



**EXAMINATION REPORT
OF
AUTO CLUB SOUTH INSURANCE COMPANY**

NAIC Company Code: 41041

**Tampa, Florida
as of
December 31, 2019**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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June 21, 2021

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, 2019, of the financial condition and corporate affairs of

Auto Club South Insurance Company
9125 Henderson Road
Tampa, Florida 33634

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, 2019 and the fieldwork commenced with planning with the Florida Office of Insurance Regulation (“the Office”) on April 5, 2021. The fieldwork concluded as of June 21, 2021. The Company’s last full scope exam 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 Michigan, the other state that participated in the examination was Florida.

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.

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 findings in the previous examination.

COMPANY HISTORY

General

The Company was incorporated in Florida on December 14, 1990 and commenced business on January 2, 1991.

The Company was authorized to transact insurance in Florida on December 18, 1990, and continued to be authorized for the following coverages as of December 31, 2019.

Allied Lines	Private Passenger Auto Physical Damage
Private Passenger Auto Liability	

Effective November 30, 2014, AAA Auto Club South, Inc. was merged into The Auto Club Group (ACG). Concurrent with the transaction, the Company became a wholly-owned subsidiary of ACG. Control of the Company was maintained by its parent, ACG, which owned one hundred percent (100%) of the common stock issued by the Company.

Dividends

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

Capital Stock and Capital Contributions

As of December 31, 2019, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,000,000

Par value per share	\$1.00
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There were no capital contributions during the period under examination.

Surplus Notes

The Company did not have or issue any surplus notes during the period under examination.

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, 2019, are shown below:

Directors		
Name	City, State	Principal Occupation, Company Name
Jeanine Marie Raquet	Plymouth, Michigan	Executive Vice President of Insurance Operations and Distribution Auto Club Services, Inc.
Sean Henry Maloney ⁽¹⁾	Grosse Pointe, Michigan	Executive Vice President, Chief Financial Officer & Treasurer Auto Club Services, Inc.
Margaret Ann Scheske	Milford, Michigan	Vice President, Financial Planning and Analysis & Assistant Treasurer Auto Club Services, Inc.
John Bruno	Grosse Point Park, Michigan	Executive Vice President, General Counsel, Corporate Secretary, & Chief Human Resource Officer Auto Club Services, Inc.
Peter Joseph Corrigan ^(a)	Jacksonville, Florida	President Auto Club Services, Inc.

^(a) Resigned on January 29, 2021, and was replaced by Jennifer Lynn Pintacuda as President on March 4, 2021.

⁽¹⁾ Chairman

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

Senior Officers		
Name	City, State	Title
Peter Joseph Corrigan	Jacksonville, Florida	President
Jennifer Aylward Wiedrick	Dade City, Florida	Vice President and Chief Financial Officer
Bobby Shafter Futch	Tampa, Florida	Vice President, Claims
Sean Henry Maloney	Grosse Pointe, Michigan	Executive Vice President, Treasurer and Chairman of the Board
John Bruno	Grosse Point Park, Michigan	Executive Vice President, General Counsel, Corporate Secretary, and Chief Human Resource Officer
Dion Dennis Stevens	Troy, Michigan	Vice President and Assistant Treasurer
Marcia Lynn Hannewald	Ann Arbor, Michigan	Vice President, Assistant Corporate Secretary, and Corporate Counsel
Jeanine Marie Raquet	Plymouth, Michigan	Vice-Chair of the Board

The Company's Board appointed an audit committee as required by Section 624.424(8)(c), Florida Statutes. The following were the members of the audit committee as of December 31, 2019. The first person listed is the chairman.

Audit Committee		
Name	City, State	Title, Company Name
Margaret A. Scheske	Milford, Michigan	Vice President, Financial Planning and Analysis & Assistant Treasurer Auto Club Services, Inc.
John Bruno	Grosse Point Park, Michigan	Executive Vice President, General Counsel, Corporate Secretary, and Chief Human Resource Officer Auto Club Services, Inc.
Jeanine Raquet	Plymouth, Michigan	Vice-Chair of the Board Auto Club Services, Inc.

Holding Company System

The Company is a member of an insurance holding company system within a separate but similar structure. The following agreements were in effect between the Company and its affiliates:

Consolidated Tax Allocation Agreement

Effective on December 1, 2014, the Company participates in a tax allocation agreement with The Auto Club Group family of companies, including ACG, Auto Club Services, Inc., AAA of the Caribbean, Inc., Traverse Insurance, Ltd., ACG South Insurance Agency, LLC, ACG Driver Education, LLC, and ACG Car Care, LLC. The agreement states the parties will file a consolidated tax return, with each party contributing their proportional share to ACG. Payments made under this agreement during 2019 amounted to \$869,918.

Consulting Services Agreement

The Company entered into a Consulting Services Agreement with its affiliate, Auto Club Insurance Company of Florida (ACICF) on June 1, 2007. 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. Services performed under this agreement include executive and managerial services, claims management oversight, product management, and other administrative services as may be agreed by the parties from time to time. The agreement names ACICF as the consultant and ACSIC as the receiver of services. Fees incurred under this agreement during 2019 amounted to \$0.

Administration Agreement

The Company entered into an Administration Agreement with its affiliate, ACICF on September 25, 2006, and later amended, restated and effective June 1, 2007. The agreement had an initial term until September 24, 2011, with automatic renewal for five-year periods. The agreement may be terminated with ninety (90) days written notice. Services performed under this agreement include executive and managerial services; underwriting services, policyholder services including receiving and processing applications, issuing policies, billing and maintaining policyholder files; premium collection; accounting and financial services; marketing support and product development, including actuarial services, market research, advertising and promotional activities; producer management, including product training and supervision; commission computation and payment; IT support, including computer hardware and software support services for both insurance and corporate systems; personnel services, including recruitment, hiring, firing, payroll, and administering benefits; legal and regulatory compliance services;

procurement support; insurance support; and other administrative and support services as requested. The agreement names ACSIC as the administrator and ACICF as the receiver of services. Fees earned under this agreement during 2019 amounted to \$8,556,634.

Call Center Services Agreement

The Company entered into a Call Center Services Agreement with its affiliates, ACIA and ACICF on June 11, 2007. The agreement continues in force unless otherwise terminated upon 30 days written notice by either party. Services performed under this agreement include that ACIA call center advocates will answer claim calls made to ACICF and ACSIC during closed and holiday hours. Fees incurred under this agreement during 2019 amounted to \$0.

Management Services Agreement

The Company entered into a Management Services Agreement with its affiliate, Auto Club Services, Inc. (“ACSI”) on January 1, 2013. The agreement continues in force unless otherwise terminated within the guidelines of the agreement. The agreement may be terminated with one hundred eighty (180) days written notice. The agreement states ACSI shall provide services to ACSIC in compliance with their rules process and procedures as well as applicable by law. The services provided include marketing and promotional services, financial and operational services (treasury, controller, auditing, compliance, investment planning, etc.), human resource functions, legal services, executive and managerial services, public affairs, information system services, safety/security services, and facilities. The agreement sets compensation at cost for ACSI. Fees incurred under this agreement during 2019 amounted to \$11,894,226.

Agency Agreement

The Company entered into an Agency Agreement with its affiliate, ACG South Insurance Agency, LLC on December 1, 2014. The agreement continues in force unless otherwise terminated within the guidelines of the agreement. The agreement specifies terms by which ACG South Insurance Agency, LLC will sell ACSIC’s policies. It appoints ACG South Insurance Agency, LLC as a non-exclusive agency and authorizes the agency to solicit, bind, execute, and service policies and endorsements underwritten by ACSIC pursuant to the underwriting standards, rules, policies, and

procedures set forth in the agreement. The agreement sets forth the commissions paid to ACG South Insurance Agency, LLC by ACSIC for the various products offered by the ACSIC. The agency agreement was terminated effective January 1, 2020. Fees incurred under this agreement during 2019 amounted to \$16,116,933.

Expense Sharing Agreement

The Company entered into an Expense Sharing Agreement with its affiliates, ACIA, MemberSelect Insurance Company, Auto Club Group Insurance Company, Auto Club Property-Casualty Insurance Company, Fremont Insurance Company, ACG Insurance Agency, LLC, ACG, ACG South Insurance Agency, LLC, ACG Driver Education, LLC, Meemic Insurance Company, Meemic Insurance Services Corporation, Traverse Insurance, Ltd., Auto Club Services, Inc., ACG Car Care, LLC, and AAA of the Caribbean, Inc. on December 1, 2014. The agreement may be terminated with sixty (60) days written notice. The Agreement allocates expenses to the participating entities since they utilize certain centralized services, certain shared facilities, equipment, supplies, and human resources. The methodology used to allocate expenses is set forth in Exhibit A to the agreement, and includes allocations for direct services, shared services, and corporate management and support. Fees incurred under this agreement during 2019 amounted to \$0.

Investment Management Agreement

The Company entered into an Investment Management Agreement with its affiliate, ACSI on October 1, 2012. ACSIC retains ACSI as the manager of ACSIC's investment assets in compliance with statutes, regulations, and ACSIC's investment guidelines as set forth as an exhibit to the agreement. ACSI, as the investment manager, must perform research and evaluate information relating to economics, industries, markets and other items; seek out and implement specific investment opportunities and regularly report back to ACSIC. The agreement sets forth standards of conduct for ACSI and sets compensation. As of January 1, 2019, the fee for investment management services increased from 6 basis points to 10 basis points. Fees incurred under this agreement during 2019 amounted to \$137,392.

Royalty Agreement

ACSIC entered into a Royalty Agreement with its affiliate, ACG on January 1, 2020. Under this royalty agreement, ACSIC compensates ACG for the use of its membership list and marketing rights to ACG members. The Agreement's purpose is meant to compensate ACG for the use of its intellectual property. No managerial services are to be performed.

ACCOUNTS AND RECORDS

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

Custodial Agreement

The Company maintained a custodial agreement with Wells Fargo executed on April 1, 2013.

Independent Auditor Agreement

An independent CPA, Ernst & Young LLP audited the Company's statutory basis financial statements annually for the years 2019, 2018, 2017, and 2016.

Corporate Records Review

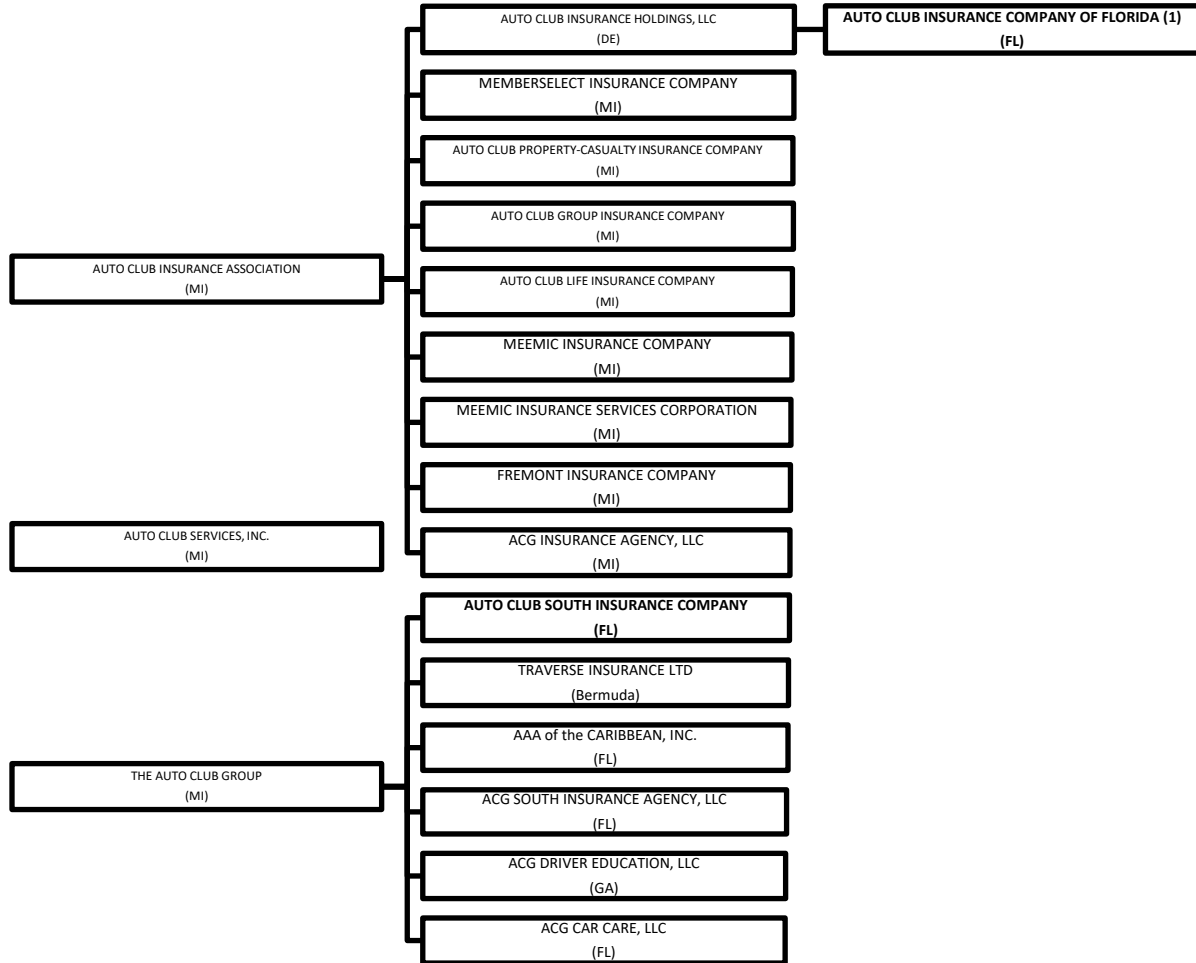
The recorded minutes of the Shareholder, Board of Directors (Board) and the audit committee were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments, as required by Section 625.304, Florida Statutes.

A simplified organizational chart as of December 31, 2019, reflecting the holding company system, is shown on the next page. Schedule Y of the Company's 2019 annual statement provided a list of all related companies of the holding company group.

Auto Club South Insurance Company

Simplified Organizational Chart

December 31, 2019



(1) ACICF is owned 91.67% by Auto Club Insurance Association and 8.33% by The Auto Club Group

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Florida	Georgia	Tennessee
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The Company was authorized to transact insurance in Florida on December 18, 1990, and is currently authorized for the following lines of business as of December 31, 2019:

Allied Lines	Private Passenger Auto Physical Damage
Private Passenger Auto Liability	

The Company primarily writes private passenger auto liability and auto physical damage policies in the states where it is licensed or eligible.

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 reinsurance during the period of this examination.

Reinsurance Ceded

As of the end of the examination period, the Company used various excess of loss reinsurance treaties to limit its own liability per risk.

Subsequent Event: ACSIC entered into a quota-share reinsurance agreement with ACICF on January 1, 2020. The agreement shall continue until either party terminates the agreement with 90-day written notice provided prior to January 1st, of each successive year.

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, 2019. 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, 2019. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

Auto Club South Insurance Company
Assets
December 31, 2019

	Per Company
Bonds	99,258,144
Common stocks	41,667,815
Cash and short-term investments	4,744,606
Other invested assets	7,110,393
Subtotals, cash and invested assets	152,780,958
Investment income due and accrued	797,828
Premiums and considerations	
Uncollected premiums and agents' balances	1,557,720
Deferred premiums, agents' balances and installments	12,401,815
Reinsurance	
Amounts recoverable from reinsurers	1,804
Net deferred tax asset	1,328,821
Receivable from parent, subsidiaries and affiliates	330,772
Aggregate write-in for other than invested assets	102,186
Total	169,301,903

**Auto Club South Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2019**

	Per Company
Losses	40,970,237
Loss adjustment expenses	10,413,396
Other expenses	2,619,501
Taxes, licenses and fees	541,689
Current federal and foreign income taxes	525,971
Unearned premiums	43,867,539
Advance premiums	1,552,396
Ceded reinsurance premiums payable	141,457
Remittances and items not allocated	151,813
Payable to Parent	3,135,078
Total liabilities	103,919,078
Common capital stock	1,000,000
Gross paid-in and contributed surplus	2,750,000
Unassigned funds (surplus)	61,632,825
Surplus as regards policyholders	65,382,825
Totals	169,301,903

Auto Club South Insurance Company
Statement of Income
December 31, 2019

	Per Company
Underwriting Income	
Premiums earned	93,408,118
Deductions	
Losses Incurred	66,088,141
Loss adjustment expenses incurred	9,525,183
Other underwriting expenses incurred	20,056,627
Total Underwriting deductions	95,669,950
Net underwriting gain (loss)	(2,261,832)
Investment Income	
Net investment income earned	3,746,101
Net realized capital gains or (losses)	406,013
Net investment gain or (loss)	4,152,114
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(196,031)
Finance and service charges not included in premiums	417,009
Aggregate write-ins for miscellaneous income	279
Total other income	221,257
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,111,539
Federal & foreign income taxes incurred	815,566
Net Income	1,295,973

	Per Company
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	60,469,402
Net Income	1,295,973
Change in net unrealized capital gains or losses less capital gains tax	3,194,976
Change in net deferred income taxes	459,136
Change in non-admitted assets	(36,662)
Change in surplus as regards policyholders for the year	4,913,423
Surplus as regards policyholders, December 31, current year	65,382,825

**Auto Club South Insurance Company
Reconciliation of Capital and Surplus
December 31, 2019**

Capital/Surplus Change during Examination Period			
Surplus at December 31, 2015, per Examination			\$54,506,024
	Increase	Decrease	
Net Income	\$6,876,436		\$6,876,436
Change in net unrealized capital gain (loss)	\$3,574,511		\$3,574,511
Change in net deferred income tax	\$480,530		\$480,530
Change in non-admitted assets		(\$54,675)	(\$54,675)
Net increase (or decrease)			\$10,876,802
Surplus at December 31, 2019 per examination			\$65,382,825

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

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Anthony E. Ptasznik, FCAS, MAAA, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2019, 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, Solomon Frazier, FSA, FCAS, MAAA, of Taylor-Walker Consulting, LLC, 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 \$65,382,825, exceeded the minimum of \$10,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

The 2020 Annual Statement showed adverse development on reserves for the Company of approximately \$4.4 million, which is equal to roughly 6.8% of 2019 surplus. The examining actuary noted that the methods and assumptions used by the opining actuary to estimate the Company's reserves were found to be generally reasonable, given the information available at the time. Examiners verified that this adverse development had been booked by the Company as of December 31, 2020, and prior to issuance of this report, therefore no further comment or adjustment was made to reserves as of December 31, 2019.

The COVID-19 pandemic 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. At the time of releasing this report, the Office's review of the Company noted that there has not been a significant impact to the Company. The Office has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Office continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

CONCLUSION


The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Auto Club South Insurance Company as of December 31, 2019, consistent with the insurance laws of the state of Florida.

In addition to the undersigned, Jim Kattman, CFE, Supervising Examiner, Brent Bostic, Participating Examiner, and Stefan Obereichholz-Bangert, AES, CISA, CISM, CDPSE, IT Specialist of Noble Consulting Services, Inc. also participated in the examination. Members of the Office who participated in the examination include Chad Mason, Financial Examiner/Analyst Supervisor, Examination Manager. Additionally, Solomon Frazier, FSA, FCAS, MAAA of Taylor-Walker Consulting Actuaries is recognized for participation in the examination.

Respectfully submitted,



Daniel P. McBay, CFE
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the Florida Office of Insurance Regulation



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