



**EXAMINATION REPORT
OF**

**State Farm Florida Insurance Company
Tallahassee, Florida**

NAIC Company Code: 10739

**as of
December 31, 2020**

**By
The Florida Office of Insurance Regulation**

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May 9, 2022

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners ("the NAIC"), we have conducted an examination as of December 31, 2020, of the financial condition and corporate affairs of

State Farm Florida Insurance Company

215 S. Monroe St.
Tallahassee, FL 32301

hereinafter referred to as "the Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2016 through December 31, 2020 and the fieldwork commenced with planning with the Florida Office of Insurance Regulation (“the Office”) on January 12, 2021 to April 1, 2021. The fieldwork concluded as of April 22, 2022. The Company's last full scope examination by representatives of the Office covered the period of January 1, 2011 through December 31, 2015.

The examination was a multi-state/coordinated holding company group examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (“the Handbook”). The Handbook requires that the examination be planned and performed 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.

The lead state for this examination was Illinois, and states that participated in this examination are as follows:

| Company Name | Type | Domiciliary State |
|---|-------------|--------------------------|
| State Farm Florida Insurance Company (“SFFIC”) | P&C | Florida |
| Dover Bay Specialty Insurance Company (“DBSIC”) | P&C | Illinois |
| HiRoad Assurance Company (“HAC”) | P&C | Illinois |
| Oglesby Reinsurance Company (“ORC”) | P&C | Illinois |
| State Farm Fire and Casualty Company (“SFFCC”) | P&C | Illinois |
| State Farm General Insurance Company (“SFGIC”) | P&C | Illinois |
| State Farm Guaranty Insurance Company (“SFGIC”) | P&C | Illinois |
| State Farm Indemnity Company (“SFIC”) | P&C | Illinois |
| State Farm Mutual Automobile Insurance Company (“SFMAIC”) | P&C | Illinois |
| State Farm Lloyds (“SFL”) | P&C | Texas |
| State Farm County Mutual Insurance Company of Texas (“SFCMICT”) | P&C | Texas |
| State Farm Health Insurance Company (“SFHIC”) | Life/Health | Illinois |
| State Farm Life and Accident Assurance Company (“SFLAAC”) | Life/Health | Illinois |
| State Farm Life Insurance Company (“SFLIC”) | Life/Health | Illinois |

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 the NAIC Statements of Statutory Accounting Principles ("SSAP").

This examination report includes information obtained from the examination of the records, accounts, files and documents of or relative to the Company and other information as permitted by Section 624.319, Florida Statutes. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

The COVID-19 pandemic, declared by the World Health Organization on March 11, 2020, has continued to develop throughout 2021, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Office has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial condition, and the risk of that impact has been incorporated into the scope of this examination. The Office continues to monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no significant findings as a result of this examination.

Previous Examination Findings

There were no significant outstanding findings from the prior examination.

COMPANY HISTORY

General

The Company was incorporated in Florida on December 7, 1998 and commenced business on December 30, 1998.

Dividends

The Company did not declare or pay any dividends during the period under examination.

Capital Stock and Capital Contributions

As of December 31, 2020, the Company's capitalization was as follows:

| | |
|--|---------------|
| Number of authorized common capital shares | 8,000,000 |
| Number of shares issued and outstanding | 6,075,000 |
| Total common capital stock | \$516,375,000 |
| Par value per share | \$85.00 |

No capital contributions were made during the period under examination. All issued and outstanding capital stock is owned by State Farm Mutual Automobile Insurance Company, the parent company and lead member of the State Farm Group.

Surplus Notes

The Company issued the following surplus debentures:

| Issued To | Date | Initial Amount (in millions) | Interest Rate | December 31, 2020 Balance (in millions) |
|-----------|--------------------|---------------------------------|------------------|---|
| SFMAIC | September 30, 2004 | \$250 | 7% | \$230 |
| SFMAIC | November 8, 2004 | \$500 | 7% | \$460 |

During 2020 and 2019, the Company made principal repayments of \$25,000,000 and \$35,000,000, respectively, which were approved by the Office. Also, during 2020 and 2019, the Company recorded interest due to SFMAIC of \$49,165,278 and \$93,390,278, respectively. In addition, during 2020 and 2019 the Company settled interest payable of \$50,905,556 and \$153,750,000, respectively. The remaining interest payable at December 31, 2020 is \$24,150,000

Acquisitions, Mergers, Disposals, Dissolutions

The Company had no acquisitions, mergers, disposals, or dissolutions during the period under examination.

MANAGEMENT AND CONTROL

Corporate Governance

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2020, are shown below:

| Directors | | |
|--------------------------|-----------------------|--|
| Name | City, State | Principal Occupation, Company Name |
| Kristyn Ann Cook | Bloomington, Illinois | Senior Vice President, Agency and Marketing, SFMAIC |
| Daniel Joseph Krause | Marietta, Georgia | President and Chief Executive Officer, SFFIC |
| Bradley Doyle Montgomery | Bloomington, Illinois | Vice President, Life/Health & Investment Planning Services, SFMAIC |
| Michele Celeste Russo | Bloomington, Illinois | Operations Vice President – Claims, SFFIC |
| Kimberly Ann Sterling | Bloomington, Illinois | Operations Vice President – Claims, SFFIC |

In accordance with the Company's Bylaws, the Board appointed the following Senior Officers:

| Senior Officers | | |
|------------------------|-----------------------|--|
| Name | City, State | Title |
| Daniel Joseph Krause | Marietta, Georgia | President and Chief Executive Officer |
| Lynne Madden Yowell | Hudson, Illinois | Vice President, Corporate Governance, Secretary and Counsel |
| Jon Charles Farney | Bloomington, Illinois | Vice President and Treasurer |

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2020. The first person listed for each committee is the chairman.

| Executive Committee | | |
|----------------------------|------------------|-----------------------|
| Daniel Joseph Krause | Kristyn Ann Cook | Michele Celeste Russo |

| Investment Committee | | |
|-----------------------------|--------------------------|-----------------------|
| Daniel Joseph Krause | Bradley Doyle Montgomery | Kimberly Ann Sterling |

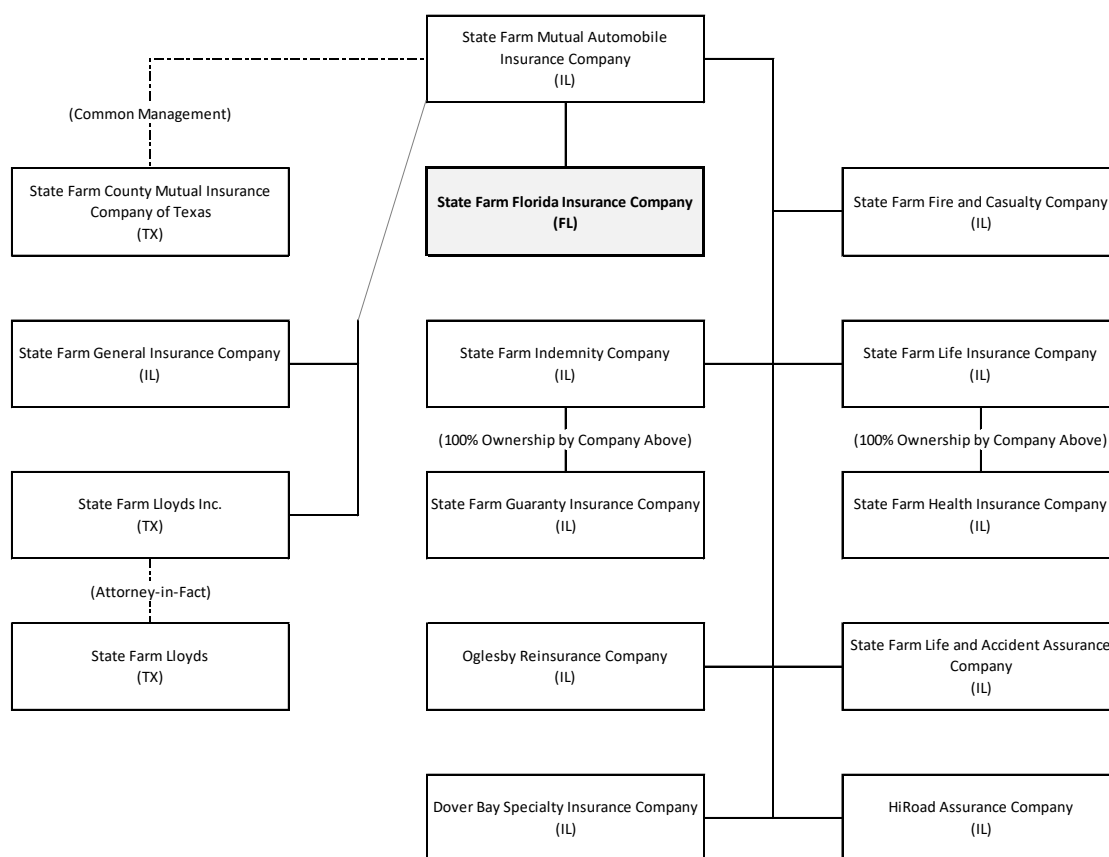
The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes. The audit committee of SFMAIC serves as the audit committee for the Company.

| Audit Committee (of SFMAIC) | | |
|------------------------------------|-----------------------------|---|
| Name | City, State | Title, Company Name |
| Gary Laurence Perlin | Fairfax Station, Virginia | Retired Chief Financial Officer, Capital One Financial Corporation |
| Walter Steven Jones | Chapel Hill, North Carolina | Professor, Organizational Behavior & Strategy, University of North Carolina |
| Allan Ray Landon | Park City, Utah | Assistant Dean, David Eccles School of Business, University of Utah |

Holding Company System

A simplified organizational chart as of December 31, 2020, reflecting the holding company system, is shown below. Schedule Y of the Company's 2020 annual statement provided a list of all related companies of the holding company group.

Simplified Organizational Chart As of December 31, 2020



A solid line means there is a 100% ownership relationship between State Farm Mutual Automobile Insurance Company and the company the line joins with unless otherwise noted.

The following agreements were in effect between the Company and its affiliates:

Short-term Investment Pooling Agreement

The parent, SFMAIC, along with SFFIC and various other related entities created a limited liability company effective March 15, 2001 under the name State Farm Liquidity Pool, LLC, so that each affiliated company may participate as a member in a Short-term Investment Pooling Agreement. The pool reduced the need for transactions between affiliates and reduced transaction costs.

Operating Agreement – Liquidity Pool

The Company and other affiliated members of the State Farm Liquidity Pool, LLC entered into an Operating Agreement - Liquidity Pool effective March 15, 2001. This agreement allows for the transaction of all business related to participation in permitted investments as specified in the pooling agreement. In accordance with applicable laws, this agreement provides all necessary and appropriate financial and administrative services and support for such activities and other powers, as necessary.

Common Clearing Account Agreement

The Company and its affiliates entered into a Common Clearing Account Agreement, effective January 1, 2016, that implemented a comprehensive cash balance system, whereby premium payments and other cash receipts were deposited into one or more deposit clearing accounts pending transmittal by electronic funds transfer to the operating bank account of the company to whom the funds belonged. The Company and its affiliates also implemented a comprehensive cash disbursement system whereby disbursements were processed through one or more common disbursement clearing accounts. The operating bank account of the Company on whose behalf the disbursement was made was adjusted accordingly.

Demand Line of Credit Agreement

SFMAIC established a revocable Demand Line of Credit Agreement on July 21, 2006 for the use of the Company. Pursuant to the agreement, the Company may borrow up to the aggregate principal amount of \$500,000,000 at any one time. As of December 31, 2020, the Company had not drawn upon this line of credit.

Services and Facilities Agreement

The Company and SFMAIC entered into a Services and Facilities Agreement, effective January 1, 2007 and updated January 1, 2013, in which SFMAIC provides services and facilities to the Company. Under the agreement, the parent renders certain services, such as underwriting advice and related services, policy issuing and billing services, internal auditing, records retention services and provides certain facilities for the Company to the extent not already provided by itself or by another servicing company. The Company agrees to reimburse all reasonable expenses incurred and allocated by the parent for the performance and provision of the services and facilities on an equitable and reasonable basis in conformity with customary insurance accounting principles consistently applied, within sixty (60) days of the end of the calendar month in which such expenses were incurred.

Federal Income Tax Allocation Agreement

The Company and its affiliates entered into a Federal Income Tax Allocation Agreement, effective November 1, 2014, to file a consolidated federal income tax return and allocate the total consolidated federal income tax liability in accordance with Section 1552(a)(2) of the Internal Revenue Code. The consolidated federal income tax liability was apportioned to each company in accordance with an agreement authorized by each company's Board of Directors. As of December 31, 2020, the method of allocation was based upon separate return calculations for regular and alternative minimum tax with current credits for net losses and tax credits used by the consolidated group.

Florida Corporate Income Tax Allocation Agreement

The Company and its affiliates entered into a Florida Corporate Income Tax Allocation Agreement, effective January 1, 2015, whereby the Company is party to a consolidated Florida corporate income tax return, and the consolidated Florida corporation income tax liability is allocated to each corporation pro rata based upon what each separate corporation's Florida corporation income tax liability would have been if no consolidated Florida corporate income tax return were filed.

Illinois Insurance Corporation Income Tax Allocation Agreement

The Company and its affiliates entered into an Illinois Insurance Corporation Income Tax Allocation Agreement, effective January 1, 2015, whereby the Company is party to a consolidated Illinois corporate income tax return, and the consolidated Illinois corporation income tax liability is allocated to each corporation pro rata based upon what each separate corporation's Illinois corporation income tax liability would have been if no consolidated Illinois corporate income tax return were filed.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Tallahassee, Florida, however, the Company maintained its primary books and records in Bloomington, Illinois.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the states of Florida and Illinois, but for the year ended December 31, 2020, wrote insurance only in the state of Florida.

The Company was authorized to transact insurance in Florida on December 7, 1998, and is currently authorized and writes the following lines of business as of December 31, 2020:

| | |
|---------------------------|--------------------------------|
| Homeowners Multiple Peril | Earthquake |
| Commercial Multiple Peril | Other Liability |
| Inland Marine | Medical Professional Liability |

The Company only writes in Florida. Its primary products are Homeowners and Commercial Multiple Peril, Inland Marine and Other Liability.

The total direct premium written as of December 31, 2020 is \$776,016,271.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

Reinsurance Assumed

The Company did not assume any reinsurance during the period of this examination.

Reinsurance Ceded

As of December 31, 2020, the Company's ceded reinsurance program consisted of numerous excess of loss, quota share, and catastrophe reinsurance provided by agreements with various commercial reinsurers and SFMAIC. Some treaties were placed through reinsurance intermediary, AON Benfield, Inc. ("AON"). The Company also participated in the Florida Hurricane Catastrophe Fund ("FHCF").

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; statutory Statement of Income and the statutory Analysis of Changes in Surplus for the year ended December 31, 2020. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2020.

State Farm Florida Insurance Company
Assets
December 31, 2020

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|-----------------|-----------------------|------------------------|
| Bonds | \$1,635,124,619 | \$0 | \$1,635,124,619 |
| Cash, cash equivalents and short-term investments | 143,973,062 | | 143,973,062 |
| Investment income due and accrued | 13,266,659 | | 13,266,659 |
| Premiums and considerations | | | |
| Uncollected premiums and agents' balances | 7,934,402 | 347,790 | 7,586,613 |
| Deferred premiums, agents' balances and installments | 117,649,157 | | 117,649,157 |
| Amounts recoverable from reinsurers | 12,587,986 | | 12,587,986 |
| Current federal and foreign income taxes recoverable and interest thereon | 9,764,607 | | 9,764,607 |
| Net deferred tax asset | 69,314,449 | 39,726,229 | 29,588,220 |
| Receivable from parent, subsidiaries and affiliates | 210 | | 210 |
| Aggregate write-in for other than invested assets | 58,595 | 31,565 | 27,030 |
| Total | \$2,009,673,746 | \$40,105,584 | \$1,969,568,162 |

State Farm Florida Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2020

| | Per Company |
|---|-----------------|
| Losses | \$257,432,886 |
| Loss adjustment expenses | 122,781,724 |
| Other expenses | 187,947,052 |
| Taxes, licenses and fees | 1,890,532 |
| Borrowed money and interest thereon | 24,150,000 |
| Unearned premiums | 338,269,580 |
| Advance premiums | 17,365,924 |
| Ceded reinsurance premiums payable | 53,027,862 |
| Amounts withheld or retained by company for account of others | 7,062,678 |
| Remittances and items not allocated | 2,925,338 |
| Provision for reinsurance | 1,341,368 |
| Drafts outstanding | 49,003,680 |
| Payable to parent, subsidiaries and affiliates | 14,586,317 |
| Aggregate write-in for liabilities | 46,979,760 |
| Total liabilities | 1,124,764,701 |
| Common capital stock | 516,375,000 |
| Surplus notes | 690,000,000 |
| Gross paid-in and contributed surplus | 91,125,000 |
| Unassigned funds (surplus) | (452,696,539) |
| Surplus as regards policyholders | 844,803,461 |
| Totals | \$1,969,568,162 |

State Farm Florida Insurance Company
Statement of Income
December 31, 2020

| | Per Company |
|---|----------------|
| Underwriting Income | |
| Premiums earned | \$611,902,969 |
| Deductions | |
| Losses Incurred | 379,546,538 |
| Loss adjustment expenses incurred | 70,535,015 |
| Other underwriting expenses incurred | 185,229,040 |
| Total Underwriting deductions | 635,310,593 |
| Net underwriting gain (loss) | (23,407,623) |
| Investment Income | |
| Net investment income earned | (3,703,229) |
| Net realized capital gains or (losses) | 1,035,259 |
| Net investment gain or (loss) | (2,667,969) |
| Other Income | |
| Net gain or (loss) from agents' or premium balances charged off | (320,743) |
| Finance and service charges not included in premiums | 67 |
| Aggregate write-ins for miscellaneous income | (64,817) |
| Total other income | (385,493) |
| Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | (26,461,086) |
| Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | (26,461,086) |
| Federal & foreign income taxes incurred | (7,668,288) |
| Net Income | \$(18,792,797) |
| Capital and Surplus Account | |
| Surplus as regards policyholders, December 31 prior year | \$896,785,575 |
| Net Income | (18,792,797) |
| Change in net unrealized capital gains or losses less capital gains tax | (1,872) |
| Change in net deferred income taxes | 4,088,323 |
| Change in non-admitted assets | (1,621,203) |
| Change in provision for reinsurance | (348,538) |
| Change in surplus notes | (25,000,000) |
| Aggregate write-ins for gains and losses in surplus | (10,306,028) |
| Change in surplus as regards policyholders for the year | (51,982,114) |
| Surplus as regards policyholders, December 31, current year | \$844,803,461 |

**State Farm Florida Insurance Company
Reconciliation of Capital and Surplus
December 31, 2020**

No adjustments were made to surplus as regards policyholders as a result of this examination.

| Capital/Surplus Change during Examination Period | | | |
|--|-------------|-------------|-----------------|
| Surplus at December 31, 2015, per Company | | | \$1,033,773,119 |
| | Increase | Decrease | |
| Net income (loss) | 148,241,803 | 246,724,568 | (98,482,765) |
| Change in net unrealized capital gain (loss) | 37,865 | 21,448 | 16,417 |
| Change in net deferred income tax | 4,289,800 | 48,264,460 | (43,974,660) |
| Change in non-admitted assets | 50,252,458 | 20,569,571 | 29,682,887 |
| Change in provision for reinsurance | 9,063,960 | 10,374,652 | (1,310,692) |
| Change in surplus notes | | 60,000,000 | (60,000,000) |
| Surplus adjustment – additional liability for termination benefits | 4,531,175 | 19,432,020 | (14,900,845) |
| Net increase (or decrease) | | | (188,969,658) |
| Surplus at December 31, 2020 per Company | | | \$844,803,461 |

COMMENTS ON FINANCIAL STATEMENT ITEMS

Capital and Surplus

The amount of capital and surplus reported by the Company of \$844,803,461, exceeded the minimum of \$78,417,124 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **State Farm Florida Insurance Company** as of December 31, 2020, consistent with the insurance laws of the State of Florida.

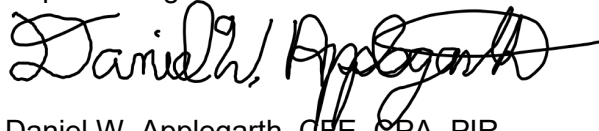
In addition to the undersigned, members of the contracting firms INS Regulatory Insurance Services, Inc ("INS") and INS Consultants, Inc ("INS Consultants") and the Office participated as shown below:

| | | |
|------------------------------|------------------------|-----------------|
| Cheryl B. Plozizka, CFE | Examination Supervisor | INS |
| Chad Mason | Examination Manager | Office |
| Pete Vuong, FCAS, MAAA | Consulting Actuaries | INS Consultants |
| John Pedrick, FCAS, MAAA | Consulting Actuaries | INS Consultants |
| David J. Macesic, ACAS, MAAA | Consulting Actuaries | INS Consultants |

Respectfully submitted,



Kelly M. Willison, CPA, CFE, CFE (Fraud)
Examiner in Charge
INS Regulatory Insurance Services, Inc.
Representing the Florida Office of Insurance Regulation



Daniel W. Applegarth, CFE, CPA, PIR
Chief Financial Examiner
Property & Casualty Financial Oversight
Florida Office of Insurance Regulation