

EXAMINATION REPORT
OF
AUTO-OWNERS SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
AUTO-OWNERS SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro
Insurance Commissioner

Dated this 20 day of May, 2021

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April 27, 2021

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street, Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 20.028, dated March 3, 2020, an examination has been made of the affairs, financial condition and management of

AUTO-OWNERS SPECIALTY INSURANCE COMPANY

hereinafter referred to as AOSIC or the Company. The Company was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 160 Greentree Drive, Suite 101, Dover, Delaware 19904. The administrative office of the Company is located at 400 Commerce Court, Goldsboro, North Carolina 27534. The examination was conducted remotely given office closures and travel restrictions in connection with the COVID-19 pandemic. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The last examination was conducted as of December 31, 2014 by the Delaware Department of Insurance (Department). This examination covered the period of January 1, 2015 through December 31, 2019. Our examination was performed as part of the coordinated examination of the Auto-Owners Group

(Group) of regulated entities, wherein the State of Michigan is the lead state and Delaware is a participating state. The examination was conducted concurrently with that of the Company's ultimate parent Auto-Owners Insurance Company (AOIC) and its affiliate Atlantic Casualty Insurance Company (ACIC). To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC 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, pursuant to the *General Corporation Laws* of the State of Delaware, as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified

during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Johnson and Lambert, LLP (JL). Certain work papers for JL's 2019 audit of the Company and certain of its affiliates have been incorporated into the work papers of the examiners. The work papers were utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in the Company's Financial Statements as a result of this examination.

COMPANY HISTORY

The Company was incorporated under the laws of North Carolina on December 31, 2005, as Coastal Casualty Insurance Company. The Company was originally licensed to write automobile liability and physical damage business on an admitted basis in North Carolina. Beginning in 2006, the Company wrote non-standard personal automobile coverage throughout North Carolina until it ceased writing all business by the end of 2008. Effective February 1, 2012, the Company redomesticated to the State of Delaware and changed its name to Little River Insurance Company. The Company is now licensed to write general liability and property business in several states but has remained inactive since 2008.

Prior to the acquisition by AOIC, the Company was wholly owned by the Strickland Insurance Group, Inc. (SIG) and ultimately controlled by Robert Wyatt Strickland. Effective January 1, 2016, SIG was acquired by AOIC and the Company's current name was adopted.

Effective December 31, 2019, SIG was dissolved and all outstanding shares of the Company were transferred to AOIC.

Capitalization

The Company's Certificate of Incorporation authorizes the issue of one million shares of common stock at \$3.00 par value. As of December 31, 2019, the Company had one million common shares issued and outstanding totaling \$3 million. All outstanding shares of the Company are owned by AOIC. As of December 31, 2019, the Company reported gross paid in and contributed surplus of \$29.1 million.

Dividends

No dividends were declared or paid during the examination period.

MANAGEMENT AND CONTROL

Directors

Pursuant to the *General Corporation Laws* of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and affairs of the Company must be managed by, or under the authority of, its Board of Directors (Board). The Company's bylaws require its Board consist of not less than three nor more than ten individuals. Directors are elected annually by the stockholder for a term of one year. Directors duly elected and serving as of December 31, 2019, were as follows:

<u>Name</u>	<u>Title</u>
Jeffrey Scott Tagsold	Chairman of the Board and Chief Executive Officer Auto-Owners Insurance Company
Robert Wyatt Strickland	Vice Chairman of the Board Former President Strickland Insurance Group

Auto-Owners Specialty Insurance Company

William Finch Woodbury	Secretary, General Counsel Auto-Owners Insurance Company
Christopher Bret Strickland	President & CEO Auto-Owners Specialty Insurance Company
Lester Paul Aycock	Executive Vice President, Auto-Owners Specialty Insurance Company
Gregory Andrew Ricker	Executive Vice President, Auto-Owners Specialty Insurance Company
Lori Ann McAllister	Outside Director, Attorney, Michigan
Theodore William Reinbold	Senior Vice President, Actuarial, Auto-Owners Group
William Glenn Reynolds	Retired – Former President, Atlantic Casualty Insurance Company
Daniel Jerome Thelen ¹	President, Auto-Owners Insurance Company
Carolyn Dale Muller ²	Vice President, Auto-Owners Insurance Company

¹ Subsequent to the examination period, Daniel Jerome Thelen retired from Auto-Owners Insurance Company and he retired from the Boards of ACIC/AOSIC at the same time. Mr. Thelen was replaced by Brandi Elizabeth Holly.

² Subsequent to the examination period, Carolyn Dale Muller retired from Auto-Owners Insurance Company and concurrently resigned as a member of the Board and was replaced by Michael David Pike.

Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a Chief Executive Officer, Chief Financial Officer, President, Secretary, Treasurer and one or more Vice-Presidents, including Executive Vice Presidents. Other officers may be appointed by or under the authority of the Board. Any two or more offices may be held by the same person. The primary officers serving as of December 31, 2019, were as follows:

<u>Name</u>	<u>Title</u>
Christopher Bret Strickland	President & Chief Executive Officer
William Finch Woodbury	Corporate Secretary
Stephen Michael Westfield	Treasurer & Chief Financial Officer
Lester Paul Aycock	Executive Vice President
Gregory Andrew Ricker	Executive Vice President
Jennifer Cunningham	Vice President and Controller

Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including approval of investment transactions as required by 18 *Del. C.* § 1304. In addition, review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination as required by 18 *Del. C.* § 4919.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* § 5001 of the Delaware Insurance Code. As of December 31, 2019, the Company is a

direct wholly owned subsidiary of AOIC, which is a mutual insurance company domiciled in the State of Michigan. The following is an abbreviated organizational chart of the insurance holding company system as of December 31, 2019:

<u>Company</u>	<u>Domicile</u>
The Auto-Owners Insurance Company	Michigan
Auto-Owners Life Insurance Company	Michigan
Home-Owners Insurance Company	Michigan
Property-Owners Insurance Company	Indiana
Southern-Owners Insurance Company	Michigan
Owners Insurance Company	Ohio
Strickland Insurance Group ¹	North Carolina
Atlantic Casualty Insurance Company	North Carolina
Auto-Owners Specialty Insurance Company	Delaware
CIG Holding Company, Inc.	Delaware
California Capital Insurance Company	California
Eagle West Insurance Company	California
Monterey Insurance Company	California
Nevada Capital Insurance Company	Nevada
Concord General Mutual Insurance Company	New Hampshire
Green Mountain Insurance Company, Inc.	Vermont
Vermont Accident Insurance Company, Inc.	Vermont
State Mutual Insurance Company ²	Maine
Sunapee Mutual Fire Insurance Company ²	New Hampshire
Bow Mutual Fire Insurance Company ²	New Hampshire
Weare Mutual Fire Insurance Company ²	New Hampshire

¹Effective December 31, 2019, SIG was dissolved and shares of both ACIC and the Company were transferred to AOIC.

²Entity is affiliated with Concord General Mutual Insurance Company through common management.

Agreements with Affiliates

The following is a summary of the Company's significant affiliated agreements in-force as of December 31, 2019:

Administrative Services Agreement - Effective January 1, 2016, the Company became party to an Agreement for Administrative Services between AOIC and SIG. In accordance with the agreement, AOIC provides the Company and participating affiliates research, management, financial and accounting, computer and other administrative services. The Company pays AOIC

a monthly service fee for actual expenses incurred by AOIC on its behalf. Effective, December 31, 2019, at 11:59 p.m., the agreement was terminated and replaced by two new agreements.

Effective December 31, 2019, at 11:59 p.m., the Company entered into an Agreement for Administrative Services with AOIC. In accordance with the agreement, AOIC provides the Company research, management, financial and accounting, computer, and other administrative services. The Company pays AOIC a monthly service fee for actual expenses incurred by AOIC on its behalf.

Effective December 31, 2019, at 11:59 p.m., the Company entered into an Agreement for Administrative Services with ACIC. In accordance with the agreement, ACIC provides the Company executive administration, marketing, underwriting, claim handling, accounting, computing, purchasing and other administrative and management services. The Company pays ACIC a monthly service fee based on actual expenses incurred by ACIC on behalf of the Company and general expenses on a pro-rata basis.

Tax Allocation Agreement – Effective May 22, 2019, the Company became party to a Tax Allocation Agreement with AOIC and certain of its affiliates. In accordance with the agreement, the provisions for federal income tax are computed as if each company were filing separate income tax returns. Benefits, which arise from tax credits and net operating losses, are allocated to the company producing such results to the extent they are utilized in the consolidated income tax provisions. Intercompany tax balances are to be settled through estimated tax installments payable on or before the due date for each installment and final amounts for the fiscal year are settled within thirty days after amounts have been determined.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to underwrite general liability and property business on an admitted basis in thirty-five states. As of December 31, 2019, the Company was inactive with no written or assumed premium and no gross or net policyholder liability.

REINSURANCE

As of December 31, 2019, the Company had no gross policyholder loss related liabilities. The Company is inactive, therefore does not have a reinsurance program.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets as of December 31, 2019
- Statement of Liabilities, Surplus and Other Funds as of December 31, 2019
- Statement of Income for the Year Ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2014 to December 31, 2019

**Statement of Assets
as of December 31, 2019**

	<u>Assets</u>	<u>Non admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 27,500,341	\$ -	\$ 27,500,341
Preferred Stocks	127,500	-	127,500
Cash and cash equivalents	1,396,312	-	1,396,312
Other invested assets	454,710	-	454,710
Subtotals, cash and invested assets	<u>\$ 29,478,863</u>	<u>\$ -</u>	<u>\$ 29,478,863</u>
Investment income due and accrued	226,862	-	226,862
Aggregate write-ins for other than invested assets	4,950	-	4,950
Total Assets	<u><u>\$ 29,710,675</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 29,710,675</u></u>

**Statement of Liabilities, Surplus and Other Funds
as of December 31, 2019**

		<u>Notes</u>
Losses	\$ -	1
Loss adjustment expense	-	1
Current federal and foreign income taxes	5,739	
Unearned Premiums	3,538	
Payable to parent, subsidiaries and affiliates	41,666	
Payable for securities	510,000	
Total liabilities	<u>\$ 560,943</u>	
Common capital stock	\$ 3,000,000	
Gross paid in and contributed surplus	26,000,000	
Unassigned funds (surplus)	149,732	
Capital and Surplus	<u>\$ 29,149,732</u>	
Total liabilities, surplus and other funds	<u>\$ 29,710,675</u>	

**Summary of Income
for the Year Ended December 31, 2019**

Premiums earned	\$	-
 DEDUCTIONS:		
Losses incurred	\$	(696)
Loss adjustment expenses incurred		-
Other underwriting expenses incurred		409,841
Total underwriting deductions	<u>\$</u>	<u>409,145</u>
 Net underwriting gains (losses)	 <u>\$</u>	 <u>(409,145)</u>
 INVESTMENT INCOME:		
Net investment income earned	\$	785,865
Net realized capital gains		(26,843)
Net investment gain	<u>\$</u>	<u>759,021</u>
 OTHER INCOME (EXPENSE):		
Aggregate write-ins for miscellaneous income (expense)	\$	(22)
Total other income (expense)	<u>\$</u>	<u>(22)</u>
 Net income after capital gains tax and before all other federal income taxes	 <u>\$</u>	 <u>349,855</u>
Federal income taxes incurred		69,419
Net income	<u>\$</u>	<u>280,436</u>

**Reconciliation of Capital and Surplus
for the Period from the Prior Examination
as of December 31, 2014, to December 31, 2019**

	Common Capital Stock	Gross Paid In & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2014	\$ 1,800,000	\$ 2,200,000	\$ (768,317)	\$ 3,231,683
Net Income - 2015	-	-	(29,598)	(29,598)
Other Changes - 2015 (1)	-	-	2	2
December 31, 2015	<u>\$ 1,800,000</u>	<u>\$ 2,200,000</u>	<u>\$ (797,913)</u>	<u>\$ 3,202,087</u>
Net Income - 2016	-	-	62,413	62,413
Capital Contribution (2)	-	25,000,000	-	25,000,000
December 31, 2016	<u>\$ 1,800,000</u>	<u>\$ 27,200,000</u>	<u>\$ (735,500)</u>	<u>\$ 25,062,413</u>
Net Income - 2017	-	-	327,961	327,961
Other Changes - 2017 (1)	-	-	(4,288)	(4,288)
December 31, 2017	<u>\$ 1,800,000</u>	<u>\$ 27,200,000</u>	<u>\$ (411,827)</u>	<u>\$ 28,588,173</u>
Net Income - 2018	-	-	284,566	284,566
Other Changes - 2018 (1)	-	-	(22,325)	(22,325)
Change in Par Value (3)	1,200,000	(1,200,000)	-	-
December 31, 2018	<u>\$ 3,000,000</u>	<u>\$ 26,000,000</u>	<u>\$ (149,586)</u>	<u>\$ 28,850,414</u>
Net Income - 2019	-	-	280,436	280,436
Other Changes - 2019 (1)	-	-	18,881	18,881
December 31, 2019	<u>\$ 3,000,000</u>	<u>\$ 26,000,000</u>	<u>\$ 149,732</u>	<u>\$ 29,149,732</u>

(1) Other Changes in Unassigned Funds (Surplus) for each year may include change in net unrealized capital gains/losses, change in net deferred income taxes, change in non-admitted assets and change in the provision for reinsurance.

(2) Capital contribution was received from AOIC as gross paid in & contributed surplus.

(3) The Company's Certificate of Incorporation was amended to increase the par value per common share of common stock from \$1.80 per share to \$3.00 per share to satisfy capital requirements of certain states where the Company is seeking admittance.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes made to the Company's Financial Statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Losses	\$0
Loss Adjustment Expense	\$0

As of December 31, 2019, the Company had no gross or net loss related liabilities.

SUBSEQUENT EVENTS

Subsequent events were evaluated through April 27 2021, the date that this examination report was available to be issued. Based on this evaluation, the following transactions were deemed material for disclosure in the examination report.

Change in Board of Directors

Effective January 1, 2020, Carolyn Dale Muller retired from Auto-Owners Insurance Company and concurrently resigned as a member of the Board and was replaced by Michael David Pike.

Effective February 1, 2021, Daniel Jerome Thelen retired from Auto-Owners Insurance Company and he retired from the boards of ACIC/AOSIC at the same time. Mr. Thelen was replaced on the ACIC/AOSIC boards by Brandi Elizabeth Holly.

Other Significant Events

Beginning in March of 2020, the World has experienced, and continues to experience a pandemic related to the COVID-19 virus. As of the date of this examination report, the Company's operations and financial condition had not been materially impacted.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the Company's outside audit firm, Johnson and Lambert LLC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Craig Jackson, CPA, CFE
Examiner In-Charge
State of Delaware



Richard Palmatary, CPA, CFE
Supervising Examiner
State of Delaware

I, Craig Jackson, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to Examination Authority No. 20.028.

A handwritten signature in black ink, appearing to read "Craig Jackson", is written above a horizontal line.

Craig Jackson, CPA, CFE