

**REPORT ON EXAMINATION**  
**OF**  
**AUTO CLUB INSURANCE COMPANY OF**  
**FLORIDA**  
**TAMPA, FLORIDA**

**AS OF**  
**DECEMBER 31, 2010**

**BY THE**  
**FLORIDA OFFICE OF INSURANCE REGULATION**

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March 30, 2012

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 690-138.005 Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2010, of the financial condition and corporate affairs of:

**AUTO CLUB INSURANCE COMPANY OF FLORIDA  
14055 RIVEREDGE DRIVE, SUITE 500  
TAMPA, FLORIDA 33637**

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, 2010, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on January 9, 2012, to January 12, 2012. The fieldwork commenced on January 17, 2012, and concluded as of March 30, 2012.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Exam Findings**

There were no material findings or exceptions noted during the examination as of December 31, 2010.

### **Prior Exam Findings**

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2009.

## **HISTORY**

### **General**

The Company was incorporated in Florida on September 11, 2006, and commenced business on December 11, 2007, as Auto Club Insurance Company of Florida.

The Company was party to Consent Order 87063-06-CO, filed September 1, 2006, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with this consent order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Homeowners multi peril  
Private passenger auto liability  
Private passenger auto Physical Damage

Inland Marine  
Other Liability

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

### **Dividends to Stockholders**

The Company did not declare nor pay any dividends during the period of this examination.

### **Capital Stock and Capital Contributions**

As of December 31, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000
Number of shares issued and outstanding	220
Total common capital stock	\$220
Par value per share	\$1.00

Control of the Company was maintained by its parent, Auto Club Insurance Holdings, LLC, who owned 100% of the stock issued by the Company, who in turn was owned by Interinsurance Exchange of the Automobile Club (45.45%), Auto Club Insurance Association (45.45%) and AAA Auto Club South, Inc. (9.1%).

**Subsequent Event:** Effective October 11, 2011, the ownership percentages of Auto Club Insurance Holdings, LLC were changed and are now owned by Insurance Exchanges of the Automobile Club (50%), Auto Club Insurance Association (41.7%) and The Auto Club Group, Inc. (8.3%). The change of ownership percentages has had no impact on the Company's operations.

During 2010, the Company received an additional \$16,060,000 in capital contributions from its parent company. The parent contributed a total of \$47,353,780 in cash to the Company as of December 31, 2010.

**Subsequent Event:** During 2011, the Company received an additional \$20,090,465 in capital contributions from its parent company. As of December 31, 2011, the parent contributed a total of \$67,444,245 in cash to the Company.

### **Surplus Debentures**

The Company did not have any surplus debentures during the period of this examination.

### **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance**

The Company was not involved in any mergers, disposals, dissolutions or purchase or sales through reinsurance for the period of this examination.

## **CORPORATE RECORDS**

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 690-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

## **Conflict of Interest**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

## **MANAGEMENT AND CONTROL**

### **Management**

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, 2010, were:

#### **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
Christopher M. Baggaley San Clemente, California	Senior Vice President Auto Club Southern California
John F. Boyle Coto De Caza, California	Executive Vice President Auto Club Southern California
Robert T. Bouttier Laguna Niguel, California	President & COO Auto Club Southern California
Edward J. Fandel Tampa, Florida	Senior Vice President Auto Club South Insurance Company
Sean H. Maloney Grosse Point Shores, Michigan	CFO & Treasurer Auto Club Insurance Association
Jack T. McElroy Northville, Michigan	Executive Vice President Auto Club Group
Robert A. McKee Palm Harbor, Florida	Senior Vice President, CFO, AAA Auto Club South, Inc. and Treasurer Auto Club South Insurance Company

Steven D. Monahan  
Waterford, Michigan

President & COO  
Auto Club Insurance Association  
President & CEO  
MEEMIC Insurance Company

John A. Tomlin  
St. Petersburg, Florida

CEO  
Auto Club South Insurance Company and  
President and CEO of AAA Auto Club  
South, Inc.

The Board in accordance with the Company's bylaws appointed the following senior officers:

### Senior Officers

<b>Name</b>	<b>Title</b>
Larry D. Patrick	President & CEO
James C. Santo	Secretary & CUO
Jennifer A. Wiedrick	Vice President, & CFO
Steven W. Brown	COO
Bobby S. Futch	Vice President of Claims

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2010:

#### Executive Committee

Steven D. Monahan <sup>1</sup>  
John F. Boyle  
John A. Tomlin

#### Audit Committee

John F. Boyle <sup>1</sup>  
John A. Tomlin  
Jack T. McElroy

#### Investment Committee

Sean H. Maloney <sup>1</sup>  
Edward J. Fandel  
Jack T. McElroy  
Robert A. McKee  
Steven D. Monahan  
John A. Tomlin  
Christopher M. Baggaley  
John F. Boyle  
Robert T. Bouttier

<sup>1</sup> Chairman

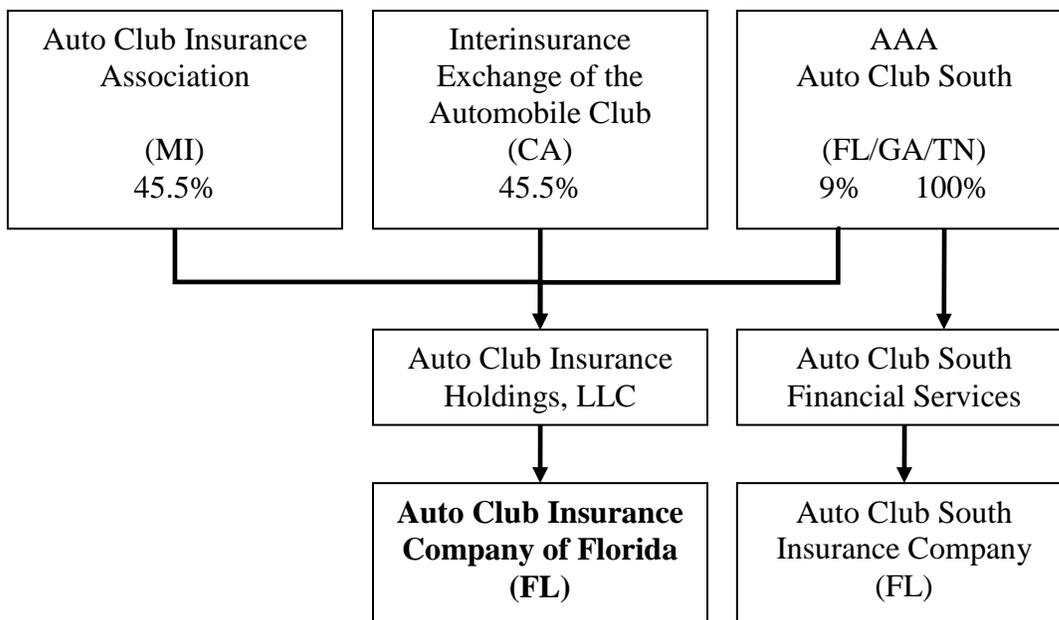
## Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

### AUTO CLUB INSURANCE COMPANY OF FLORIDA ORGANIZATIONAL CHART

DECEMBER 31, 2010



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

### **Administration Agreement**

The Company had an administration agreement with Auto Club South Insurance Company (ACSIC), an affiliated company, effective September 25, 2006, and later amended, restated and effective June 1, 2007. Under the agreement, ACSIC provided executive and managerial services, underwriting services, policyholder services, collection and handling of premium and other funds, accounting and financial services, marketing support and product development, producer management services, producer commission computation or payment, information technology support, personnel services, facilities support, legal and regulatory compliance services, procurement support, insurance support services, transitional services and other administrative services to the Company. The agreement had an initial term until September 24, 2011, with automatic renewal for five-year periods. The agreement may be terminated with 90 days written notice. The Company paid \$563,443 and \$358,526 in 2010 and 2009 respectively for these services.

### **Consulting Agreement**

The Company also had a consulting agreement with ACSIC, effective June 1, 2007. Under the agreement, the Company provided executive and managerial services, claims management oversight, product management, and other management services as agreed upon. The agreement had an initial term of one year with automatic renewal for one-year terms. The agreement may be terminated with 180 days written notice. The Company was paid actual cost for these services.

## **Investment Management Agreement**

The Company entered into an investment management agreement with Auto Club Services, Inc. (ACS), an affiliated company, effective March 3, 2010. Under the agreement, ACS managed and directed the investment and reinvested the Company's investment account in accordance with both the Company's guidelines and the provisions of Florida insurance laws. The Company paid an annual flat fee based on the market value of the portfolio in the investment account, payable quarterly.

## **Agency Agreement**

The Company maintained an agency agreement with Insurance Bureau, Inc. (Agency), an affiliate, dated January 1, 2007, and as amended January 1, 2008, and January 1, 2010. The Agency acted on behalf of the Company for personal property and casualty lines of insurance subject to the underwriting standards and rules of the Company. Under the agreement, the Agency was authorized to solicit, bind, execute, and service the Company's policies and endorsements. The Company paid commissions of \$8,277,509 and \$4,577,231 and incentive commissions of \$127,525 and \$392,400 to the Agency in 2010 and 2009, respectively.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$2,500, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance and other property and liability coverage.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

There was not any pension or stock ownership plans in place at the Company during the period of this examination. All eligible employees were covered by a section 401(k) defined contribution plan of the employer. Employer contributions were made on a per-pay-period basis and at the discretion of the employer. The Company's share of this savings plan was \$101,642 and \$55,548 in 2010 and 2009, respectively. The Company has no legal obligations under this plan.

The Company provides employees with health and life insurance coverage.

The Company had no obligations to current or former employees for benefits after their employment ended.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance only in the State of Florida.

### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

## COMPANY GROWTH

The Company has been growing through the affiliated insurance agency, Insurance Bureau, Inc., which is a wholly owned subsidiary of AAA Auto Club South, a member of the holding company. The Company used independent agents in areas. The Company had 26,543 and 13,214 package policies in force at December 31, 2010 and 2009, respectively.

Since inception, the Company has received a total of \$47.4 million in capital contributions. Future capital calls will be based on the actual and anticipated writing in order to maintain the target net written premium to surplus ratio of 1-to-1 for homeowners' multi-peril and 2-to-1 for automobile and all other business. The Company plans to maintain a minimum of \$10 million in surplus.

### Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operation, as reported in the filed annual statements.

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Premiums Earned	42,243,181	15,458,477	1,640,879	1,291	0
Net Underwriting Gain/(Loss)	(711,795)	(3,193,666)	(3,991,265)	(1,631,574)	(782,029)
Net Income	491,878	(2,508,898)	(3,599,755)	(1,148,438)	(688,756)
Total Assets	95,894,047	44,306,265	15,930,273	6,983,536	11,162,275
Total Liabilities	54,497,560	23,024,425	4,897,797	199,245	786,030
Surplus As Regards Policyholders	41,396,487	21,281,840	11,032,474	6,784,291	10,376,244

## **LOSS EXPERIENCE**

The Company has not experienced significant changes to their loss development. The Company's net loss ratio increased over the period under review, ending at 60.3%.

## **REINSURANCE**

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

### **Assumed**

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

### **Ceded**

The Company ceded its umbrella risk via a 90% quota share treaty with General Reinsurance Corporation, an authorized reinsurer. The reinsurers limit of liability was 90%.

The Company also ceded risk under a per risk excess of loss treaty to General Reinsurance Corporation, an authorized reinsurer. The agreement provided personal property excess of loss coverage above \$500,000 each and every risk, with reinsurer limits of \$1,000,000 per risk and \$2,000,000 for all occurrences within one year. Additionally, the agreement provided personal liability excess of loss coverage in two layers. The first layer provided \$250,000 of protection in excess of \$250,000 retention with no annual limit. The second layer provided \$1,000,000 of protection in excess of \$500,000 retention with an annual limit of \$2,000,000.

The Company also participated in Florida Hurricane Catastrophe Fund (FHCF) at the 90% reimbursement level. The Company's participation provided 90% reimbursement of the ultimate net loss paid by the Company in excess of the approximately \$12.3 million retention and 5% of the reimbursed losses for loss adjustment expense reimbursement. The reinsurer's limits were estimated at \$38.7 million. Premiums and retention levels for the FHCF coverage were calculated as stipulated in Section 215.555, Florida statutes.

The Company ceded risk under a catastrophe excess of loss treaty to various authorized and unauthorized reinsurers. The obligation of the unauthorized reinsurers was secured by letters of credit. The Company's retention under this agreement was \$10.9 million and the reinsurers' limit of liability was \$70.3 million per occurrence. The agreement provided for a maximum liability of \$140.6 million during the term of the agreement with one reinstatement available. Additionally, the Company purchased second event reinsurance that provided \$5.9 million of protection in excess of \$5.0 million retention, after the initial retention of \$10.9 million was met.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Tampa, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007, 2008 and 2009, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Northern Trust Bank entered into on September 27, 2006. The agreement did not contain language that demonstrated compliance with clause (2)(o) of Rule 69O-143.042, Florida Administrative Code. **Subsequent Event:** The Company amended its custodial agreement with Northern Trust on April 13, 2012, which is now in compliance with all requirements of Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

## **INFORMATION TECHNOLOGY REPORT**

Tracy Gates, CISA, IT Specialist of Highland Clark, LLC performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	US Treasury Bond, 6.0%, 2/15/26	<u>\$ 320,000</u>	<u>\$ 395,650</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 320,000</u>	<u>\$ 395,650</u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**AUTO CLUB INSURANCE COMPANY OF FLORIDA**  
**Assets**

**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$80,709,046		\$80,709,046
Cash and Short-Term Investments	2,763,248		2,763,248
Agents' Balances:			
Uncollected premium	1,279,929		1,279,929
Deferred premium	7,502,989		7,502,989
Net deferred tax asset	2,962,613		2,962,613
EDP Equipment	133,667		133,667
Interest and dividend income due & accrued	497,926		497,926
Receivable from parents, subsidiaries and affiliates	44,628		44,628
Totals	\$95,894,047	\$0	\$95,894,047

**AUTO CLUB INSURANCE COMPANY OF FLORIDA**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$13,006,223		\$13,006,223
Loss adjustment expenses	2,151,090		2,151,090
Commissions payable	42,558		42,558
Other expenses	782,390		782,390
Taxes, licenses and fees	539,039		539,039
Current federal and foreign income taxes	544,317		544,317
Unearned premium	35,121,491		35,121,491
Advance premium	1,063,599		1,063,599
Ceded reinsurance premiums payable	75,915		75,915
Funds held under reinsurance treaties	3,093		3,093
Provision for reinsurance	75,268		75,268
Payable to parent, subsidiaries and affiliates	1,092,577		1,092,577
<b>Total Liabilities</b>	<b>\$54,497,560</b>	<b>\$0</b>	<b>\$54,497,560</b>
Common capital stock	\$220		\$220
Gross paid in and contributed surplus	47,353,780		47,353,780
Unassigned funds (surplus)	(5,957,513)		(5,957,513)
<b>Surplus as regards policyholders</b>	<b>\$41,396,487</b>	<b>\$0</b>	<b>\$41,396,487</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$95,894,047</b>	<b>\$0</b>	<b>\$95,894,047</b>

**AUTO CLUB INSURANCE COMPANY OF FLORIDA**  
**Statement of Income**

**DECEMBER 31, 2010**

**Underwriting Income**

Premiums earned		\$42,243,181
	<b>Deductions:</b>	
Losses incurred		\$22,097,973
Loss expenses incurred		3,370,811
Other underwriting expenses incurred		17,486,192
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$42,954,976
Net underwriting gain or (loss)		(\$711,795)

**Investment Income**

Net investment income earned		\$1,565,230
Net realized capital gains or (losses)		44,827
Net investment gain or (loss)		\$1,610,057

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$37,838)
Finance and service charges not included in premiums		150,770
Aggregate write-ins for miscellaneous income		1,907
Total other income		\$114,839
Net income before dividends to policyholders and before federal & foreign income taxes		\$1,013,102
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$1,013,102
Federal & foreign income taxes		521,224
Net Income		\$491,877

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$21,281,840
Net Income		\$491,877
Net unrealized capital gains or losses		26,874
Change in net deferred income tax		24,356
Change in non-admitted assets		3,586,809
Change in provision for reinsurance		(75,268)
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		16,060,000
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$20,114,648
Surplus as regards policyholders, December 31 current year		\$41,396,487

A comparative analysis of changes in surplus is shown below.

**AUTO CLUB INSURANCE COMPANY OF FLORIDA  
Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2010**

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders  
December 31, 2010, per Annual Statement \$41,396,487

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$41,396,487</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$15,157,313

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2010, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary Dennis Henry, FCAS, MAAA of The Actuarial Advantage, reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

### Capital and Surplus

The amount of Capital and surplus reported by the Company of \$41,396,487, exceeded the minimum of \$5,149,668 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 **Auto Club Insurance Company of Florida** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$41,396,487, which exceeded the minimum of \$5,149,668 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Steven Sigler, CFE, AES, Examiner-In-Charge; Tracy Gates, CPA, CISA, IT Specialist and Participating Examiner; and Brad Hazelwood, CPA, Participating Examiner of Highland Clark, LLC participated in the examination. In addition, Dennis Henry, FCAS MAAA, consulting actuary of The Actuarial Advantage, and Kyra Brown, Financial Specialist, APIR and Syntia King, Financial Examiner/Analyst II, APIR of the Office also participated in the examination.

Respectfully submitted,

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Kethessa Carpenter, CPA  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation