

REPORT ON EXAMINATION

OF

AUTO CLUB INSURANCE COMPANY OF FLORIDA

TAMPA, FLORIDA

AS OF

DECEMBER 31, 2007

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

June 20, 2008

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, 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, 2007, 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 September 11, 2006 through December 31, 2007. This is the first year examination of the Company by the Florida Office Insurance Regulation (Office). This examination commenced with planning at the Office on April 14, 2008 to April 17, 2008. The fieldwork commenced on April 21, 2008 and was concluded as of June 20, 2008.

This financial examination was a statutory financial examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (NAIC 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 NAIC Handbook requires that we plan and perform the examination 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 risk within the Company and evaluating systems controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions.

During the planning phase of this examination, the examiners determined that they would use a modified approach to the NAIC risk focus examination procedures and would perform substantive procedures where deemed necessary. The modified examination approach was deemed appropriate for this examination given that the Company did not start writing business until December 11, 2007 and was not required to have audited financial statements for 2006 or 2007.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2007. Transactions subsequent to year-end 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to financial statements and comments on matters that involve departures from Florida laws, regulations or rules, or which are deemed to require special explanation or description.

HISTORY

General

The Company was incorporated on September 11, 2006, and commenced business on December 11, 2007.

The Company was party to Consent Order No. 87063-06-CO filed September 1, 2006 with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the provisions of that order.

The Company was authorized to write the following insurance coverage in Florida on December 31, 2007:

Homeowners multi peril
Private passenger auto liability

Inland marine
Fire

Other liability Allied lines
Private passenger auto physical damage

The Company was writing all of the aforementioned lines of business except inland marine at December 31, 2007. The Company is currently writing Inland marine.

The articles of incorporation and the bylaws were filed with the Florida Department of State on September 11, 2006 and were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2007, 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

The Company was wholly owned by Auto Club Insurance Holdings, LLC which was owned by Interinsurance Exchange of the Automobile Club (45.5%), Auto Club Insurance Association (45.5%) and AAA Auto Club South (Members) (9%). The Members have collectively contributed \$11 million to the Company's holding company and have a commitment to fund the holding company with an additional \$44 million, as needed.

Profitability of Company

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

	2007	2006
Premiums Earned	1,291	0
Net Underwriting Gain/(Loss)	(1,631,574)	(782,027)
Net Income	(1,148,438)	(688,754)
Total Assets	6,983,536	11,162,275
Total Liabilities	199,245	786,030
Surplus As Regards Policyholders	6,784,291	10,376,244

Dividends to Stockholders

The Company did not pay or declare any dividends during the period covered by this examination.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2007 were:

Directors

Name and Location

Principal Occupation

John F. Boyle
Costa Mesa, California

Executive Vice President
Auto Club Southern California

Robert T. Bouttier
Costa Mesa, California

President and COO
Auto Club Southern California

Danny F. Jiles
Tampa, Florida

Vice President
Auto Club South

Sean H. Maloney
Grosse Pointe Shores, Michigan

Vice President
Auto Club Insurance Association

J. Terry McElroy
Northville, Michigan

Senior Vice President, CFO & Treasurer
Auto Club Group

Robert McKee
Palm Harbor, Florida

Senior Vice President, CFO and Treasurer
Auto Club South

Steven D. Monahan
Waterford, Michigan

President and COO
Auto Club Insurance Association

John A Tomlin
Tampa, Florida

Executive Vice President and COO
Auto Club South

The Board of Directors, in accordance with the Company's bylaws, appointed the following senior officers that were serving at December 31, 2007:

Senior Officers

Name	Title
Larry D. Patrick	President & Chief Executive Office
Sean H. Maloney	Chief Financial Officer and Treasurer
James C. Santo	Secretary and Chief Underwriting Officer
Steven W. Brown	Chief Operating Officer
Bobby S. Futch	Vice President, Claims
Jennifer A. Wiedrick	Vice President and Controller

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2007:

Operating Committee	Audit Committee	Finance & Investment Committee
John F. Boyle	Robert T. Bouttier	Robert T. Bouttier
Steven W. Brown	John F. Boyle	John F. Boyle
James Gilmartin	Danny G. Jiles	Danny G. Jiles
Danny G. Jiles	Sean H. Maloney	Sean H. Maloney
Sean H. Maloney	J. Terry McElroy	J. Terry McElroy
Steven D. Monahan*	Robert A. McKee	Robert A. McKee
Larry D. Patrick	Steven D. Monahan*	Steven D. Monahan*
James C. Santo	Christen E. Simonsen	Christen E. Simonsen
John A. Tomlin	John A. Tomlin	John A. Tomlin

*Chairman

The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes. Selections of members were based on education and experiences in the field of finance and accounting.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, 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 accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

The Company did not have any acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance at December 31, 2007.

Surplus Debentures

The Company did not have any surplus debentures at December 31, 2007.

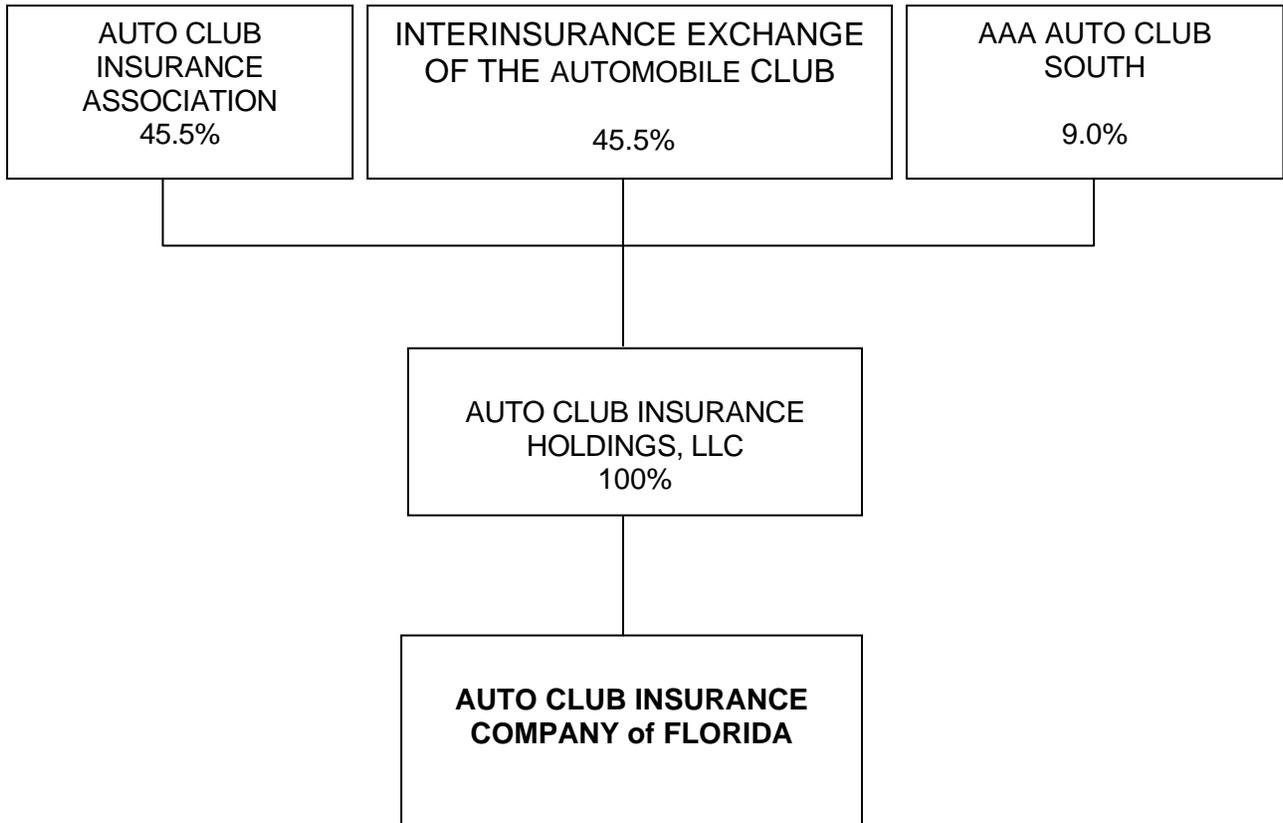
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed electronically with the Office on February 27, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown on the next page. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

**AUTO CLUB INSURANCE COMPANY OF FLORIDA
ORGANIZATIONAL CHART**

DECEMBER 31, 2007



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

Administrative Agreement

The Company entered into an administrative agreement with Auto Club South Insurance Company effective June 1, 2007 and expiring on September 24, 2011. The agreement automatically renews for additional five year terms unless either party terminates the agreement by providing the other party with written notice at least 1 year prior to the end of such term of its election not to renew the agreement. This agreement covered 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 and administration services, producer management services, producer commission computation or payment, information technology support, personnel services, facilities support, legal and regulatory services, procurement support and any additional support services.

Consulting Services Agreement

The Company entered into a consulting services agreement with Auto Club Insurance Association effective June 1, 2007. The agreement will automatically renew for additional one year terms unless either party terminates the agreement by giving to the other party written notice at least 180 days prior to the end of such term of its election not to renew the agreement. This agreement covered executive and managerial services, services contributing to the development of product distribution methods, customer service methods and product design, and any additional support services as requested by the Company that the Auto Club Insurance Association agreed to provide.

The Company entered into a consulting services agreement with Auto Club South Insurance Company to provide certain services to the Company. This agreement was effective June 1, 2007 and will continue for an initial term of one year, unless earlier terminated as provided in the agreement. Thereafter, the agreement will automatically renew for additional one year terms unless either party terminates the agreement at the end of the initial term or any renewal term by giving to the other party written notice at least 180 days prior to the end of such term of its election not to renew the agreement. This agreement covered executive and managerial services, claims management oversight, product management, and any other administrative services as may be agreed by the parties in writing from time to time.

The Company entered into a consulting services agreement with Interinsurance Exchange of the Automobile Club effective June 1, 2007. The agreement will automatically renew for additional one year terms unless either party terminates the agreement by giving to the other party written notice at least 180 days prior to the end of such term of its election not to renew the agreement. This agreement covered executive and managerial services, services contributing to the development of product distribution methods, customer service methods and product design, and any additional support services as requested by the Company that Inter insurance Exchange of the Automobile Club agreed to provide.

Investment Management Agreement

The Company entered into an investment management agreement with Auto Club Trust (Manager) effective September 25, 2006 and amended May 1, 2007. This agreement will continue on a month to month basis until terminated by either party at the end of any month by giving thirty days advanced notice, in writing, to the other party. The Company may terminate the authority of the

Manager to manage the account at any time. Under this agreement, the Manager will have full investment authority and discretion and may purchase, sell or exchange assets of the Company as it determines, subject to the investment guidelines set forth by the Company in the agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$50,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company maintained Directors and Officers (D&O) liability insurance policy with coverage up to \$3,000,000 with a \$25,000 deductible.

The Company also maintained Workers compensation and Employers liability policy with coverage up to \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's 401(K) savings and retirement plan for its employees was managed by the Principal Financial Group. Employees are eligible to enroll the first of the month after 90 days of employment and 250 hours of employment. The Company matched 100% of the first 4% an employee contributes and 50% of the next 6% an employee contributes to the plan. An employee becomes 100% vested after 5 years of service. The Company contributed \$17,239 for 2007.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

State	Description	Par Value	Market Value
FL	US Treasury Bonds, 6%, 02/15/26	<u>\$ 320,000</u>	<u>\$ 378,700</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 320,000</u>	<u>\$ 378,700</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 320,000</u>	<u>\$ 378,700</u>

PLAN OF OPERATION

The Company was writing a single insurance contract with packaged automobile and homeowner coverage. The policy offered traditional automobile protection with three levels of homeowner protection (Basic, Deluxe & Ultra). The Company currently plans to grow organically through a single insurance agency, Insurance Bureau, Inc., which is a wholly owned subsidiary of AAA Auto Club South.

Territory

The Company was only authorized to transact insurance in 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 handling guide that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(i)3a, Florida Statutes.

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 any insurance at of December 31, 2007.

Ceded

The Company ceded risk on an excess of loss basis to General Reinsurance Corporation (Gen Re). The contract was effective on new policies issued on or after December 1, 2007. The Company did not start writing business until December 11, 2007 and had only 15 policies in force at December 31, 2007.

The Company's homeowner retention under this contract was \$500,000 for each risk. The limit of liability of the reinsurer was the next \$1,000,000 for each risk. Gen Re was liable up to \$2,000,000 for all net loss on all personal property risks involved in all occurrences taking place during each agreement year.

The Company's auto liability retention with Gen Re for its first layer was \$250,000 with retention of \$250,000. The auto liability retention for its second layer was \$1,000,000 with retention of \$500,000.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Tampa, Florida, where this examination was conducted.

The Company was granted a waiver by the Office for filing an independently audited CPA report for 2006 and 2007. The waiver was granted because of the Company's limited or lack of premium writings for those years in accordance with Section 624.424(8)(b), Florida Statutes.

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 had a master custody agreement with Northern Trust Bank of Florida (Northern). The agreement was effective on September 27, 2006. This agreement was in accordance with Rule 69O-143.042, Florida Administrative Code. Northern is a state bank and therefore qualified as a custodian as defined by Rule 69O-143.041 Florida Administrative Code.

Master License

The Company had a master license and I-AXS Service addendum agreement with Guy Carpenter & Company, LLC to have access to data through their web site. The Company used the site to aggregate policy information, determine risk potential and determine the need for reinsurance at a

given location or in a given area. The web site also offered numerous other insurance related services to the Company.

Information Technology (IT) Report

INS Services, Inc. performed a limited scope computer system evaluation on the Company. Results of the evaluation were noted in the information technology report (IT) provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, and the results of its operations for the year then ended as determined by this examination. There were no adjustments made as a result of the examination.

AUTO CLUB INSURANCE COMPANY OF FLORIDA
Assets

December 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$2,692,985		\$2,692,985
Cash and short-term investments	3,950,642		3,950,642
Interest and dividend income due & accrued	52,942		52,942
Premiums and considerations:			
Uncollected premium	3,750		3,750
Deferred premium	10,871		10,871
Electronic data processing equipment	219,308		219,308
Receivable from parents, subsidiaries and affiliates	53,038		53,038
Aggregate write-in for other than invested assets	0	0	0
	<hr/>		
Totals	\$6,983,536	\$0	\$6,983,536
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AUTO CLUB INSURANCE COMPANY OF FLORIDA
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$0		\$0
Commissions payable	5,399		5,399
Other expenses	101,328		101,328
Taxes, licenses and fees	189		189
Unearned premium	36,159		36,159
Advanced premiums	10,945		10,945
Ceded reinsurance premium payable	(554)		(554)
Drafts outstanding	0		0
Payable to parent, subsidiaries and affiliates	45,779		45,779
Aggregate write-ins for liabilities	0		0
Total Liabilities	\$199,245		\$199,245
Common capital stock	\$220		\$220
Gross paid in and contributed surplus	11,174,780		11,174,780
Unassigned funds (surplus)	<u>(4,390,709)</u>		<u>(4,390,709)</u>
Surplus as regards policyholders	<u>\$6,784,291</u>		<u>\$6,784,291</u>
Total liabilities, surplus and other funds	<u>\$6,983,536</u>	<u>\$0</u>	<u>\$6,983,536</u>

AUTO CLUB INSURANCE COMPANY OF FLORIDA
Statement of Income

DECEMBER 31, 2007

Underwriting Income	
Premiums earned	\$1,291
Deductions:	
Other underwriting expenses incurred	1,632,865
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$1,632,865</u>
Net underwriting gain or (loss)	(\$1,631,574)
Investment Income	
Net investment income earned	\$483,124
Net realized capital gains or (losses)	<u>0</u>
Net investment gain or (loss)	\$483,124
Other Income	
Finance and service charges not included in premiums	\$12
Aggregate write-ins for miscellaneous income	<u>0</u>
Total other income	\$12
Net income before dividends to policyholders and before federal & foreign income taxes	(\$1,148,438)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$1,148,438)
Federal & foreign income taxes	<u>0</u>
Net Income	(\$1,148,438)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$10,376,246
Net Income	(\$1,148,438)
Change in net deferred income tax	1,210,887
Change in non-admitted assets	(3,764,403)
Surplus adjustments: Paid in	110,000
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	<u>0</u>
Change in surplus as regards policyholders for the year	(\$3,591,954)
Surplus as regards policyholders, December 31 current year	<u><u>\$6,784,292</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

The Company filed an affidavit for request of exemption of actuarial opinion with the Office and was granted a waiver in accordance with NAIC annual statement Instructions. The Company's premium income was less than the minimum amount of \$1,000,000 that was required to have to file an actuarial opinion as of December 31, 2007.

Capital and Surplus

The Company reported \$6,784,291 in capital and surplus at December 31, 2007 exceeding the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of any changes in surplus is shown on the following page.

**AUTO CLUB INSURANCE COMPANY OF FLORIDA
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

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, 2007, per Annual Statement	\$6,784,291
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			0
LIABILITIES:			
No Adjustment			0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2007, per Examination			\$6,784,291

SUMMARY OF FINDINGS

Compliance with previous directives

This is the first examination of the Company by the Office.

Current examination comments and corrective action

The examiners did not note any examination report comments or corrective action needed for the Company.

SUBSEQUENT EVENTS

On April 23, 2008 the Company received \$6,006,000 from its parent, Auto Club Insurance Holdings, LLC, as additional paid in capital. The capital contribution was valued in accordance with Section 625.181, Florida Statutes.

At the February 7, 2008 Board of Directors meeting, the board appointed the following individuals to the following committees.

Audit Committee

John F. Boyle
John A. Tomlin
J. Terry McElroy

Executive Committee

Steven D. Monahan
John F. Boyle
John A. Tomlin

Also at the Board of Directors meeting, the entire Board of Directors were appointed as members of the Finance Committee.

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, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards to policyholders was \$6,784,291 in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Barry C. Armstrong, CFE, CPA, and Greg Taylor, CFE, of INS Regulatory Services, Inc. participated in the examination. We also recognize INS Services, Inc. participation in the examination.

Respectfully submitted,

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