

**EXAMINATION REPORT**  
**OF**  
**LITTLE RIVER INSURANCE COMPANY**  
**(nka AUTO-OWNERS SPECIALTY INSURANCE COMPANY)**  
**AS OF**  
**DECEMBER 31, 2014**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2014 of the

**LITTLE RIVER INSURANCE COMPANY  
NKA: AUTO-OWNERS SPECIALTY INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By:

A handwritten signature in blue ink, appearing to be "K. Stewart", written over a horizontal line.

Date: May 13, 2016

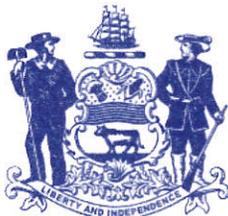


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 13th day of May, 2016.

A handwritten signature in black ink, appearing to be "K. Stewart", written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION  
OF THE  
LITTLE RIVER INSURANCE COMPANY  
NKA: AUTO-OWNERS SPECIALTY INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2014

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.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 13th day of May, 2016

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April 29, 2016

**SALUTATION**

Honorable Karen Weldin Stewart, CIR-ML  
Commissioner of Insurance  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 15.034, dated April 24, 2015, an examination has been made of the affairs, financial condition and management of

**LITTLE RIVER INSURANCE COMPANY**

with administrative offices located at 400 Commerce Court, Goldsboro, North Carolina 27534.

The report of examination thereon is respectfully submitted.

**SCOPE OF EXAMINATION**

We have performed our multi-state examination of Little River Insurance Company (the “Company”). The last examination of the Company covered the period of January 1, 2007 through December 31, 2009, and was performed by the North Carolina Department of Insurance. This examination of the Company covers the period of January 1, 2010 through December 31, 2014, and was performed by the Delaware Department of Insurance. Our examination was performed in conjunction with the coordinated examination of the Strickland Insurance Group led by the North Carolina Department of Insurance.

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (“NAIC Handbook”).

## **LITTLE RIVER INSURANCE COMPANY**

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. 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 (e.g., subjective conclusions, proprietary information, etc.), 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 Lambert, LLP. Certain auditor work papers have been incorporated into the examination work papers.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material changes in financial statements as a result of this examination.

**COMPANY HISTORY**

**General**

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 from North Carolina to Delaware and changed its name to Little River Insurance Company. The Company has been inactive since it ceased writing in 2008, and had no gross or net policyholder liability as of December 31, 2014.

The Company has been wholly owned by the Strickland Insurance Group, Inc., and ultimately controlled by Robert Wyatt Strickland, since its inception. Effective January 1, 2016, Strickland Insurance Group, Inc., including all the outstanding shares of the Company, was acquired by Auto-Owners Insurance Company (“Auto-Owners”). Also effective January 1, 2016, the Company’s name was changed to Auto-Owners Specialty Insurance Company.

**Capitalization**

The Company’s Certificate of Incorporation authorizes the issue of 4,000,000 shares of common stock with a \$1.80 par value. As of December 31, 2014, the Company had 1,000,000 common shares issued and outstanding totaling \$1.8 million. All outstanding common shares of the Company are owned by Strickland Insurance Group, Inc. As of December 31, 2014, the Company reported gross paid in and contributed surplus of \$2.2 million. The following chart summarizes the Company’s reported capital stock and gross paid-in and contributed surplus from the prior examination date to December 31, 2014.

## LITTLE RIVER INSURANCE COMPANY

	<u>Capital Stock</u>	<u>Gross Paid-in &amp; Contributed Surplus</u>	<u>Total Capital Stock and Gross Paid-in &amp; Contributed Surplus</u>
December 31, 2009	\$ 1,800,000	\$ 2,200,000	\$ 4,000,000
Activity	-	-	-
December 31, 2014	<u>\$ 1,800,000</u>	<u>\$ 2,200,000</u>	<u>\$ 4,000,000</u>

### Dividends

No stockholder dividends were paid by the Company 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 exercised by, or under the authority of, its Board of Directors. The Company's bylaws require its Board of Directors 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, 2014, are as follows:

<u>Name</u>	<u>Business Affiliation</u>
Robert Wyatt Strickland	Chairman of the Board and Chief Executive Officer Strickland Insurance Group, Inc.
Robert Charles Strickland	President Strickland Insurance Group, Inc.
Marianna Strickland Tillman	Executive Vice President and Secretary Strickland Insurance Group, Inc.
Christopher Bret Strickland	President and Chief Operating Officer Atlantic Casualty Insurance Company and Little River Insurance Company

## LITTLE RIVER INSURANCE COMPANY

Lester Paul Aycock	Executive Vice President of Agency Services Strickland Insurance Group, Inc.
William Glen Reynolds	Retired – Former President Atlantic Casualty Insurance Company and Little River Insurance Company
Horace Lee Best	Semi-Retired Private Practice Certified Public Accountant
Gregory Andrew Ricker	Partner Sombra Technologies

### Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a Chairman of the Board, Chief Executive Officer, Chief Financial Officer, President, Chief Operating Officer, Secretary, Treasurer, and one or more Vice-Presidents, including Executive Vice Presidents and Senior Vice Presidents. Other officers may be appointed by or under the authority of the Board of Directors. Any two or more offices may be held by the same person. The primary officers serving as of December 31, 2014, were as follows:

<u>Name</u>	<u>Title</u>
Robert Wyatt Strickland	Chairman and Chief Executive Officer
Christopher Bret Strickland	President & Chief Operating Officer
Marianna Strickland Tillman	Corporate Secretary
Stephen Michael Westfield	Treasurer, Chief Financial Officer & Assistant Secretary
Robert Charles Strickland	Executive Vice President

## **LITTLE RIVER INSURANCE COMPANY**

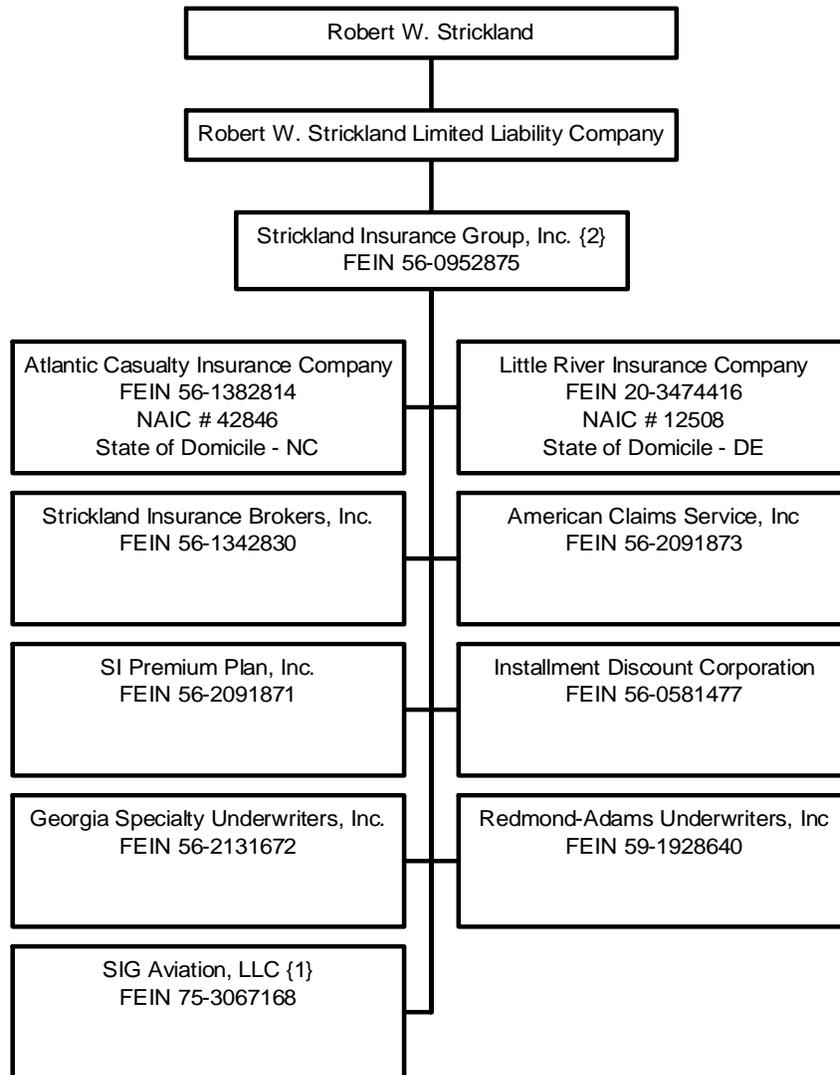
### Corporate Records

The recorded minutes of the shareholder and Board of Directors were reviewed for the period under examination. The minutes adequately documented and approved Company transactions and events, including approval of investment transactions in accordance with 18 Del. C. §1304.

### 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. The Company is a wholly owned subsidiary of Strickland Insurance Group, Inc. (“SIG”). As of December 31, 2014, SIG was ultimately owned and controlled by Robert Wyatt Strickland. SIG is also the sole owner of Atlantic Casualty Insurance Company (“ACIC”), a North Carolina domiciled property and casualty insurance company, as well as several insurance services companies and non-insurance organizations. The following is a full organizational chart of the holding company:

**LITTLE RIVER INSURANCE COMPANY**



{1}: SIG Aviation, LLC was dissolved effective December 31, 2014.

{2}: Effective January 1, 2016, Auto-Owners purchased all of the outstanding shares of Strickland Insurance Group, Inc. pursuant to the terms of a Stock Purchase Agreement (“Purchase Agreement”). The Purchase Agreement included the acquisition of the Company, ACIC, American Claims Services, Inc., Georgia Specialty Underwriters, Inc. and Redmond-Adams Underwriters, Inc. The shares of Strickland Insurance Brokers, Inc., SI Premium Plan, Inc., and Installment Discount Corporation were distributed to the shareholder of SIG as a dividend immediately prior to the transaction.

## LITTLE RIVER INSURANCE COMPANY

### Agreements with Affiliates

Below is a summary of significant affiliated agreements in effect as of December 31, 2014.

- Management and Service Agreements
  - Strickland Insurance Group, Inc. - Effective January 1, 2006, the Company entered a management agreement with SIG. In accordance with the agreement, SIG provides the Company research, management, financial and accounting, computer and other administrative services. The Company pays SIG a monthly service fee for actual expenses incurred by SIG on its behalf.
  - American Claims Service, Inc. – Effective January 1, 2006, the Company entered a claims service agreement with American Claims Service, Inc. (“ACS”). In accordance with the agreement, ACS provides claims handling and administration services for all claims related to insurance policies issued or assumed by the Company. The Company pays ACS a service fee for actual expenses incurred by ACS on its behalf. No services were received and no fees were paid under this agreement for the year ended December 31, 2014.
  - Strickland Insurance Brokers, Inc. - Effective January 1, 2006, the Company entered an agency service agreement with Strickland Insurance Brokers, Inc. No services have been provided under this agreement since 2008.
- Tax Sharing Agreement
  - Various Affiliated Corporations - Effective January 1, 2006, the Company became party to an affiliated Tax Allocation Agreement with and among SIG and its subsidiaries. In accordance with the agreement, the provisions for federal

## **LITTLE RIVER INSURANCE COMPANY**

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. The agreement was terminated effective December 31, 2015.

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to underwrite general liability and property business on an admitted basis in seventeen states. As of December 31, 2014, the Company was inactive with no written or assumed premium and no gross or net policyholder liability.

### **REINSURANCE**

As of December 31, 2014, 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 are based on the statutory financial statements filed by the Company with the Delaware Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014.

- Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2014
- Statement of Income for the Year Ended December 31, 2014
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2009 to December 31, 2014

**LITTLE RIVER INSURANCE COMPANY**

**Statement of Assets, Liabilities Capital and Surplus  
As of December 31, 2014**

Statement of Assets

	<u>Ledger</u> <u>Assets</u>	<u>Assets Not</u> <u>Admitted</u>	<u>Net Admitted</u> <u>Assets</u>	<u>Notes</u>
Bonds	\$3,077,666	\$ -	\$ 3,077,666	1
Cash and cash equivalents	113,926	-	113,926	
Investment income due and accrued	15,749	-	15,749	
Receivables from parent, subsidiaries and affiliates	28,845	-	28,845	
Aggregate write-ins for other than invested assets	4,159	-	4,159	
	<u>          </u>	<u>          </u>	<u>          </u>	
Total assets	<u>\$3,240,345</u>	<u>\$ -</u>	<u>\$ 3,240,345</u>	

Statement of Liabilities, Capital and Surplus

	<u>Balance</u>	<u>Notes</u>
Losses	\$ -	2
Loss adjustment expenses	-	2
Other expenses	1,050	
Current federal & foreign income taxes	7,612	
	<u>          </u>	
Total liabilities	<u>\$ 8,662</u>	
Common capital stock	\$1,800,000	
Gross paid in and contributed surplus	2,200,000	
Unassigned funds (surplus)	(768,317)	
	<u>          </u>	
Total surplus as regards policyholders	<u>\$ 3,231,683</u>	
Total liabilities, capital and surplus	<u>\$ 3,240,345</u>	

LITTLE RIVER INSURANCE COMPANY

Statement of Income  
For the Year Ended December 31, 2014

Income:		
	Premiums earned	\$ -
	Net investment income earned	<u>32,412</u>
	Total income	<u>\$ 32,412</u>
Expenses:		
	Losses incurred	\$ (802)
	Loss adjustment expenses incurred	-
	Other underwriting expenses	89,357
	Federal and foreign income tax incurred	<u>(21,814)</u>
	Total expenses	<u>\$ 66,741</u>
Net income:		<u><u>\$ (34,329)</u></u>

**LITTLE RIVER INSURANCE COMPANY**

Reconciliation of Capital and Surplus for the Period from the Prior Examination  
as of December 31, 2009 to December 31, 2014

	<b>Common Capital Stock</b>	<b>Gross Paid-in &amp; Contributed Surplus</b>	<b>Unassigned Funds</b>	<b>Total</b>
December 31, 2009	\$ 1,800,000	\$ 2,200,000	\$ (511,824)	\$ 3,488,176
2010 Operations	(1) -	-	(25,136)	(25,136)
December 31, 2010	1,800,000	2,200,000	(536,960)	3,463,040
2011 Operations	(1) -	-	(59,883)	(59,883)
December 31, 2011	1,800,000	2,200,000	(596,843)	3,403,157
2012 Operations	(1) -	-	(90,496)	(90,496)
December 31, 2012	1,800,000	2,200,000	(687,339)	3,312,661
2013 Operations	(1) -	-	(86,649)	(86,649)
December 31, 2013	1,800,000	2,200,000	(773,988)	3,226,012
2014 Operations	(1) -	-	5,671	5,671
December 31, 2014	<u>\$ 1,800,000</u>	<u>\$ 2,200,000</u>	<u>\$ (768,317)</u>	<u>\$ 3,231,683</u>

(1): Operations is defined as: net income(loss), change in net deferred income tax and change in nonadmitted assets.

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE  
EXAMINATION**

There were no adjustments to the Company's financial statements as a result of this examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

**Note 1:**

**Schedule D - Bonds**

**\$ 3,077,666**

As of December 31, 2014, the Company reported total bond investments on Schedule D – Part 1 with book adjusted carrying values in the amount of \$3.08 million and fair market values of \$3.10 million. Bonds were comprised of the following classes:

## LITTLE RIVER INSURANCE COMPANY

	<u>Statement Value</u>	<u>% of Total</u>
U.S. Government Bonds - Issuer Obligations	\$ 1,813,208	58.9%
U.S. State, Territories & Possessions - Issuer Obligations	242,697	7.9%
U.S. Political Subdivisions of States, Territories & Possessions - Issuer Obligations	418,573	13.6%
U.S. Special Revenue & Special Assessment Obligations - Agencies	603,188	19.6%
Total Bonds	<u>\$ 3,077,666</u>	<u>100%</u>

Of the Company's total bond holdings, all were categorized as Class 1 with respect to NAIC credit quality standards, and all were publically traded securities. Bond maturities were heavily weighted in the short-term relative to maturity with 11.3%, 88.2% and 0.5% maturing in less than one year, one to five years and five to ten years, respectively.

### **Note 2:**

<b>Losses</b>	<b>\$ 0</b>
<b>Loss Adjustment Expenses</b>	<b>\$ 0</b>

As of December 31, 2014, the Company had no gross or net loss related liabilities.

### **SUBSEQUENT EVENTS**

Effective January 1, 2015, the Company entered an intercompany pooling agreement with ACIC. The agreement was rescinded effective December 31, 2015. In accordance with the rescission agreement, the Company and ACIC agreed the pooling agreement is null and void, and that neither party has, nor ever had, any rights or obligations under the pooling agreement.

Effective January 1, 2016, Strickland Insurance Group, Inc., including all the outstanding shares of the Company, was acquired by Auto-Owners Insurance Company. Also effective January 1, 2016, the Company's name was changed to Auto-Owners Specialty Insurance Company. In conjunction with its acquisition, the Company entered several new affiliated agreements as follows:

- Administrative Services Agreement – Effective January 1, 2016, the Company entered an Administrative Services Agreement with Auto-Owners. In accordance with the agreement, Auto-Owners provides services including, but not limited to, executive

## **LITTLE RIVER INSURANCE COMPANY**

administration, sales, policy underwriting, claim settlement, actuarial, advertising, accounting, tax matters, systems and programming, electronic data processing, investments, housing and all other essential general services.

- Tax Allocation Agreement - Effective January 1, 2016, the Company entered a Tax Allocation Agreement with Auto-Owners and its affiliates. In accordance with the agreement, tax provisions or credits are allocated to all of the parties in accordance with their contribution to the consolidated tax liability for each taxable year.
- Reinsurance Agreement – Effective January 1, 2016, the Company entered a reinsurance agreement with Auto-Owners. In accordance with the agreement, Auto-Owners agreed to indemnify the Company for losses and loss adjustment expenses under policies, contracts and/or binders of insurance written by the Company during the term of the agreement subject to specified excess of loss retentions and limits by line of business.

### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations contained in the prior examination report issued by the North Carolina Department of Insurance as of December 31, 2009.

### **SUMMARY OF RECOMMENDATIONS**

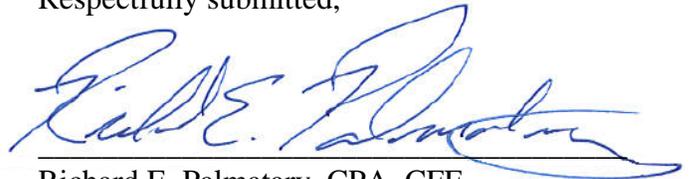
There were no recommendations as a result of this examination.

**CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<b><u>Description</u></b>	<b><u>December 31, 2014</u></b>	<b><u>December 31, 2009</u></b>	<b><u>Decrease</u></b>
Assets	\$ 3,240,345	\$ 3,654,854	\$ (414,509)
Liabilities	\$ 8,662	\$ 166,678	\$ (158,016)
Capital and Surplus	\$ 3,231,683	\$ 3,488,176	\$ (256,493)

Respectfully submitted,



Richard E. Palmatary, CPA, CFE  
Examiner In-Charge  
State of Delaware