

The Members Insurance Company

Charlotte, North Carolina

Report on Limited-Scope Examination

As of December 31, 2014

The Members Insurance Company

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Report on Limited-Scope Examination

Honorable Wayne Goodwin
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 a limited-scope examination of **The Members Insurance Company** (“Company”) as of December 31, 2014. The Department’s last full-scope examination was as of December 31, 2011. This limited-scope examination was performed to address specific areas based on the Department’s review and analysis of the Company’s 2014 Annual Statement (“AS”).

This examination was performed in accordance with auditing standards established by the Department. The purpose of this examination was to review specific aspects of the Company’s 2014 AS as specified in the Scope of the Examination on page 4. The scope of this examination was not comprehensive, but included a limited review of the Company’s practices and procedures, its corporate and accounting records, details of certain transactions, and an evaluation of certain assets and liabilities reported as of December 31, 2014. This report is not intended to communicate all matters of importance for an understanding of the Company’s financial condition as of December 31, 2014. Therefore, the findings and conclusions contained within this report are based solely on the work performed on the specific areas of concern and are provided in the Summary of Examination Objectives and Findings on page 5.

Respectfully submitted,



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

June 30, 2015

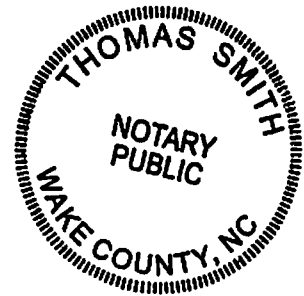
STATE OF NORTH CAROLINA
COUNTY OF WAKE

Eileen Culliney, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature: Eileen Culliney Date: 8/12/2015
Eileen Culliney

Sworn and subscribed before me this 12 day of August, 2015.

Notary Public Signature: Thomas Smith Notary Public Seal:



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1. Company Background

The Company was incorporated and commenced business in 2006. It is licensed in the state of North Carolina to write multiple lines of business pursuant to GS § 58-7-15 including automobile and homeowners multiple peril policies. The Company cedes a portion of its private passenger auto liability to the North Carolina Reinsurance Facility.

Carolina Motor Club, Inc., an affiliate of AAA, has the ultimate control of the Company through its subsidiary, TMIC Holdings, LLC. On January 31, 2012, TMIC Holdings, LLC acquired Universal Insurance Company, which retained its operations in Winston Salem, North Carolina.

2. Appointed Actuary

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. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for the examination period. The appointed actuary evaluated the data of the loss and loss adjustment expense reserve provided by the Company for reasonableness and consistency. According to the actuarial opinion, the Company's reserves for losses 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 expense obligations of the Company.

3. Scope of the Examination

The scope of this examination was limited to the following areas relative to the 2014 AS:

- a) Premiums and underwriting
- b) Investments
- c) Claims and reserves
- d) Related parties

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4. Examination Procedures

The examination procedures performed during this examination included the following:

- 1) Review and verification of supporting documentation for reported balances;
- 2) Analytical procedures and recalculation of account balances;
- 3) Substantive testing of underlying data and transactions;
- 4) Review of the Company's underwriting and marketing;
- 5) Other examination procedures deemed necessary to meet the established objectives.

5. Summary of Examination Objectives and Findings

a. Premiums and underwriting

- 1) Examination Objective: To verify the accuracy and completeness of the Company's total direct written premium totaling \$19,557,183 at December 31, 2014.

Findings: No adverse findings were noted.

- 2) Examination Objective: To verify the proper valuation of the Company's unearned premiums totaling \$5,294,681 at December 31, 2014.

Findings: No adverse findings were noted.

- 3) Examination Objective: To verify the proper valuation of uncollected premiums and deferred premiums totaling \$4,494,547 at December 31, 2014.

Findings: No adverse findings were noted.

- 4) Examination Objective: To assess Company's risk exposure on its pricing practice and the reasonableness of its pricing strategy.

Findings: No adverse findings were noted.

b. Investments

- 1) Examination Objective: To verify that certain investment transactions were properly approved in accordance with GS § 58-7-165 and 58-7-168 and to analyze the Company's trading practices at year end.

Findings: No adverse findings were noted.

- 2) Examination Objective: To review investment policy for compliance with GS § 58-7-170D and GS § 58-7-168 related to investment diversification and authorization of investment transactions.

Findings: No adverse findings were noted.

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c. Claims and Reverses

- 1) Examination Objective: To review Company's reserving assumptions and methodologies for appropriateness and the estimates of losses and loss adjustment expenses for reasonableness and adequacy.

Findings: We noted no adverse findings regarding the assumption and methodologies utilized by the Company for its reserves for losses and loss adjustment expenses totaling \$3,210,119 and \$579,277, respectively, as of December 31, 2014.

- 2) Examination Objective: To verify the accuracy and completeness of paid claims derived from direct business.

Findings: We noted no adverse findings in our review of paid claims totaling \$9,485,650, as reported in the Company's 2014 AS, Underwriting and Investment Exhibit.

d. Related Parties

- 1) Examination Objective: To review Company's tax allocation agreement with its parent company for proper inclusion of net operating loss settlement.

Findings: No adverse findings were noted.

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Appendix A – Report Distribution

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