



NC DEPARTMENT
of **INSURANCE**
MIKE CAUSEY, COMMISSIONER

COMPANY SERVICES GROUP
FINANCIAL EXAMINATION DIVISION

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I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina, do hereby certify that: I have caused to Atlantic Casualty Insurance Company, as of December 31, 2019, with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 21st day May 2021.



Mike Causey
Commissioner of Insurance

Ke Xu, CPA, CFE
Chief Financial Examiner
Financial Examination Division

Atlantic Casualty Insurance Company

Goldsboro, North Carolina

Report on Examination

As of December 31, 2019

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION	1
REPORT ACRONYMS	3
COMPANY HISTORY	4
Capital Stock	4
Dividends to Stockholder	4
MANAGEMENT AND CONTROL	5
Corporate Governance.....	5
Code of Conduct and Conflict of Interest.....	6
Corporate Records.....	6
Statutory Deposits	7
Fidelity Bonds and Other Insurance	7
Employee Benefits and Pension Plans	7
Related Party Agreements	7
TERRITORY AND PLAN OF OPERATION	8
Trends of the Company	8
Actuarial Opinion	8
REINSURANCE PROGRAM OVERVIEW	9
FINANCIAL STATEMENTS	10
COMMENTS ON FINANCIAL STATEMENTS	16
SUBSEQUENT EVENTS	20
DISTRIBUTION OF REPORT ON EXAMINATION	21
CONCLUSION	22

April 20, 2021

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

Atlantic Casualty Insurance Company

(hereinafter referred to as the “Company”), at its main administrative office and statutory home office located at 400 Commerce Court, Goldsboro, North Carolina 27534.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2015 to December 31, 2019, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was as of December 31, 2014.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

This examination was conducted in conjunction with a multi-state coordinated financial examination of nineteen insurance company subsidiaries of Auto-Owners Insurance Company. Michigan served as the Lead State, and Participating States included North Carolina, Delaware, California, Indiana, Maine, Nevada, New Hampshire, Ohio, and Vermont.

We conducted our examination in accordance with standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination 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 the Company'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 and the following key functional activities were identified:

Investments
Underwriting
Claims Handling and Actuarial Reserving
Reinsurance Ceding
Related Parties
Financial Reporting
Capital Management

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58, and evaluating management's compliance with Statutory Accounting Principles. This 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 from the Company's financial statements.

This examination report includes significant findings of fact, and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Johnson Lambert, LLP of Raleigh, North Carolina, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2019.

REPORT ACRONYMS

The following acronyms will be used throughout the report of examination:

Atlantic Casualty Insurance Company	“Company”
Auto-Owners Insurance Company	“Auto-Owners”
Auto-Owners Specialty Insurance Company	“AOSIC”
Board of Directors	“Board”
Financial Condition Examiners Handbook	“Handbook”
General Statutes of North Carolina	“GS”
National Association of Insurance Commissioners	“NAIC”
North Carolina Department of Insurance	“Department”
North Carolina Reinsurance Facility	“Facility”
Strickland Insurance Group, Inc.	"SIG"

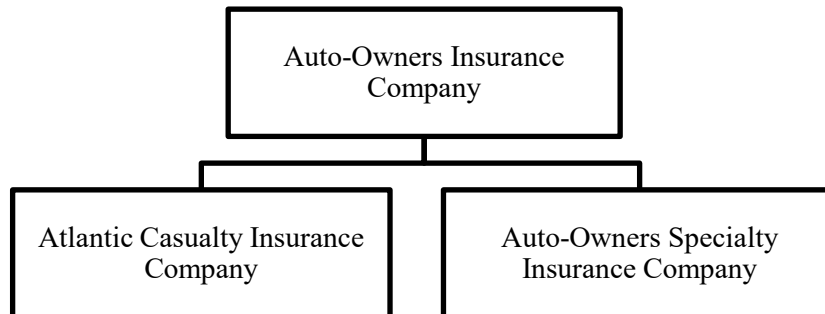
ORGANIZATIONAL STRUCTURE

The Company is part of an insurance holding company system as defined in GS § 58-19 and is a wholly owned subsidiary of Auto-Owners Insurance Company (“Auto-Owners”), a mutual insurance company domiciled in the State of Michigan.

Auto-Owners also directly or indirectly owns the following subsidiaries: Auto-Owners Life Insurance Company, Home-Owners Insurance Company, Owners Insurance Company, Property-Owners Insurance Company, Southern-Owners Insurance Company, the Company, Auto-Owners Specialty Insurance Company (“AOSIC”), Concord General Mutual Insurance Company, Green Mountain Insurance Company, Inc., State Mutual Insurance Company, Sunapee Mutual Fire Insurance Company, Vermont Accident Insurance Company, Inc., Bow Mutual Fire Insurance Company, Weare Mutual Fire Insurance Company, California Capital Insurance Company, Eagle West Insurance Company, Monterey Insurance Company, and Nevada Capital Insurance Company.

ORGANIZATIONAL CHART

The Company’s 2019 Annual Statement Schedule Y contains a complete organizational chart. The following is an excerpt of the holding company organizational chart which includes only the companies with related party transactions with the the Company as of December 31, 2019:



COMPANY HISTORY

The Company was incorporated in 1983 under the laws of North Carolina and commenced business in 1983 as a licensed property and casualty insurance company. The Company was a wholly owned subsidiary of Strickland Insurance Group, Inc. (“SIG”), a privately-owned company incorporated in the State of North Carolina. Effective January 1, 2016, 100% of the outstanding shares of SIG were acquired by Auto-Owners. On December 31, 2019, SIG, the direct parent of the Company was dissolved. All of the assets, excluding the outstanding shares of AOSIC, were transferred to the Company effective on that date.

CAPITAL STOCK

As of December 31, 2019, the Company’s capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,800,000
Par value per share	No par

No additional shares were issued during the period under examination. As of December 31, 2019, all outstanding shares are owned by Auto-Owners, a mutual insurance company.

At December 31, 2019, the Company reported \$74,535,736 in gross paid-in and contributed surplus and unassigned funds totaling \$121,731,221.

DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of Directors (“Board”) of the Company. Under the insurance regulations of North Carolina, the maximum amount of dividends, which the Company may pay to shareholders, is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. The Company did not distribute or declare any dividends to its shareholder during 2019 and 2018.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Board of Directors

The business of the Company is conducted by its management team and subject to review by the Board. The bylaws specify that the number of directors shall be not less than three (3) and no more than eleven (11). Directors are elected annually, at the annual meeting of shareholders or by the written consent of the stockholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors at December 31, 2019:

Name	Location	Principal Occupation
Robert Wyatt Strickland	Goldsboro, NC	Vice Chairman
Christopher Bret Strickland	Goldsboro, NC	President and Chief Executive Officer
William Glenn Reynolds	Goldsboro, NC	Retired
Theodore William Reinbold	Grand Rapids, MI	Senior Vice President, Auto-Owners
Jeffrey Scott Tagsold	Manitou Beach, MI	Chairman and Chief Executive Officer, Auto-Owners
Caroline Dale Muller	North Myrtle Beach	Executive Vice President, Auto-Owners
William Finch Woodbury	Dewitt, MI	First Vice President, Auto-Owners
Lori Ann McAllister	Lansing, MI	General Counsel, Dykema
Gregory Andrew Ricker	Goldsboro, NC	Executive Vice President
Lester Paul Aycock	Goldsboro, NC	Executive Vice President
Daniel Jerome Thelen	Dewitt, MI	President, Auto-Owners

The bylaws provide that the Board may create an Executive Committee and other committees of the Board and appoint members of the Board to serve on them. The Company designated the Audit Committee of its parent company, Auto-Owners, to serve as its Audit Committee to provide group level oversight.

The following individuals served on committees at December 31, 2019:

Audit Committee

Mark Hooper – Chair
Terri Miller
Lori McAllister
Cheri Pero

Executive Committee

Jeff Tagsold - Chair Bret Strickland
Bill Woodbury Ted Reinbold
Carolyn Muller Dan Thelen

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company shall consist of a Chairman of the Board, Chief Executive Officer, Chief Financial Officer, President, Secretary, Treasurer, one or more Vice Presidents including Executive Vice Presidents and Senior Vice Presidents, and such Assistant Secretaries and Assistant Treasurers and other officers as may from time to time be appointed by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices may be held by the same person, but no officer may act in more than one (1) capacity where action of two (2) or more officers is required.

The following individuals served as officers of the Company at December 31, 2019:

Name	Title
Christopher Bret Strickland	President and Chief Executive Officer
Stephen Michael Westfield	Chief Financial Officer and Treasurer
William Finch Woodbury	Corporate Secretary
Lester Paul Aycock	Executive Vice President, Agency Services
Gregory Andrew Ricker	Executive Vice President, Operations
Jennifer McGowan Cunningham	Vice President, Controller
Christopher Travers Stratton	Senior Vice President, IT
Timothy Patrick Martin	Chief Underwriting Officer
Brian Lee Schwarzbach	Senior Vice President, Casualty Underwriting

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed that the Company acted in accordance with its policy and procedures for disclosure of conflicts of interest.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's articles of incorporation and bylaws were reviewed for any changes during the period under examination. The minutes of the meetings held by the Board and its committees were reviewed for the period under examination. The bylaws were amended during the examination period to increase the number of the Board members from ten (10) to a maximum of eleven (11) and to remove the title of Chief Operating Officer from the officers category. There were no changes to the articles of incorporation during the examination period.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2019 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state.

FIDELITY BONDS AND OTHER INSURANCE

The Company is a named insured under a fidelity bond issued to Auto-Owners with coverage totaling \$5,000,000 in aggregate. The coverage exceeds the minimum amount of fidelity bond coverage recommended by the Handbook for Auto-Owners on a consolidated basis.

In addition, the Company is a named insured on various corporate property and liability policies issued to Auto-Owners, which appears to be adequate to cover risks in the normal course of business.

EMPLOYEE BENEFITS AND PENSION PLANS

Prior to December 31, 2019, SIG sponsored a defined contribution 401(k) profit sharing plan covering substantially all employees. SIG contributed up to 4% of the annual cash compensation of eligible employees depending upon their individual contribution rates. The Company's allocated share of this savings plan expense amounted to \$348,892 for 2019. The Company has no legal obligation for benefits under this plan. As of December 31, 2019, the Company became the plan sponsor.

RELATED PARTY AGREEMENTS

Management Services Agreements

During the examination period, management services were provided to the Company through a management services agreements between Auto-Owners, SIC and the Company that became effective when SIG was acquired January 1, 2016. Pursuant to this agreement, Auto-Owners provided services to SIG who then billed the Company and AOSIC based on which entity utilized the service. Services and expenses covered by the management agreements include acquisition costs, computer services, employee services, and miscellaneous general operating expenses. The Company reimbursed SIG for the fees SIG paid to Auto-Owners on the Company's behalf and for services provided by SIG. The management fee paid to SIG was approximately \$20,959,668 and \$17,148,012 in 2019 and 2018, respectively. The claims adjustment fee paid by the Company was approximately \$5,324,670 and \$4,592,808 in 2019 and 2018, respectively.

Effective with the dissolution of SIG on December 31, 2019, the Company entered into a new management agreement with Auto-Owners whereby Auto-Owners will provide the following services to the Company: sales, advertising and marketing, policy underwriting, future claim handling and settlement, actuarial services, accounting services, legal, systems and programming, human resources, real estate, and development and acquisition. There were no fees incurred under this agreement in 2019.

Effective December 31, 2019, the Company entered into a separate management agreement with AOSIC whereby the Company will provide to AOSIC the following services: executive administration, sales,

advertising, marketing, policy underwriting, claim handling and settlement, accounting, systems and programming, and purchasing supplies. There were no fees incurred under this agreement in 2019.

Tax Allocation Agreement

The Company's federal income tax return is consolidated with SIG, AOSIC, Auto-Owners, and Auto-Owners' affiliates who have a written agreement to file a consolidated federal tax return whereby allocation is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. The provision for current income taxes is reported in the statutory basis statement of operations while any change in net deferred income tax assets or liabilities is credited or charged to unassigned funds. Balances due to or from Auto-Owners and SIG are settled within thirty days of month end under the terms of the various intercompany agreements. The Company's tax allocation paid to Auto-Owners was approximately \$6,775,897 and \$5,879,100 in 2019 and 2018, respectively.

TERRITORY AND PLAN OF OPERATION

The Company is primarily a surplus lines carrier underwriting commercial property and casualty coverages using general agents across the country. The Company is eligible to write on a non-admitted basis in the District of Columbia and all states except for North Carolina, where it is admitted. The Company is also an accredited reinsurer in North Dakota. The Company writes approximately 53% of its premiums in six states, which are New York, Texas, North Carolina, Florida, Georgia and California. Commercial auto insurance written in North Carolina, on an admitted basis, is marketed through Strickland Insurance Brokers, Inc., a former affiliate.

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended December 31, 2019:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Written Premiums	Net Income
2019	\$466,344,621	\$198,066,957	\$189,958,037	\$162,688,770	\$19,005,896
2018	\$387,496,439	\$177,734,805	\$139,716,689	\$113,661,932	\$19,373,200
2017	\$286,443,261	\$108,824,309	\$108,280,273	\$84,423,432	\$5,384,132
2016	\$263,648,721	\$99,481,820	\$101,502,224	\$74,165,546	\$8,673,456
2015	\$249,675,149	\$87,787,505	\$100,563,276	\$72,081,215	\$6,090,215

ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2019 were reviewed and certified by the Company's Appointed Actuary, Andrew J. Schupska, FCAS, MAAA, of Auto-Owners Insurance Company. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserves on loss and loss adjustment expenses met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company.

REINSURANCE PROGRAM OVERVIEW

Internal Reinsurance

The Company cedes business to its parent company, Auto-Owners, through a reinsurance contract effective January 1, 2019, providing certain excess limit reinsurance coverage. Among other benefits, these reinsurance arrangements provide the Company with the capacity to write larger risks. The Company has casualty excess of loss and property excess of loss reinsurance contracts to minimize its exposure to losses. In addition, Auto-Owners assumes 100% of equipment break down and certified terrorism business.

The Company cedes property and liability business under an excess of loss contract as follows:

- \$400,000 in any one property loss occurrence, retained losses limited to 10 maximums to be 100% ceded to the reinsurers.
- \$1,000,000 per catastrophe property loss occurrence, retained losses limited to 4 maximums to be 100% ceded to the reinsurers.
- \$400,000 per risk all other liability or fidelity loss occurrence, retained losses limited to 20 maximums to be 100% ceded to the reinsurers.
- \$750,000 per commercial auto liability loss occurrence.

The Company is under the group catastrophe reinsurance contract covering all members of Auto-Owners. Recovery is in relation to the Company's share of its retained losses to the total of the group. The reinsurance rate is 5% of the 100% property net earned premiums.

In 2019, the Company ceded premiums totaling \$13,828,358 to Auto-Owners.

External Reinsurance

The Company cedes 100% of its auto business written in North Carolina to the North Carolina Reinsurance Facility ("Facility") and the Company remains contingently liable for its proportionate share of the Facility's unfunded losses for each policy year.

The Facility was created by the North Carolina General Assembly in 1973 and is a non-profit, unincorporated legal entity comprising all licensed insurers writing motor vehicle liability insurance (or any component thereof) in North Carolina. It was established to assure the availability of motor vehicle liability insurance to any eligible risk by accepting all placements made by members in accordance with law. The law further provides that member companies of the Facility shall, following payment of any pro-rata assessment for losses and expenses, commence recovery of that assessment by way of surcharges on

motor vehicle liability insurance policies issued by the member or through the Facility. As a member of the Facility, the Company is guaranteed under the law to recover or be reimbursed for all assessments within a period not to exceed two and one-half years. The Company ceded premiums totaling \$13,407,915 to the Facility in 2019.

The Company ceded \$32,994 to various external reinsurers under previous reinsurance contracts that are in runoff.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2018, are unexamined and are presented for comparative purposes only.

Atlantic Casualty Insurance Company
Statutory Statement of Admitted Assets
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Bonds	\$ 356,266,982	\$300,739,148
Preferred stocks	972,809	937,180
Common stocks	29,198,873	32,619,847
Cash and short-term investments	36,357,542	17,340,055
Other invested assets	2,424,728	4,973,420
Receivables for securities	3,923	5,378
Total cash and invested assets	425,224,857	356,615,028
Investment income due and accrued	2,902,309	2,861,306
Premiums and agents' balances in course of collection	20,243,355	12,234,474
Deferred premiums, agent balances, and installments booked but deferred and not yet due	10,855,548	8,412,552
Reinsurance recoverable	2,256,840	3,320,157
Net deferred tax asset	4,682,914	4,049,362
Electronic data processing equipment and software	145,206	-
Miscellaneous receivable	33,592	3,560
Total admitted assets	\$466,344,621	\$387,496,439

Atlantic Casualty Insurance Company
Statutory Statement of Liabilities, Capital, and Surplus
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Losses	\$101,416,222	\$79,455,905
Loss adjustment expense	63,686,536	60,061,798
Commissions payable, contingent commissions and other similar charges	5,780,587	5,013,281
Other expenses	6,898,682	32,628
Taxes, licenses and fees	695	16,365
Federal income tax liability	3,405,485	1,867,404
Unearned premiums	83,265,883	57,685,701
Ceded reinsurance premiums payable	3,053,801	2,870,692
Provision for reinsurance	440,370	141,663
Payable to parent, subsidiaries and affiliates	323,864	2,564,656
Miscellaneous liabilities	5,540	-
Payable for reinsurance profit commission	-	51,540
Total Liabilities	268,277,665	209,761,634
Common capital stock	1,800,000	1,800,000
Gross paid in and contributed surplus	74,535,736	75,845,618
Unassigned funds	121,731,221	100,089,187
Total capital and surplus	198,066,957	177,734,805
Total Liabilities, Capital and Surplus	\$466,344,621	\$387,496,439

Atlantic Casualty Insurance Company
Statutory Statement of Operations
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Underwriting Income		
Premiums Earned	\$140,544,589	\$110,870,723
Losses incurred	54,425,643	34,675,584
Loss adjustment expenses incurred	17,848,421	12,987,077
Other underwriting expenses incurred	58,333,981	45,296,058
Total underwriting deductions	130,608,045	92,958,719
Net underwriting gain (loss)	9,936,544	17,912,004
Investment Income		
Net investment income earned	11,019,234	7,332,340
Net realized capital gains (losses)	3,788,004	(154,910)
Net investment gain (loss)	14,807,237	7,177,430
Other Income		
Net gain from agents' or premium balances charged off	29,957	196,090
Miscellaneous income	1,117	7,955
Total other income	31,073	204,045
Federal income tax incurred	5,768,959	5,920,279
Net Income	\$19,005,896	\$19,373,200

Atlantic Casualty Insurance Company
Statutory Statement of Capital and Surplus
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Capital and surplus, beginning of year	\$177,734,805	\$108,824,309
Capital and surplus increases (decreases):		
Net income	19,005,896	19,373,200
Change in net unrealized capital gain (loss)	3,955,459	(1,166,236)
Change in net deferred income tax	1,685,001	1,836,959
Change in non-admitted assets	(2,705,615)	(991,764)
Change in provision for reinsurance	(298,706)	(141,663)
Dividends to stockholders/transfer to capital	(1,309,882)	50,000,000
Change in surplus as regards policyholders for the year	20,332,152	68,910,496
Capital and surplus, end of year	\$198,066,957	\$177,734,805

Atlantic Casualty Insurance Company
Statutory Statement of Cash Flow
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Cash From Operations		
Premiums collected net of reinsurance	\$155,461,804	\$113,586,242
Net investment income	13,613,343	9,915,108
Miscellaneous income	31,073	204,045
Total	169,106,220	123,705,395
Benefit and loss related payments	31,402,010	23,133,597
Commissions, expenses paid and aggregate write-ins	64,634,970	54,880,207
Federal income taxes paid	5,237,816	4,211,627
Total	101,274,796	82,225,431
Net cash from operations	67,831,424	41,479,964
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	77,406,585	33,704,310
Cost of investments acquired	119,832,184	122,730,562
Net cash from (used by) investments	(42,425,599)	(89,026,252)
Cash From (Used By) Financing and Miscellaneous Sources		
Capital and paid in surplus, less treasury stock	(1,309,882)	50,000,000
Other cash (applied)	(5,078,456)	1,838,605
Net cash from (used by) financing and miscellaneous sources	(6,388,337)	51,838,605
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	19,017,487	4,292,317
Cash and short-term investments, beginning of year	17,340,055	13,047,738
Cash and short-term investments, end of year	\$36,357,542	\$17,340,055

COMMENTS ON FINANCIAL STATEMENTS

There were no changes to the Company's financial statements and there were no proposed adjustments to surplus as a result of this examination.

Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost or fair value based on their NAIC rating.

Common stocks: Carried at fair value.

Preferred stocks: Investment grade perpetual preferred stocks are stated at fair value. Investment grade redeemable preferred stocks are stated at cost. Preferred stock at non-investment grade is stated at the lower of cost or fair value.

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Premiums: Earned over the policy period and reduced for reinsurance ceded.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

Non-admitted assets: Certain assets, such as premiums over 90 days past due, and net deferred tax assets are "non-admitted" and are charged against surplus.

Unpaid loss & loss adjustment expense: Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

Analysis of Assets:

The following represents an analysis of the Company's net admitted assets as of December 31, 2019:

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$356,266,982	\$ -	\$356,266,982
Preferred stocks	972,809	-	972,809
Common stocks	29,198,873	-	29,198,873
Cash and short-term investments	36,357,542	-	36,357,542
Other invested assets	2,424,728	-	2,424,728
Receivable for securities	3,923	-	3,923
Total cash and invested assets	425,224,857		425,224,857
Investment income due and accrued	2,902,309	-	2,902,309
Premiums and agents' balances in course of collection	21,012,157	768,802	20,243,355
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	12,061,720	1,206,172	10,855,548
Reinsurance recoverable	2,256,840	-	2,256,840
Net deferred tax assets	4,682,914	-	4,682,914
Electronic data processing equipment and software	1,384,402	1,239,196	145,206
Furniture and equipment	724,504	724,504	-
Miscellaneous receivable	33,592	-	33,592
Prepaid expenses and lease deposit	347,717	347,717	-
Total admitted assets	\$470,631,012	\$4,286,391	\$466,344,621

Reinsurance Activity:

The Company has excess of loss reinsurance contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders and failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company does not utilize a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct and ceded premiums written and earned are as follows:

	2019	2018 <i>(unexamined)</i>
Direct written	\$ 189,958,037	\$139,716,689
Ceded written	27,269,266	26,054,757
Net written	162,688,771	113,661,932
Direct earned	168,009,235	136,671,511
Ceded earned	27,464,646	25,800,788
Net earned	\$ 140,544,589	\$ 110,870,723

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described under the Reinsurance Program Overview.

Summary of Reserves:

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	2019	2018 <i>(unexamined)</i>
Reserve for losses and loss adjustment expenses, beginning of year	\$139,517,703	\$128,389,061
Add:		
Provision for losses and loss adjustment expenses, current year	80,708,000	53,767,000
Change in estimated losses and loss adjustment expenses, prior years	(8,433,936)	(6,104,339)
Total incurred	72,274,064	47,662,661
Deduct:		
Losses and loss adjustment expenses paid, current year	15,235,000	9,357,000
Losses and loss adjustment expenses paid, prior year	31,591,160	27,068,921
Total paid	46,826,160	36,425,921
Change in unearned claims allowance	137,151	(108,098)
Reserve for losses and loss adjustment expenses, end of year	\$165,102,758	\$139,517,703

The Company reduced reserves by anticipated salvage and subrogation of \$413,745 and \$270,146 at December 31, 2019 and 2018, respectively.

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2019 and 2018, the liability for losses and loss adjustment expenses was reduced by \$54,427,906 and \$54,809,133, respectively, for amounts to be recovered from reinsurers.

Capital and Surplus:

The following, in conjunction with the Statutory Statement of Capital and Surplus represents the changes in capital and surplus since the Department's last examination:

	2017 <i>(unexamined)</i>	2016 <i>(unexamined)</i>	2015 <i>(unexamined)</i>
Capital and surplus, beginning of year	\$99,481,820	\$87,787,506	\$85,678,319
Capital and surplus increases (decreases):			
Net income	5,384,132	8,673,456	6,090,216
Change in net unrealized capital gain (loss)	4,497,052	2,073,972	(998,835)
Change in net deferred income tax	(1,565,723)	148,981	(272,638)
Change in non-admitted assets	612,149	1,101,629	(598,401)
Change in provision for reinsurance	414,879	(303,724)	(111,155)
Dividends to stockholders	-	-	(2,000,000)
Change in surplus as regards policyholders for the year	9,342,489	11,694,314	2,109,187
Capital and surplus, end of year	\$108,824,309	\$99,481,820	\$87,787,506

Contingencies and Commitments:

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop throughout 2020, 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 examination's review of the Company noted that there has not been a significant impact to the Company, primarily due to the Auto-Owners Capital Modeling stress tests demonstrating sufficient capital during this type of event. The Lead State of the coordinated examination, Michigan Department of Insurance and Financial Services, has been in communication with Auto-Owners and its subsidiaries regarding the impact of COVID-19 on its business operations and financial position including its Business Continuity Plan during the examination. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

The Company cedes business to its parent company, Auto-Owners, through a reinsurance contract which was amended effective January 1, 2020, with changes to certain excess of loss limits.

Effective January 1, 2020, the Company ceded property and liability business to Auto-Owners under an excess of loss contract as follows:

- \$500,000 in any one property loss occurrence, retained losses limited to 10 maximums to be 100% ceded to the reinsurers.
- \$1,000,000 per catastrophe property loss occurrence, retained losses limited to 4 maximums to be 100% ceded to the reinsurers.
- \$500,000 per risk all other liability or fidelity loss occurrence, retained losses limited to 23 maximums to be 100% ceded to the reinsurers.

Effective February 1, 2021, Brandi E. Holly was elected to the Board succeeding Daniel J. Thelen who retired from the Company.

Atlantic Casualty Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2019

Jeffrey Tagsold, Chairman and Chief Executive Officer
Auto-Owners Insurance Company
6101 Anacapri Boulevard
Lansing, Michigan 48917

Stephen M. Westfield, Chief Financial Officer
400 Commerce Court
Goldsboro, North Carolina 27534

Robert W. Strickland, Vice Chairman
400 Commerce Court
Goldsboro, North Carolina 27534

C. Bret Strickland, President and Chief Executive Officer
400 Commerce Court
Goldsboro, North Carolina 27534

Brian Crown, Assistant Vice President and Auditor
Auto-Owners Insurance Company
6101 Anacapri Boulevard
Lansing, Michigan 48917

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$2,250,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

April 20, 2021

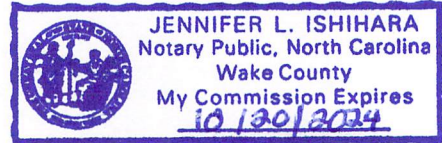
STATE OF NORTH CAROLINA

COUNTY OF WAKE

Keith Greene, Examination Supervisor, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: Keith Greene Date: 4/20/2021
Keith Greene

Sworn and subscribed before me this 20th day of April 2021.



Notary Public Signature: Jennifer L. Ishihara Notary Public Seal: