency Agreement

Until December 31, 2009, the company maintained an Agency Agreement with its affiliate, EISI, effective April 15, 2007. On January 1, 2010, the company terminated the agreement and entered into a new Agency Agreement with EISI. In accordance with the agreement, EICNJ appoints EISI as its insurance services representative and agent with regard to the policies of the company. EISI is given the authority and duty to solicit, receive, accept, bind, issue or endorse insurance contracts and to handle related claims on behalf of the company. The agreement includes limits of liability with respect to any one policy which is not to be exceeded by EISI. EISI is to provide and maintain separate books, records, claim files and correspondence with policyholders on the business written. Such records are the joint property of the company and EISI. The agreement includes a listing of reports to be provided by EISI to EICNJ within 30 days after the calendar close of business each month. EISI is responsible for paying all expenses attributable to the producing and servicing of business. The agreement includes indemnification clauses. According to the terms of the agreement EICNJ is to compensate 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 agreement remains in force for a period of one year and automatically renews for subsequent one-year terms unless terminated.

Effective June 1, 2013, the company amended and restated its 2010 Agency Agreement to reflect the expansion of the company's property and casualty offerings beyond private passenger automobile insurance. Commissions and fees paid under this agreement in 2012 and 2013 were $18.7 million and $18.7 million, respectively.

Insurance Management Service Agreement

Until December 31, 2009, the company maintained an Insurance Management Service Agreement with its affiliate, EISI, originally effective May 4, 2007, and amended as of January 1, 2008. On January 1, 2010, the company terminated its previous agreement and entered into a new Insurance Management Service Agreement with EISI. In accordance with the agreement, EISI is to provide the accounting, tax and auditing, 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. In addition, the company will reimburse all of EISI's actual and reasonable expenses not otherwise already 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 agreement remains in effect until terminated. Management service fees paid under this agreement in 2012 and 2013 were $8.1 and $8.4 million, respectively.

Service and Expense Agreement

Effective October 7, 2011, EICNJ 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. This agreement automatically renews each year unless sooner terminated by either party. Any affiliate can cancel its participation in the arrangements under this agreement by giving six months' written notice to the other parties to this agreement. The agreement is subject to re-negotiation every three years. The company did not pay any expenses in either 2012 or 2013 related to the Service and Expense Agreement.

Investment Management Agreement

The company had an Investment Management Agreement with White Mountains Advisors, LLC (WMA) effective May 4, 2007. This agreement was terminated with the sale of the company to Allcorp on October 7, 2011. Effective October 7, 2011, the company entered into an Investment Management Agreement with Allstate Investments, LLC (AILLC). The agreement provides that AILLC shall serve as the investment manager of the company's investment assets and grants AILLC the power and authority to advise, manage, and direct the investment and reinvestment of such assets for the period and on the terms and conditions defined in the agreement. Such activities shall be conducted 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. EICNJ will pay to AILLC a monthly fee for the services equal to AILLC's actual cost of managing the portfolio, including the provision for all administrative, reporting or other services required to manage the portfolio and provide the services. This agreement automatically renews each year unless sooner terminated by AILLC. Any party can cancel its participation in the arrangements under this agreement by giving six months' written notice to the other parties to this agreement. The company incurred $6,860 in investment management fees in 2012, and $4,737 in 2013.

Tax Sharing Agreement

EICNJ had a Tax Allocation Agreement effective as of December 18, 2004, and amended December 21, 2007, by and between Fund American Enterprises Holdings, Inc., and the following affiliates: EHI, Esurance Inc., EISI, EICNJ, and EPC. This agreement was terminated with the sale of the company to Allcorp on October 7, 2011. Effective October 7, 2011, EICNJ became a party to 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 is described below.

Assumed Reinsurance

The company did not assume any business during the examination period.

Ceding Contracts

Prior to the sale of the company to Allcorp on October 7, 2011, EICNJ had a 100% quota share reinsurance agreement with its parent, EIC. With the sale of the company, along with other affiliates, the reinsurance agreement between EIC and EICNJ was commuted and replaced with a 100% quota share agreement with Allstate New Jersey Insurance Company, effective as of October 7, 2011. The agreement provides that the company cedes, and ANJIC assumes, 100% of the company's net retained liability and retained liability which may accrue to the company as a result of any losses under any and all evidence of insurance or reinsurance assumed by the company. Net retained liability means the ultimate net liability of the company, after deduction of all collected reinsurance which shall inure to the benefit of this agreement. Retained liability means the amount of the company's liability in respect of any losses resulting from the inability of the company to collect amounts due or which might become due from any and all third-party reinsurers. The reinsurer is liable for the loss adjustment expenses which can be charged to individual claims and also for 100% of all other expenses whatsoever related to the policies or the production of such policies. As 100% of all costs are reimbursed by the reinsurer, the agreement affords no ceding commissions. The agreement may be terminated by either party giving the other 90 days' prior written notice. The agreement states that, in the event of a decrease in quota share percentage or termination of the reinsurance agreement, the reinsurer shall commute its liability according with the percentage by which the reinsurer has reduced its quota share participation. In consideration for such commutation, the reinsurer shall transfer to the company assets equal to the commuted quota share participation of the incurred liabilities reinsured under this agreement.

In connection with the 100% quota share agreement, EICNJ and ANJIC entered into a Reserve Agreement effective October 7, 2011. The agreement provides that in the event of the commutation of the 100% quota share reinsurance agreement between EICNJ and ANJIC, ANJIC will make a payment to the company in the case of a “Reserve Deficiency,” and the company will make a payment to ANJIC in the case of a “Reserve Redundancy,” in either case in an amount constituting the difference between the value of the assets transferred and the aggregate net losses. This calculation is to be performed on a quarterly basis. The agreement will be terminated on the earlier of (i) the date the company’s liability with respect to any of the policies comprising the commuted liability is terminated and all obligations of the reinsurer are fulfilled; or (ii) with mutual consent of the parities and with either party providing 36 months’ prior written notice of termination.

In 2005, EICNJ entered into a Transfer and Assumption Agreement with its then parent, OneBeacon Insurance Company, whereby OneBeacon 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 agency, EISI. The company’s financial statements do not include the value of the remaining outstanding liabilities transferred through the Transfer and Assumption Agreement. In connection with the sale, EICNJ has entered into a trust agreement effective September 28, 2011, by and between OneBeacon Insurance Company (the Grantor), EIC and EICNJ (the Beneficiaries), and Wells Fargo Bank, N.A. (the Trustee). This agreement is designed to secure payments for the amounts that might become due to EIC and EICNJ (the companies) for OneBeacon’s share under certain reinsurance agreements with the companies of any unearned premium due from OneBeacon, or losses or allocated loss expenses paid or incurred by the companies but not recovered from OneBeacon under the terms of the reinsurance agreements.

The following reinsurance agreements are subject to this agreement:

- Amended and Restated Transfer and Assumption Agreement, originally effective January 1, 2003, by and between Esurance Insurance Company and OneBeacon Insurance Company.

- Instrument of Transfer and Assumption Agreement, dated June 30, 2005, by and between Homeland Central Insurance Company (now known as Esurance Insurance Company of New Jersey) and OneBeacon Insurance Company.

- In addition, on May 3, 2013, AIC and its affiliates, including EIC and EPC, entered into excess catastrophe reinsurance agreements to cover 48 states (Florida and New Jersey excluded) and the District of Columbia. On May 22, 2014, three more excess catastrophe reinsurance agreements were entered into by AIC and its affiliates, this time to also include New Jersey property and casualty affiliates. As such, EICNJ, along with EIC and EPC, were added as parties to these three agreements.

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, 2013, annual statement. 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. 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."

Esurance Insurance Company of New Jersey
Assets
As of December 31, 2013

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 6,596,452	$	$ 6,596,452
Cash, cash equivalents, and short-term investments	2,330,606		2,330,606
Investment income due and accrued	23,287		23,287
Net deferred tax asset	2,659	2,659	
Receivable from parent, subsidiaries, and affiliates	5,702,627		5,702,627
Total Assets	$14,655,631	$2,659	$14,652,972

Esurance Insurance Company of New Jersey
Liabilities, Surplus, and Other Funds
As of December 31, 2013

Current federal and foreign income taxes		$ 50,201
Net deferred tax liability		383
Payable to parent, subsidiaries, and affiliates		3,116,865
Write-ins for liabilities:		
Deferred gain on intercompany asset transfers		56,994
Total liabilities		3,224,443
Common capital stock	$2,600,000	
Gross paid in and contributed surplus	7,897,441	
Unassigned funds (surplus)	931,088	
Surplus as regards policyholders		11,428,529
Total Liabilities and Surplus		$14,652,972

Esurance Insurance Company of New Jersey
Summary of Operations
For the Year 2013

Investment Income		
Net investment income earned	$95,170	
Net realized capital gains (losses)	31,638	
Net investment gain (loss)		$126,808
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		126,808
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		126,808
Federal and foreign income taxes incurred		20,776
Net Income		$106,032

Esurance Insurance Company of New Jersey
Cash Flow
For the Year 2013

Net investment income			$ 134,081
Total			134,081
Federal and foreign income taxes paid (recovered)		$(1,601,589)	
Total deductions			(1,601,589)
Net cash from operations			1,735,670
Proceeds from investments sold, matured, or repaid:			
Bonds	$4,097,950		
Net gains (losses) on cash, cash equivalents, and short-term investments	(9)		
Miscellaneous proceeds	125		
Total investment proceeds		4,098,067	
Cost of investments acquired (long-term only):			
Bonds	4,522,939		
Total investments acquired		4,522,939	
Net cash from investments			(424,873)
Cash from financing and miscellaneous sources:			
Capital and paid in surplus less treasury stock		2,000,000	
Other cash provided (applied)		(2,037,214)	
Net cash from financing and miscellaneous sources			(37,214)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			1,273,584
Cash, cash equivalents, and short-term investments:			
Beginning of year			1,057,022
End of Year			$ 2,330,606

Esurance Insurance Company of New Jersey
Compulsory and Security Surplus Calculation
December 31, 2013

Assets		$14,652,972
Less liabilities		3,224,443
Adjusted surplus		11,428,529
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 (or Deficit)		$ 9,428,529
Adjusted surplus (from above)		$11,428,529
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 (or Deficit)		$ 8,628,529

Esurance Insurance Company of New Jersey
Analysis of Surplus
For the Two-Year Period Ending December 31, 2013

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

	2013	**2012**
Surplus, beginning of year	$ 9,348,719	$7,105,208
Net income	106,032	1,731,317
Change in net unrealized capital gains/losses	(11,031)	2,161
Change in net deferred income tax	(12,533)	(1,618,015)
Change in nonadmitted assets	(2,658)	1,628,048
Surplus adjustments:		
Paid in	2,000,000	500,000
Surplus, End of Year	$11,428,529	$9,348,719

Esurance Insurance Company of New Jersey
Insurance Regulatory Information System
For the Two-Year Period Ending December 31, 2013

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

	Ratio	**2013**	**2012**
#1	Gross Premium to Surplus	782%	983%*
#2	Net Premium to Surplus	0	0
#3	Change in Net Premiums Written	0	(100)*
#4	Surplus Aid to Surplus	0	0
#5	Two-Year Overall Operating Ratio	0	967*
#6	Investment Yield	1.2*	1.4*
#7	Gross Change in Surplus	22	32
#8	Change in Adjusted Surplus	1	25*
#9	Liabilities to Liquid Assets	36	41
#10	Agents' Balances to Surplus	0	0
#11	One-Year Reserve Development to Surplus	0	0
#12	Two-Year Reserve Development to Surplus	0	(1)
#13	Estimated Current Reserve Deficiency to Surplus	0	0

The exceptional result for Ratio No. 1, "Gross Premiums to Surplus," in 2012 correctly reflects the leverage of gross premiums relative to surplus. In 2012, there was a 2.8% increase in gross written premiums compared to prior year. A paid-in surplus contribution of $2,000,000 during 2013 prevented recurrence of an exceptional result for that year.

The exceptional result for Ratio No. 3, "Change in Net Premiums Written," in 2012 was due to the company's entry into a 100% quota share reinsurance agreement with its affiliate, Allstate New Jersey Insurance Company. Under its previous 100% quota share reinsurance agreement with its parent, Esurance Insurance Company, the company was permitted to retain fees recorded as premium, which were included as a write-in for other lines of business on the Underwriting and Investment Exhibit – Part 1B. This is not the case under the treaty with Allstate New Jersey Insurance Company.

The exceptional result for Ratio No. 5, "Two-Year Overall Operating Ratio," in 2012 was attributable to the company's entry into a 100% quota share reinsurance agreement with its affiliate, Allstate New Jersey Insurance Company, whereby it reported no premium earned for 2012.

The exceptional result for Ratio No. 6, "Investment Yield," for 2012 and 2013 can be attributed to the low interest rate environment during the period under examination and the company's conservative investment portfolio.

The exceptional result for Ratio No. 8, "Change in Adjusted Surplus," for 2012 reflects the increase in policyholders' surplus in that year, which was considerably aided by the use of net operating loss carryforwards in that year together with a $500,000 paid-in surplus contribution.

Growth of Esurance Insurance Company of New Jersey

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2013	$14,652,972	$3,224,443	$11,428,529	$106,032
2012	12,296,939	2,948,220	9,348,720	1,731,317
2011	12,979,459	5,874,251	7,105,209	(3,311,109)

Year	Gross Premium Written	Net Premium Written	Net Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2013	$89,390,420	$ 0	$ 0	0.0%	0.0%	0.0%
2012	91,884,371	0	0	0.0	0.0	0.0
2011	89,393,909	335,675	335,675	(44.5)	1,118.3	1,073.8

During the period under examination, the single most important change was the company's entry into a 100% quota share reinsurance agreement with its affiliate, Allstate New Jersey Insurance Company, in 2011, whereby it no longer retained any portion of fees recorded as premium. Gross premiums written, which represent the company's direct premium written in New Jersey, have remained fairly consistent during the period under examination.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of policyholders' surplus reported by the company as of December 31, 2013, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific recommendation in the previous examination report.

Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Independent Certified Public Accountant—It is recommended that the company comply with the requirements of s. Ins 50.07 (4), Wis. Adm. Code, in the event of a change in its independent certified public accountant.

   Action—Compliance. The company did not change its independent certified public accountant during the period under examination.

Summary of Current Examination Results

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

VIII. CONCLUSION

Policyholders' surplus has increased from $7,105,208 as of year-end 2011, when policyholders' surplus was last verified by examination, to $11,428,529 as of year-end 2013, as determined by this examination. This represents an increase of 60.8% during the period under examination. The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2011, the date as of which the company was last examined, to December 31, 2013:

Policyholders' surplus, December 31, 2011	$ 7,105,208
Paid-in surplus	2,500,000
Net income	1,837,349
Change in net deferred income tax	(1,630,548)
Change in nonadmitted assets	1,625,390
Change in net unrealized capital gain or (loss)	(8,870)
Policyholders' Surplus, December 31, 2013	$11,428,529

As previously noted, the company cedes 100% of its net premiums, losses, and loss adjustment expenses to Allstate New Jersey Insurance Company.

The examination resulted in no adjustments to policyholders' surplus or reclassifications to the balance sheet. There were no adverse or material findings as a result of the current examination of the company.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination did not result in any findings of material exception and did not result in any recommendations requiring company action or compliance.

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
Diana Havitz	Insurance Financial Examiner
John Litweiler	Insurance Financial Examiner – Advanced Exam Planning & Quality Control Specialist
David Jensen	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist

Respectfully submitted,

Vickie Ostien
Examiner-in-Charge