

Report of the Examination of  
Alpha Property & Casualty Insurance Company  
Dallas, Texas  
As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

*Tony Evers, Governor*  
*Mark V. Afable, Commissioner*

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May 27, 2020

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Honorable Mark V. Afable  
Commissioner of Insurance  
State of Wisconsin  
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Commissioner:

In accordance with your instructions, a compliance examination has been made of the  
affairs and financial condition of:

ALPHA PROPERTY & CASUALTY INSURANCE COMPANY  
Dallas, Texas

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Alpha Property & Casualty Insurance Company (the company or Alpha) was conducted in 2014 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2018, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of the Kemper Group. The Illinois Department of Insurance acted in the capacity as the lead state for the coordinated examinations. Work performed by the Illinois Department of Insurance was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

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, annual statement instructions, and Wisconsin laws and regulations. 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 at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

#### **Independent Actuary's Review**

An independent actuarial firm was engaged to review the adequacy of reserves for the Kemper Group companies noted above, in conjunction with the Illinois Department of Insurance's examination of the Kemper Group. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. As deemed appropriate, reference is made in this report to the actuary's conclusion.

## II. HISTORY AND PLAN OF OPERATION

Alpha Property & Casualty Insurance Company was organized in 1979 as a Wisconsin-domiciled insurer licensed under ch. 611, Wis. Stat. The company was initially established as a subsidiary of Family Insurance Corporation (Family), a Wisconsin-domiciled life and health insurer. The principal shareholder of Family was Wisconsin Finance Corporation (WFC), a financial holding company. In 1985, WFC was purchased by United Savings of America (United Savings). United Savings subsequently merged into Heights Finance and changed its name to USA Financial Services. Alpha was paid as a dividend by Family to USA Financial Services in 1991 to facilitate the sale of Family to a third party.

USA Financial Services became financially impaired during the savings and loan financial distress of the 1990s and was placed under the supervision of the Resolution Trust Corporation (the Trust), along with its subsidiaries (including Alpha).

Milwaukee Insurance Group, Inc. (MIG) acquired all of the outstanding shares of Alpha's capital stock from the Trust on December 31, 1992. Milwaukee Insurance Group, Inc. (MIG), was established in 1985 as a wholly owned subsidiary of Milwaukee Mutual Insurance Company (MMIC), a Wisconsin-domiciled mutual property and casualty insurer, and served as an intermediate holding company for MMIC's stock insurance company subsidiaries. In November 1986, MIG issued additional shares of its common capital stock and conducted an initial public stock offering. Upon completion of the offering, approximately 65% of the common stock of MIG remained under the ownership of MMIC, and the remaining 35% was owned by public shareholders. MIG conducted a second public offering of 1,000,000 newly issued shares of MIG common stock in 1993, resulting in the reduction of MMIC's ownership interest of MIG to approximately 49%.

Trinity Universal Insurance Company (Trinity Universal) acquired all of the capital stock of MIG effective October 2, 1995. Trinity Universal is a Texas-domiciled property and casualty insurer wholly owned by Unitrin, Inc. (now known as Kemper Corporation). Upon the change of control of MIG to Trinity Universal, the ultimate ownership and control of Alpha transferred to Kemper Corporation. MIG was dissolved in 2001 and its assets and liabilities were

merged into Trinity Universal. Upon the dissolution of MIG, Alpha became a directly held, wholly owned subsidiary of Trinity Universal.

Alpha operates as part of the Kemper Specialty segment of Kemper Corporation. Alpha writes mainly nonstandard personal auto (liability and physical damage) and commercial auto liability business.

Alpha does not have any employees, and all operating functions of the company are performed by affiliates within the Kemper Group pursuant to numerous intercompany agreements. Trinity Universal and affiliates conduct all of Alpha's business operations, including insurance underwriting, marketing, policy issuance, claims administration and adjudication, investment management, and accounting and financial reporting. Further discussion of the Kemper Group, description of the significant insurance affiliates of Alpha, and the company's affiliated agreements are included in the section of this report captioned "Affiliated Companies."

In 2018, the company wrote direct premium in the following states:

Oregon	\$20,187,104	28.04%
Utah	11,120,243	15.45
Arizona	8,988,638	12.49
Florida	6,932,809	9.63
All others	<u>24,755,089</u>	<u>34.39</u>
Total	<u>\$71,983,883</u>	<u>100.00%</u>

The company is licensed in 28 states, including the states of Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kentucky, Minnesota, Missouri, Montana, Nebraska, Nevada, New Jersey, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Utah, Virginia, Washington, and Wisconsin. The major products are marketed through independent agents. The company cedes 100% of its net insurance risks to Trinity Universal Insurance Company and does not retain any policy-related risks net of reinsurance.

The following table is a summary of the net insurance premiums written by the company in 2018. The growth of the company is discussed in the “Financial Data” section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Homeowners multiple peril	\$ 138,790	\$ 0	\$ 138,790	\$0
Private passenger auto liability	51,882,854	0	51,882,854	0
Commercial auto liability	4,925,335	2,533	4,927,868	0
Auto physical damage	<u>15,036,904</u>	<u>0</u>	<u>15,036,904</u>	<u>0</u>
Total All Lines	<u>\$71,983,883</u>	<u>\$2,533</u>	<u>\$71,986,416</u>	<u>\$0</u>



### III. MANAGEMENT AND CONTROL

#### Board of Directors

The Alpha board of directors consists of five members. Each director is elected annually by the company's sole shareholder to serve a one-year term. Each director of Alpha is a senior executive officer of Kemper Corporation. As executive employees of the holding company system, the directors receive no compensation specific to their service on the Alpha board.

Kemper Corporation is a SOX-Compliant Entity, as defined in s. Ins 50.01 (7t), Wis. Adm. Code.

Alpha has elected to allow Kemper Corporation's audit committee to perform the duties of Alpha's audit committee.

As of December 31, 2018, the board of directors consisted of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
John M. Boschelli Geneva, Illinois	Executive Vice President and Chief Investment Officer Kemper Corporation	2018
Timothy D. Bruns Allen, Texas	Chief Operating Officer Kemper Auto	2018
Maxwell T. Mindak Elmhurst, Illinois	Vice President and Chief Risk Officer Kemper Corporation	2018
Christopher L. Moses Chicago, Illinois	Vice President, Treasury Department Kemper Corporation	2018
Richard Roeske Naperville, Illinois	Assistant Treasurer Kemper Corporation and Vice President and Chief Accounting Officer Kemper Corporation and Kemper Corporate Services, Inc.	2018

## Officers of the Company

The executive officers of the company are elected by the Alpha board of directors at the board's annual meeting and serve a one-year term of office. Each senior officer of the company also serves as a senior officer of other companies within the holding company organization. The officers serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>2018 Compensation</b>
John M. Boschelli	Chairman of the Board	\$2,834,566
Timothy D. Bruns	President	1,238,718
Andrew D. MacDonald	Senior Vice President	975,820
Clark H. Roberts	Treasurer	519,993
Amy E. Pinkerman Condo	Vice President and Secretary	310,730

## Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

### **Executive Committee**

John M. Boschelli, Chair  
Timothy D. Bruns  
Richard Roeske

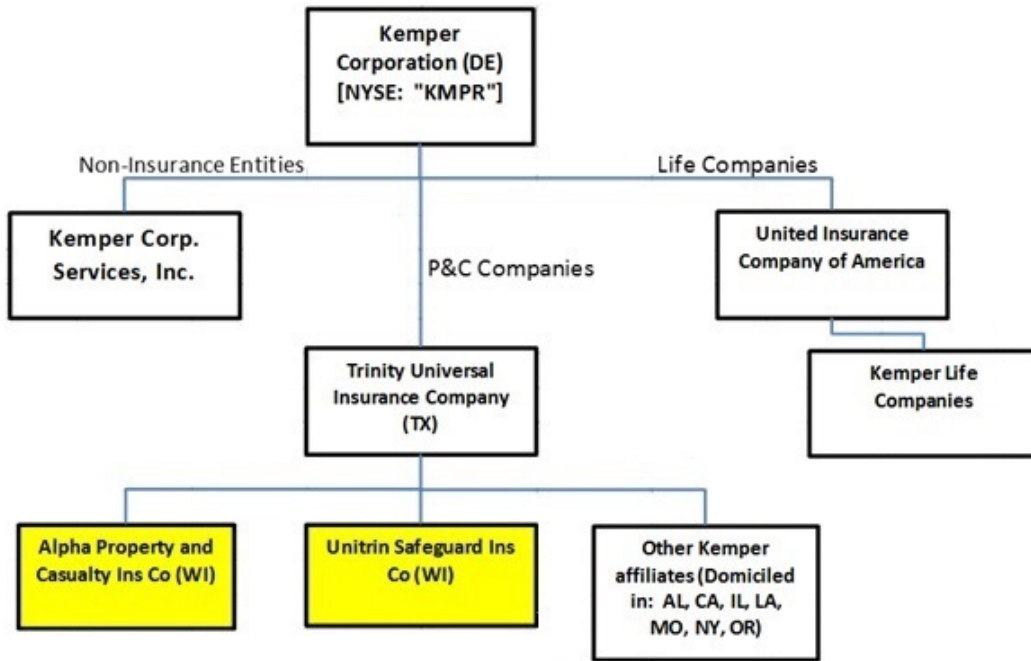
### **Investment Committee**

John M. Boschelli, Chair  
Maxwell T. Mindak  
Christopher L. Moses

#### IV. AFFILIATED COMPANIES

Alpha is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

**Organizational Chart  
As of December 31, 2018**



#### **Kemper Corporation**

Kemper Corporation, formerly Unitrin, Inc., is a publicly traded holding company incorporated in the state of Delaware in February 1990. Unitrin, Inc., was established to hold all of the insurance and finance business subsidiaries of Teledyne, Inc., which spun off all of its remaining insurance and finance subsidiaries on April 20, 1990. The name was changed to Kemper Corporation in August 2011. Through its operating subsidiaries, Kemper Corporation offers property and casualty insurance, life and health insurance, and other insurance products to individuals and businesses.

Kemper Corporation's Property & Casualty Insurance segment mostly distributes its products through independent agents and brokers who are paid commissions for their services. The Property & Casualty Insurance segment provides automobile, homeowners, renters, fire, umbrella, and other types of property and casualty insurance to individuals and commercial automobile insurance to businesses.

As of December 31, 2018, Kemper Corporation's GAAP (Generally Accepted Accounting Principles) basis audited financial statements reported total assets of \$11,544,900,000, total liabilities of \$8,494,800,000, and total shareholders' equity of \$3,050,100,000.

#### **Kemper Corporate Services, Inc.**

Kemper Corporate Services, Inc., provides various general services to all of the operating companies within the Kemper Group. Services provided include executive management, investment management, analysis and accounting, financial accounting and reporting, tax accounting and tax return preparation, internal audit, financial planning, capital project evaluation, real estate management, and computer equipment and processing services. The costs of the executive services rendered by Kemper Corporate Services, Inc. are allocated to the respective affiliates in accordance with general services agreements established between Kemper Corporate Services, Inc. and its affiliates.

#### **Trinity Universal Insurance Company**

Trinity Universal is a multi-line insurance company, organized under the laws of Texas in 1932 from the merger of Trinity Fire Insurance Company and Universal Automobile Insurance Company. Trinity Universal is Kemper Corporation's largest property and casualty insurance subsidiary and is the holding company's leading insurer in the multi-line insurance business segment. Trinity Universal and its subsidiary insurers operate in 47 states and offer preferred risk and standard risk automobile, commercial automobile, homeowners, fire, and related insurance products. Trinity Universal is the immediate parent of two Wisconsin-domiciled insurers, Unitrin Safeguard Insurance Company and Alpha Property & Casualty Insurance Company.

As of December 31, 2018, Trinity Universal's statutory basis audited financial statements reported total admitted assets of \$3,675,261,634, total liabilities of \$2,678,379,114, and surplus as regards policyholders of \$996,882,521.

#### **Unitrin Direct Insurance Company**

Unitrin Direct Insurance Company (Unitrin Direct) is an Illinois-domiciled property and casualty insurance company subsidiary of Trinity Universal Insurance Company. Alpha is a party to multiple general services agreements with Unitrin Direct whereby Unitrin Direct provides information technology services to the Kemper Group property and casualty insurers.

As of December 31, 2018, Unitrin Direct's statutory basis audited financial statements reported total admitted assets of \$11,981,919, total liabilities of \$3,369,707, and surplus as regards policyholders of \$8,612,212.

#### **Merastar Insurance Company**

Merastar Insurance Company (Merastar) is an Illinois-domiciled property and casualty insurance company subsidiary of Trinity Universal Insurance Company. Merastar provides mainly auto and homeowners insurance coverage through employer-sponsored voluntary benefit accounts. Merastar primarily utilizes its own sales and service staff.

On January 1, 2009, Alpha entered into a general services agreement with Merastar, whereby Merastar provides marketing, underwriting, claim adjusting and reinsurance reporting, facilities, supplies and staffing, and accounting services. Alpha is also party to an assignment and consent, whereby Merastar agrees to perform all administrative services on business reinsured under the company's 100% Quota Share Reinsurance Agreement with Trinity Universal.

As of December 31, 2018, Merastar's statutory basis audited financial statements reported total admitted assets of \$42,080,503, total liabilities of \$34,264,465, and surplus as regards policyholders of \$7,816,038.

## **Unitrin Direct Property & Casualty Company**

Unitrin Direct Property & Casualty Company (UDPCC) is an Illinois-domiciled property and casualty insurance company subsidiary of Trinity Universal Insurance Company. UDPCC provides multi-line property and casualty individual insurance coverage.

Effective January 1, 2009, Alpha entered into an Information Technology Services Agreement with UDPCC whereby UDPCC provides information technology services to the Kemper Group property and casualty insurers.

As of December 31, 2018, UDPCC's statutory basis audited financial statements reported total admitted assets of \$14,222,859, total liabilities of \$3,582,399, and surplus as regards policyholders of \$10,640,460.

### **Agreements with Affiliates**

1. **Federal Income Tax Allocation Agreement**—In 1995 a federal income tax allocation agreement was established between Unitrin, Inc. (now the Kemper Corporation) and various affiliates, including Alpha. The agreement provides the basis for the method of settlement of federal income tax payments and refunds within the group. The Kemper Corporation files a consolidated federal income tax return for the Kemper Group. The respective affiliates pay the Kemper Corporation the tax that the affiliates would have paid on a separate company basis. Each affiliate's federal income tax liability or refund is limited to the separate company basis amount, and final settlements of federal income tax amounts due between the Kemper Corporation and the affiliates are required to be made within 30 days of the filing of the consolidated tax return or within 30 days of receipt of a tax refund. The tax allocation agreement was effective for tax years ending on or after December 31, 1995.
  
2. **Claims General Services Agreement between Alpha and the following companies:**  
**(a) Merastar Insurance Company, (b) Response Insurance Company (RIC), (c) Response Worldwide Insurance Company (RWIC), (d) Response Worldwide Direct Auto Insurance Company (RWDAIC), (e) Unitrin Direct Property & Casualty Company**—Effective January 1, 2012, a Claims General Services Agreement was established between Alpha and the above companies. The

agreement allows Alpha to provide services in the state of Florida that are routinely and customarily provided by non-supervisory insurance claims adjustors. This agreement will be reviewed and renegotiated in its entirety by the parties from time to time, but no less frequently than once every three years.

3. **General Services Agreement with Merastar Insurance Company**—Effective January 1, 2009, Alpha entered into a General Services Agreement with Merastar, whereby Merastar provides Alpha with marketing, underwriting, claim adjusting and reinsurance reporting, facilities, supplies and staffing, and accounting services.
4. **Information Technology Services Agreement with Unitrin Direct Property & Casualty Company**—Effective January 1, 2009, Alpha entered into an Information Technology Services Agreement with UDPCC, whereby UDPCC provides information technology services, such as IT applications and consulting services for technology shared among the Kemper property and casualty affiliates. The agreement is in effect continuously unless terminated by 90 days' notice by either party.
5. **Assignment and Consent with Merastar Insurance Company**—Pursuant to an Assignment and Consent effective January 1, 2009, Alpha and Trinity Universal assigned the administration of the business reinsured under its 100% Quota Share Reinsurance Agreement to Merastar. Under the Consent, Trinity Universal pays Merastar for performing these services.
6. **Service Agreement with Kemper Corporate Services, Inc.**—Effective December 21, 2012, Alpha entered a Service Agreement with Kemper Corporate Services, Inc. (KCS) where KCS agrees to provide a variety of general services to Alpha as well as computer and information technology services. As consideration, Alpha agrees to pay KCS for its share of all fair and reasonable corporate expenses incurred by KCS. This agreement was amended and restated on December 30, 2015.

## V. REINSURANCE

The company has only one material treaty, an affiliated ceded reinsurance contract described below. The contract contained proper insolvency provisions.

### **Affiliated Ceded Reinsurance**

Effective January 1, 2009, Trinity Universal and Alpha entered into a 100% Quota Share Reinsurance Agreement (which replaced a 100% Quota Share Reinsurance Agreement that was entered into on January 1, 1997). Pursuant to this agreement, Alpha cedes and Trinity Universal assumes a 100% quota share participation in the ultimate net loss of Alpha with respect to its existing and new business. In return, Trinity Universal is entitled to the full net premiums on the reinsured policies written on and after January 1, 2009, and payment equal to the gross reserves assumed by Trinity Universal on the existing business written before January 1, 2009. The agreement also provides for the administration of the business by Trinity Universal, unless Trinity Universal assigns all or part of its administrative responsibilities to one or more of its affiliates.



## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2018, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

**Alpha Property & Casualty Insurance Company**  
**Assets**  
**As of December 31, 2018**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$13,853,274		\$13,853,274
Cash, cash equivalents, and short-term investments	1,151,293		1,151,293
Investment income due and accrued	216,678		216,678
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	16,132,408		16,132,408
Reinsurance:			
Amounts recoverable from reinsurers	63		63
Net deferred tax asset	45,497	\$ 226	45,271
Guaranty funds receivable or on deposit	1,615		1,615
Write-ins for other than invested assets:			
Premium tax receivable	57,496		57,496
Prepaid commissions	134,597	134,597	
Prepaid other	<u>57,687</u>	<u>57,687</u>	
<b>Total Assets</b>	<b><u>\$31,650,608</u></b>	<b><u>\$192,510</u></b>	<b><u>\$31,458,098</u></b>

**Alpha Property & Casualty Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2018**

Commissions payable, contingent commissions, and other similar charges		\$ 643,176
Other expenses (excluding taxes, licenses, and fees)		104,474
Taxes, licenses, and fees (excluding federal and foreign income taxes)		221,369
Current federal and foreign income taxes		93,929
Advance premium		104,370
Ceded reinsurance premiums payable (net of ceding commissions)		16,132,848
Amounts withheld or retained by company for account of others		165,955
Payable to parent, subsidiaries, and affiliates		<u>153,538</u>
<b>Total Liabilities</b>		<b>17,619,659</b>
Common capital stock	\$4,200,000	
Gross paid in and contributed surplus	7,300,000	
Unassigned funds (surplus)	<u>2,338,439</u>	
<b>Surplus as Regards Policyholders</b>		<b><u>13,838,439</u></b>
<b>Total Liabilities and Surplus</b>		<b><u>\$31,458,098</u></b>

**Alpha Property & Casualty Insurance Company**  
**Summary of Operations**  
**For the Year 2018**

**Investment Income**

Net investment income earned	\$505,263	
Net realized capital gains (losses)	<u>55,277</u>	
Net investment gain (loss)		\$560,540
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		560,540
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		560,540
Federal and foreign income taxes incurred		<u>95,624</u>
Net Income		<u>\$464,916</u>

**Alpha Property & Casualty Insurance Company**  
**Cash Flow**  
**For the Year 2018**

Premiums collected net of reinsurance		\$ 3,122
Net investment income		<u>984,820</u>
Total		987,943
Benefit- and loss-related payments	\$ (36)	
Commissions, expenses paid, and aggregate write-ins for deductions	247,126	
Federal and foreign income taxes paid (recovered)	<u>128,303</u>	
Total deductions		<u>375,393</u>
Net cash from operations		612,550
Proceeds from investments sold, matured, or repaid:		
Bonds	3,411,292	
Cost of investments acquired (long-term only):		
Bonds	<u>3,467,572</u>	
Net cash from investments		(56,280)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		38,460
<b>Reconciliation:</b>		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		594,730
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>556,563</u>
End of Year		<u>\$1,151,293</u>

**Alpha Property & Casualty Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2018**

Assets	\$31,458,098
Less liabilities	<u>17,619,659</u>
Adjusted surplus	13,838,439
Compulsory surplus (subject to a minimum of \$2 million)	<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)	<u>\$11,838,439</u>
Adjusted surplus (from above)	\$13,838,439
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)	<u>2,800,000</u>
Security Surplus Excess (Deficit)	<u>\$11,038,439</u>

**Alpha Property & Casualty Insurance Company**  
**Analysis of Surplus**  
**For the Five-Year Period Ending December 31, 2018**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2018	2017	2016	2015	2014
Surplus, beginning of year	\$13,357,996	\$13,422,158	\$13,444,320	\$13,054,790	\$14,017,218
Net income	464,916	349,580	415,187	431,644	372,674
Change in net deferred income tax	5,887	(4,839)	(8,959)	(12,532)	11,283
Change in nonadmitted assets	9,640	(8,902)	(3,390)	(29,582)	(46,385)
Dividends to stockholders	_____	(400,000)	(425,000)	_____	(1,300,000)
Surplus, End of Year	<u>\$13,838,439</u>	<u>\$13,357,996</u>	<u>\$13,422,158</u>	<u>\$13,444,320</u>	<u>\$13,054,790</u>

**Alpha Property & Casualty Insurance Company**  
**Insurance Regulatory Information System**  
**For the Five-Year Period Ending December 31, 2018**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

Ratio	2018	2017	2016	2015	2014
#1 Gross Premium to Surplus	520%	536%	533%	650%	643%
#2 Net Premium to Surplus	0	0	0	0	0
#3 Change in Net Premiums Written	0	0	0	0	0
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	0	0	0	0	0
#6 Investment Yield	3.4	3.3	3.5	3.7	3.1
#7 Gross Change in Surplus	4	-0	-0	3	-7
#8 Change in Adjusted Surplus	4	-0	-0	3	-7
#9 Liabilities to Liquid Assets	116*	114*	114*	131*	142*
#10 Agents' Balances to Surplus	117*	115*	113*	133*	140*
#11 One-Year Reserve Development to Surplus	0	0	0	0	0
#12 Two-Year Reserve Development to Surplus	0	0	0	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

The exceptional values for Ratio #9 are due to Alpha's 100% Quota Share Reinsurance Agreement with Trinity Universal, and how this ratio is calculated (reinsurance

premiums due to Trinity Universal under the Quota Share Agreement are included in the numerator; however, uncollected premiums are not included in the denominator).

The exceptional value for Ratio #10 is due in part to the volume of premiums written relative to Policyholders' Surplus, as well as the timing of intercompany settlements. As previously discussed, the company has no employees and therefore relies on affiliates for administrative services, including premium collections.

#### **Growth of Alpha Property and Casualty**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus as Regards Policyholders</b>	<b>Net Income</b>
2018	\$31,458,098	\$17,619,659	\$13,838,439	\$464,916
2017	30,118,756	16,760,760	13,357,996	349,580
2016	29,899,532	16,477,374	13,422,158	415,187
2015	33,016,470	19,572,150	13,444,320	431,644
2014	33,390,806	20,336,016	13,054,790	372,674
2013	34,392,833	20,375,615	14,017,218	460,461

<b>Year</b>	<b>Gross Premium Written</b>	<b>Net Premium Written</b>	<b>Premium Earned</b>	<b>Loss and LAE Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio</b>
2018	\$71,986,416	\$0	\$0	0.0%	0.0%	0.0%
2017	71,563,781	0	0	0.0	0.0	0.0
2016	71,477,366	0	0	0.0	0.0	0.0
2015	87,449,467	0	0	0.0	0.0	0.0
2014	83,963,815	0	0	0.0	0.0	0.0
2013	88,183,589	0	0	0.0	0.0	0.0

The company cedes 100% of its net insurance risks to Trinity Universal Insurance Company and does not retain any policy-related risks net of reinsurance. Therefore, the company has no significant underwriting results and its income is derived from investment income. Alpha paid dividends to its ultimate parent, Trinity Universal, in 2017 (\$400,000), 2016 (\$425,000), and in 2014 (\$1,300,000). Due to investment income, offset by stockholder dividends, Alpha's policyholders' surplus remained relatively stable over the examination period.

**Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2018, is accepted.



## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. The comment and recommendation contained in the last examination report and actions taken by the company are as follows:

1. Annual Statement Reporting—It is recommended that the company report the reinsurance balances of the intercompany quota share arrangement in the appropriate lines of the annual statement in accordance with SSAP No. 62R and the NAIC *Annual Statement Instructions – Property/Casualty*.

Action— Noncompliance. Further comment is contained in the section of this report captioned, “Annual Statement Reporting.”

## **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

## **Annual Statement Reporting**

A review of the company's transactions with affiliates was performed by the lead state and reviewed by this examination team. It was noted that balances for the quota share agreement with Trinity Universal were included in the related party receivable or payable annual statement balances. It is the company's policy to settle reinsurance transactions with affiliates through intercompany accounts. However, the NAIC *Annual Statement Instructions – Property/Casualty* requires segregation of reinsurance-related receivable and payable balances for reporting on the annual statement. It is again recommended that the company report the reinsurance balances of the intercompany quota share arrangement in the appropriate lines of the annual statement in accordance with SSAP No. 62R and the NAIC *Annual Statement Instructions – Property/Casualty*.

## VIII. CONCLUSION

Alpha Property & Casualty Insurance Company is a Wisconsin-domiciled stock property and casualty insurance company. The company was originally organized in 1979 and was purchased December 31, 1992, by Milwaukee Insurance Group, Inc., then a holding company subsidiary of Milwaukee Mutual Insurance Company. Effective October 2, 1995, Trinity Universal Insurance Company, a subsidiary of Unitrin, Inc. (now known as Kemper Corporation), purchased all of the capital stock of Milwaukee Insurance Group, Inc., and thereby acquired ownership and control of Alpha. In 2001, the Milwaukee Insurance Group, Inc., was dissolved and Alpha became a directly held, wholly owned subsidiary of Trinity Universal.

Alpha operates as part of the Specialty segment of the Property and Casualty Insurance Business of Kemper Corporation, offering mainly nonstandard personal auto and commercial auto business. Alpha does not have any employees, and all operations of the company are performed by other affiliates within the Kemper Group holding company system pursuant to intercompany services and reinsurance agreements. The company cedes 100% of its net insurance risks to Trinity Universal and does not retain any policy-related risks net of reinsurance.

The current examination resulted in one recommendation. The recommendation was regarding the proper reporting of related party receivable and payable balances. No reclassifications of account balances or adjustments to surplus were made by the examination to the year-end 2018 statutory financial statements. The examination noted that as of December 31, 2018, the company had admitted assets of \$31,458,098, liabilities of \$17,619,659, and policyholders' surplus of \$13,838,439.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 Annual Statement Reporting—It is again recommended that the company report the reinsurance balances of the intercompany quota share arrangement in the appropriate lines of the annual statement in accordance with SSAP No. 62R and the NAIC *Annual Statement Instructions – Property/Casualty*.

**X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Terry Lorenz, CFE	Workpaper Specialist
Eleanor Lu	IT Specialist

Respectfully submitted,



John A. Coyle  
Examiner-in-Charge

## **XI. REVIEW OF SUBSEQUENT EVENTS**

On November 30, 2018, Kemper Corporation Services, Inc. (KCS) provided a "Notice of Termination" to all affiliates that had entered into various service agreements and amendments by and between KCS. KCS provided notice to Affiliates that it was terminating the Service Agreements and any and all amendments, effective as of February 1, 2019, the "Termination Date." The KCS Service Agreements were not renewed. Services provided by KCS are now provided by Merastar and Infinity. Services that cannot be provided by Merastar or Infinity may be subcontracted or outsourced to KCS on an as-needed basis.

On March 11, 2020, the World Health Organization (WHO) 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. This office 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. OCI and all insurance regulators with the assistance of the National Association of Insurance Commissioners are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. OCI has been in communication with Alpha Property & Casualty Insurance Company regarding the impact of COVID-19 on business operations and the financial position of Alpha Property & Casualty Insurance Company and no immediate action was deemed necessary at the time of this report.