

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

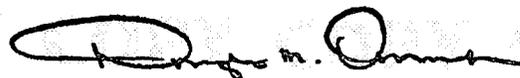
RE: Examination Report of Automobile Club Inter-Insurance Exchange as of  
December 31, 2005

### ORDER

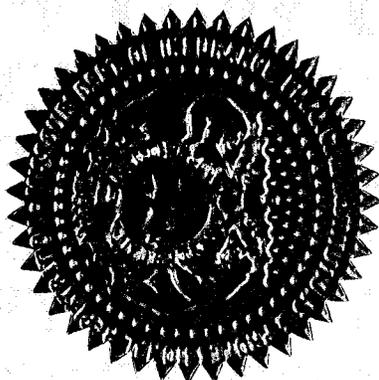
After full consideration and review of the report of the financial examination of Automobile Club Inter-Insurance Exchange for the period ended December 31, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Automobile Club Inter-Insurance Exchange, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this May 16, 2007.

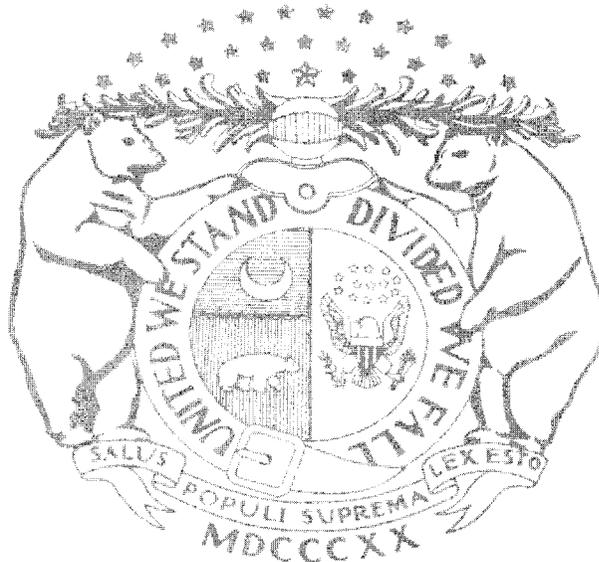


DOUGLAS M. OMMEN, Director  
Department of Insurance, Financial Institutions  
and Professional Registration



REPORT OF  
FINANCIAL EXAMINATION  
**AUTOMOBILE CLUB  
INTER-INSURANCE EXCHANGE**

AS OF  
DECEMBER 31, 2005



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND  
PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI

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March 1, 2007  
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner  
Bureau of Insurance  
Virginia State Corporate Commission  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Ann Womer Benjamin, Director  
Department of Insurance  
State of Ohio  
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Director  
Missouri Department of Insurance,  
Financial Institutions and Professional Registration  
301 West High Street, Room 630  
Jefferson City, MO 65101

Gentlemen and Lady:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

**Automobile Club Inter-Insurance Exchange**

also referred to as "ACIIE" or the "Company." The examination was conducted at the Company's home office 12901 North Forty Drive, St. Louis, Missouri 63141, telephone number (314) 523-7350. This examination began on April 3, 2006, and concluded on March 1, 2007.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full scope association financial examination of Automobile Club Inter-Insurance Exchange was performed as of December 31, 2000. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2001, through December 31, 2005. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating. This examination was performed concurrently with the examination of Auto Club Family Insurance Company (ACFIC), the Company's wholly owned subsidiary. Expert

Actuarial Services, LLC, reviewed reserves and related actuarial items pursuant to a contract with the Department of Insurance, Financial Institutions and Professional Registration.

This examination also included material transactions and/or events occurring after December 31, 2005.

### **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri prevailed.

### **Comments Previous Examination**

The general comments and recommendations in the previous examination report and the Company's response and/or subsequent action taken by the Company are listed below.

#### **1. Comment: Accounts and Records (Disaster Recovery Plan)**

The Department of Insurance Information System Specialist noted that the Company could not readily provide the information systems portion of the disaster recovery plan, including the off-site restoration "test script". The Company is directed to keep the information systems portion of the disaster recovery plan current, periodically tested and have copies readily available on-site as well as off-site

#### **Company's Response:**

The Company responded that it "will ensure that the information systems portion of the disaster recovery plan will be made current. In addition, the company will periodically test that portion of the plan and make copies available both on and off-site."

#### **Current Findings:**

The Company complied with this recommendation.

## **HISTORY**

### **General**

The Company commenced business on April 15, 1927, in St. Louis at the headquarters of Automobile Club of Missouri (ACOM), an affiliate of American Automobile Association (AAA). In 1940, the Company changed its name from Inter-Insurance Exchange to Automobile Club of Missouri and then to Automobile Club Inter-Insurance Exchange.

## **Capital Stock**

The Company, a reciprocal inter-insurance exchange, is not authorized to issue capital stock. The Subscriber's Agreement (Power of Attorney) provides that surplus funds of the Company upon liquidation will be distributed to the subscribers.

## **Dividends**

No dividends have ever been paid to subscribers.

## **Management**

The Advisory Board of the Company consists of nine members, elected for six year terms, a majority of whom are subscribers or officers of subscriber corporations or members of subscriber firms. The members of the Advisory Board shall choose their successor as authorized by the Subscriber's Agreement (Power of Attorney). The members elected and serving as of December 31, 2005 (the date the member was first elected to the Board is noted in parenthesis), were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Michelle L. Corey (2002) St. Louis, MO	President and Chief Executive Officer Better Business Bureau of Southern Illinois and Eastern, Missouri
Joyce M. Coleman (1999) St. Louis, MO	Vice President American Airlines, Inc.
William A. Erdman (1995) St. Louis, MO	Vice President, General Counsel/Secretary Auto Club Family Insurance Company
Kenneth A. Johnson (1997) St. Louis, MO	President and Chief Executive Officer Auto Club Family Insurance Company
Dr. Alison C. Nash (1995) St. Louis, MO	Vice President St. Louis Pediatric Practitioners, Inc.
Harold R. Redohl (1995) St. Louis, MO	President and Chief Executive Officer AAIM Management Association
Robert J. Schreiber (1999) St. Louis, MO	Auto Club Family Insurance Company Vice President, Insurance
Gary N. Shaw (1999) St. Charles, MO	Senior Vice President Morgan Stanley Dean Witter
Larry J. Stallings (2002) St. Louis, MO	President American Looseleaf

Officers of Advisory Board at December 31, 2005, were as follow:

<u>Name</u>	<u>Office</u>
Harold R. Redohl	Chairman
William A. Erdman	Secretary
David M. Mattingly	Treasurer

Pursuant to the Subscriber's Agreement (Power of Attorney), the affairs of the Company are managed by its attorney-in-fact, Club Exchange Corporation (CEC). The CEC Board of Directors consists of eleven members elected at the annual meeting of the single stockholder, ACOM, as authorized by CEC's Articles of Incorporation for a one-year term. The members elected and serving as of December 31, 2005, were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Susan S. Elliott St. Louis, MO	President and Chief Executive Officer Systems Service Enterprises, Inc.
David C. Fisher Overland Park, KS	President Cole Harford Company
Henry Givens, Jr. St. Louis, MO	President Harris-Stowe State College
Kenneth A. Johnson St. Louis, MO	President and Chief Executive Officer Auto Club Family Insurance Company
Dee A. Joyner St. Louis, MO	Senior Vice President Commerce Bank
Earl E. Lazerson Edwardsville, IL	Retired - President Southern Illinois University at Edwardsville
James S. McDonnell, III St. Louis, MO	Retired – Vice President McDonnell Douglas Corporation
John B. McKinney St. Louis, MO	Retired – President Laclede Steel Company
Jerry E. Ritter St. Louis, MO	Retired – Chairman of the Board St. Louis Blues Hockey Club/Kiel Center
Luther E. Thweatt Evansville, IN	Retired – President Automobile Club of Indiana (Merged with Automobile Club of Missouri)
Paul H. Wunderlich St. Louis, MO	Retired – President and CEO St. Lukes Health Corporation

The CEC officers elected and serving as of December 31, 2005, were as follows:

<u>Name</u>	<u>Office</u>
Earl E. Lazerson	Chairman of the Board
John B. McKinney	Vice Chairman of the Board
Kenneth A. Johnson	President and Chief Executive Officer
Arthur W. Johnson	Executive Vice President, Operations
William A. Erdman	Vice President, General Counsel/Secretary
David M. Mattingly	Vice President, Financial Operations/Treasurer
Michael J. Right	Vice President, Public Affairs
Robert J. Schreiber	Vice President, Insurance
Carl D. Kraft	Assistant Secretary

The Company does not have its own investment or audit committee. The investment and audit committees of the Club Exchange Corp act on behalf of the Company. The investment committee reviews and approves the investments for each company.

### **Conflict of Interest**

Conflict of Interest Disclosure Statements are executed annually by all directors, officers and key employees of the Company, Club Exchange Corporation (CEC) and Automobile Club of Missouri (ACOM). The statements are reviewed and summarized by internal audit and a report submitted to management and the board of directors. Review of the Conflict of Interest Statements and the Conflict of Interest Report revealed no conflicts deemed material and none that had not previously been disclosed to the board of directors.

### **Corporate Records**

A review was made of the Articles of Incorporation and Bylaws of the Company. The Company reported no amendments to the Articles of Incorporation or Bylaws.

The minutes of the meetings of the Advisory Board of the Company and the stockholders and board of directors of Club Exchange Corporation were reviewed for the period under examination and provided sufficient documentation of major corporate transactions.

### **Acquisitions, Mergers, and Major Corporate Events**

There were no acquisitions, mergers or major corporate events during the examination period.

### **Surplus Debentures**

The Company, with approval from the Department of Insurance, Financial Institutions and Professional Registration on February 23, 2004, issued a \$20 million surplus debenture to

Automobile Club of Missouri on February 25, 2004. The surplus debenture and accrued interest totaled \$22,105,000 at year end December 31, 2005.

## **AFFILIATED COMPANIES**

### **Holding Company, Subsidiaries and Affiliates**

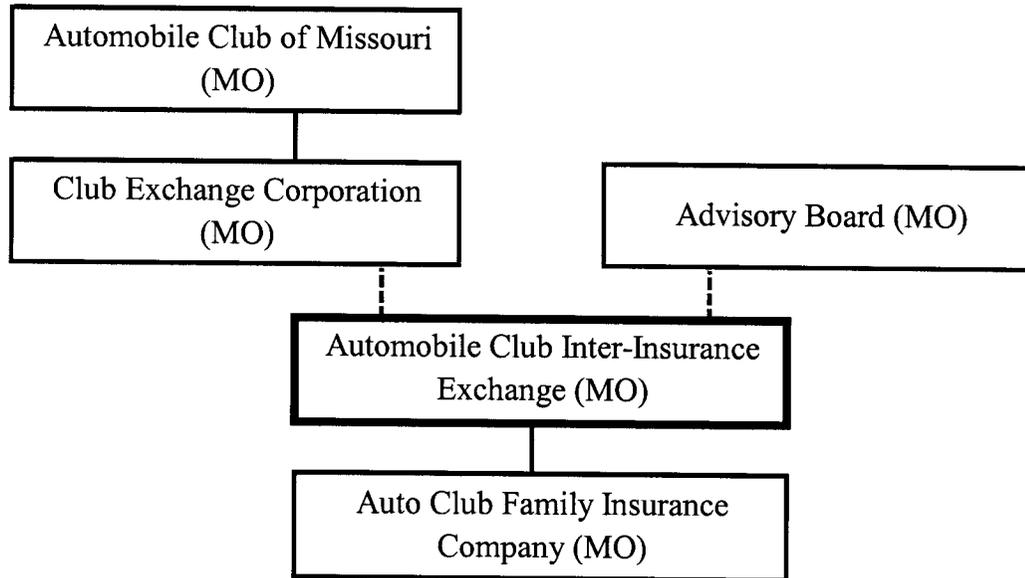
The Company is a member of an insurance holding company system as defined in Section 382.010 RSMo, (Definitions). The Company filed Insurance Holding Company System Registration Statement Form B and Form C with the Department of Insurance, Financial Institutions and Professional Registration for the years under examination, maintaining that the Company is the ultimate controlling entity.

Automobile Club Inter-Insurance Exchange is a reciprocal inter-insurance exchange. The affairs of ACIIE are managed by Club Exchange Corporation (CEC), the attorney-in-fact appointed by the subscribers of ACIIE. CEC is wholly-owned by Automobile Club of Missouri (ACOM), an affiliate of American Automobile Association (AAA). All subscribers of the Company must be members of ACOM.

In 1999, Automobile Club of Missouri filed a disclaimer of affiliation on behalf of Automobile Club Inter-Insurance Exchange and Auto Club Family Insurance Company with the Department of Insurance, Financial Institutions and Professional Registration declaring Automobile Club Inter-Insurance Exchange as the ultimate controlling entity. The Department did not disapprove the disclaimer

## Organizational Chart

The following organizational chart depicts the insurance holding company system as of December 31, 2005.



## Intercompany Agreements

1. **Type:** Service Agreement

**Affiliate:** Automobile Club of Missouri

**Effective:** October 8, 1992

**Terms:** The Company is a party to a Service Agreement under which ACOM agrees to provide all of the personnel, office furniture, fixtures and supplies (excluding data processing systems and equipment owned and provided by the Company) necessary to perform the following services on behalf of ACFIC, CEC and the Company:

- Sales, sales promotion and administration
- Public relations and advertising
- Investment of surplus and reserves
- Claims and claims adjustment
- Underwriting
- Actuarial
- Data processing
- Occupancy of premises (i.e. custodial, maintenance, etc.)
- General office and secretarial
- Legal, accounting and auditing
- General management and administration

As compensation, the Company pays ACOM a management fee based on gross premiums written. In addition, the Company reimburses ACOM for the direct costs and overhead costs incurred by ACOM on behalf of the Company. Direct costs include those departments (such as underwriting and claims) which provide services only to the two insurance companies, ACIIE and ACFIC. Overhead costs consist of other departments and functions which provide services to the insurance companies and other non-insurance affiliates. Appendix A of the agreement is re-determined each year and represents the procedure used by the Automobile Club of Missouri to allocate expenses to ACIIE and ACFIC.

The Company incurred the following costs for management fees and direct costs and for indirect allocated costs, respectively over the examination years:

<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
\$33,026,387	\$31,630,417	\$28,583,418	\$24,413,430	\$20,526,080
<u>11,832,905</u>	<u>11,176,699</u>	<u>10,902,931</u>	<u>10,383,860</u>	<u>9,356,751</u>
<u>\$44,859,292</u>	<u>\$42,807,116</u>	<u>\$39,486,349</u>	<u>\$34,797,290</u>	<u>\$29,882,831</u>

**2. Type:** Federal Income Tax Allocation Agreement  
**Affiliate:** Auto Club Family Insurance Company  
**Effective:** January 1, 1990 - Amended June 22, 1998  
**Terms:** The Company and its subsidiary, Auto Club Family Insurance Company, entered into a Tax Allocation Agreement effective January 1, 1990, and amended effective June 22, 1998, which provides that the parties will file a consolidated federal income tax return. The consolidated income tax liability is allocated to each of the parties on the basis of its contribution to the consolidated taxable income. Tax benefits from net operating losses and tax credits are allocated to the party generating the operating loss or tax credit.

**3. Type:** Surplus Guaranty  
**Affiliate:** Auto Club Family Insurance Company  
**Effective:** August 29, 1991  
**Terms:** ACIIE guarantees that the surplus of its subsidiary, Auto Club Family Insurance Company, is maintained at a minimum of \$1,250,000. Should ACFIC's surplus fall below this level ACIIE would be required to contribute the amount necessary to restore ACFIC's surplus to the minimum level.

### FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured on a financial institution bond purchased by ACOM which provides crime and fidelity coverage of \$2,000,000 aggregate with a \$50,000 per loss deductible. This coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

The Company was also a named insured on other coverages, which include but are not limited to directors' and officers' liability, errors and omissions liability, commercial excess umbrella, property insurance, commercial auto, and corporate counsel - professional liability.

### **EMPLOYEE BENEFITS**

The Company does not have any direct employees. Services are provided by employees of Automobile Club of Missouri pursuant to a service agreement.

The benefits received by the personnel covered in the above mentioned service agreement include but are not limited to, paid holidays, paid vacations, paid sick leave, workers' compensation, unemployment insurance, excused absences, leave of absence, tuition reimbursement, access to the employee assistance program and AAA Club membership. In addition, ACOM provides employees a flexible benefit plan under which each employee receives an allowance (partially based on age, earnings and the cost of medical and dental coverage) which may be used to purchase the individual benefits and coverages desired. The benefits and coverages available include group life insurance, group health/dental/vision care, accidental death and dismemberment, long term disability, 401 (k) profit sharing plan and defined benefit pension plan.

### **STATUTORY DEPOSITS**

#### **Deposits with the State of Missouri**

The funds on deposit with the Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2005, as reflected below, were deemed sufficient in par and market value to meet the \$1,200,000 deposit requirement for the State of Missouri per Section 379.098(1) RSMo (Securities deposits). The Special Deposits with the Department of Insurance, Financial Institutions and Professional Registration are held for the benefit of all policyholders, claimants and creditors of the Company.

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Bond	\$1,355,000	\$1,706,877	\$1,353,398
U.S. Treasury Note	<u>200,000</u>	<u>198,016</u>	<u>199,791</u>
Total	<u>\$1,555,000</u>	<u>\$1,904,893</u>	<u>\$1,553,189</u>

#### **Deposits with Other States**

The Company maintains funds on deposit with other states in which it is licensed to satisfy their statutory deposit requirements. The funds on deposit with other states, which are not held for the benefit of all policyholders, claimants and creditors of the Company, as of December 31, 2005, are listed below.

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Oklahoma	U.S. Treasury Note	\$325,000	\$370,094	\$375,462
Arkansas	U.S. Treasury Bond	<u>75,000</u>	<u>112,734</u>	<u>88,929</u>
Total		<u>\$400,000</u>	<u>\$482,828</u>	<u>\$464,391</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

The Company is licensed by the Department of Insurance, Financial Institutions and Professional Registration under Chapter 379 RSMo (Insurance other than life) to write property, liability, accident & health, and miscellaneous insurance. The Company is also licensed in the states of Alabama, Arkansas, Illinois, Indiana, Kansas, Louisiana, Mississippi and Oklahoma. Approximately 58% of the 2005 direct premiums were written in Missouri.

The Company markets private passenger automobile insurance and personal umbrella coverage through 186 licensed captive agents who are employed by ACOM and located in 65 branch offices, and through 312 independent agents, who accounted for 16.7% of direct premium in 2005. Insurance is sold only to members of ACOM.

The employees of ACOM also sell non-standard private passenger automobile insurance and homeowners insurance for ACIE's subsidiary, ACFIC. In addition, the employees sell memberships for ACOM as well as life, health and other insurance products for non-affiliated licensed insurance companies.

### **Policy Forms & Underwriting; Advertising & Sales Material and Treatment of Policyholders**

The Department of Insurance, Financial Institutions and Professional Registration has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. The most recent Missouri market conduct examination covered the period 2001-2003 and resulted in a forfeiture of \$5,225. The impact of this examination was immaterial to the financial statements.

A Market Conduct examination is currently underway for the years 2004-2005. There is no current expectation of findings which would impact the financial condition of the Company.

The Company had 405 closed complaints over the five year examination period. The trend was down with only 61 of those complaints occurring in 2005. Procedures are in place for complaints pursuant to Missouri regulation 20 CSR 300-2.200(3) (D) (Records required for purposes of market conduct examinations).

## REINSURANCE

### General

The Company's reinsurance and premium activity during the period under examination are as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct Written	\$113,876,733	\$140,240,802	\$155,934,905	\$155,917,538
Reinsurance Assumed from Affiliates	35,530,609	51,529,364	63,370,136	64,140,617
Reinsurance Assumed from Non-Affiliates	10	8	69	95
Reinsurance Ceded to Affiliates	(28,964,511)	(37,221,197)	(43,364,203)	(42,740,838)
Reinsurance Ceded to Non-Affiliates	<u>(4,584,798)</u>	<u>(5,664,192)</u>	<u>(5,484,091)</u>	<u>(6,354,057)</u>
Net Written Premiums	<u>115,858,043</u>	<u>148,884,785</u>	<u>173,456,816</u>	<u>170,963,355</u>

### Assumed

Pursuant to a pooling arrangement effective January 1, 1996, with the Company's subsidiary, Auto Club Family Insurance Company (ACFIC), ACIIE assumes 100% of ACFIC's net premiums and liabilities (gross direct premiums and liabilities less all reinsurance ceded to non-affiliates). These premiums and liabilities are then pooled with ACIIE's retained net premiums and liabilities and retroceded back to ACFIC at a 20% quota share, ACIIE retains the other 80% of the pooled premiums and liabilities.

The Company assumes an insignificant amount of reinsurance from mandatory pools: Missouri Property Insurance Placement Facility (FAIR Plan), the Louisiana Coastal and Joint Reinsurance Plans, the Illinois FAIR Plan, the Kansas FAIR Plan and the Mississippi Rural Risk and Windstorm Underwriting Associations.

### Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Prior to 2003, the Company ceded its excess of loss coverage and the first layers of its catastrophe coverage program to Employers Reinsurance Corporation. The top layers of the catastrophe program were brokered through intermediary Guy Carpenter, Inc. (Guy Carpenter) with participation by various reinsurers. Effective January 1, 2003, the Company ceded its excess of loss coverage to General Reinsurance Corporation and brokered its catastrophe excess of loss and property catastrophe aggregate excess coverages through Guy Carpenter.

During 2005, Hurricane Katrina and Hurricane Rita inflicted severe property damage to Company policyholders in Louisiana and Mississippi. As of December 31, 2005, the combined impact of these two catastrophes on the Company and Auto Club Family Insurance Company

was approximately \$133,687,000. Net of reinsurance, the combined impact on the Exchange and Family was approximately \$19,184,000.

As of December 31, 2005, the Company was a party to the following reinsurance agreements:

<u>Description</u>	<u>Retention</u>	<u>Reinsurance Limit</u>
<i>Property Per Risk Excess of Loss</i>		
First Layer	\$150,000 each risk each occurrence	\$150,000 each risk each occurrence \$450,000 all risks each occurrence
Second Layer	\$300,000 each risk each occurrence	\$700,000 each risk each occurrence \$2,100,000 all risks each occurrence
Third Layer	\$1,000,000 each risk each occurrence	\$500,000 each risk each occurrence \$1,500,000 all risks each occurrence
<i>Property Catastrophe Excess of Loss</i>		
First Layer	\$6,000,000 each occurrence	95% of \$4,000,000 each occurrence
Second Layer	\$10,000,000 each occurrence	100% of \$10,000,000 each occurrence
Third Layer	\$20,000,000 each occurrence	100% of \$20,000,000 each occurrence
Fourth Layer	\$40,000,000 each occurrence	100% of \$40,000,000 each occurrence
Fifth Layer	\$80,000,000 each occurrence	100% of \$70,000,000 each occurrence
<i>Property Catastrophe Aggregate Excess of Loss</i>		
	5% of \$3,000,000 each occurrence	95% of \$3,000,000 each occurrence
	95% of \$3,000,000 of aggregate ultimate net loss	
	5% of the excess of ultimate net loss	95% of \$6,000,000 of all loss occurrences
<i>Liability Excess of Loss</i>		
Standard Auto	\$200,000 each occurrence	
Non-Standard Auto	\$150,000 each occurrence	
Homeowners	\$150,000 each occurrence	
ECO and XPL only	80% of loss within treaty limit 90% excess of treaty retention	

*The above policies have 5 layers of reinsurance up to \$3,000,000 each occurrence including the retention.*

## ACCOUNTS AND RECORDS

An independent accounting firm audits the Company annually. The Company's financial statements were audited by the CPA firm, PriceWaterhouseCoopers, St. Louis, Missouri for each year under examination. A review was made of the workpapers of the last CPA audit. These workpapers and reports were used in the course of this examination as deemed appropriate.

Reserves and related actuarial items reported in the financial statements were reviewed and certified by Robert H. Wainscott, FCAS, MAAA, of Ernst & Young LLP, on behalf of the Company.

Jon Michelson, FCAS, MAAA, with Expert Actuarial Services, reviewed the actuarial assumptions and methods used by the Company in determining policy reserves and related actuarial items. He stated that reserves appeared reasonable.

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Department of Insurance, Financial Institutions and Professional Registration conducted a review of the Company's information systems. No problems were indicated.

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2005, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual financial statement item.

## ASSETS

	Amounts Per Annual Statement		Notes	Examination Findings	
	Ledger Assets	Assets Not Admitted		Net Admitted Assets	Examination Adjustments
Bonds	\$142,224,257				\$142,224,257
Common stocks	57,891,740				57,891,740
Mortgage loans on first liens	59,763				59,763
Real estate - occupied by the company	1,752,111				1,752,111
Cash and short-term investments	1,863,746				1,863,746
Receivable for securities	199				199
<b>Subtotal Cash and Invested Assets</b>	<b>\$203,791,816</b>				<b>\$203,791,816</b>
Investment income due and accrued	\$1,611,175				\$1,611,175
Uncollected premiums and agents balances	29,262,391	13,759			29,248,632
Amounts recoverable from reinsurers	11,270,040				11,270,040
Current federal and foreign income tax recoverable	1,987,574				1,987,574
Net deferred tax asset	2,831,191				2,831,191
Guaranty funds receivable or on deposit	371,808				371,808
Receivables from parent, subsidiaries and affiliates	1,346,274				1,346,274
Aggregate write-ins for other than invested assets	79,372				79,372
<b>Total Assets</b>	<b>\$252,551,641</b>	<b>\$13,759</b>			<b>\$252,537,882</b>

## LIABILITIES, SURPLUS AND OTHER FUNDS

	Amounts Per Annual Statement	Notes	Examination Adjustments	Amounts Per Examination
Losses	\$44,784,341			\$44,784,341
Loss adjustment expenses	5,811,762			5,811,762
Taxes, licenses and fees	718,873			718,873
Unearned premiums	62,606,735			62,606,735
Advance premium	599,199			599,199
Ceded reinsurance premiums payable	1,424,813			1,424,813
Drafts outstanding	383,302			383,302
Payable to parent, subsidiaries and affiliates	9,854,070			9,854,070
Payable for securities	92,966			92,966
Aggregate write-ins for liabilities	3,722,343			3,722,343
<b>Total Liabilities</b>	<b>\$129,998,404</b>			<b>\$129,998,404</b>
Surplus notes	\$22,105,000			\$22,105,000
Unassigned funds	100,434,478			100,434,478
<b>Total Liabilities, Capital and Surplus</b>	<b>\$252,537,882</b>			<b>\$252,537,882</b>

## STATEMENT OF INCOME

		Amounts Per Annual Statement
<b>UNDERWRITING INCOME</b>		
Premiums earned		\$168,879,204
<b>DEDUCTIONS</b>		
Losses incurred		105,388,883
Loss expenses incurred		12,581,984
Other underwriting expenses incurred		48,892,776
Total underwriting deductions		\$166,863,643
Net underwriting gain		\$2,015,561
<b>INVESTMENT INCOME</b>		
Net investment income earned		\$6,299,465
Net realized capital gains or (losses) less capital gains tax		198,648
Net investment gain		\$6,498,113
<b>OTHER INCOME</b>		
Net gain or (loss) from agent's or premium balances charged off		(\$89,788)
Finance and service charges not included in premiums		2,866,415
Aggregate write-in for miscellaneous income		(153)
Total other income		\$2,776,474
Net income before federal and foreign income taxes		\$11,290,148
Federal and foreign income tax		3,172,448
Net income		\$8,117,700

## **NOTES TO FINANCIAL STATEMENTS**

NONE

### **EXAMINATION CHANGES**

NONE

### **GENERAL COMMENTS AND/OR RECOMMENDATIONS**

NONE

### **SUBSEQUENT EVENTS**

On March 1, 2006, the Automobile Club of Southern California, the Automobile Club of Missouri, Auto Club Enterprises (California), the Inter-Insurance Exchange of the Automobile Club (CA Exchange), ACSC Management Services Inc., (California), Automobile Club Inter-Insurance Exchange (Missouri) and Club Exchange Corporation (Missouri) entered into an Affiliation Agreement.

This agreement provided for a \$50,000,000 surplus note to be purchased by Automobile Club of Southern California from Automobile Club Inter-Insurance Exchange with the proceeds being used to retire a \$20,000,000 note held by the Automobile Club of Missouri along with the associated interest. The remaining proceeds were taken into surplus. \$5,000,000 was infused into ACFIC to increase surplus to a level that would allow it to become licensed in the state of California. Other provisions provided for the pooling of reinsurance, replacement of advisory board members, and a services agreement between Auto Club Enterprises (California) and Automobile Club of Missouri.

As of June 30, 2006, the notes mentioned above had been executed and retired as indicated. The effects of the other provisions of the agreement are not determinable at this time, however the Department of Insurance, Financial Institutions and Professional Registration has been aware of this affiliation for some time and has not disagreed with it.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of Automobile Club Inter-Insurance Exchange during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Richard Stamper, CFE, Ed Lang, Douglas Daniels, Joseph Hofmeister, and Maipandi Obeth Examiners for the Department of Insurance, Financial Institutions and Professional Registration, participated in this examination. Jon Michelson, FCAS, MAAA, with Expert Actuarial Services, reviewed the actuarial assumptions and methods used by the Company in determining policy reserves and related actuarial items.

**VERIFICATION**

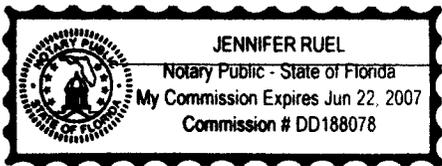
*FlORIDA*  
State of ~~Missouri~~ )  
  
*DouAL* ) ss  
County of ~~St. Louis~~ )

I, Wyatt Sample, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

*Wyatt R Sample*  
\_\_\_\_\_  
Wyatt R. Sample, CFE, CPA,  
Examiner-in-Charge  
Department of Insurance, Financial Institutions  
and Professional Registration

Sworn to and subscribed before me this 14 day of MARCH, 2007.

My commission expires:



*Jennifer Ruel*  
\_\_\_\_\_  
Notary Public

**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

*Christiana Dugopolski*  
\_\_\_\_\_  
Christiana Dugopolski, CPA, CFE  
Audit Manager, St. Louis  
Department of Insurance, Financial Institutions  
and Professional Registration  
Midwestern Zone, NAIC