

**EXAMINATION REPORT
OF**

AUTO CLUB SOUTH INSURANCE COMPANY

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

**BY THE
FLORIDA OFFICE OF INSURANCE REGULATION**

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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 South Insurance Company
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, 2006, 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 noted during the examination ending on December 31, 2010.

COMPANY HISTORY

General

The Company was incorporated in Florida on December 14, 1990, and commenced business on January 2, 1991, as Auto Club South Insurance Company.

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 December 18, 1990, and continued to be authorized for the following coverage(s) as of December 31, 2015.

Allied Lines
Private Passenger Auto Liability

Private Passenger Automobile 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	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

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, Auto Club Group which owned one hundred percent (100%) of the common stock issued by the Company.

There were no 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
Robert Rundell Sharp	Tampa, Florida	Chairman
Edward James Fandel	Tampa, Florida	Senior Vice President, Auto Club South Insurance Company
Jack Terry McElroy	Dearborn, Michigan	Executive Vice President, Auto Club Group
Eduardo Diaz	Tampa, Florida	Florida Regional President, Auto Club Group
James Craig Santo	Tampa, Florida	President & Chief Executive Officer, Auto Club South Insurance Company

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
Sean Henry Maloney	Grosse Pointe, Michigan	Senior Vice President, Treasurer and Chief Financial Officer
Richard Thomas White	Naples, Florida	Senior Vice President, Secretary, General Counsel
Jennifer Aylward Wiedrick	Dade City, Florida	Vice President and Assistant Treasurer
Jamie Bryan Boutilier	Waxhaw, North Carolina	Vice President, Product Management
Landon Todd Dixon	Tampa, Florida	Vice President, Information Technology & Operations
Edward James Fandel	St. Petersburg, Florida	Senior Vice President
Marcia Lynn Hannewald	Arbor, Florida	Assistant Secretary

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
Robert Rundell Sharp ¹	Tampa, Florida	Chairman, Director, The Auto Club Group
John Tomlin	St. Petersburg, Florida	Retired CEO, Auto Club South Insurance Company
Larry Patrick	Seffner, Florida	Retired President and CEO, Auto Club Insurance Company of Florida Retired President, Auto Club South Insurance Company

¹ Chairperson

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

Audit Committee

Name	City, State	Title
Stephen Ewing ¹	Franklin, Michigan	Retired CEO of DTE
Edward E. McReynolds, Jr.	Oviedo, Florida	Retired Banker
Thomas E. O'Brien	Burnsville, North Carolina	Retired President and CEO of AAA Auto Club South
Catherine L. Ross	Atlanta, Georgia	Professor and Consultant

¹ Chairperson

Investment Committee

Name	City, State	Title
Carole. L Brown ¹	Chicago, Illinois	CFO, City of Chicago
William H. Bodenhamer, Jr.	Fort Lauderdale, Florida	Executive President and CEO
Thomas M. Hudson, Jr.	Nashville, Tennessee	Developer, Property Manager
William O. McCormack	Minnetonka, Michigan	Retired Executive, The Schwan Food Company
Robert Rundell Sharp	Tampa, Florida	Director, The Auto Club Group

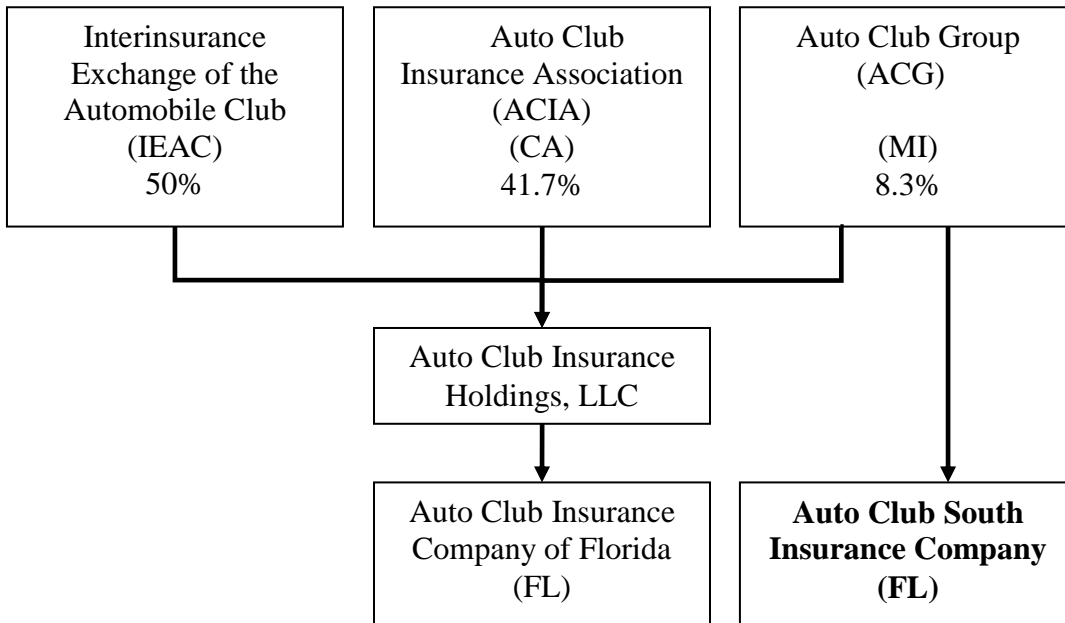
¹ Chairperson

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 South Insurance Company
Organizational Chart
December 31, 2015**



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

Tax Allocation Agreement

As a result of the merger of AAA Auto Club South, Inc. into the ACG during 2014, the intercompany tax sharing agreement was amended on December 1, 2014, to reflect ACG as the common parent of the group. As a result of the agreement, the Company, along with its parent and affiliates, file a consolidated federal income tax return. The method of allocation between a participant in the agreement and its parent is determined as if the entity filed a separate tax return. ACG will reimburse participants for net operating losses for the period in which the benefit is utilized. On a quarterly basis, estimated interim tax settlements are determined by ACG. Quarterly estimates must be settled within sixty (60) days of receiving the quarterly remittance. Additionally, within ninety (90) days of the filing of the consolidated federal income tax return, all intercompany tax balances are settled.

Administration Agreement

The Company had an administration agreement with Auto Club Insurance Company of Florida (ACICF), an affiliated company, effective September 25, 2006, and later amended, restated and effective June 1, 2007. Under the agreement, the Company 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 ACICF. 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.

Consulting Agreement

The Company had a consulting agreement with ACICF, an affiliated company, effective June 1, 2007. Under the agreement, ACICF 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 paid actual cost for these services.

Expense Sharing Agreement

The Company entered into an expense sharing agreement with ACG, and other affiliated entities, effective December 1, 2014. Under the agreement, expenses arising from centralized shared services and corporate management and support costs are apportioned between participating entities using cost allocation methods designed to reflect actual utilization. The agreement shall continue indefinitely until terminated by either party. The agreement may be terminated with sixty (60) days written notice. The Company paid actual cost for these services.

Management Services Agreement

The Company entered into a management services agreement with Auto Club Services, Inc. (ACS), an affiliate, effective January 1, 2013. Under the terms of the agreement, ACS provided marketing and promotional services, financial and operational services. 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 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 October 1, 2012. 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 (0.06%) 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 \$64,000 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 \$8,694,000 to ACGSA.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the States of Florida, Georgia and Tennessee.

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 ceded risk on a per risk excess of loss basis to General Reinsurance Corporation, an authorized reinsurer. The agreement provides personal liability excess of loss protection on homeowners' and automobile policies. The Company's retention under this agreement was \$500,000 per occurrence and the reinsurer's limit of liability was \$300,000 per occurrence and \$600,000 each year.

The Company ceded risk on an excess of loss basis to various participating reinsurers. The agreement provides personal liability excess of loss protection on homeowners' and automobile policies through two layers of cover. The Company's retention under the first layer of coverage was \$800,000 and the reinsurer's liability was \$5,200,000. The Company's retention under the second layer of coverage was \$6,000,000 with the reinsurer's limit of liability being equal to \$6,000,000 for each loss occurrence. The reinsurer's limit of liability for all loss occurrences during a contract year was \$12,000,000.

The Company ceded risk on an excess of loss basis to General Reinsurance Corporation, an authorized reinsurer. The agreement provides property coverage on homeowners' and automobile risks in the state of Georgia. The Company's retention is \$4,000,000 per loss occurrence and the reinsurer's liability was \$4,000,000 per loss occurrence and \$8,000,000 for all loss occurrences.

Additionally, the Company participates in the National Flood Insurance Program, managed by the Federal Emergency Management Agency for flood insurance.

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 April 1, 2013. 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 and 2012. The predecessor CPA Hacker, Johnson & Smith PA audited the Company's statutory basis financial statements for the year ended 2011. All audits were performed 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>\$ 375,000</u>	<u>\$ 514,238</u>
TOTAL FLORIDA DEPOSITS		\$ 375,000	\$ 514,238
GA	Wells Fargo Adv TR PI MM-Ins	<u>\$ 35,000</u>	<u>\$ 35,000</u>
TOTAL GEORGIA DEPOSITS		<u>\$ 35,000</u>	<u>\$ 35,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 410,000</u>	<u>\$ 549,238</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 South Insurance Company

Assets

December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Bonds	\$85,536,727		\$85,536,727
Common stocks	15,162,131		15,162,131
Cash and short-term investments	136,209		136,209
Investment income due and accrued	723,867		723,867
Premiums and considerations:			
Uncollected premium	504,857		504,857
Deferred premium	6,702,304		6,702,304
Reinsurance recoverable	1,631		1,631
Net deferred tax asset	2,005,085		2,005,085
Receivable from parent, subsidiaries and affiliates	14,234		14,234
Aggregate write-ins for other than invested assets	113,056		113,056
Totals	<u>\$110,900,100</u>		<u>\$110,900,100</u>

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

	Per Company	Examination Adjustments	Per Examination
Losses	\$23,242,355		\$23,242,355
Loss adjustment expenses	4,806,338		4,806,338
Other expenses	2,685,192		2,685,192
Taxes, licenses and fees	(84,161)		(84,161)
Current federal income taxes payable	393,178		393,178
Unearned premium	23,296,144		23,296,144
Advance premium	867,170		867,170
Ceded reinsurance premiums payable	20,663		20,663
Payable to parent, subsidiaries and affiliates	1,167,198		1,167,198
Total liabilities	56,394,076		56,394,076
Common capital stock	1,000,000		1,000,000
Gross paid in and contributed surplus	2,750,000		2,750,000
Unassigned funds	50,756,024		50,756,024
Surplus as regards policyholders	54,506,024		54,506,024
Total liabilities, surplus and other funds	\$110,900,100		\$110,900,100

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

Underwriting Income

Premiums earned		\$47,069,850
	Deductions:	
Losses incurred		33,184,052
Loss expenses incurred		4,054,976
Other underwriting expenses incurred		10,469,868
Total underwriting deductions		47,708,896
Net underwriting loss		(639,046)

Investment Income

Net investment income earned		2,572,926
Net realized capital gains		888,232
Net investment gain		3,461,157

Other Income

Net loss from agents' or premium balances charged off		(\$45,433)
Finance and service charges not included in premiums		139,880
Aggregate write-ins for miscellaneous income		20
Total other income		94,466
Net income before dividends to policyholders and before federal & foreign income taxes		2,916,577
Dividends to policyholders		-
Net Income, after dividends to policyholders, but before federal & foreign income taxes		2,916,577
Federal & foreign income taxes		(81,225)
Net income		\$2,997,802

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$53,315,851
Net income		2,997,802
Net unrealized capital gains or losses		(1,159,273)
Change in non-admitted assets		8,345
Change in deferred income tax		(656,700)
Change in surplus as regards policyholders for the year		1,190,173
Surplus as regards policyholders, December 31 current year		\$54,506,024

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

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

Capital/Surplus Change During Examination Period

Surplus at December 31, 2015, per Annual Financial Statement	\$54,506,024
Net increase (or decrease) Surplus at December 31, 2015, per examination	<u>\$0</u> <u>\$54,506,024</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 he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$54,506,024, exceeded the minimum of \$5,221,201 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 South Insurance Company** 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 \$54,506,024, which exceeded the minimum of \$5,221,201 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 Merlino & Associates, Inc. for participation in the examination. Members of the Office who participated in the examination included 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