

Report on Examination
of
MOTOR CLUB INSURANCE COMPANY
Providence, Rhode Island
as of
December 31, 2019



State of Rhode Island
Department of Business Regulation
Insurance Division



State of Rhode Island
DEPARTMENT OF BUSINESS REGULATION
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Insurance Division

ADOPTION ORDER

The attached Report of Examination as of December 31, 2019, of the condition and affairs of

MOTOR CLUB INSURANCE COMPANY

was recently completed by duly qualified examiners, pursuant to the provisions of the Rhode Island General Laws.

Due consideration has been given to the comments of the examiners regarding the operation of the Company and its financial condition, as reflected in the report.

It is therefore ORDERED that said Report be, and it is hereby, adopted and filed and made an official record of this Department as of this date.

Department of Business Regulation

A handwritten signature in cursive script, reading 'Elizabeth Kelleher Dwyer'.

Dated: January 25, 2021

Elizabeth Kelleher Dwyer
Superintendent of Insurance

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December 11, 2020

Ms. Elizabeth Kelleher Dwyer
Superintendent of Insurance
State of Rhode Island
Department of Business Regulation
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Dear Superintendent Dwyer:

In accordance with your instructions and pursuant to Chapters 13.1 and 35 of Title 27 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2019, of the financial condition and affairs of

MOTOR CLUB INSURANCE COMPANY

located at 110 Royal Little Drive, Providence, Rhode Island. The report of such examination is herewith submitted.

Motor Club Insurance Company (also referred to as “MCIC” or the “Company”) was previously examined as of December 31, 2014, and both the current and prior examinations were conducted by the Insurance Division of the State of Rhode Island (“Insurance Division”).

SCOPE OF EXAMINATION

The last examination of the Company covered the five-year period of January 1, 2010 through December 31, 2014. The current examination covered the five-year period of January 1, 2015 through December 31, 2019 and was performed in compliance with the above-mentioned sections of the General Laws of the State of Rhode Island, as amended. We conducted our examination in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”), and it was performed in conjunction with the full-scope coordinated multi-state risk-focused examination (“Coordinated Exam”) of the Auto Club Enterprises Insurance Group (“ACEIG”). The lead state for the Coordinated Exam was California. The states of Missouri, Rhode Island, and Texas also participated in the Coordinated Exam, which included the following insurers:

Name of Insurer	State of Domicile
Interinsurance Exchange of the Automobile Club	California
Auto Club Indemnity Company	Texas
Auto Club Casualty Company	Texas
Motor Club Insurance Company	Rhode Island
Automobile Club Inter-Insurance Exchange	Missouri
Auto Club Family Insurance Company	Missouri
Auto Club County Mutual Insurance Company	Texas

The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

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 separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse or significant non-compliance findings noted during the examination conducted as of December 31, 2019.

COMPANY HISTORY

AAA Southern New England Insurance Company came into existence on September 14, 2005, through the actions of its incorporator, John J. Partridge, and pursuant to the filing of its Articles of Incorporation with the Secretary of State, as approved by the Director of the Department of Business Regulation for the State of Rhode Island.

Under the terms of the original Articles of Incorporation, the Company was authorized to issue capital stock in the following two classes of stock: one thousand (1,000) shares of common stock, no par value per share, and one hundred thousand (100,000) shares of cumulative preferred stock, \$100 par value per share.

On September 16, 2005, the Company issued one million dollars (\$1,000,000) of capital stock to AAA SNE Holding, Inc., consisting of one hundred (100) shares of common stock, having no par value. Also, on September 16, 2005, AAA SNE Holding, Inc. contributed surplus in the amount of two million five hundred thousand dollars (\$2,500,000).

On April 1, 2007, five (5) shares of authorized no par value common stock of the Company were issued to AAA Merrimack Valley, Inc., in exchange for one million dollars (\$1,000,000).

On December 31, 2007, an additional fifty-five (55) shares were issued to AAA SNE Holding, Inc.

On June 30, 2008, two (2) additional shares of authorized no par value common stock of the Company were issued to AAA Merrimack Valley, Inc., in exchange for five hundred thousand dollars (\$500,000). The no par value common stock had a stated value of \$10,000 per share.

In April 2010, AAA SNE Holding, Inc. purchased the outstanding shares owned by AAA Merrimack Valley, Inc. for one million six hundred thousand dollars (\$1,600,000), and AAA SNE Holding then owned 100% of the outstanding shares of AAA Southern New England Insurance Company.

In the fourth quarter of 2013, the Company changed its name from AAA Southern New England Insurance Company to Motor Club Insurance Company, and a new certificate of authority was issued on December 30, 2013.

On May 13, 2015, AAA SNE Holding, Inc. changed its name to AAA Northeast Holding, Inc. (“ANEH”). ANEH is a wholly owned subsidiary of AAA Northeast (“ANE”), a Delaware nonstock corporation.

In September of 2017, the Company amended and restated its Articles of Incorporation. Under the Restated Articles of Incorporation, the total authorized capital stock consists of five thousand (5,000) shares of Class A Common Stock, no par value, and five thousand (5,000) shares of Class B Common Stock, no par value. The pre-existing one-hundred-sixty-two (162) shares of common

stock outstanding were immediately reclassified into fifty (50) shares of Class A Common Stock and fifty (50) shares of Class B Common Stock.

On December 1, 2017, the Interinsurance Exchange of the Automobile Club (“IEAC”, or “the Exchange”), a California domiciled insurer, purchased the fifty (50) shares issued and outstanding of Class B Common Stock of MCIC from ANEH. The Exchange’s acquisition was made pursuant to the terms of a Stock Purchase Agreement dated June 20, 2017 among the Exchange, ANE, and ANEH. The cash purchase price for the 50% ownership was \$25,315,500.

The principal office of the Company is located within property occupied by its parent, ANEH, in Providence, Rhode Island.

MANAGEMENT AND CONTROL

Stockholders

The Amended and Restated Bylaws (“Bylaws”) provide that the annual meeting shall be held on the first Thursday in April of every year, for the purpose of electing directors and transacting other business as may be properly presented. Special meetings may be called at any time by the President, by order of the Board of Directors, or at the request of a stockholder or group of stockholders holding at least ten percent (10%) of the outstanding shares. At all meetings of the stockholders, each share of common stock shall be entitled to one vote. The Bylaws also provide that any action required or permitted to be taken at a meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote thereon consent thereto in writing.

The Bylaws stipulate that a majority of the shares of issued and outstanding capital stock entitled to vote, represented in person or by proxy, shall constitute a quorum for the transaction of business.

Board of Directors

The Bylaws provide that the affairs and business of the Company shall be managed by the Board of Directors (“Board”), and the Board shall have, and may exercise, all of the powers of the Company, except such as are conferred by the Bylaws upon the stockholders.

The Restated Articles of Incorporation stipulate that the Board shall consist of three (3) Class A Directors and three (3) Class B Directors, with the Class A Directors being elected by the holders of the Class A Common Stock and the Class B Directors being elected by the holders of the Class B Common Stock. Except in the case of a vacancy, directors shall be elected annually.

Regular meetings of the Board shall be held immediately following the annual meeting of the stockholders and at least two (2) meetings shall be held in each calendar year. Special meetings of the Board may be called by or at the request of the President or any one director. The Bylaws also provide that any action that may be taken by the Board or a committee thereof at a meeting may be taken without a meeting if a consent in writing is signed on or after such action by all of the directors or members of the applicable committee.

The members of the Board together with the principal business or professional affiliation of each director as of December 31, 2019 follows:

Class A Directors

Name	Business Affiliation	Term Expires
Mark A. Shaw	President and Chief Executive Officer (retired) AAA Northeast	June 2020
John Raymond Galvin	President and Chief Executive Officer AAA Northeast	June 2020
Francis Xavier Doyle	Senior Vice President AAA Northeast	June 2020

Class B Directors

Name	Business Affiliation	Term Expires
John Francis Boyle	President and Chief Executive Officer Automobile Club of Southern California	June 2020
Christopher Michael Baggaley	Senior Vice President, Sales & Service Automobile Club of Southern California	June 2020
Brian Harris Deephouse	Senior Vice President of Membership & Insurance Products and Risk Management Automobile Club of Southern California	June 2020

Committees

The Bylaws provide that the Board may, by resolution adopted by all of the directors, designate one or more committees to exercise any or all of the authority of the Board. Each such committee shall be comprised of an equal number of Class A Directors and Class B Directors.

At December 31, 2019, there were no standing committees of the Board. In accordance with R.I. Gen. Laws §27-1-2.1(a)(5), the entire Board acts as the audit committee of the Company.

Officers

The Bylaws provide that the officers of the Company shall consist of a President, one or more Vice-Presidents if elected, a Secretary, a Treasurer, and such other officers and agents as may be deemed necessary by the Board. Any two or more offices may be held by the same person. No officer need be a director or a shareholder of the Company.

The officers serving at December 31, 2019 and their respective titles are as follows:

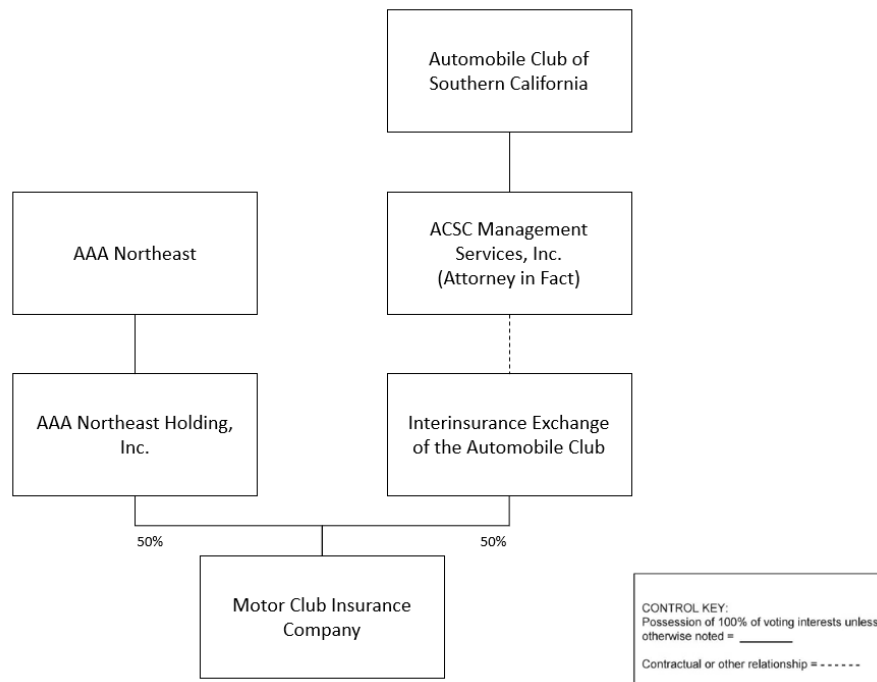
Name	Title
John Francis Boyle	President / Chief Executive Officer
Raju Thirumala Varma	Vice President / Chief Financial Officer / Treasurer
Avery Renaud Brown	Vice President / General Counsel
Gail Chi-way Louis	Secretary
Tzechung Eric Lai	Assistant Secretary

Organizational Structure

At December 31, 2019, the Company is 50% owned by ANEH, and 50% owned by the Exchange. The Exchange is deemed to be indirectly controlled by the Automobile Club of Southern California (“ACSC”), a nonprofit mutual benefit corporation incorporated in the State of California. ANEH is a wholly owned subsidiary of ANE, a Delaware nonstock corporation. Accordingly, ANE and

ACSC are each considered an ultimate controlling person of the Company under insurance holding company system laws.

The following represents an abbreviated organizational chart as of December 31, 2019, which is not inclusive of the entire organizational structure, but only of the Company and its controlling affiliates:



Intercompany Agreements

Intercompany Service Agreement

Effective September 14, 2005, the Company entered into an Intercompany Service Agreement (“Service Agreement”) with AAA Southern New England. Under the terms of the Service Agreement, AAA Southern New England agreed to provide accounting, tax, auditing, investment, and functional support services to the Company. The Company agreed to reimburse AAA Southern New England for all services, property, equipment and facilities provided to the Company.

The Service Agreement was terminated effective November 30, 2017.

Tax Allocation Agreement

Effective December 31, 2006, the Company entered into a Tax Allocation Agreement (“Tax Agreement”) with AAA SNE Holding, Inc. and AAA Southern New England. The Tax Agreement provided for the allocation of the consolidated tax balances of AAA Southern New England and its subsidiaries based upon each subsidiary’s contribution to taxable income.

The Tax Agreement was terminated effective November 30, 2017.

Administrative Services Agreement with ANE

Effective December 1, 2017, the Company entered into an Administrative Services Agreement with ANE, under which MCIC receives certain marketing and distribution services from ANE.

Administrative Services Agreement with the Exchange

Effective December 1, 2017, the Company entered into an Administrative Services Agreement with the Exchange, under which the Exchange provides certain services related to the Quota Share Reinsurance Agreement (discussed below).

Quota Share Reinsurance Agreement with the Exchange

Effective December 1, 2017, the Company entered into a Quota Share Reinsurance Agreement with the Exchange, under which the Exchange reinsures, on a first dollar basis, 100% of the AAA-branded automobile and homeowner's personal lines insurance products underwritten by MCIC, as well as any additional insurance products written by MCIC with the consent of the Exchange.

TERRITORY AND PLAN OF OPERATION

The Company is licensed only in the State of Rhode Island. Its Certificate of Compliance authorizes the Company to issue policies and transact business of any and all risks except life, annuities, title, mortgage guaranty, financial guaranty insurance, and workers' compensation insurance in the State of Rhode Island.

Effective July 8, 2014, the Company entered into a travel insurance quota share reinsurance agreement with BCS Insurance Company to assume 100% of certain travel insurance risks. The agreement was terminated in 2017, and there were no policies in force or claims outstanding as of December 31, 2019.

Following the acquisition of 50% of MCIC by the Exchange on December 1, 2017, the Exchange, ACSC, ANE, ANEH, and MCIC entered into an Alliance Agreement under which MCIC began writing AAA-branded automobile and homeowners personal lines insurance in Rhode Island in 2018, and from time to time thereafter in each additional jurisdiction added to the territory covered by the Alliance Agreement.

REINSURANCE

As of December 1, 2017, the Company entered into a Quota Share Reinsurance Agreement with the Exchange, as detailed in the Intercompany Agreements section above.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Rhode Island Department of Business Regulation and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements:

Comparative Statement of Assets
December 31, 2019 and December 31, 2014

Comparative Statement of Liabilities and Capital and Surplus
December 31, 2019 and December 31, 2014

Statement of Income
Year Ended December 31, 2019

Reconciliation of Capital and Surplus
December 31, 2014 to December 31, 2019

Analysis of Examination Adjustments
December 31, 2019

MOTOR CLUB INSURANCE COMPANY
Comparative Statement of Assets
December 31, 2019 and December 31, 2014

	December 31, 2019	December 31, 2014	Increase (Decrease)
Bonds	\$ 29,497,591	\$ 23,019,561	\$ 6,478,030
Common stocks	30,899,956	20,768,214	10,131,742
Cash, cash equivalents, and short-term investments	967,523	317,504	650,019
Other invested assets (Schedule BA)	-	2,355,522	(2,355,522)
Receivables for securities	2,905	-	2,905
Aggregate write-ins for invested assets	-	19,116	(19,116)
Investment income due and accrued	179,163	265,295	(86,132)
Uncollected premiums and agents' balances in the course of collection	215,700	-	215,700
Earned but unbilled premiums	3,114,052	-	3,114,052
Amounts recoverable from reinsurers	1,486,111	-	1,486,111
Funds held by or deposited with resinsured companies	101	-	101
Receivables from parent, subsidiaries, and affiliates	524,146	-	524,146
 Total Assets	 <u>\$ 66,887,248</u>	 <u>\$ 46,745,212</u>	 <u>\$ 20,142,036</u>

MOTOR CLUB INSURANCE COMPANY
Comparative Statement of Liabilities and Capital and Surplus
December 31, 2019 and December 31, 2014

	December 31, 2019	December 31, 2014	Increase (Decrease)
Losses	\$ 96	\$ 19,853	\$ (19,757)
Reinsurance payable on paid losses and loss adjustment expenses	475	-	475
Loss adjustment expense	5	992	(987)
Commissions payable, contingent commissions, and other similar charges	404,593	-	404,593
Other expenses (excluding taxes, licenses, and fees)	64,075	42,861	21,214
Taxes, licenses, and fees (excluding federal and foreign income taxes)	10,084	-	10,084
Current federal and foreign income taxes	35,439	195,684	(160,245)
Net deferred tax liability	1,926,380	712,771	1,213,609
Unearned premiums		102,131	(102,131)
Advance Premium	535,221	-	535,221
Ceded reinsurance premiums payable	5,381,580	-	5,381,580
Amounts withheld or retained by company for account of others	20,886	-	20,886
Remittances and items not allocated	42,007	-	42,007
Payable to parent, subsidiaries, and affiliates	708,888	2,900	705,988
Payable for securities	234,950	-	234,950
Aggregate write-ins for other liabilities	66,450	-	66,450
Total Liabilities	\$ 9,431,129	\$ 1,077,192	\$ 8,353,937
Aggregate write-ins for special surplus funds			
Common capital stock	1,620,000	1,620,000	-
Gross paid in and contributed surplus	30,880,000	30,880,000	-
Unassigned funds (surplus)	24,956,119	13,168,020	11,788,099
Total Capital and Surplus	\$ 57,456,119	\$ 45,668,020	\$ 11,788,099
Total Liabilities, Capital and Surplus	\$ 66,887,248	\$ 46,745,212	\$ 20,142,036

MOTOR CLUB INSURANCE COMPANY

Statement of Income

December 31, 2019

Underwriting Income:

Premiums earned \$ 2,578

Deductions:

Losses incurred (4,846)

Loss adjustment expenses incurred (242)

Other underwriting expenses incurred 1,813

Total underwriting deductions (3,275)

Net underwriting gain (loss) 5,853

Investment Income:

Net investment income earned 1,508,149

Net realized capital gains (losses)
less capital gains tax 138,953

Net investment gain (loss) 1,647,102

Other Income:

Total other income -

Net income, after dividends to policyholders, after
capital gains tax, and before all other federal
and foreign income taxes 1,652,955

Federal and foreign income taxes incurred 307,459

Net income \$ 1,345,496

MOTOR CLUB INSURANCE COMPANY
Reconciliation of Capital and Surplus
December 31, 2014 to December 31, 2019

Capital and Surplus, December 31, 2014 \$ 45,668,020

	<u>Gains</u>	<u>Losses</u>	
Net income	5,907,941		
Change in net unrealized capital gains	5,897,204		
Change in net deferred income tax		(87,958)	
Change in nonadmitted assets	<u>70,912</u>		
Total Gains and Losses	<u>11,876,057</u>	<u>(87,958)</u>	
Net change in Capital and Surplus for the period			<u>11,788,099</u>
Capital and Surplus, December 31, 2019			<u>\$ 57,456,119</u>

MOTOR CLUB INSURANCE COMPANY
Analysis of Examination Adjustments
December 31, 2019

The examination of the Company, performed as of December 31, 2019, did not disclose any material misstatements to the financial statements contained in its 2019 Annual Statement filing. Accordingly, the amounts reported by the Company have been accepted for purposes of this report.

COMMENTS ON FINANCIAL STATEMENTS

Bonds

\$ 29,497,591

The above amount is the net admitted value of bonds held by the Company at December 31, 2019 and is the same amount reported by the Company in its 2019 Annual Statement. All the bonds are held in accordance with the terms of custodial agreements with third-party financial institutions.

The quality ratings of all securities included in the Company's bond portfolio were reviewed based upon criteria established by the National Association of Insurance Commissioners ("NAIC"). It was noted that 84.5% of the bond portfolio represents class NAIC-1, which are bonds of the "highest" quality according to the NAIC rating system, while 15.3% were NAIC-2 ("high" quality), and 0.2% were NAIC-3 ("medium" quality).

The book/adjusted carrying value, fair value, actual cost, and par value of the bond portfolio at December 31, 2019, are as follows:

<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>	<u>Par Value</u>
\$29,497,591	\$30,676,614	\$29,478,665	\$29,191,461

Ceded Reinsurance Premiums Payable

\$ 5,381,580

The above amount is the same as that reported by the Company in its 2019 Annual Statement and represents ceded premiums payable to an affiliate, the Exchange, under the ceded reinsurance agreement described in the "Reinsurance" section of this Report.

SUBSEQUENT EVENTS

A review of financial information, Company records, and the minutes to the Board's meetings for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Company's operations or financial statements. In addition, an inquiry was made of the Company's management regarding subsequent events. Based upon our review, there were two significant events that occurred subsequent to December 31, 2019 as follows:

1. On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. The Insurance Division is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The

Insurance Division and all insurance regulators, with the assistance of the NAIC, are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The Insurance Division has been in communication with the Company and the ACEIG regarding the impact of COVID-19 on its business operations and financial position.

2. Subsequent to December 31, 2019, the COVID-19 pandemic caused automobile insurance claims volume and losses to decrease because of reduced miles driven. In response to this, the Company has issued \$1,700,000 in premium returns to Rhode Island automobile policyholders for premiums earned between March 16, 2020 and September 30, 2020, as of the date of this report. The Company is proposing to issue additional premium returns for premiums earned between October 1, 2020 and December 31, 2020 at the time of this report.

CONCLUSION

We have applied verification procedures to the data and information contained in this report using sampling techniques and other examination procedures as deemed appropriate. While sampling and other examination procedures do not give complete assurance that all errors and irregularities will be detected, had any been detected during the course of this examination, such errors and/or irregularities would have been disclosed in this report. Other than what has been noted in the body of this report, we were not informed of, and did not become aware of any errors or irregularities that could have a material effect on the financial condition of the Company as presented in this report.

Participating in the examination with the undersigned were various insurance examiners from the Rhode Island Insurance Division.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joseph R. Rapczak". The signature is fluid and cursive, with a long horizontal stroke at the end.

Joseph R. Rapczak, CPA, CIA, AFE
Principal Insurance Examiner
Rhode Island Insurance Division