REPORT OF EXAMINATION

OF THE

AUTOMOBILE CLUB OF SOUTHERN CALIFORNIA

LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

Filed November 15, 2019

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Los Angeles, California
October 4, 2019

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

AUTOMOBILE CLUB OF SOUTHERN CALIFORNIA LIFE INSURANCE COMPANY

(hereinafter also referred to as the Company). Its home office located at 3333 Fairview Road, Costa Mesa, California 92626. The primary location of its books and records is 17900 North Laurel Park Drive, Livonia, Michigan 48152.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2015. This examination covers the period from January 1, 2016 through December 31, 2018.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners' Handbook* (Handbook). The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The 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 findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report, but separately communicated to other regulators and/or the Company.

This was a coordinated examination with Michigan as the lead state, and was conducted concurrently in conjunction with the examinations of AAA Life Insurance Company (Michigan), Auto Club Life Insurance Company (Michigan), and AAA Life Insurance Company of New York (New York). The following states participated on the examination: California and New York.

COMPANY HISTORY

The Company is equally owned by the Automobile Club of Southern California (ACSC), a California nonprofit mutual benefit corporation and the Interinsurance Exchange of the Automobile Club (IEAC), a California reciprocal insurer. ACSC is the ultimate controlling entity of the insurance holding company system, which includes the Company and IEAC.

On September 11, 2013, ACSC, IEAC, and the California Department of Insurance (CDI) entered a Commitment Letter Agreement (agreement), which was effective January 1, 2015 and was expired on December 31, 2017. Under the terms of the agreement, ACSC and IEAC will equally provide additional capital contributions to the

Company, as needed, in order to maintain the Company's risk-based capital ratio at a minimum level of 250%. On August 1, 2017, the CDI requested ACSC and IEAC to extend their commitment to provide additional capital contributions. A new agreement was issued, effective January 1, 2018, affirming the parent companies' commitment to providing additional capital, and is effective until December 31, 2020. The Company will review the current agreement, in its final year, to determine if it is still necessary.

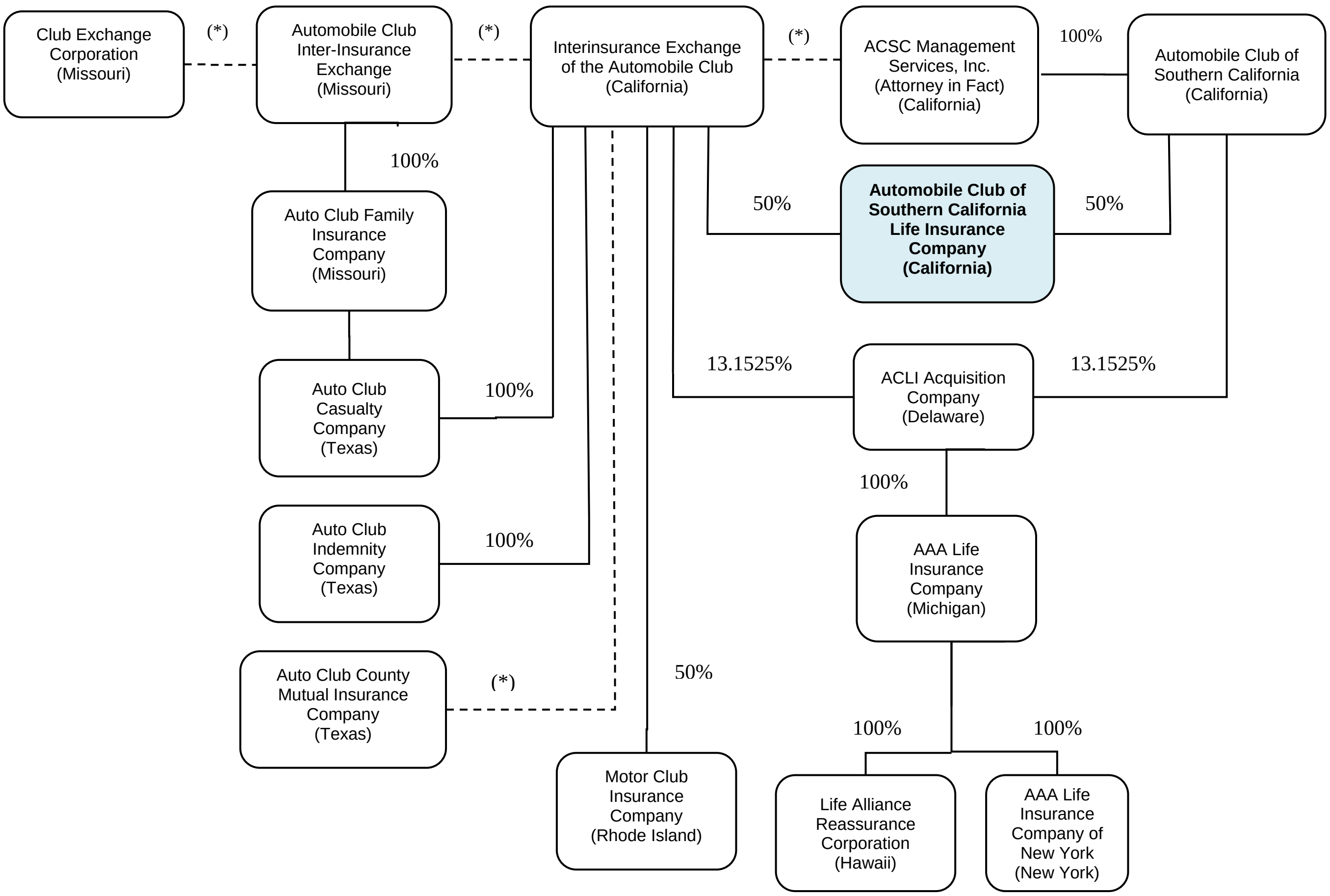
Capitalization

The Company received the following capital cash contributions from its shareholders during the period under examination:

Year	Capital Contribution
2016	10,000,000
2017	4,500,000
2018	34,300,000

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its affiliated insurance companies, depicts the Company's relationship within the holding company system at December 31, 2018:



(*) Contractual or other relationship to operate the Exchange

Management of the Company is vested in a four-member board of directors elected annually. Following are members of the board and principal officers of the Company serving at December 31, 2018:

Directors

Name and Residence	Principal Business Affiliation
Christopher M. Baggaley San Clemente, California	Senior Vice President ACSC Management Services, Inc.
John F. Boyle Coto De Caza, California	President and Chief Executive Officer Automobile Club of Southern California Life Insurance Company
John P. Bybee Trabuco Canyon, California	Vice President, Investments Automobile Club of Southern California
Raju T. Varma, Yorba Linda, California	Vice President, Chief Financial Officer, Treasurer, and Controller Automobile Club of Southern California Life Insurance Company

Principal Officers

Name	Title
John F. Boyle	President and Chief Executive Officer
Raju T. Varma	Vice President, Chief Financial Officer, Treasurer, and Controller
Gail C. Louis	Corporate Secretary
Avery R. Brown	Vice President and Assistant Secretary
Anwar M. Othman	Vice President

Management Agreements

Expense Sharing Agreement: On December 15, 1999, the Company entered into an Expense Sharing Agreement with the following affiliated companies: AAA Life Insurance Company (AAA Life), Auto Club Life Insurance Company (ACL), ACLI Acquisition Company (ACLI), Pacific Beacon Life Reassurance Company (PBLR), and AAA Life Re, Ltd (AAA Life Re). Under the terms of the agreement, on an annual basis, the parties agree upon a unit charge to be applied to each new policy written and each policy inforce. The unit charge is based upon expense assumptions used in pricing each product and includes administration, underwriting, and marketing costs and expenses incurred by AAA Life, ACL, and ACLI for policies reinsured by any party to the agreement. The total expense allocation for each reinsurer is computed as the unit charge for each policy written by ACL and AAA Life, and multiplied by the reinsurance percentage set forth in the applicable reinsurance agreement. Adjustments are made on a quarterly basis to assure the estimated expenses reasonably approximate actual expenses.

The Expense Sharing Agreement was integrated with the reinsurance agreements, such that costs are ultimately allocated based on volume of new business processed and existing in-force policies, refer to Reinsurance section. The Company submitted this agreement for approval to the California Department of Insurance (CDI). The agreement was non-disapproved by the CDI on August 5, 2010. The first amendment was approved by the CDI on June 17, 2014. The amendment was effective on January 1, 2015, refer to the Susequent Event Section. In conjunction with the reinsurance and expenses sharing agreements, amounts paid in 2016, 2017, and 2018 by the Company to AAA Life were $67,357,640, $70,607,351, and $76,285,523 respectively.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact life and accident and health insurance only in the state of California, and is also an accredited reinsurer in Michigan. The Company does not directly underwrite any life insurance risks or directly issue any life or annuity products. The Company primarily assumes life insurance and annuity products from AAA Life Insurance Company and Auto Club Life Insurance Company, affiliated Michigan insurance companies. All premiums assumed by the Company are generated through the life insurance agency operations of the Automobile Club of Southern California.

LOSS EXPERIENCE

The following schedule reflects the net operating losses and net losses from 2016 through 2018 as reported by the Company:

Year	Net Operating Losses	Net Losses
2016	$ (9,992,309)	$ (10,439,342)
2017	$ (17,410,015)	$ (17,328,873)
2018	$ (15,128,765)	$ (15,610,362)
Totals	$ (42,531,089)	$ (43,378,577)

During the examination period, the Company reported Net Operating Losses and Net Losses of $42,531,089 and $43,378,577, respectively. The Company has stated its operating losses and net losses through 2018 are primarily a result of the continued growth in new business and the first-year costs associated with new business production, which includes an increase in direct mail expense. Recent projections indicated that as the Company builds up its inforce policy base, operating profits are expected as early as 2021.

REINSURANCE

Assumed

On December 15, 1999, the Company entered into a retroactive reinsurance agreement to assume 80% of the life and annuity sales produced by the Automobile Club of Southern California agency operations and written by Auto Club Life Insurance Company (ACL), a Michigan domiciled insurer. The reinsurance transactions are co-insurance agreements for traditional insurance products and modified co-insurance agreements for interest-sensitive products. In January 2000, the Company entered into a Quota Share Reinsurance Agreement (Agreement) with AAA Life Insurance Company (AAA Life), a Michigan domiciled insurer, to assume 80% of the California business underwritten by AAA Life. This reinsurance arrangement effectively replaced the

Company's arrangement with ACL, and was approved by the California Department of Insurance (CDI) on October 8, 2002. The CDI approved the assuming rate increase from 80% to 90% on February 18, 2005, and further approved the assuming percentage increase from 90% to 100% on September 12, 2013. The Agreement was integrated with the Expense Sharing Agreement on August 5, 2010. Subsequent to the examination period the Company amended the agreement, refer to the Subsequent Events Section.

Ceded

The Company does not have any ceded reinsurance.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2018

Summary of Operations and Capital and Surplus Account for the Year Ended
December 31, 2018

Reconciliation of Capital and Surplus from December 31, 2015
through December 31, 2018

Statement of Financial Condition
as of December 31, 2018

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 1,178,073,658	$	$ 1,178,073,658	
Cash and short-term investments	46,004,773		46,004,773	
Contract loans	11,023,765	1,535,400	9,488,365	
Receivable for securities	8,528		8,528	
Investment income due and accrued	12,095,166		12,095,166	
Uncollected premiums and agents' balances in the course of collection	3,288,794		3,288,794	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	64,609,084		64,609,084	
Other amounts receivable under reinsurance contracts	9,555,565		9,555,565	
Net deferred tax asset	29,541,370	16,375,975	13,165,395	
Total assets	$ 1,354,200,703	$ 17,911,375	$ 1,336,289,328	

Liabilities, Capital and Surplus	Current Year	Notes
Aggregate reserve for life contracts	$ 1,178,760,656	(1)
Aggregate reserve for accident and health contracts	10,085,510	(1)
Liability for deposit-type contracts	2,992,128	(1)
Contract claims: Life	20,164,846	(1)
Contract claims: Accident and health	6,846,953	(1)
Premiums and annuity considerations for life and accident and health contracts received in advance	956,540	
Interest maintenance reserve	4,552,475	(1)
Commissions and expense allowances payable on reinsurance assumed	29,763	
General expenses due or accrued	876,769	
Unearned investment income	84,862	
Miscellaneous liabilities: Asset valuation reserve	9,929,638	(1)
Miscellaneous liabilities: Payable to parent, subsidiaries and affiliates	7,390,846	
Total liabilities	1,242,670,986	
Common capital stock	2,600,000	
Gross paid in and contributed surplus	231,200,000	
Unassigned funds (surplus)	(140,181,658)	
Capital and surplus	93,618,342	
Total liabilities, capital and surplus	$ 1,336,289,328	

Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2018

Summary of Operations

Underwriting Income		Current Year
Premiums and annuity considerations		$ 305,181,262
Net investment income		48,441,697
Amortization of interest maintenance reserve (IMR)		1,359,378
Aggregate write-ins for miscellaneous income		11,549
Total		354,993,886
Death benefits		$ 54,336,584
Annuity benefits		13,882,253
Disabilty benefits and benefits under accident and health policies		10,325,523
Surrender benefits and withdrawals for life contracts		52,848,213
Group conversions		398,558
Interest and adjustments on contract or deposit-type contract funds		720,788
Increase in aggregate reserves for life and accident and health contracts		114,756,162
Commissions and expense allowances on reinsurance assumed		45,970,052
General insurance expenses		72,962,172
Insurance taxes, licenses and fees, excluding federal income taxes		1,558,625
Increase in loading on deferred and uncollected premiums		2,137,731
Total		369,896,661
Net loss from operations before federal income taxes		$ (14,902,775)
Federal income taxes incurred		225,990
Net loss from operations after federal income taxes		(15,128,765)
Net realized capital losses		(481,597)
Net loss		$ (15,610,362)

Capital and Surplus Account

Capital and surplus, December 31, 2017		$ 72,909,266
Net loss	$ (15,610,362)	
Change in net deferred income tax	3,998,307	
Change in nonadmitted assets	(903,581)	
Change in reserve on account of change in valuation basis	(252,380)	
Change in asset valuation reserve	(807,732)	
Aggregate write-ins for gains and losses in surplus	(15,176)	
Surplus adjustments:		
Paid-in	34,300,000	
Net change in capital and surplus for the year		20,709,076
Surplus as regards policyholders, December 31, 2014		$ 93,618,342

Reconciliation of Capital and Surplus
from December 31, 2015 through December 31, 2018

	Gain in Surplus	Loss in Surplus	
Capital and surplus, December 31, 2015 per examination			$ 82,083,016
Net loss	$	$ 43,378,577	
Change in net deferred income tax		515,630	
Change in nonadmitted assets	6,177,624		
Change in reserve on account of change in valuation basis	3,062,378		
Change in asset valuation reserve		3,270,169	
Aggregate write-ins for gains and losses in surplus	659,700		
Surplus adjustment: Paid-in	48,800,000		
Total gains and losses	$ 58,699,702	$ 47,164,376	
Net change in capital and surplus			11,535,326
Capital and surplus, December 31, 2018 per examination			$ 93,618,342

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Policies and Contracts
Aggregate Reserve for Accident and Health Policies
Liabilities for Deposit -type Contracts
Contract Claims – Life
Contract Claims – Accident and Health
Asset Valuation Reserve
Interest Maintenance Reserve

The December 31, 2018 policy reserves and related actuarial items were evaluated by an Examining Actuary from the Michigan Department of Insurance and Financial Services. Based on the analysis performed, the Company's policy reserves and related actuarial items were found to be reasonably stated. The assigned California Department of Insurance (CDI) actuary reviewed the work performed by the lead state, and recommended that CDI adopt the review and conclusion of the lead state regarding policy reserves and related actuarial items.

SUBSEQUENT EVENTS

Pursuant to California Insurance Code Section 1215.5 (b)(4), a Form D was filed to amend the Expense Sharing Agreement with the California Department of Insurance (CDI). The Amended and Restated Expense Sharing Agreement, effective July 1, 2019, will increase each parties' total amount of Shared Organizational Infrastructure Expenses (OIE) from $11.3 million to $19.1 million in 2019. The annual increase in OIE costs will be capped from 2% to 3%. In addition, certain costs associated with the building and implementation of the new policy administration system will be taken out of the unit costs allocation process, and shared based on the costs based on the ownership interest of their affiliated entities in AAA Life, rather than based on unit costs and premium. The Form D was approved by the CDI on August 23, 2019.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees of the Automobile Club of Southern California and AAA Life Insurance Company during the course of this examination.

Respectfully submitted,

___/S/________________________
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Associate Insurance Examiner
Department of Insurance
State of California

___/S/________________________
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