

**EXAMINATION REPORT
OF**

AUTO CLUB INSURANCE COMPANY OF FLORIDA

**Tampa, Florida
as of
December 31, 2015**

**BY THE
FLORIDA OFFICE OF INSURANCE REGULATION**

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAMINATION FINDINGS	2
PRIOR EXAMINATION FINDINGS	2
GENERAL	2
DIVIDENDS	2
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS NOTES	3
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASE OR SALES THROUGH REINSURANCE	3
CORPORATE RECORDS	4
CONFLICT OF INTEREST.....	4
MANAGEMENT AND CONTROL	4
MANAGEMENT	4
DIRECTORS	4
SENIOR OFFICERS	5
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	8
ADMINISTRATION AGREEMENT	9
ACSIC CONSULTING AGREEMENT	9
INTERINSURANCE EXCHANGE OF THE AUTOMOBILE CLUB CONSULTING AGREEMENT	9
AUTO CLUB INSURANCE ASSOCIATION CONSULTING AGREEMENT.....	10
INVESTMENT MANAGEMENT AGREEMENT	10
AGENCY AGREEMENT	10
TERRITORY AND PLAN OF OPERATIONS	11
TREATMENT OF POLICYHOLDERS	11
REINSURANCE	11
ASSUMED	11
CEDED	12
ACCOUNTS AND RECORDS	13
CUSTODIAL AGREEMENT	13
INDEPENDENT AUDITOR AGREEMENT	13
INFORMATION TECHNOLOGY REPORT	14
STATUTORY DEPOSITS	15
FINANCIAL STATEMENTS	16
ASSETS	17
LIABILITIES, SURPLUS AND OTHER FUNDS	18

STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT19
RECONCILIATION OF CAPITAL AND SURPLUS.....20
COMMENTS ON FINANCIAL STATEMENTS.....21
 LIABILITIES21
 CAPITAL AND SURPLUS21
CONCLUSION.....22

November 3, 2016

David Altmaier
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 69O-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, 2015, 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, 2011, through December 31, 2015. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2010, through December 31, 2010. This examination commenced with planning at the Office on March 14, 2016. The fieldwork commenced on June 28, 2016, and concluded as of November 3, 2016.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners 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.

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 Statements of Statutory Accounting Principles (SSAP).

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. 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.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material findings or exceptions noted during the period of this examination.

Prior Examination Findings

There were no findings or exceptions to be taken by the Company as a result of the examination ending on December 31, 2010.

COMPANY 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 issuance of a Certificate of Authority. The Company was in compliance with this consent order.

The Company was authorized to transact insurance in Florida on November 22, 2006, and continued to be authorized for the following coverage(s) as of December 31, 2015.

Homeowners Multiple-Peril	Inland Marine
Private Passenger Auto Liability	Other Liability
Private Passenger Auto Physical Damage	

Dividends

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

Capital Stock and Capital Contributions

As of December 31, 2015, 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, Inc., which owned one hundred percent (100%) of the common stock issued by the Company, which in turn was owned by Interinsurance Exchange of the Automobile Club fifty percent (50.0%), Auto Club Insurance Association forty-one point seven percent (41.7%) and Auto Club Group eight point three percent (8.3%). During the period under examination, Auto Club Insurance Holdings, Inc. contributed paid in capital in the following amounts:

2011 - \$20,090,465

2012 - \$23,000,000

2013 - \$4,000,000

There were no other capital contributions during the period under examination.

Surplus Notes

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

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

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during 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 69O-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 periodic 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, 2015, are shown below:

Directors		
Name	City, State	Principal Occupation
Steven Duane Monahan	Dearborn, Michigan	Chairman
Edward James Fandel	Tampa, Florida	Senior Vice President, Auto Club Southern Insurance Company
Sean Henry Maloney	Dearborn, Michigan	Chief Financial Officer, Auto Club Group
Brian Harris Deephouse	Costa Mesa, California	Chief Actuary, Auto Club Southern California

Avery Renaud Brown	Costa Mesa, California	Senior Vice President and General Counsel, Auto Club Southern California
Christopher Michael Baggaley	Costa Mesa, California	Senior Vice President, Auto Club Southern California
Michael Alan Johnson	Costa Mesa, California	Senior Vice President, Auto Club of Southern California
James Craig Santo	Tampa, Florida	President & Chief Executive Officer, Auto Club Insurance Company of Florida

In accordance with the Company's bylaws, the Board appointed the following senior officers:

Senior Officers

Name	City, State	Title
James Craig Santo	Tampa, Florida	President and Chief Executive Officer
Jennifer Aylward Wiedrick	Dade City, Florida	Vice President, Chief Financial Officer, and Treasurer
Jamie Bryan Boutilier	Waxhaw, North Carolina	Vice President, Product Management
Bobby Shaffer Futch	Tampa, Florida	Vice President, Claims

The Company's Board appointed several internal committees. The principal internal board committees and their members as of December 31, 2015 are as follows:

Executive Committee

Name	City, State	Title
Steve Duane Monahan ¹	Dearborn, Michigan	Chairman
Christopher Michael Baggaley	Costa Mesa, California	Senior Vice President, Auto Club Southern California
Michael Alan Johnson	Costa Mesa, California	Senior Vice President, Auto Club of Southern California
Sean Henry Maloney	Dearborn, Michigan	Chief Financial Officer, Auto Club Group

¹ Chairperson

The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

Audit Committee

Name	City, State	Title
Christopher Michael Baggaley ¹	Costa Mesa, California	Senior Vice President, Auto Club Southern California
Avery Renaud Brown	Costa Mesa, California	Senior Vice President and General Counsel, Auto Club Southern California
Sean Henry Maloney	Dearborn, Michigan	Chief Financial Officer, Auto Club Group
Edward James Fandel	Tampa, Florida	Senior Vice President, Auto Club Southern Insurance Company

Investment Committee

Name	City, State	Title
Sean Henry Maloney ¹	Dearborn, Michigan	Chief Financial Officer, Auto Club Group
Christopher Michael Baggaley	Costa Mesa, California	Senior Vice President, Auto Club Southern California
Avery Renaud Brown	Costa Mesa, California	Senior Vice President and General Counsel, Auto Club Southern California
Brian Harris Deethouse	Costa Mesa, California	Chief Actuary, Auto Club Southern California
Edward James Fandel	Tampa, Florida	Senior Vice President, Auto Club Southern Insurance Company
Michael Alan Johnson	Costa Mesa, California	Senior Vice President, Auto Club of Southern California
Steve Duane Monahan	Dearborn, Michigan	Chairman
James Craig Santo	Tampa, Florida	President and Chief Executive Officer

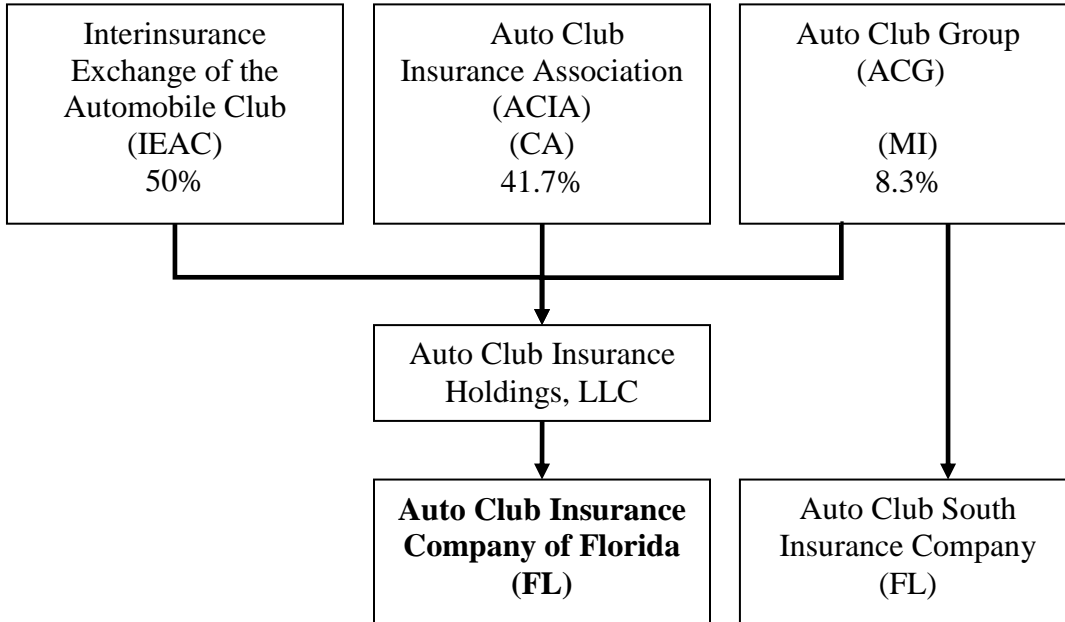
¹ Chairperson

Affiliated Companies

The most recent holding company registration statement was filed with the Office on March 30, 2016, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2015, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2015 annual statement provided a list of all related companies of the holding company group.

**Auto Club Insurance Company of Florida
Organizational Chart
December 31, 2015**



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 ninety days (90) written notice.

ACSIC Consulting Agreement

The Company had a consulting agreement with ACSIC, an affiliated company, 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 one hundred eighty (180) days written notice. The Company was paid actual cost for these services.

Interinsurance Exchange of the Automobile Club Consulting Agreement

The Company had a consulting agreement with Interinsurance Exchange of the Automobile Club (IEAC), an affiliated company, effective June 1, 2007. Under the agreement, IEAC provides executive and managerial services, services contributing to the development of product distribution methods, customer service methods and product design. Additional consulting and support services may be rendered as requested by the Company. The agreement had an initial term of one year with automatic renewal for one-year terms. The agreement may be terminated with one hundred eighty days (180) written notice. The Company was paid actual cost for these services.

Auto Club Insurance Association Consulting Agreement

The Company had a consulting agreement with Auto Club Insurance Association (ACIA), an affiliated company, effective June 1, 2007. Under the agreement, ACIA provides executive and managerial services, services contributing to the development of product distribution methods, customer service methods and product design. Additional consulting and support services may be rendered as requested by the Company. The agreement had an initial term of one year with automatic renewal for one-year terms. The agreement may be terminated with one hundred eighty days (180) written notice. The Company 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 management directed the investment and reinvestment of 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, set at 6 basis points (.06%) of the market value of the investment portfolio, payable quarterly. For the year ended December 31, 2015, the Company paid fees in the amount of approximately \$184,000 to ACS for services rendered.

Agency Agreement

The Company maintained an agency agreement with Insurance Bureau, Inc., 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 casualty lines of insurance subject to the underwriting standards and rules of the Company. Under the agreement, the agent was authorized to solicit, bind, execute, and service the Company's policies and endorsements.

On November 30, 2014, Insurance Bureau, Inc. merged into its parent Auto Club Group South Insurance Agency, LLC ("ACGSA"). Effective December 1, 2014, the Company entered into an agency agreement with ACGSA resulting in the assumption of all rights duties and agreements vested in Insurance Bureau, Inc. by the previous agency agreement. The agreement supersedes the previous agency contract between the Company and the Insurance Bureau, Inc. During the year

ended December 31, 2015, the Company paid commissions in the amount of approximately \$23,489,000 to ACGSA.

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.

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.

Assumed

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

Ceded

The Company participated in the Florida Hurricane Catastrophe Fund (FHCF), which insures to the benefit of the private reinsurance coverage discussed herein, at the ninety percent (90%) reimbursement level. The Company's participation provided ninety percent (90%) reimbursement of the ultimate net loss paid by the Company in excess of a retention of \$44,700,000 up to an estimated reinsurance limit of \$144,100,000. Premiums and retention levels for the FHCF coverage were calculated as stipulated in Section 215.555, Florida Statutes.

The Company has entered into an excess of loss treaty with various participating reinsurers to mitigate exposure to catastrophic events. The catastrophe program includes five layers of protection for both automobile and homeowners' lines policies. The first layer of the treaty provides coverage equal to ninety-one point six seven percent (91.67%) of \$66,400,000 in excess of \$44,700,000; the second layer provides coverage equal to \$124,400,000 in excess of \$111,100,000; the third layer provides coverage equal to \$30,000,000 in excess of \$235,500,000; and the fourth layer provides protection equal to \$13,000,000 in excess of \$286,700,000. Additionally, the Company has entered into a Top & Aggregate arrangement which provides coverage up to \$30,000,000 in excess of \$256,700,000 for a first event. In subsequent events, protection attaches at \$0 once an annual aggregate deductible of \$61,462,000 has been met. Annual aggregate protection under the Top & Aggregate treaty shall not exceed \$60,000,000 for all loss occurrences, and coverage only becomes effective if a loss occurrence generates at least \$7,500,000 in total incurred losses.

The Company ceded risk on a quota share basis with Odyssey Re, an authorized reinsurer, to mitigate exposure in the counties of Pasco and Hernando. The treaty is an eighty percent (80%) quota share agreement covering homeowners' property and liability risks, excluding sinkhole coverage.

The Company also ceded risk under a per risk excess of loss basis to General Reinsurance Corporation, an authorized reinsurer. The agreement provided personal liability excess of loss coverage of \$1,000,000 in excess of the Company's retention of \$500,000, subject to the reinsurer's limit of \$2,000,000 for all loss occurrences.

The Company ceded risk on a quota share basis to General Reinsurance Corporation, an authorized reinsurer. The treaty provides protection for umbrella policies issued by the Company. The Company's retention under this agreement was \$1,000,000 per occurrence and the reinsurer's limit of liability was \$1,000,000 per occurrence and \$2,000,000 each year. The Company cedes ninety percent (90%) of losses in excess of their retention.

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.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Wells Fargo executed on September 28, 2012. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, Ernst & Young LLP audited the Company's statutory basis financial statements annually for the years ended 2015, 2014, 2013, 2012 and 2011, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by Ernst & Young, LLP as required by Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Tim Tanju, CISA, IT Specialist, Dixon Hughes Goodman, 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	USTBDS, 6.00%, 2/15/26	<u>\$320,000</u>	<u>\$427,238</u>
TOTAL FLORIDA DEPOSITS		<u><u>\$320,000</u></u>	<u><u>\$427,238</u></u>

FINANCIAL STATEMENTS

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 will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

Auto Club Insurance Company of Florida

Assets

December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Bonds	\$305,904,464		\$305,904,464
Common stocks	279,000		279,000
Cash and short-term investments	5,890,838		5,890,838
Receivable for securities	602		602
Investment income due and accrued	1,799,169		1,799,169
Premiums and considerations:			
Uncollected premium	2,276,799		2,276,799
Deferred premium	21,625,892		21,625,892
Reinsurance recoverable	32,847		32,847
Net deferred tax asset	9,009,163		9,009,163
EDP equipment	555,407		555,407
Aggregate write-ins for other than invested assets	367		367
Totals	<u>\$347,374,548</u>		<u>\$347,374,548</u>

Auto Club Insurance Company of Florida
Liabilities, Surplus and Other Funds
December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Losses	\$68,604,029		\$68,604,029
Loss adjustment expenses	16,514,890		16,514,890
Commissions payable	140,010		140,010
Other expenses	872,756		872,756
Taxes, licenses and fees	222,675		222,675
Current federal income taxes payable	147,569		147,569
Unearned premium	102,688,997		102,688,997
Advance premium	2,351,097		2,351,097
Ceded reinsurance premiums payable	(805,939)		(805,939)
Funds held by company under reinsurance treaties	3,093		3,093
Payable to parent, subsidiaries and affiliates	3,536,439		3,536,439
Payable for securities	38,383		38,383
Total liabilities	194,313,999		194,313,999
Common capital stock	220		220
Gross paid in and contributed surplus	94,444,245		94,444,245
Unassigned funds	58,616,084		58,616,084
Surplus as regards policyholders	153,060,549		153,060,549

Auto Club Insurance Company of Florida
Statement of Income and Capital and Surplus Account
December 31, 2015

Underwriting Income

Premiums earned		\$170,984,471
	Deductions:	
Losses incurred		94,290,634
Loss expenses incurred		11,514,635
Other underwriting expenses incurred		41,547,046
Total underwriting deductions		<u>147,352,315</u>
Net underwriting gain		23,632,156

Investment Income

Net investment income earned		7,064,563
Net realized capital gains		(356,409)
Net investment loss		<u>6,708,154</u>

Other Income

Net loss from agents' or premium balances charged off		(\$46,809)
Finance and service charges not included in premiums		466,041
Aggregate write-ins for miscellaneous income		(32,671)
Total other income		<u>386,562</u>

Net income before dividends to policyholders and before federal & foreign income taxes		30,726,871
Dividends to policyholders		-
Net Income, after dividends to policyholders, but before federal & foreign income taxes		30,726,871
Federal & foreign income taxes		<u>10,873,988</u>
Net income		<u><u>\$19,852,883</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$133,616,404
Net income		19,852,883
Net unrealized capital gains or losses		(812,031)
Change in non-admitted assets		534,386
Change in deferred income tax		(131,094)
Change in surplus as regards policyholders for the year		<u>19,444,145</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$153,060,549</u></u>

Auto Club Insurance Company of Florida
Reconciliation of Capital and Surplus
December 31, 2015

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

Capital/Surplus Change During Examination Period

Surplus at December 31, 2015, per Annual Financial Statement	\$153,060,549
Net increase (or decrease)	<u>\$0</u>
Surplus at December 31, 2015, after adjustment	<u><u>\$153,060,549</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

An internal actuary, Alan M. Parham, FCAS, MAAA, appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2015, 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 David Shepherd, FCAS, MAAA of Merlinos & Associates, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$153,060,549, exceeded the minimum of \$19,016,211 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, 2015, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards policyholders was \$153,060,549, which exceeded the minimum of \$19,016,211 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Roshi Fekrat, CFE, CPA, CIA, AMCM, Examiner-in-Charge; David Berry, CPA, Participating Examiner; of Global Insurance Enterprises, and Tim Tanju, CISA, IT Specialist of Dixon Hughes Goodman, LLP participated in the examination. We also, recognize David Shepherd, FCAS, MAAA, Brett Miller, FCAS, MAAA, ARM, and Benjamin Conrad, of Merlinos & Associates, Inc. for participation in the examination. Members of the Office who participated in the examination include Connie Hare, CFE (Fraud), AFE, Financial Examiner/Analyst Supervisor, Examination Manager and Casey Hengstebeck, Reinsurance/Financial Specialist, Participating Examiner.

Respectfully submitted,

Brian Sewell, CFE, MCM
Chief Examiner
Florida Office of Insurance Regulation