



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 Carolina Motor Club Group, 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 16th day April 2021.



Mike Causey
Commissioner of Insurance

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

Carolina Motor Club Group

Charlotte, North Carolina

Multi-Entity Report on Examination

As of December 31, 2019

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March 10, 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 the following insurance subsidiaries of Carolina Motor Club, Inc. (“CMC”):

**Universal Insurance Company (“UIC”)
The Members Insurance Company (“TMIC”)**

(hereinafter referred to as the “Carolina Motor Club Group” or “CMC Group”). The main administrative and statutory home office of UIC is located at 770 Highland Oaks Drive, Winston-Salem, North Carolina 27103. The main administrative office and statutory home office of TMIC is located at 6623 Executive Circle, Charlotte, North Carolina 28212.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of each insurance company within the CMC Group. 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 examinations of UIC and TMIC were as of December 31, 2014.

The purpose of this examination is to review and evaluate the CMC Group’s business processes and controls to assist in accessing and monitoring its current financial condition and prospective solvency. Pursuant to Section (“§”) 58-2-132 of the General Statutes of North Carolina (“GS”), this Report on Examination comprises only facts appearing in the books, records, or other documents of the CMC Group (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

This was a coordinated financial examination of the two (2) insurance company subsidiaries of CMC Group. North Carolina served as the Lead State, and there were no Participating States.

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 CMC Group, 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 CMC Group were considered in accordance with the Handbook risk-focused surveillance process and the following key functional activities were identified:

Investing
Capital Adequacy and Liquidity
Premiums and Underwriting
Pricing Adequacy
Reserves Adequacy
Reserve Data and Claims Handling
Reinsurance Ceded
Related Party

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.

This examination report includes significant findings of fact and general information about the insurer 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 are separately communicated to the CMC Group.

CMC Group Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. Trial balance reconciliations of the Annual Statements were 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 CMC Group's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from the CMC Group's management.

The books and records of the CMC Group are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Strohm Ballweg, LLP of Middleton, Wisconsin the designated independent public accountant of the CMC Group, issued an unmodified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2019, for the companies within CMC Group.

REPORT ABBREVIATIONS

American Auto Club Insurance Agency, LLC	“AACIA”
Annual Statement	“AS”
Board of Directors	“Board”
Carolina Motor Club, Inc.	“CMC”
Carolina Motor Club Group	“CMC Group”
North Carolina Department of Insurance	“Department”
Financial Condition Examiners Handbook	“Handbook”
General Statutes of North Carolina	“GS”
North Carolina Administrative Code	“NCAC”
National Association of Insurance Commissioners	“NAIC”
North Carolina Reinsurance Facility	“NCRF”
The Members Insurance Company	“TMIC”
The Seibels Bruce Group, Inc.	“Seibels”
TMIC Holdings, LLC	“TMIC Holdings”
TMIC Specialty Insurance Company, Ltd.	“TMIC Specialty”
Universal Insurance Company	“UIC”

SUMMARY OF SIGNIFICANT FINDINGS

Comments, Recommendations and Directives

1. UIC and TMIC did not provide evidence that the Board of Directors (“Board”), or the Investment Committee of the Board, authorizes or approves its investment transactions in the meeting minutes in compliance with GS § 58-7-168 for the period under examination. This is an unremediated prior examination finding from the 2014 Report on Examination of UIC. UIC and TMIC are directed to comply with GS § 58-7-168 and document the Board’s approval of the investment transactions in the meeting minutes. Furthermore, it is recommended that UIC ensure that all prior examination findings are fully remediated going forward. It was noted that the UIC and TMIC Investment Committee approved the subsequent investment transactions for calendar year 2020.
2. TMIC is in violation of GS §58-3-105 which prohibits insurers from exposing itself to any one risk exceeding 10% of surplus. TMIC has a single risk exposure of \$2,575,000 as of December 31, 2019. TMIC is directed to comply with G.S. §58-3-105. The Department noted that TMIC subsequently obtained reinsurance for this particular risk exposure to reduce its exposure on a net basis. (Refer to the Subsequent Events)
3. UIC was in violation of GS §58-2-162 and 163 which requires reporting acts of employee embezzlement to the Commissioner. During the period of August 20, 2018 through January 15, 2019, an employee misappropriated for personal use a total of \$5,012 in cash receipts from policyholders which were intended for deposit at the bank and falsified the corresponding bank account reconciliations. Based on our review, the misappropriation was detected by UIC and reported internally to legal counsel and human resources in a timely manner. The employee was terminated from employment on January 16, 2019. UIC is directed to report fraudulent acts to the Commissioner pursuant to GS §58-2-162 and 163.
4. There is no evidence of the election of directors by the shareholder of UIC and TMIC in the minutes of the annual shareholder meetings pursuant to the respective bylaws of each legal entity for the period under examination. UIC and TMIC are directed to comply with their bylaws by formally electing the directors of the Board during their annual shareholder meetings and record the election in the Shareholder meeting minutes.

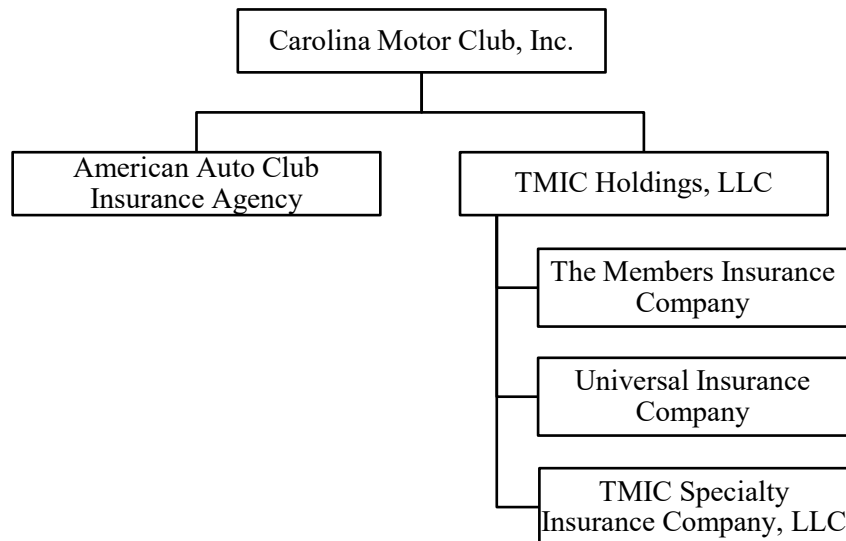
ORGANIZATIONAL STRUCTURE

The companies within the CMC Group are part of an insurance holding company system as defined in GS § 58-19 and are wholly owned subsidiaries of TMIC Holdings, LLC (“TMIC Holdings”), a North Carolina corporation. TMIC Holdings owns 100% of all outstanding shares of UIC and TMIC. TMIC Holdings is a wholly-owned subsidiary of CMC, a North Carolina corporation, doing business as American Automobile Association of the Carolinas. TMIC Specialty Insurance Company, LLC (“TMIC Specialty”) is captive reinsurer domiciled in North Carolina which assumes business from its affiliates. CMC is the ultimate controlling person within the holding company system. CMC is headquartered in Charlotte, North Carolina.

There was no merger and acquisition activity during the period under examination, however, CMC was acquired by The Auto Club Group, domiciled in Michigan, on January 1, 2020. (Refer to the Subsequent Events)

ORGANIZATIONAL CHART

The following is a summarized organizational chart of the CMC Group holding company system as of December 31, 2019:



INDIVIDUAL COMPANY HISTORY

UIC

UIC was incorporated on June 15, 1976, under the laws of North Carolina, and commenced business on July 1, 1976. The Company commenced business on July 1, 1976, with 500,000 shares of \$1 par value capital common stock authorized. The Company issued 400,000 shares of its common stock to Bruce MacFaden Enterprises, Inc., at \$2.00 per share on December 31, 1977. On December 8, 1980, the Company amended its charter to increase the number of authorized shares of \$1 par value capital common stock to 1.0 million shares and issued a stock dividend of 100,000 shares on December 17, 1980. The Company issued another stock dividend of 300,000 shares on December 15, 1982, and became a stock property and casualty insurance company on October 13, 1983, with 800,000 shares of capital common stock issued and outstanding. On December 11, 1986, the Company issued a stock dividend for the remaining 200,000 shares of authorized common stock and, on December 23, 1986, all of the Company's outstanding capital stock was acquired by The Innovative Company.

On December 28, 1990, the Company issued a \$1.0 million certificate of contribution bearing interest at the rate of 10% to The Innovative Company, its sole shareholder, who subsequently forgave the debt in 1994. On March 23, 1992, the Company amended its charter to increase the number of authorized shares of \$1 par value common stock to 1.8 million shares and issued a stock dividend of 800,000 shares on March 31, 1992. The Company received additional surplus contributions from The Innovative Company in 1993, 1994 and 1996, which increased the Company's gross paid in and contributed surplus to \$4.5 million at December 31, 1996.

On December 1, 1997, The Seibels Bruce Group, Inc. ("Seibels"), a publicly traded holding company incorporated in the state of South Carolina, purchased all outstanding capital stock of the Company and contributed an additional \$1,550,000 to paid-in surplus. Seibels, which is controlled by a majority shareholder, directly or indirectly owns all of the stock of Catawba Insurance Company, Seibels Bruce & Company and Insurance Network Services, Inc.

Effective February 27, 2004, Seibels became a privately held Company. In 2009 and 2011, Seibels contributed paid-in surplus in the amount of \$1,350,000 and \$751,500, respectively, in order to strengthen the Company's surplus position.

On January 31, 2012, Seibels sold the Company to TMIC Holdings and effective January 1, 2012, the Company became a subsidiary of CMC in an all-cash transaction and CMC contributed an additional \$3.0 million to the Company's paid-in surplus.

TMIC

TMIC was incorporated and commenced business on July 15, 2006, under the laws of North Carolina.

CAPITAL STOCK

As of December 31, 2019, capitalization of the individual companies consisted of the following:

UIC

Description	Value
Number of authorized common capital shares	1,800,000
Number of shares issued and outstanding	1,800,000
Total common capital stock	\$1,800,000
Par value per share	\$1

No additional shares of UIC were issued during the period under examination. As of December 31, 2019, all outstanding shares of UIC were owned by TMIC Holdings. At December 31, 2019, UIC reported \$20,151,500 in gross paid-in and contributed surplus, and unassigned funds totaling \$(11,281,751).

TMIC

Description	Value
Number of authorized common capital shares	1,800,000
Number of shares issued and outstanding	1,800,000
Total common capital stock	\$1,800,000
Par value per share	\$1

No additional shares of TMIC were issued during the period under examination. As of December 31, 2019, all outstanding shares of TMIC were owned by TMIC Holdings. At December 31, 2019, TMIC reported \$15,030,000 in gross paid-in and contributed surplus, and unassigned funds totaling \$626,617.

DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of each insurance company in the CMC Group. Under the insurance regulations of North Carolina, the maximum amount of dividends which the CMC Group 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. UIC and TMIC paid no dividends during the examination period.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

The companies within the CMC Group have the same directors and principal officers. The companies occupy the same home office space and share accounting systems and personnel. All personnel are employees of CMC.

Shareholders

The bylaws for each insurance company in the CMC Group provide that all meetings of shareholders shall be held at the principal office of the Corporation, or at such other place, either within or without the State of North Carolina, as shall be designated in the notice of the meeting or as may be agreed upon by a majority of the shareholders entitled to vote at the meeting. The annual meeting of the shareholders shall be held for the purpose of the election of directors of the Corporation and for the transaction of such other business as properly may be brought before the shareholders. Special meetings of the shareholders may be called at any time by the Board or the President. The annual shareholder meetings minutes do not include evidence of the election of directors for the period under examination. (Refer to the Summary of Significant Findings).

Board of Directors

The business of each insurance company in the CMC Group is conducted by its management team and is subject to review by the Board. The bylaws for UIC and TMIC specify that the number of directors shall not be less than three (3) or more than twelve (12). Directors are elected annually, at the annual meeting of shareholders or by the written consent of shareholders, and each director elected shall hold office until a successor is elected and qualified.

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

Name	Location	Principal Occupation
David Earl Parsons	Charlotte, NC	Chief Executive Officer - CMC
Henry James McCafferty	Charlotte, NC	President - CMC
Heidi Ann Shimp-Fava	Charlotte, NC	Director of Budget and Financial Analysis - CMC
Michael Shawn Cherry	Waxhaw, NC	Chief Financial Officer - CMC
James Speed	Raleigh, NC	Retired - Independent Director

The Board has the authority to establish committees including, but not limited to, an Audit Committee and an Investment Committee. UIC and TMIC each have established separate Audit and Investment Committees, which are composed of the same individuals and operate in joint session.

The following individuals served on Board committees as of December 31, 2019:

Audit Committee

James Speed, Chair
David Earl Parsons
Henry James McCafferty

Investment Committee

Michael Shawn Cherry, Chair
David Earl Parsons
Henry James McCafferty

Officers

The bylaws provide that the Board will elect the officers, which shall consist of a president, secretary, treasurer and any other officers deemed necessary. 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 capacity where action of two or more officers is required.

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

Name	Title
Henry James McCafferty	President
Michael Shawn Cherry	Vice President – Finance
Heidi Ann Shimp-Fava	Secretary/Treasurer
Kevin Todd Roberson	Assistant Vice President
Joanne Marinaro	Assistant Vice President
Stephen Simmons	Assistant Vice President
Kimberly Smith	Assistant Vice President

CODE OF CONDUCT AND CONFLICT OF INTEREST

The CMC Group has established policies and procedures to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the CMC Group 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 CMC Group 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 CMC Group’s significant transactions and events, and that the directors approved these transactions and events, except for the approval of investment transactions as required by GS § 58-7-168. (Refer to the Summary of Significant Findings).

The articles of incorporation and bylaws were reviewed for any changes during the period under examination. There have been no changes to any of the articles of incorporation or bylaws for the companies within the CMC Group during the period under examination.

STATUTORY DEPOSITS

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

ACCOUNTS AND RECORDS

The CMC Group's books and records are maintained at its corporate headquarters and main administrative office located at 6600 AAA Drive Charlotte, North Carolina 28212.

The CMC Group utilizes information systems to sell products to customers, to establish service and maintain customer policies, as well as to gather and report financial data. The environment for internal controls over financial reporting is highly automated and includes application controls and system generated reports supporting its financial reporting functions. Significant applications are hosted on multiple servers at the data center located in Charlotte, North Carolina. The majority of the CMC Group's financially significant applications were purchased and customized internally by its information technology staff and IT service provider vendors.

FIDELITY BONDS AND OTHER INSURANCE

The insurance companies in the CMC Group are named insureds under a fidelity bond which provides CMC and its subsidiaries with coverage totaling \$1,000,000 in aggregate. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for the CMC Group on a consolidated basis.

In addition, the insurance companies in the CMC Group are named insureds and covered by various corporate property and liability policies issued to CMC, which appeared to be adequate to cover risks in the normal course of business.

EMPLOYEE BENEFITS AND PENSION PLANS

The insurance companies in the CMC Group have no direct employees, and operations are conducted by CMC pursuant to a related party administrative services agreement. Employee benefit plans are administered through CMC, and UIC and TMIC have no legal obligation for employee benefits. UIC and TMIC are allocated a share of the expenses pursuant to the administrative services agreements.

RELATED PARTY AGREEMENTS

Pursuant to various agreements, services such as financial management, operational management, accounting, payroll, internal audit, human resources management, tax, legal, investment advisory, and data processing are provided for or by the CMC Group and its affiliates as follows:

Administrative Service Agreement

Effective October 1, 2006, and amended November 13, 2007, TMIC entered into an Administrative Service Agreement with CMC; whereby, CMC will provide TMIC with ancillary administrative services,

administrative, marketing support, tax or financial, legal, data processing, human resources, real estate, purchasing, risk management, communications, governmental relations, and maintenance services. Under this agreement, TMIC paid administrative fees and expenses totaling \$3,940,550 for the year ended December 31, 2019.

Effective January 1, 2012, and amended May 1, 2013, UIC entered into an Administrative Service Agreement with CMC; whereby CMC will provide UIC with ancillary administrative services, administrative, marketing support, tax or financial, legal, data processing, human resources, real estate, purchasing, risk management, communications, governmental relations, and maintenance services. Under this agreement, UIC paid administrative fees and expenses totaling \$4,654,666 for the year ended December 31, 2019.

Agency Agreement

Effective September 1, 2006, TMIC entered into an Agency Agreement with American Auto Club Insurance Agency, LLC (“AACIA”), whereby AACIA will serve as the agent with authority to solicit and accept applications for insurance coverage, issue policies of insurance, and collect premiums from insureds, for a commission of 10%-15% for new and renewal business based on coverage type. Under this agreement, TMIC paid commission expenses totaling \$4,601,324 for the year ended December 31, 2019.

Effective May 5, 2012, UIC entered into an Agency Agreement with AACIA, whereby AACIA will serve as the agent with authority to solicit and accept applications for insurance coverage, issue policies of insurance, and collect premiums from insureds, for a commission of 10%-15% for new and renewal business based on coverage type. Under this agreement, UIC paid commission expenses totaling \$2,500,099 for the year ended December 31, 2019.

Tax Allocation Agreement

Effective January 31, 2012, both TMIC and UIC entered into a Tax Allocation Agreement with CMC and its subsidiaries. Each company within the tax allocation agreement calculates its annual federal tax position on a separate return basis and the resulting amounts are settled annually.

TERRITORY AND PLAN OF OPERATION

UIC

UIC is a multi-state property and casualty insurer that primarily writes personal lines non-standard private-passenger auto physical damage, auto liability, and homeowners’ coverage. UIC operates through the affiliated agency, AACIA, and independent agents for the distribution of its products and solicitation of business.

At December 31, 2019, UIC was licensed in the states of North Carolina and South Carolina.

TMIC

TMIC is a single-state property and casualty insurer that primarily writes personal lines non-standard private-passenger auto physical damage, auto liability, and homeowners’ coverage. TMIC operates through the affiliated agency, AACIA, and independent agents for the distribution of its products and solicitation of business.

At December 31, 2019, TMIC was licensed in the state of North Carolina.

GROWTH OF THE COMPANIES

The data obtained from annual statements filed with the Department, as reflected in Appendix B, illustrates the growth of the companies within the CMC Group for the five-year period ended December 31, 2019.

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 CMC Group's Appointed Actuary, John P. Booher, ACAS, MAAA, who is associated with Actuarial Insurance Consultants, Ltd. Actuarial opinions regarding the reserves for losses 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 CMC Group for reasonableness and consistency of the losses and loss adjustment expense reserves. According to the actuarial opinions, the reserves on the losses and loss adjustment expense 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 losses and loss expense obligations of UIC and TMIC in the CMC Group.

REINSURANCE PROGRAM OVERVIEW

The following table provides a summarized overview of each company and the reinsurance contracts in effect as of December 31, 2019:

<u>UIC</u>		
Company Operations:	Ceded Contracts:	Assumed Contracts:
Licensed in NC & SC Auto Homeowners	<ol style="list-style-type: none"> 1. 90% Quota Share Property Catastrophe Excess of Loss ceded to panel of 16 unaffiliated reinsurers 2. 10% Quota Share Property Catastrophe Excess of Loss ceded to affiliated reinsurer, TMIC Specialty Insurance Company, Ltd. 3. 50% Homeowners Property Quota Share ceded to panel of 5 unaffiliated reinsurers. 4. Personal Umbrella Liability Quota Share ceded to Munich Re 5. Inland Flood Property Quota Share ceded to Munich Re 6. Home Systems Protection and Service Line Coverage Quota Share ceded to Hartford Steam Boiler 7. Personal Accident Named Perils Quota Share ceded to Lloyds Syndicate Hiscox 8. Mandatory Pool with NCRF 	None
<u>TMIC</u>		
Company Operations:	Ceded Contracts:	Assumed Contracts:
Licensed in NC only Auto Homeowners	<ol style="list-style-type: none"> 1. TMIC is party to the same reinsurance contracts as UIC 	None

INTERNAL REINSURANCE CEDED

Property Catastrophe Excess of Loss

Effective June 1, 2018, and renewed effective June 1, 2019, TMIC and UIC entered into a Property Catastrophe Excess of Loss Reinsurance Contract with TMIC Specialty, an affiliated captive reinsurer domiciled in North Carolina. TMIC Specialty assumes 10% quota share of each of the three (3) ceded layers of the reinsurance arrangement: \$4 million excess of \$1 million, \$15 million excess of \$5 million, and \$10 million excess of \$20 million. UIC and TMIC ceded premiums totaling approximately \$12,000 and \$129,000, respectively, to TMIC Specialty in 2019 under this internal reinsurance contract.

EXTERNAL REINSURANCE CEDED

Property Catastrophe Excess of Loss

Effective April 1, 2014, and renewed on multiple occasions including June 1, 2019, TMIC and UIC entered into a Property Catastrophe Excess of Loss Reinsurance Agreement with 90% placed with a panel of reinsurers, which collectively assumes 90% quota share of each of the three (3) ceded layers of the reinsurance arrangement: \$4M excess of \$1 million, \$15 million excess of \$5 million, and \$10 million excess of \$20 million. As of December 31, 2019, the panel of 16 reinsurers included: Odyssey Reinsurance Company, Shelter Mutual Insurance Company, Korean Reinsurance Company, Neon Bermuda Ltd Syndicate and multiple Lloyd's of London Syndicates.

Homeowners Property Quota Share

Effective November 1, 2014, and renewed on multiple occasions including June 1, 2019, TMIC and UIC entered into a Homeowners Property Quota Share Reinsurance Contract with a panel of reinsurers for 50% quota share participation on the first \$3,250,000 of the Company's net retained liability for property insurance of each risk and each loss occurrence for a single risk, and a 50% quota share participation for the first \$1,000,000 of the Company's net retained liability for property insurance for each risk and each loss occurrence when two or more risks are involved. In addition, there is a 50% quota share participation in the Company's net retained liability for casualty insurance coverage. This contract includes all covered homeowners insurance policies as long as the loss is not related to a named Property Claims Services catastrophe event. As of December 31, 2019, the panel of six reinsurers included: Munich Reinsurance America, Inc., Odyssey Reinsurance Company, Renaissance Reinsurance US, Swiss Reinsurance America, TopSail Reinsurance SPC, and XL Reinsurance America. Subsequently, this reinsurance contract was terminated effective May 31, 2020.

Personal Umbrella Liability Quota Share

Effective July 1, 2017 and renewed effective January 1, 2019, TMIC and UIC entered into a Personal Umbrella Liability Quota Share Reinsurance Contract with Munich Reinsurance America, Inc. to cede a 95% quota share all personal umbrella liability coverage of the first \$1,000,000 per occurrence, and to cede a 100% quota share for amounts in excess of \$1,000,000 per occurrence, with an aggregate limitation of \$2,000,000 per policy. This contract provides a ceding commission of 27.5% of gross net written premiums.

Inland Flood Property Quota Share

Effective January 1, 2018, TMIC and UIC entered into an Inland Flood Property Quota Share Reinsurance Contract with Munich Reinsurance America, Inc. to cede a 100% quota share of all inland flood coverage, subject to limit of \$50,000 per any one policy and any one flood occurrence, and with an aggregate limit of \$100,000 per one policy year. This contract provides a ceding commission of 35% of gross net written premiums.

Home Systems Protection and Service Line Coverage Quota Share

Effective April 12, 2018, TMIC and UIC entered into a Home Systems Protection and Service Line Coverage Quota Share Reinsurance Contract with The Hartford Steam Boiler Inspection and Insurance Company to cede a 100% quota share of all home systems protection liability and service line coverage liability subject to a limit of liability of \$50,000 for any one home system breakdown on any one policy, and a limit of liability of \$25,000 for any one service line failure on any one policy. This contract provides a ceding commission of 35% of the applicable rates.

Personal Accident Named Perils Quota Share

Effective January 1, 2017, and renewed with Endorsement 1 effective January 1, 2018 and Endorsement 2 effective January 1, 2019, TMIC and UIC entered into a Personal Accident Named Perils Quota Share Reinsurance Contract with Lloyd's of London Syndicate Hiscox to cede a 100% quota share of all named peril endorsements on homeowners policies for 100% of the Company's net retained liability, a proportionate share of loss adjustment expense, and proportionate share of extra contractual obligations. Named perils include lightning strike, named windstorm, wildfire, flood, house fires, geophysical hazards, and catastrophic ground collapse. This contract provides a ceding commission of 25% of the original net premiums.

In 2019, UIC and TMIC ceded premiums totaling approximately \$1.2 million and \$5.3 million, respectively, under the external reinsurance contracts described above.

Mandatory Pool with NCRF

As writers of motor vehicle liability insurance in North Carolina, both TMIC and UIC are required by law to share equitably in the results of the motor vehicle liability insurance ceded to the North Carolina Reinsurance Facility ("NCRF"). As of December 31, 2019, TMIC cedes approximately 60% and UIC cedes approximately 93% of its non-standard auto liability insurance premiums and claims to the NCRF. UIC and TMIC ceded premiums totaling approximately \$15.9 million and \$8.4 million, respectively, to NCRF in 2019.

FINANCIAL STATEMENTS

The financial statements in the Appendix A are based on the statutory financial statements filed with the Department and present the financial condition of each company in the CMC Group for the period ending December 31, 2019. The supporting tables and exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department.

COMMENTS ON FINANCIAL STATEMENTS

There were no proposed adjustments to the CMC Group's financial statements filed with the Department 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 CMC Group are as follows:

Bonds: Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method. (CMC Group)

Common stocks: Carried at fair value except investments in stock of subsidiaries, which are carried at a value determined under the equity method. (CMC Group)

Preferred stocks: Stocks with a designation highest and high quality are rated at cost or amortized cost, all others are rated at lower of cost, amortized cost or fair value. (CMC Group)

Real estate occupied: Properties occupied by the Company are carried at depreciated cost less encumbrances. Fair values of properties occupied by the Company will be measured only if circumstances indicate that the financial condition of the Company is in question. (TMIC)

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. (CMC Group)

Premiums: Earned over the policy period on a pro-rata basis and reduced for reinsurance ceded. (CMC Group)

Loan-backed securities: Stated at either amortized cost or the lower of amortized cost or fair market value. The retrospective adjustment method is used to value all securities. (CMC Group)

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. (CMC Group)

Nonadmitted assets: Certain assets, such as excess of book value over market value for securities, furniture, equipment, prepaid expenses, electronic data processing equipment and software, and premium taxes, leasehold improvements and auto are "nonadmitted" and are charged against surplus. (CMC Group)

Unpaid loss & loss adjustment expense: Liabilities for estimated losses determined from case estimates based on the number of reported loan defaults 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. (CMC Group)

Analysis of Assets

UIC reported the following assets as nonadmitted at December 31, 2019: electronic data processing equipment and software totaling \$910,208, furniture and equipment totaling \$14,313, prepaid expenses totaling \$136,862, leasehold improvements totaling \$20,336, and auto totaling \$34,639.

TMIC reported the following assets as nonadmitted at December 31, 2019: electronic data processing equipment and software totaling \$922,466, furniture and equipment totaling \$18,221, prepaid expenses totaling \$116,364, and auto totaling \$48,051.

Reinsurance Activity

The companies in the CMC Group have excess of loss and quota share contracts to minimize their exposure to losses. Reinsurance contracts do not relieve the companies of their primary obligation to policyholders, and failure of the reinsurers to discharge their obligations could result in losses to the companies. The CMC Group utilizes Willis Re, Inc. as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct and ceded premiums written and earned were as follows:

UIC	2019
Direct written	\$37,634,480
Ceded written	17,145,969
Net written	20,488,511
Direct earned	36,094,659
Ceded earned	17,340,301
Net earned	\$18,754,358

TMIC	2019
Direct written	\$34,735,588
Ceded written	13,823,721
Net written	20,911,867
Direct earned	32,778,427
Ceded earned	12,840,422
Net earned	\$19,938,005

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

Summary of Reserves

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

UIC	2019
Reserve for losses and loss adjustment expenses, beginning of year	\$ 8,800,275
Add:	
Provision for losses and loss adjustment expenses, current year	14,050,089
Change in estimated losses and loss adjustment expenses, prior years	4,700,567
Total incurred	18,750,656
Deduct:	
Losses and loss adjustment expenses paid, current year	7,383,286
Losses and loss adjustment expenses paid, prior year	10,439,461
Total paid	17,822,747
Reserve for losses and loss adjustment expenses, end of year	9,728,184
Increase in reserve for losses and loss adjustment expenses	\$19,989,972

UIC reduced reserves by anticipated salvage and subrogation of approximately \$920,000 at December 31, 2019. Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under UIC's reinsurance contracts. At December 31, 2019, the liability for losses and loss adjustment expenses was reduced by approximately \$30 million for amounts to be recovered from reinsurers.

TMIC	2019
Reserve for losses and loss adjustment expenses, beginning of year	\$ 5,874,953
Add:	
Provision for losses and loss adjustment expenses, current year	15,258,393
Change in estimated losses and loss adjustment expenses, prior years	(1,856,653)
Total incurred	13,401,740
Deduct:	
Losses and loss adjustment expenses paid, current year	10,467,184
Losses and loss adjustment expenses paid, prior year	2,452,835
Total paid	12,920,019
Reserve for losses and loss adjustment expenses, end of year	6,356,674
Increase in reserve for losses and loss adjustment expenses	\$6,422,078

TMIC reduced reserves by anticipated salvage and subrogation of approximately \$629,000 at December 31, 2019. Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under TMIC's reinsurance contracts. At December 31, 2019, the liability for losses and loss adjustment expenses was reduced by approximately \$14 million for amounts to be recovered from reinsurers.

Capital and Surplus

The data obtained from annual statements filed with the Department, as reflected in Appendix C, represents the changes in capital and surplus of UIC and TMIC since the Department's last examination as of December 31, 2014, for the five-year period ended December 31, 2019.

Contingencies and Commitments

The CMC Group 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 CMC Group.

SUBSEQUENT EVENTS

In December 2019, the COVID-19 contagious disease outbreak emerged, and later was characterized as a pandemic by the World Health Organization on March 11, 2020. The President of the United States declared a National State of Emergency on March 13, 2020. The duration and spread of this outbreak are uncertain and cannot be predicted. The impact on the insurance industry in the United States is still evolving, and the full extent of the financial and operational impact on the Company cannot be reasonably estimated at this time. The Department is monitoring the impact of the COVID-19 global pandemic. The Department recognizes that COVID-19 could have a significant financial and operational impact on all of its domestic insurers, including the CMC Group. As such, the Department will continue to monitor and share information about CMC Group as appropriate related to COVID-19 developments.

Effective January 1, 2020, CMC was acquired by and merged with The Auto Club Group, a Michigan domiciled holding company, which became the sole, and controlling, corporate member of holding company system. The acquisition includes UIC and TMIC, the two North Carolina domiciled insurers in the CMC Group.

Effective January 1, 2020, David Earl Parsons retired as Director and Audit Committee Member. Subsequently, no new director was elected, and Michael Shawn Cherry became a member of the Audit Committee.

Effective April 1, 2020, Kevin Todd Roberson retired as Officer and Assistant Vice President.

Effective May 31, 2020, TMIC and UIC terminated the 50% Homeowners Property Quota Share Reinsurance contract with a panel of unaffiliated reinsurers.

On November 25, 2020, UIC received a capital contribution of \$3,000,000 from its parent, CMC.

Effective January 1, 2021, UIC and TMIC entered into a 100% Quota Share Reinsurance Agreement with its affiliate, Auto Club Property Casualty Insurance Company, which was approved by the Department on January 21, 2021.

Effective January 1, 2021, UIC and TMIC entered into a Capital Maintenance Agreement with its parent, CMC, which was approved by the Department on February 9, 2021.

Effective January 28, 2021, the Board of UIC and TMIC approved a change of appointed actuary from John P. Booher, ACAS, MAAA of Actuarial Insurance Consultants, Ltd. to Matthew Ryan Purdy, FCAS, MAAA of Merlino & Associates, Inc. for the December 31, 2020 reporting year.

Carolina Motor Club Group
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2019

Henry James McCafferty, President
6000 AAA Drive
Charlotte, North Carolina 28212

Michael Shawn Cherry, Vice President - Finance
6000 AAA Drive
Charlotte, North Carolina 28212

Curtis McDougall, Assistant Vice President
6000 AAA Drive
Charlotte, North Carolina 28212

Raylene Pendleton, Compliance Manager
770 Highland Oaks Drive
Winston-Salem, North Carolina 27103

CONCLUSION

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

We conclude that UIC and TMIC are in compliance with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that each company has been authorized to write, which is \$2,250,000 on a standalone basis for each insurance company.

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

Respectfully submitted,



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

March 10, 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 multi-entity report on examination, subscribed by his is true and correct to the best of his knowledge and belief.

Signature: Keith Greene Date: 3/10/2021
Keith Greene

Sworn and subscribed before me this 10th day of March, 2021.

Notary Public Signature: Jennifer Ishihara Notary Public Seal:



Carolina Motor Club Group
Appendix A
December 31, 2019

2019 Statutory Statement of Admitted Assets

	UIC	TMIC
Bonds	\$5,509,570	\$10,742,789
Preferred stocks	1,248,519	1,825,749
Common stocks	6,894,448	7,904,110
Properties occupied by the company	-	1,871,730
Cash, cash equivalents and short-term investments	5,921,728	4,578,124
Total cash and invested assets	\$19,574,265	\$26,922,503
Investment income due and accrued	49,615	80,716
Uncollected Premiums and agents' balances in course of collection	1,171,883	755,348
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,999,977	9,953,169
Amounts recoverable from reinsurers	3,568,116	1,391,566
Current federal income tax recoverable and interest thereon	1,078,341	-
Net deferred tax asset	318,117	157,027
Guaranty funds receivable or on deposit	211	-
Receivables from parent, subsidiaries and affiliates	-	220,693
Taxes, Licenses and Fees	54,060	6,444
Total admitted assets	\$36,814,585	\$39,487,466

Carolina Motor Club Group
Appendix A
December 31, 2019

2019 Statutory Statement of Liabilities, Surplus and Other Funds

	UIC	TMIC
Losses	\$6,279,886	\$4,643,955
Loss adjustment expenses	3,448,297	1,712,857
Commissions payable and contingent commissions	349,197	494,702
Other expenses	733,089	400,218
Taxes, licenses and fees	1,618	-
Current federal income taxes	-	434,999
Unearned premiums	9,707,504	10,470,791
Advance premium	172,866	273,191
Ceded reinsurance premiums payable	1,593,375	1,646,416
Amounts withheld or retained by company for account of others	92,090	94,397
Payable to parent, subsidiaries and affiliates	1,244,397	547,387
Payable for securities	396,450	-
Deferred Claims Expense Allowance	-	506,155
Unearned Policy Fees	182,672	255,941
Accounts Payable - Escheats	1,091,944	549,840
Deferred Revenue	851,451	-
Total liabilities	\$26,144,836	\$22,030,849
Common capital stock	1,800,000	1,800,000
Gross paid in and contributed surplus	20,151,500	15,030,000
Unassigned funds (Surplus)	(11,281,751)	626,617
Surplus as regards policyholders	10,669,749	17,456,617
Total liabilities, capital and surplus	\$36,814,585	\$39,487,466

Carolina Motor Club Group
Appendix A
December 31, 2019

2019 Statutory Statement of Income

	UIC	TMIC
Underwriting Income		
Premiums earned	\$18,754,359	\$19,938,006
Deductions		
Losses incurred	17,547,783	11,701,984
Loss adjustment expenses incurred	1,202,873	1,699,757
Other underwriting expenses incurred	6,647,027	5,992,253
Total underwriting deductions	25,397,683	19,393,994
Net underwriting gain (loss)	(6,643,324)	544,012
Investment Income		
Net investment income earned	378,710	833,631
Net realized capital gains	237,151	36,607
Net investment gain	615,861	870,238
Other Income		
Net gain (loss) from agents' or premium balances charged off	(1,376,244)	(758,998)
Finance and service charges not included in premiums	1,675,871	1,019,603
Total other income	299,627	260,605
Net income before dividends to policyholders	(5,727,836)	1,674,855
Federal income taxes incurred	(1,021,397)	442,589
Net Income (Loss)	\$(4,706,439)	\$1,232,266

Carolina Motor Club Group
Appendix A
December 31, 2019

2019 Statutory Statement of Capital and Surplus

	UIC	TMIC
Surplus as regards policyholders, prior year	\$11,068,480	\$14,731,894
Capital and surplus increases (decreases):		
Net Income (Loss)	(4,706,439)	1,232,266
Change in net unrealized capital gains	1,064,086	1,364,698
Change in net deferred income tax	(148,787)	(294,969)
Change in non-admitted assets	392,409	422,781
Miscellaneous write-in	-	(53)
Surplus adjustments to paid-in capital	3,000,000	-
Change in capital and surplus as regards policyholders for the year	(398,731)	2,724,723
Surplus as regards policyholders, current year	\$10,669,749	\$17,456,617

Carolina Motor Club Group
Appendix A
December 31, 2019

2019 Statutory Statement of Cash Flow

	UIC	TMIC
Cash From (Used By) Operations		
Premiums collected net of reinsurance	\$21,063,772	\$18,460,358
Net investment income	391,366	909,749
Miscellaneous income	299,627	260,605
Total	21,754,765	19,630,712
Benefit and loss related payments	15,613,615	9,873,642
Commissions, expenses paid and aggregate write-ins for deductions	8,087,731	7,794,472
Federal income taxes paid	(86,634)	(31,991)
Total	23,614,712	17,636,123
Net cash from (used by) operations	(1,859,947)	1,994,589
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	6,863,427	5,125,791
Miscellaneous proceeds	390,485	-
Total cost of investments acquired (long-term only)	6,253,764	6,690,934
Net cash from (used by) investments	1,000,148	(1,565,143)
Cash From (Used By) Financing and Miscellaneous Sources		
Capital and paid in surplus, less treasury stock	3,000,000	-
Other cash provided (applied)	(1,488,940)	1,291,489
Net cash from financing and miscellaneous sources	1,511,060	1,291,489
Reconciliation of Cash, Cash Equivalents and Short-Term Investments		
Net change in cash, cash equivalents and short-term investments	651,261	1,720,935
Cash, cash equivalents and short-term investments, beginning of year	5,270,467	2,857,190
Cash, cash equivalents and short-term investments, end of year	\$5,921,728	\$4,578,124

Carolina Motor Club Group
Appendix B
December 31, 2019

Growth of the Company

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

UIC

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income (Loss)
2019	\$36,814,585	\$10,669,749	\$37,634,481	\$18,754,359	\$(4,706,439)
2018	\$36,359,702	\$11,068,480	\$38,848,407	\$20,015,271	\$(159,948)
2017	\$40,946,000	\$11,540,506	\$49,159,732	\$22,973,832	\$464,583
2016	\$38,900,566	\$11,829,028	\$47,442,834	\$22,325,068	\$(973,930)
2015	\$32,272,423	\$10,290,814	\$45,956,280	\$16,741,856	\$(1,477,837)

TMIC

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income (Loss)
2019	\$39,487,466	\$17,456,617	\$34,735,588	\$19,938,006	\$1,232,266
2018	\$36,213,714	\$14,731,895	\$31,880,762	\$20,127,084	\$216,408
2017	\$34,282,606	\$13,416,314	\$30,896,132	\$20,582,189	\$492,898
2016	\$31,557,636	\$13,106,337	\$27,987,301	\$17,552,599	\$(860,089)
2015	\$26,580,245	\$13,444,701	\$21,824,483	\$13,974,449	\$831,532

Carolina Motor Club Group
Appendix C

Capital and Surplus

The following data, obtained from annual statements filed with the Department, illustrates the changes in capital and surplus of the companies for the five-year period ended 2019:

UIC	2019	2018	2017	2016	2015
Surplus as regards policyholders, prior year	\$11,068,480	\$11,540,506	\$11,829,028	\$10,290,814	\$8,679,886
Capital and surplus increases (decreases):					
Net Income (Loss)	(4,706,439)	(159,948)	464,583	(973,930)	(1,477,837)
Change in net unrealized capital gains (losses)	1,064,086	(798,656)	559,998	223,245	(512,333)
Change in net deferred income tax	(148,787)	115,689	(682,214)	23,705	715,817
Change in non-admitted assets	392,409	370,889	(630,889)	(1,012,082)	(114,719)
Surplus adjustments to paid-in capital	3,000,000	-	-	3,000,000	3,000,000
Prior period adjustment	-	-	-	277,276	-
Change in capital and surplus as regards policyholders for the year	(398,731)	(472,026)	(288,522)	1,538,214	1,610,928
Surplus as regards policyholders, current year	\$10,669,749	\$11,068,480	\$11,540,506	\$11,829,028	\$10,290,814
TMIC					
Surplus as regards policyholders, prior year	\$14,731,894	\$13,416,314	\$13,106,337	\$13,444,700	\$10,657,322
Capital and surplus increases (decreases):					
Net Income (Loss)	1,232,266	216,408	492,898	(860,089)	831,531
Change in net unrealized capital gains (losses)	1,364,698	(737,401)	518,694	195,316	(295,801)
Change in net deferred income tax	(294,969)	(394,636)	(97,641)	431,922	102,192
Change in non-admitted assets	422,781	301,861	(603,974)	(1,105,512)	149,456
Surplus adjustments to paid-in capital	-	2,000,000	-	1,000,000	2,000,000
Prior period adjustment	-	(70,652)	-	-	-
Miscellaneous	(53)	-	-	-	-
Change in capital and surplus as regards policyholders for the year	2,724,723	1,315,580	309,977	(338,363)	2,787,378
Surplus as regards policyholders, current year	\$17,456,617	\$14,731,894	\$13,416,314	\$13,106,337	\$13,444,700