Report

of the

Examination of

Esurance Insurance Company

San Francisco, California

As of December 31, 2013

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

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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
San Francisco, California

and this report is respectfully submitted.

I. INTRODUCTION

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

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

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

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

The company redomiciled from Oklahoma to Wisconsin on May 18, 2006. On July 31, 2006, Esurance Insurance Company of New Jersey (EICNJ) was purchased by EHI from OneBeacon, pursuant to the Stock Purchase Agreement by and between EHI and OneBeacon dated July 18, 2006. EHI acquired EICNJ in order to gain a premium tax benefit on its New Jersey writings. Certain premium tax advantages were afforded companies that were licensed in New Jersey prior to 1984. On November 22, 2006, EICNJ was contributed from EHI to EIC and is valued on a statutory basis at surplus value. Effective December 31, 2009, the company's affiliate Esurance Insurance Services, Inc. (EISI), merged into its parent company, Esurance Inc. Esurance Inc. survived the merger and assumed the name Esurance Insurance Services, Inc. EISI is 100% owned by EHI.

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

In conjunction with the sale, this office rescinded two Stipulation and Orders placed upon EIC in 2006, which had been issued as conditions of redomestication to Wisconsin. One Stipulation and Order prescribed a method of calculation of the minimum compulsory surplus requirements for EIC. The other Stipulation and Order precluded EIC from entering into any reinsurance agreement with its affiliates domiciled in a jurisdiction outside the United States unless a reinsurance credit trust was established on the company's behalf and approved by the Commissioner.

Effective the date of the sale, Allcorp contributed the WMI shares to Allstate Insurance Holdings, LLC, a Delaware limited liability company 100% owned by Allcorp. On

November 22, 2011, the name was changed from White Mountains, Inc., to Allstate Esurance Holdings, Inc. Effective April 10, 2012, Esurance Holdings, Inc., merged into Allstate Esurance Holdings, Inc. Concurrent with the merger, Allstate Esurance Holdings, Inc., changed its name to Esurance Holdings, Inc. (EHI).

In 2013, the company wrote direct premium in the following states:

Texas	$ 57,597,435	14.4%
Florida	34,663,418	8.6
New York	34,294,709	8.5
Michigan	29,945,964	7.5
Washington	25,763,346	6.4
Connecticut	24,375,178	6.1
South Carolina	24,340,507	6.1
Louisiana	22,496,851	5.6
Kentucky	18,773,073	4.7
Oregon	15,917,336	4.0
All others	113,020,126	28.1
Total	$401,187,943	100.0%

The company is licensed in the District of Columbia and all states of the United States except Idaho, Minnesota and New Mexico.

The company markets personal insurance policies through its affiliate EISI pursuant to an Agency Agreement. In addition to auto insurance policies, the company began offering renters' insurance policies in 2012 and motorcycle and homeowner's insurance policies in 2013. 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. EIC also issues personal policies through select online agents and offers other types of insurance products through distribution agreements with third -party insurers.

The following table is a summary of the net insurance premiums written by the company in 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	$ 502,431	$ 0	$ 502,431	$0
Private passenger auto liability	277,680,797	10,596,148	288,276,945	0
Auto physical damage	118,592,775	5,797,907	124,390,682	0
Write-ins for other lines of business:				
Fees recorded as premium	4,411,941	0	4,411,941	0
Total All Lines	$401,187,944	$16,394,055	$417,581,999	$0

III. MANAGEMENT AND CONTROL

Board of Directors

As of December 31, 2013, the board of directors consisted of six members. Directors are elected at each annual meeting of the shareholders to hold office until the next annual meeting. Officers are elected annually 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 the time of this examination are 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

EIC has no employees of its own. Employees providing services to the company are employed by EISI. EIC has entered into an Insurance Management Services Agreement with EISI for services provided. The Insurance Management Services Agreement is further discussed in the report under the section titled “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.

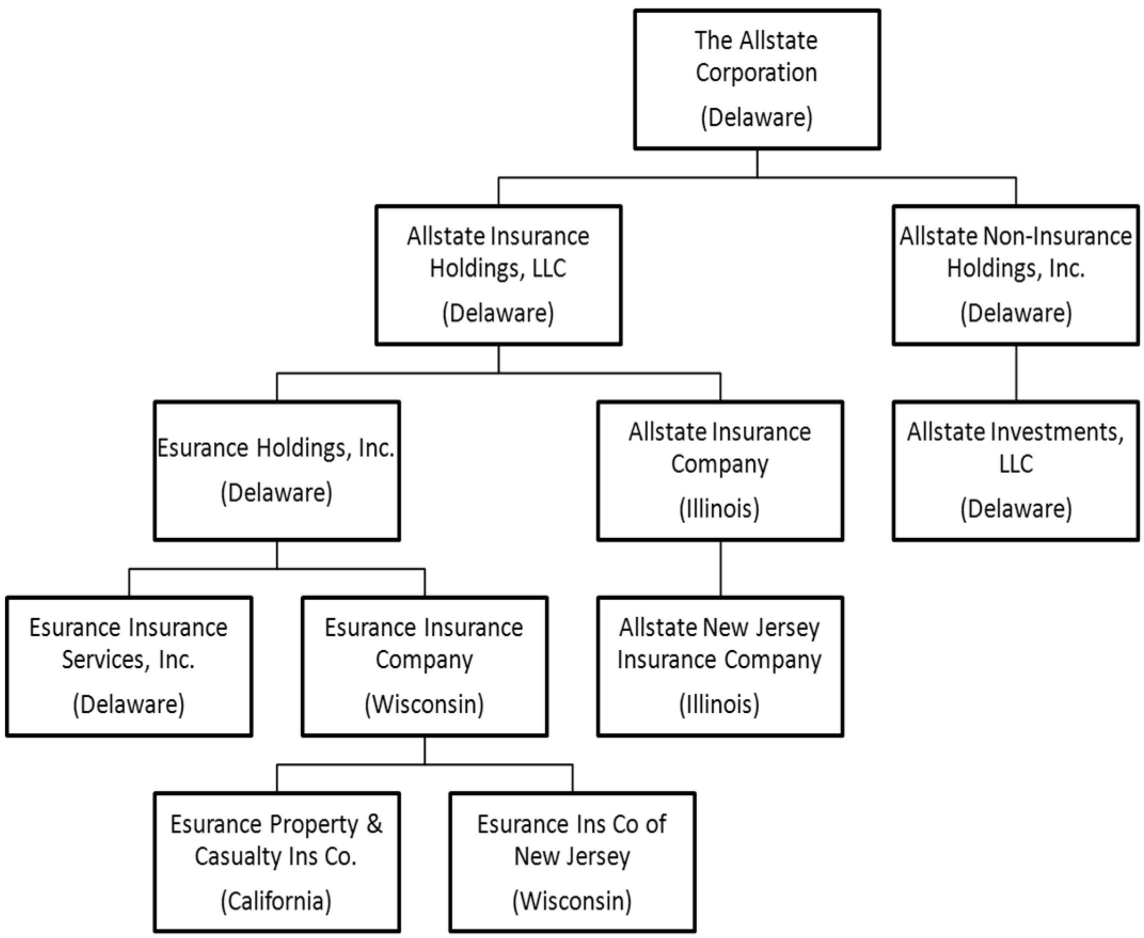
Committees of the Board

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 for purposes of the Model Audit Rule.

IV. AFFILIATED COMPANIES

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

Organizational Chart
As of December 31, 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 that 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 the Esurance companies: 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 of New Jersey

EICNJ markets personal auto 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. On October 7, 2011, EICNJ, along with other affiliates, was sold to Allcorp. Prior to the sale, EICNJ had a 100% quota share reinsurance agreement with its parent, EIC. Effective on the date of the sale to Allcorp, the 100% quota share reinsurance agreement was commuted and replaced with a 100% quota share reinsurance agreement between EICNJ and ANJIC. As of December 31, 2013, the audited statutory financial statements of EICNJ reported assets of $14,652,972, liabilities of $3,224,443, and capital and surplus of $11,428,529. Operations for 2013 produced a net income of $106,032.

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. Prior to the sale, EPC had a 90% quota share reinsurance agreement with its parent, EIC. Effective on the date of the sale to Allcorp, the 90% quota share reinsurance agreement was commuted and replaced with a 100% quota share reinsurance agreement between EPC and AIC. 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, EIC 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 January 1, 2003, and amended on January 1, 2004, and 2007. On January 1, 2010, the company terminated the agreement and entered into a new Agency Agreement with EISI. In accordance with the agreement, EIC 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 EIC 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 EIC 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 $78.9 million and $83.1 million, respectively.

Insurance Management Service Agreement

Until December 31, 2009, the company maintained an Insurance Management Service Agreement with its affiliate, EISI, originally effective January 1, 2003, and amended on May 18, 2006, January 1, 2008, and January 1, 2009. 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 $34.5 million and $30.4 million, respectively.

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. 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 paid $19,229 of expenses in 2013 and $0 of expenses in 2012 related to the Service and Expense Agreement.

Investment Management Agreement

The company had an Investment Management Agreement with White Mountains Advisors, LLC (WMA) effective July 1, 2002. 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. EIC 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 $116,112 in investment management fees in 2013, and $142,705 in 2012.

Tax Sharing Agreement

EIC 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, EIC 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.

Assuming Contracts

Prior to the sale of the company to Allcorp on October 7, 2011, EIC assumed business from its affiliates EICNJ and EPC under 100% and 90% quota share reinsurance agreements, respectively. Those agreements were commuted at the time of the sale. EICNJ and EPC entered into 100% quota share reinsurance agreements with ANJIC and AIC, respectively.

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

Ceding Contracts

Prior to 2010, EIC ceded 85%, in equal shares, to two of its affiliates, Sirius International Insurance Corporation (PUBL) (Sirius International) and Sirius America Insurance

Company (formerly known as White Mountains Reinsurance Company of America and, previous to that, Folksamerica Reinsurance Company) (Sirius America), for an 18% ceding commission. Effective January 1, 2010, EIC terminated this agreement and entered into a replacement reinsurance agreement with Sirius America and Sirius International, 42.5% to Sirius America with a 20% ceding commission and 17.5% to Sirius International with a 21% ceding commission. On January 1, 2011, EIC terminated its reinsurance agreement with Sirius International but continued to cede 42.5% to Sirius America until the sale to Allcorp on October 7, 2011. In connection with reinsurance agreements with Sirius International and Sirius America, EIC had trust agreements with Sirius International and the Bank of New York dated as of November 7, 2006, and amended on February 26, 2007, and with Sirius America and The Bank of New York dated as of December 6, 2007. The purpose of the trusts was to secure payments of amounts due to EIC under the reinsurance agreements.

As of the sale date of EIC to Allcorp on October 7, 2011, a Commutation Agreement and Release was made by and among EIC and Sirius America and Sirius International. The agreement provides for commutation, on a cut off basis, of five reinsurance agreements between EIC and either Sirius International as reinsurer or Sirius International and Sirius America as reinsurers. As consideration for the commutation, EIC received cash and invested assets having an aggregate fair market value equal to 100% of the statutory reserves with respect to all liabilities ceded under each reinsurance contract. Under the agreement, all parties are completely released from any and all liabilities and obligations related to the named reinsurance contracts. Under the Commutation Agreement and Release, the reinsurance trust accounts for the benefit of EIC to secure such reinsurer's obligations to EIC under the reinsurance agreements are to be terminated after EIC withdraws funds from the trust accounts. The following agreements were commuted:

- Quota Share Reinsurance Agreement among EIC, Sirius and Sirius America, effective January 1, 2007
- Quota Share Reinsurance Agreement among EIC , Sirius and Sirius America, effective January 1,2008
- Quota Share Reinsurance Agreement among EIC, Sirius, and Sirius America, effective January 1, 2010

- Loss Portfolio Transfer and Reinsurance Agreement by and between EIC and Sirius, dated November 7, 2006

- Quota Share Reinsurance Agreement by and between EIC and Sirius, dated November 7, 2006

After the sale, EIC entered into a quota share reinsurance agreement with Allstate Insurance Company. The agreement provides that the company cedes and AIC 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 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 the company or the reinsurer by giving the other 90 days' prior written termination 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 to 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, EIC and AIC entered into a Reserve Agreement effective on October 7, 2011. The agreement provides that in the event of the commutation of the 100% quota share reinsurance agreement between EIC and AIC, AIC will pay to the company in the case of a "Reserve Deficiency" and the company will pay to Allstate Insurance Company in the case of a "Reserve Redundancy" the difference between the value of the assets transferred and the aggregate net losses. This calculation should 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 parties and with either party providing 36 months' prior written notice of termination.

In 2003 and in 2005, EIC and EICNJ, respectively, entered into Transfer and Assumption Agreements with their then parent, OneBeacon Insurance Company, whereby OneBeacon assumed as its own direct liability all of the companies' then outstanding obligations for business other than the personal auto insurance written by the companies' agency, EISI. The companies' financial statements do not include the value of the remaining outstanding liabilities transferred through the Transfer and Assumption Agreements. In connection with the sale, EIC and EICNJ entered into a trust agreement on 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 the OneBeacon under the terms of the reinsurance agreements.

The following reinsurance agreements are subject to this trust agreement:

- Amended and Restated Transfer and Assumption Agreement, originally effective January 1, 2003, by and between EIC 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 entered into two 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, EIC and EICNJ were also 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
Assets
As of December 31, 2013

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$126,351,923	$	$126,351,923
Stocks:			
Preferred stocks			
Common stocks	40,316,421		40,316,421
Cash, cash equivalents, and short-term investments	(3,786,498)		(3,786,498)
Receivables for securities	6,883		6,883
Investment income due and accrued	608,843		608,843
Reinsurance:			
Amounts recoverable from reinsurers	5,081,664		5,081,664
Current federal and foreign income tax recoverable and interest thereon	1,358,695		1,358,695
Net deferred tax asset	5,317	5,317	
Receivable from parent, subsidiaries, and affiliates	26,087,135		26,087,135
Write-ins for other than invested assets:			
Prepaid reinsurance premium	2,827	2,827	
Total Assets	$196,033,209	$8,144	$196,025,065

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

Net deferred tax liability		$ 846
Ceded reinsurance premiums payable (net of ceding commissions)		(577,282)
Payable to parent, subsidiaries, and affiliates		8,246,815
Write-ins for liabilities:		
Deferred gain on intercompany asset transfer		722,475
Total liabilities		8,392,854
Common capital stock	$ 3,000,000	
Preferred capital stock	500,000	
Gross paid in and contributed surplus	181,695,391	
Unassigned funds (surplus)	2,436,820	
Surplus as regards policyholders		187,632,211
Total Liabilities and Surplus		$196,025,065

Esurance Insurance Company
Summary of Operations
For the Year 2013

Investment Income		
Net investment income earned	$9,927,659	
Net realized capital gains (losses)	434,948	
Net investment gain (loss)		$10,362,607
Other Income		
Write-ins for miscellaneous income:		
Miscellaneous income and expense	(86)	
Total other income		(86)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		10,362,521
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		10,362,521
Federal and foreign income taxes incurred		(1,373,140)
Net Income		$11,735,661

Esurance Insurance Company
Cash Flow
For the Year 2013

Premiums collected net of reinsurance			$ (850,900)
Net investment income			10,947,558
Miscellaneous income			(86)
Total			10,096,572
Benefit- and loss-related payments		$ 1,486,347	
Federal and foreign income taxes paid (recovered)		(17,217,905)	
Total deductions			(15,731,558)
Net cash from operations			25,828,129
Proceeds from investments sold, matured, or repaid:			
Bonds	$52,174,545		
Net gains (losses) on cash, cash equivalents, and short-term investments	417		
Total investment proceeds		52,174,962	
Cost of investments acquired (long-term only):			
Bonds	44,294,230		
Stocks	2,000,000		
Miscellaneous applications	2,357		
Total investments acquired		46,296,587	
Net cash from investments			5,878,375
Cash from financing and miscellaneous sources:			
Dividends to stockholders		15,000,000	
Other cash provided (applied)		(22,915,723)	
Net cash from financing and miscellaneous sources			(37,915,723)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(6,209,218)
Cash, cash equivalents, and short-term investments:			
Beginning of year			2,422,721
End of Year			$ (3,786,497)

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

Assets		$196,025,065
Less security surplus of insurance subsidiaries		5,600,000
Less liabilities		8,392,854
Adjusted surplus		182,032,211
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)		$180,032,211
Adjusted surplus (from above)		$182,032,211
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)		$179,232,211

Esurance Insurance Company
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	$200,219,252	$167,373,851
Net income	11,735,661	23,866,298
Change in net unrealized capital gains/losses	(6,870,523)	6,375,994
Change in net unrealized foreign exchange capital gains/losses	0	2,838
Change in net deferred income tax	(2,444,035)	(18,459,297)
Change in nonadmitted assets	(8,144)	21,059,569
Dividends to stockholders	(15,000,000)	
Surplus, End of Year	$187,632,211	$200,219,252

Esurance Insurance Company
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	223.0%	202%
#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	118*
#6	Investment Yield	5.9	3.1
#7	Gross Change in Surplus	(6)	20
#8	Change in Adjusted Surplus	(6)	20
#9	Liabilities to Liquid Assets	7	12
#10	Agents' Balances to Surplus	0	0
#11	One-Year Reserve Development to Surplus	0	0
#12	Two-Year Reserve Development to Surplus	0	0
#13	Estimated Current Reserve Deficiency to Surplus	0	(0)

Ratio No. 3 reflects the percentage change in net premiums written from the prior year. The exceptional ratio generated in 2012 was due to the company's entry into a 100% quota share reinsurance agreement with its affiliate, Allstate Insurance Company. Under its previous quota share reinsurance agreement, the company ceded 42.5% of its direct and assumed written premiums to Sirius America. On October 7, 2011, the agreement was commuted in connection with the sale of the company to Allcorp.

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional ratio result in 2012 was attributable to the company's entry into a 100% quota share reinsurance agreement in 2012 with its affiliate, Allstate Insurance Company, whereby it reported no loss and loss adjustment expense incurred and also negative premium written and earned for 2012.

Growth of Esurance Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2013	$196,025,065	$ 8,392,854	$187,632,211	$ 11,735,661
2012	217,176,998	16,957,747	200,219,253	23,866,298
2011	201,357,238	33,983,389	167,373,851	(32,872,812)

Year	Gross Premium Written	Net Premium Written	Net Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2013	$417,581,999	$ 0	$ 0	0.0%	0.0%	0.0%
2012	405,000,216	(135,444)	(25,937)	0.0	19.2	19.2
2011	638,913,393	289,229,882	367,201,263	75.5	45.4	120.9

In 2013, EIC's total admitted assets and liabilities decreased by 9.7% and 50.5%, respectively, principally because of changes in the reinsurance program. During the same year, surplus decreased by 6.3%, mainly due to payment of a $15,000,000 dividend to its parent in December 2013. The change in net income between 2012 and 2013 can be attributed to the substantially greater federal income tax benefits incurred in 2012 as compared to 2013.

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 $167,373,851 as of year-end 2011, when policyholders' surplus was last verified by examination, to $187,632,211 as of year-end 2013, as determined by this examination. This represents an increase of 12.1% 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	$167,373,851
Net income	35,601,959
Change in nonadmitted assets	21,051,425
Change in net deferred income tax	(20,903,332)
Dividends to stockholder	(15,000,000)
Change in net unrealized capital gain or (loss)	(494,529)
Change in net unrealized foreign exchange	2,838
Policyholders' Surplus, December 31, 2013	$187,632,211

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