

**REPORT ON EXAMINATION
OF
FARMERS INSURANCE COMPANY, INC.
17000 W 119TH STREET
OLATHE, KS 66061
AS OF
DECEMBER 31, 2021**

APPROVED & FILED

October 27, 2023

VICKI SCHMIDT
Commissioner of Insurance

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Topeka, Kansas
October 27, 2023

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Rd
Topeka, Kansas 66604-4019

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

FARMERS INSURANCE COMPANY, INC.

with its statutory home office and administrative office at:

**17000 W 119TH STREET
OLATHE, KANSAS 66061**

hereinafter referred to as the “Company” or “FICO.” The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of FICO, a Kansas-domiciled property and casualty insurance company. The last examination covered the four-year period from January 1, 2014, through December 31, 2017. This examination covers the four-year period from January 1, 2018, through December 31, 2021.

The examination was conducted concurrently with the state of California as part of a coordinated group financial examination of Farmers Insurance Exchange (“FIE”) and Farmers Insurance Group (“Group”) as of December 31, 2021. The coordinated group financial examination included the participation of Kansas, as well as several state

insurance departments with California being the lead state (“Lead State”). The various states issued Reports of Examination for their domiciled insurers under separate covers as of December 31, 2021.

The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department (“Department”) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

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.

Those Group activities considered in the examination as key or critical to FICO included Capital Management and Modeling, Investments, Reinsurance, Related Party, Reserving, Claims, and Underwriting and Pricing, as well as Sub-Group activities of Premiums, Billing and Collecting and Underwriting and Pricing. The examination also included a review and evaluation of information technology general controls and cybersecurity controls.

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 is documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Independent Audit Reports

Financial statements of the Company were audited by Ernst & Young for the year ending December 31, 2021. Financial statements of the Company were audited by PricewaterhouseCoopers, LLP of Los Angeles, California for the years ending December 31, 2018, through December 31, 2020. In each of the years under examination, the auditors concluded that the financial statements of FIE and its Affiliated Property and Casualty Insurers, including the Company, present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company, the results of its operations and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination. However, there were some limitations placed on the reliance on the CPA workpapers. See Accounts and Records section of this report.

Actuarial Review

The Company's Chief Actuary, James L. Nutting, FCAS, MAAA, employed by Farmers Group, Inc., performed a review of the Company's actuarial practices and reserves as of December 31, 2021. The review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in its reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

Significant Examination Delays

The Group caused significant delays in providing access to various supporting documentation due to the Group's assertion that the documentation was subject to Attorney Client Privilege ("ACP"). The Group is required to provide, "...free access to the books and papers of any such company that relate to its business" in accordance with K.S.A. 40-222(c), with "...grounds for suspension or refusal of, or nonrenewal of any license or authority held by the company to engage in an insurance..." if access to requested documentation is not provided in accordance with K.S.A. 40-222(g). The Group did not meet the standards identified in K.S.A. 40-222(c) and K.S.A. 40-222(g).

The Group is "...required to file an audited financial report pursuant to this Policy and Procedure, shall require the accountant to make available for review by Kansas Insurance Department examiners, all workpapers prepared in the conduct of the accountant's audit and any communications related to the audit between the accountant and the insurer..." in accordance with the NAIC Model Audit Regulation ("MAR") Section 13, Paragraph B as amended in the Department's "Policy and Procedure Requiring Annual Audited Financial Reports," dated November 30, 2016 ("MAR"), adopted by reference in K.A.R. 40-1-37. The Group's process of reviewing the external auditor's

index of archived workpapers and approving the release of the audit workpapers did not comply with K.A.R. 40-1-37 and MAR Section 13, Paragraph B.

The Group is required to establish an Internal Audit (“IA”) function to provide independent, objective, and reasonable assurance to the insurer’s audit committee and management regarding the insurer’s governance, risk management, and internal controls in accordance with K.A.R. 40-1-37 and MAR Section 15, Paragraphs B-D. The Group’s IA function performs a significant number of audits at the request of the Office of the General Counsel (“OGC”) where resulting reports are not shared with the Audit Committee. Further, the Group’s Internal Controls over Financial Reporting (“ICFR”) function is not aligned under IA. The Group did not comply with K.A.R. 40-1-37 and MAR Section 15, Paragraphs B-D.

ACCOUNTS AND RECORDS

An examination is conducted to determine the financial condition of insurance companies in accordance with the rules, regulations, and directives of the Department, and prescribed accounting practices as promulgated by the NAIC. One must consider, among other things, the results of financial statement analyses and ratios, have open access to all the books and papers of the company, and conduct the examination in accordance with the NAIC’s Handbook, which requires the examination to evaluate the insurer’s financial condition, assess corporate governance, identify current and prospective risks, and evaluate systems controls and procedures used to mitigate those risks.

Significant Examination Delays

During the course of the examination, the Lead State experienced significant

delays in obtaining access to various supporting documentation because the Group initially would not provide certain documentation and asserted the documentation was under the protection of the ACP, which resulted in significant delays in the progress and timing of the completion of the examination. The following compliance findings were a result of the limitations in receiving the requested documentation:

1. K.S.A. 40-222(c) states, “For the purpose of such examination, the commissioner of insurance or the persons appointed by the commissioner, for the purpose of making such examination shall have free access to the books and papers of any such company that relate to its business and to the books and papers kept by any of its agents” Further, K.S.A. 40-222(g) states, “The refusal of any company, by its officers, directors, employees or agents, to submit to examination or to comply with any reasonable written request of the examiners shall be grounds for suspension or refusal of, or nonrenewal of any license or authority held by the company to engage in an insurance or other business subject to the commissioner's jurisdiction. Any such proceedings for suspension, revocation or refusal of any license or authority shall be conducted in accordance with the provisions of the Kansas administrative procedure act.” During the course of this examination, the examiners were not provided full access to all of the information requested from the Group.

The Department recommends that the Company adhere to K.S.A. 40-222(c) and K.S.A 40-222(g) by providing full access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the Company. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail.

2. K.A.R. 40-1-37 and MAR Section 13, Paragraph B, requires that, “Every insurer required to file an audited financial report... shall require the accountant to make available for review by Kansas Insurance Department examiners, all workpapers prepared in the conduct of the accountant’s audit and any communications related to the audit between the accountant and the insurer, at the offices of the insurer, at the Kansas Insurance Department or at any other reasonable place designated by the commissioner. The insurer shall require that the accountant retain the audit workpapers and communications until the Kansas Insurance Department has filed a report on examination covering the period of the audit but no longer than seven (7) years from the date of the audit report.”

In the process of authorizing the release of the external auditor’s audit workpapers, the Group obtained the audit workpaper index of the archived workpapers from the external auditor. The Group initially declined to consent to the release of 13 workpapers listed on the index on the basis of ACP. Subsequently, all but one of the 13 withheld documents were later provided. The one document not provided

related to a document that was recalled or “clawed back” from the CPA workpapers due to confidentiality and should not have been provided, as asserted to by the Group. The observed process of reviewing and approving the release of the audit workpapers did not comply with K.A.R. 40-1-37 and MAR Section 13, Paragraph B. The Department recommends that the Company comply with K.A.R. 40-1-37 and MAR Section 13, Paragraph B and not interfere with the requirements of the external auditors to provide the state examiners with full access to the external workpapers without company involvement.

3. K.A.R. 40-1-37 and MAR Section 15, Paragraphs B–D, require an insurer or group of insurers to establish an IA function to provide independent, objective, and reasonable assurance to the insurer’s audit committee and management regarding the insurer’s governance, risk management, and internal controls. To ensure that an internal auditor remains objective, the IA function shall be organizationally independent. Organizational independence does not preclude dual-reporting relationships. The IA function shall not defer ultimate judgment of the responsibilities or audit matters to others. Furthermore, the head of the IA function shall report to the Audit Committee regularly, but no less than annually, on the periodic audit plan, factors that may adversely impact the IA function’s independence or effectiveness, material findings from completed audits, and the appropriateness of corrective actions implemented by management as a result of audit findings.

During the course of the examination, it was determined that:

(a) The IA function performs a significant number of its audits of key activities under the protection of ACP, with the audits being performed under the advisement of the legal counsel within the OGC;

(b) The IA Reports prepared under the advisement of the legal counsel are not shared directly with the Audit Committee, but with selected legal counsel from the OGC and senior management. IA shares with the Audit Committee a summary of all audit reports concluded during the quarter; and

(c) The ICFR function, which is responsible for testing controls in compliance with K.A.R. 40-1-37 and MAR regulations, is not aligned under IA, but is a centralized assurance unit within the Farmers’ Finance Department, reporting directly to the management, therefore, not an independent function despite being responsible for internal control testing.

The Department recommends that the Company take necessary steps to adjust the reporting structure for both IA and ICFR to comply with K.A.R. 40-1-37 and MAR, Section 15, Paragraphs B-D. These steps shall include but are not limited to:

- 1) Ensuring the IA function is organizationally independent, which shall directly report to Audit Committee; however, dual reporting is allowed;

2) The IA function shall not defer ultimate judgment on the responsibilities or audit matters to others. The scope of the IA function shall be determined independently based on the operational needs; and

3) Having the ICFR function align with the IA function, whose purpose is to test controls in compliance with MAR, and report directly to the Audit Committee. Dual reporting is allowed.

COMPANY HISTORY

General

Pursuant to K.S.A. 40-901 *et seq.* and K.S.A. 40-1101, *et seq.*, the Midland Empire Insurance Company, Inc. (“Midland”) was incorporated in the State of Kansas on May 28, 1955, as a capital stock, fire and casualty insurance company, and commenced writing business on July 16, 1955.

Effective December 31, 1969, all stock of Midland was sold by Southwestern Investment Company, the Company’s parent, to Farmers Insurance Exchange, a California domiciled reciprocal exchange. Upon completion of the sale, the name of the Company was changed to Farmers Insurance Company, Inc.

On March 31, 1984, Farmers Insurance Company of Arkansas was merged with and into the Company with the Company being the surviving entity.

Capital Stock

As of December 31, 2021, the Company had 10,400 shares of common stock authorized, issued and outstanding, resulting in total paid-in common capital stock of \$2,600,000. The Company has no shares of preferred stock authorized.

FIE and Fire Insurance Exchange (“Fire”), two of the reciprocal insurance exchanges of the Farmers Insurance Group (“Group”), own 100% of the issued and outstanding authorized common stock of the Company at 90% and 10%, respectively.

Dividends and Capital Contributions

During the period under examination, FICO made no dividend payments. The Company did not receive any capital contributions during the period under examination.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. There were no amendments to the articles of incorporation during the examination period. The Company's bylaws were amended on October 21, 2019, to reflect updates to the Officers of the Company.

MANAGEMENT AND CONTROL

Ownership

The Company is wholly-owned by FIE (90%) and Fire (10%). Through its 90% direct stock ownership interest in FICO, FIE is the Ultimate Controlling Person.

Board of Directors

The Company's bylaws, as amended, consist of ten (10) articles that provide the framework for the operation, management, and control of the Company. The Company is controlled by its stockholders and managed under the direction of its board of directors ("Board").

Pursuant to the Company's bylaws, the Board should consist of no less than three (3) nor more than eleven (11) directors. At the annual meeting, the stockholders shall elect directors, each of whom will hold office for the first year and shall hold office until their successors are duly elected and qualified.

The directors elected and serving as of December 31, 2021, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u> ¹
Julio A. Da Silva	Chief Information Officer, Summit Materials
Keith G. Daly	President of Personal Lines, Farmers Group, Inc.
Alan R. Gildemeister	President, International Technologies
Ronald L. Marrone	Co-Owner, Marrone's Inc.
Gary R. Martin	President, Marstan Management Corporation

Committees

In 2009, the Boards of Governors of the FIE, Fire, and Truck Insurance Exchange (the "Exchanges") established an Audit Committee to serve as the independent audit committee of the Exchanges, and its subsidiaries and affiliates. The Company's Board has designated the Exchanges' Audit Committee as its Audit Committee.

The Farmers Investment Committee is charged with oversight of the invested assets of the Company and monitoring performance results of the portfolios. The Company's Board has designated the Farmers Investment Committee as its Investment Committee.

The established committees and the members elected and serving as of December 31, 2021, were as follows:

Audit Committee

Scott W. Hood – Chair
Thomas G. Allen
Marla B. Bleavins
Don Jue
Janice G. Scott

Investment Committee

Maite Irakoze Baur - Chair
Jeffrey J. Dailey
Keith G. Daly
Giles E. Harrison
Stephen J. McAnena
Thomas S. Noh

¹ Effective March 31, 2022, Janice Scott and Thomas Allen were new Directors to the FICO Board with the departure of Julio Da Silva, Keith Daly, and Gary Martin.

Officers

Pursuant to the bylaws, the Company will have a President, one or more Vice Presidents, one or more Assistant Vice Presidents, Secretary, Treasurer, one or more Assistant Secretaries, and one or more Assistant Treasurers. The bylaws direct the Board to elect officers of the Company at the directors meeting following each annual stockholders meeting. The following is a listing of officers and their position(s) held as of December 31, 2021:

<u>Name</u>	<u>Office</u> ²
Keith G. Daly	President
Thomas S. Noh	Vice President, Treasurer
Doren E. Hohl	Secretary
Robert P. Howard	Vice President
James L. Nutting	Vice President, Actuary

INSURANCE HOLDING COMPANY SYSTEM

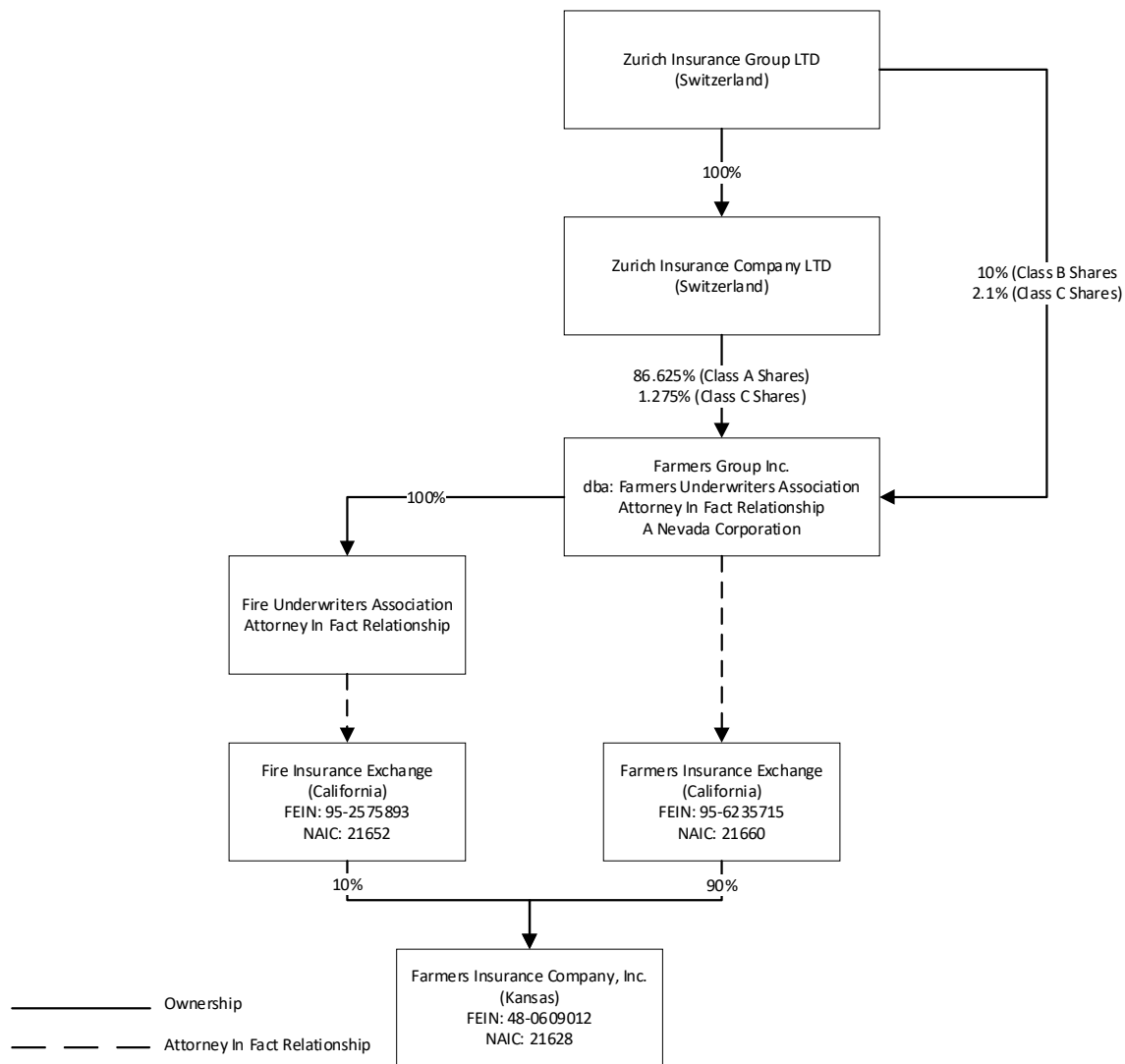
K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Forms “B” and “C” registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the items and events pertaining to the Company were properly reported as required by statute.

The Company’s ultimate controlling person, FIE, is a reciprocal insurance exchange, which along with Fire and Truck Insurance Exchange and their subsidiaries and affiliates, comprise the Farmers Insurance Group of Companies. The Exchanges are

² Keith Daly left the Company effective March 31, 2022 and was replaced by Stephen McAnena. Stephen McAnena was elected as President of the Company effective March 22, 2022, as approved by the Board. Stephen McAnena left the Company effective April 28, 2023. The position of President for the FICO Company is currently vacant with no interim President filling this role.

owned by their policyholders, with non-claims management services provided by Farmers Group, Inc., and its subsidiaries, as the attorneys-in-fact.

The abbreviated organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2021.



Intercompany/Cost Sharing Agreements

The following is a brief description of significant agreements executed with affiliated entities that were in effect as of December 31, 2021.

Services Agreements

On July 1, 2015, the Company and FIE entered into a Service Agreement to clarify the provisions of services in accordance with the reinsurance arrangements and historical practices of both parties under the previous service agreement. Services provided by FIE to the Company include, but are not limited to, preparation of insurance policies, billing and collections, claims adjustment services, accounting and financial reporting services, investment management services, and other administrative services. The services agreement requires that FIE allocate its costs as prescribed in SSAP No. 70 – Allocation of Expenses from the NAIC’s Accounting Practices and Procedures Manual. Pursuant to the agreement, the Company paid \$20,981,605, \$21,127,703, \$20,580,155, and \$23,910,846 to FIE in 2018, 2019, 2020, and 2021, respectively.

Pursuant to a service agreement effective April 1, 2001, FICO provides claim handling services and staffing in FIE’s facilities located in Oklahoma City, Oklahoma and Olathe, Kansas. This staffing supports FIE’s Customer Care Centers, Document Centers, Quality Assurance Centers of Excellence, National Catastrophic Centers of Excellence and Salvage Centers of Excellence. FIE reimburses all expenses incurred by FICO in its performance under the service agreement. Pursuant to the agreement, direct expenses incurred by the Company were \$42,287,000, \$40,273,000, \$38,498,000, and \$36,143,000 in 2018, 2019, 2020, and 2021, respectively.

Tax Allocation Agreement

FICO participates with FIE and other participating affiliates (“Affiliates”) in a tax allocation agreement. All Affiliates acknowledge under this agreement that FIE files a consolidated tax return inclusive of all Affiliates. The consolidated tax liability will be allocated proportionally to all Affiliates on the basis of the total tax that would have been recognized if all the Affiliates had individually filed their taxes. Pursuant to the agreement, the Company paid \$310,832, \$668,709, \$322,630, and \$(146,332) to FIE in 2018, 2019, 2020 and 2021, respectively.

Intercompany Reinsurance Pooling Agreement

FICO and certain members of the Group participate in an intercompany reinsurance program with FIE as the lead company. Pursuant to the 1999 Intercompany Reinsurance Pooling Agreement, FIE assumes 100% of the direct written premiums from FICO and the other participating affiliates. FIE retains 51.75% of all assumed risks and allocates 0.75% to the Company and the remainder among the participating affiliates. Refer to premiums and losses ceded and assumed in the Reinsurance section on page 18.

Agency Agreements

FX Insurance Agency, LLC entered into an Agency Agreement with FICO and other participating affiliates effective January 1, 2019. The agreement was amended to include additional affiliates, effective December 9, 2021. Effective October 6, 2021, Farmers General Insurance Agency, Inc. entered into an Agency Agreement with FICO and other participating affiliates. These agreements authorize the agency to sell and service certain policies on behalf of the Group , including FICO. Pursuant to the

agreements, the Company paid \$0; \$6,193,583; \$6,535,753; and \$8,724,761 in 2018, 2019, 2020 and 2021, respectively.

Revolving Credit Facility Framework Agreement

FIE and certain of the Farmers' companies (including FICO) entered into a Revolving Credit Facility Agreement for the purposes of eliminating the need to maintain large cash balances or unnecessarily liquidating investments during the monthly reinsurance cash settlement process among participating affiliates. The revolving credit framework allows participating affiliates to make short term loans to each other to cover debt arising from the monthly reinsurance settlement process. The loans, executed on an as-needed basis, mature in 90 days and cannot exceed in the cumulative aggregate 3% of a borrower's or lender's admitted assets. Loans may be collateralized with a pledge of securities at lender's operation, and in any event, must be collateralized if the loan crosses from one calendar year into the next calendar year such that the loan is secured and perfected as of December 31 of the year the loan was made. Affiliated parties to the agreement renegotiate the terms of the agreement at least once every 3 years. Pursuant to the agreement, the Company did not obtain any loans in 2018 through 2021.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company is authorized to transact business in Arkansas, California, Iowa, Kansas, Missouri and Oklahoma. The Company writes a standard book of property and casualty lines of business that includes commercial automobile coverage, business multi-peril, homeowners and private passenger auto sold through an exclusive agency force. Independent agents are used primarily to distribute specialty and small business products.

The NAIC Schedule T Exceptions Report was reviewed for each of the states where the Company is licensed. No exceptions were noted.

The top three (3) states for direct written premiums were Oklahoma at 58.9%, Missouri at 18.5%, and Kansas at 11.0%.

As of December 31, 2021, the Company's largest lines of direct written premium were private passenger auto liability at 36.8%, homeowners multiple peril at 29.9%, private passenger auto physical damage at 29.1% and commercial multiple peril at 2.9%. The remaining 0.8% represents allied lines, inland marine and earthquake business.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2018, through December 31, 2021. The financial amounts were obtained from annual statements filed by the Company.

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<i>(\$000 omitted)</i>				
Admitted Assets	\$294,923	\$297,945	\$300,780	\$336,792
Liabilities	186,386	186,021	186,793	223,938
Capital and Surplus	108,538	111,924	113,987	112,854
Net Income (Loss)	2,454	3,034	1,879	(1,602)
Net Premium Written	103,782	107,667	106,941	123,315

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis pursuant to the 1999 Intercompany Reinsurance Pooling Agreement for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2018	2019	2020	2021
Direct Premiums Written	\$ 1,022,659	\$ 1,021,035	\$ 979,322	\$ 1,020,503
Reinsurance Assumed	103,782	107,667	106,941	123,315
Reinsurance Ceded:	(1,022,659)	(1,021,035)	(979,322)	(1,020,503)
Net Premiums Written	\$ 103,782	107,667	106,941	\$ 123,315

(\$000s omitted)

Losses Type	2018	2019	2020	2021
Losses Incurred - Ceded	\$ 443,682	\$ 523,037	\$ 602,067	\$ 750,269
Losses Incurred - Assumed	59,883	61,330	63,468	74,873

Assumed Reinsurance

The Company's assumed reinsurance is comprised of its participation in the 1999 Intercompany Reinsurance Pooling Agreement.

Ceded Reinsurance

The Company's ceded reinsurance is comprised of its participation in the 1999 Intercompany Reinsurance Pooling Agreement.

Additionally, although FICO has not directly entered the following reinsurance agreements, the Company does participate in the results by virtue of its participation in the 1999 Intercompany Reinsurance Pooling Agreement with FIE. These reinsurance agreements include the All Lines Quota Share Reinsurance Agreement, Commercial Automobile Quota Share Reinsurance Agreement, and Odyssey Reinsurance Company Reinsurance Agreement.

All reinsurance agreements in effect during the examination contained insolvency and cancellation clauses as required by K.S.A. 40-221a. All reinsurance agreements reviewed provided for the transfer of risk. However, the Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an

actual liability in the event an assuming reinsurer fails to perform its obligations under the reinsurance contract.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2021. There were no adjustments to the Company's filed statutory financial statements as a result of this examination.

FARMERS INSURANCE COMPANY, INC.
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2021

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$246,874,906	\$ -	\$246,874,906
Cash	5,752,659	-	5,752,659
Investment income due and accrued	650,644	-	650,644
Uncollected premiums and agents' balances in the course of collection	1,045,210	131,038	914,172
Deferred premiums and agents' balances and installments booked but deferred and not yet due	12,853,483	-	12,853,483
Accrued retrospective premiums	7,758	-	7,758
Amounts recoverable from reinsurers	55,647,094	-	55,647,094
Net deferred tax asset	5,918,004	2,008,663	3,909,341
Guaranty funds receivable or on Deposit	295,537	-	295,537
Aggregate write-ins for other than invested assets	9,886,501	-	9,886,501
Totals	\$338,931,796	\$ 2,139,701	\$ 336,792,095

**FARMERS INSURANCE COMPANY, INC.
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2021**

Losses	\$ 60,434,765
Reinsurance payable on paid losses and loss adjustment	
Expenses	7,210,260
Loss adjustment expenses	16,755,748
Commissions payable, contingent commissions and other	
similar changes	-
Other expenses	73,845
Taxes, licenses and fees	3,856,554
Current federal and foreign income taxes	487,006
Unearned premiums	52,004,689
Advance premium	1,304,598
Ceded reinsurance premiums payable	57,142,244
Payable to parent, subsidiaries and affiliates	12,979,674
Aggregate write-ins for liabilities	11,688,549
Total liabilities	223,937,931
Common capital stock	2,600,000
Gross paid in and contributed surplus	41,213,162
Unassigned funds (surplus)	69,041,002
Surplus as regards policyholders	112,854,164
Totals	<u>\$ 336,792,095</u>

**FARMERS INSURANCE COMPANY, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021**

Premiums earned	\$116,754,604
DEDUCTIONS	
Losses incurred	74,873,446
Loss adjustment expenses incurred	10,919,538
Other underwriting expenses incurred	36,001,154
Aggregate write-ins for underwriting deductions	(27,107)
Total underwriting deductions	<u>121,767,031</u>
Net underwriting loss	(5,012,427)
INVESTMENT INCOME	
Net investment income earned	3,453,511
Net realized capital gains less capital gains tax	5,379
Net investment gain	<u>3,458,890</u>
OTHER INCOME	
Net loss from agents' or premium balances charged off	(481,824)
Finance and service charges not included in premiums	1,167,323
Aggregate write-ins for miscellaneous income	(872,464)
Total other income	<u>(186,965)</u>
Net loss before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(1,740,501)
Dividends to policyholders	<u>7,958</u>
Net loss, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(1,748,460)
Federal and foreign income taxes incurred	(146,332)
Net loss	<u>\$ (1,602,127)</u>

**FARMERS INSURANCE COMPANY, INC.
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Surplus as regards policyholders, December 31 prior year	\$ 105,787,837	\$ 108,537,940	\$ 111,924,379	\$ 113,987,039
Net income (loss)	2,453,772	3,034,282	1,879,108	(1,602,127)
Change in net unrealized capital gains or (losses)	7,138	-	-	-
Change in net deferred income tax	(1,153,536)	1,313,576	218,193	684,897
Change in nonadmitted assets	1,436,231	(961,332)	(13,526)	(220,599)
Aggregate write-ins for gains and losses in surplus	6,497	(87)	(21,115)	4,954
Surplus as regards policyholders, December 31 current year	<u>\$ 108,537,940</u>	<u>\$ 111,924,379</u>	<u>\$ 113,987,039</u>	<u>\$ 112,854,164</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company as of December 31, 2021, was \$112,854,164, which was the same amount reported by the Company in its 2021 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material financial statement findings resulting from the examination that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop throughout 2020, 2021, 2022 and into 2023, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. However, the Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if concerns arise.

SUMMARY OF RECOMMENDATIONS

Accounts and Records

Page 5

Significant Examination Delays

The Group caused significant delays in providing access to various supporting documentation due to the Group's assertion that the documentation was subject to ACP. The Group did not meet the standards identified in K.S.A. 40-222(c) and K.S.A. 40-222(g). The Department recommends that the Company adhere to K.S.A. 40-222(c) and K.S.A. 40-222(g) by providing full access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and

affairs of the Company being examined. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail.

The Group's process of reviewing the external auditor's index of archived workpapers and approving the release of the audit workpapers did not comply with K.A.R. 40-1-37 and MAR Section 13, Paragraph B. The Department recommends that the Company comply with K.A.R. 40-1-37 and MAR Section 13, Paragraph B and not interfere with the requirements of the external auditors to provide the state examiners with full access to the external workpapers without Company involvement.

The Group's IA function performs a significant number of audits at the request of the OGC where resulting reports are not shared with the Audit Committee. Further, the Group's ICFR function is not aligned under IA. The Group did not comply with K.A.R. 40-1-37 and MAR Section 15, Paragraphs B-D. The Department recommends that Farmers take necessary steps to adjust the reporting structure for both IA and ICFR to comply with K.A.R. 40-1-37 and MAR, Section 15, Paragraphs B-D. These steps shall include but are not limited to:

- 1) Ensure IA function is organizational independent, which shall directly report to Audit Committee; however, dual reporting is allowed;
- 2) The IA function shall not defer ultimate judgment on the responsibilities or audit matters to others. The scope of the IA shall be determined independently based on the operational needs; and
- 3) Having the ICFR function align with the IA function, whose purpose is to test controls in compliance with MAR, and report directly to the Audit Committee. Dual reporting is allowed.

CONCLUSION

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, LeeAnne Creevy, CPA, CISA, CITP, CRMA, MCM, David Hall, CPA, CISA, CITP, and Kristina Gaddis, CFE, CISA, AES, all with Risk & Regulatory Consulting, LLC performed the information technology review portion of the examination; Edward Toy with Risk & Regulatory Consulting, LLC served as the Investment Specialist for the examination; David Heppen, FCAS, MAAA, Jennifer Balester, FCAS, MAAA, Andrew Chandler, ACAS, MAAA, Veronika Cooper, FSA, MAAA, Joan Klucarich, FCAS, MAAA, and Edward Yao, FCAS, CFA, CERA, MAAA all with Risk & Regulatory Consulting, LLC performed the actuarial portion of the examination; and Robert Depp, CPCU, AU, ARe, AIC, AICM, AIDA of the Lead State performed the claims portion of the examination.

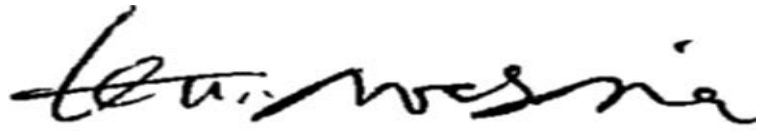
Respectfully submitted,

Laura Clark

Laura Clark, CFE, CPA
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
representing the Kansas Insurance
Department

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.

A handwritten signature in black ink, reading "Levi Nwasoria", written in a cursive style. The signature is positioned above a horizontal line.

Levi Nwasoria, CPA, CFE
Chief Examiner
Kansas Insurance Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Connecticut,

County of Hartford,

Laura Clark, being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of Farmers Insurance Company, Inc.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Farmers Insurance Company, Inc. was performed in a manner consistent with the standards and procedures required by K.S.A 40-222.

The affiant says nothing further.



Laura Clark

Examiner-In-Charge's Signature

Subscribed and sworn before me by Laura Clark on this 26th day of October, 2023.

(SEAL)

Susan E Sklenka
Notary Public

My commission expires November 30, 2023 [date].