

Report of the Examination of
Alpha Property & Casualty Insurance Company
Chicago, Illinois
As of December 31, 2023

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Wisconsin Office of the
COMMISSIONER OF INSURANCE
FINANCIAL REGULATION

Tony Evers, Governor of Wisconsin
Nathan Houdek, Commissioner of Insurance

May 28, 2025

Honorable Nathan D. Houdek
Commissioner of Insurance
State of Wisconsin
101 East Wilson Street
Madison, Wisconsin 53703

Commissioner:

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

ALPHA PROPERTY & CASUALTY INSURANCE COMPANY
Chicago, Illinois

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Alpha Property & Casualty Insurance Company (the company) was conducted in 2019 as of December 31, 2018. The current examination covered the intervening period ending December 31, 2023, 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 completing 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 under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1979 as a Wisconsin-domiciled insurer licensed under ch.611, Wis. Stat. Below is an abbreviated timeline of the company since its inception:

Date	Event
1979	The company was 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.
1985	WFC was purchased by United Savings of America (“United Savings”), which subsequently merged into Heights Finance and changed its name to USA Financial Services. [USA Financial Services subsequently became impaired during the 1990s savings and loan crisis and was placed under the supervision of the Resolution Trust Corporation (the “Trust”).]
1991	Alpha was paid as a dividend by Family to USA Financial Services to facilitate the sale of Family to a third party.
1992	Milwaukee Insurance Group, Inc. (“MIG”) acquired 100% of Alpha’s outstanding capital stock from the Trust.
1995	Effective 10/2/95, Trinity Universal Insurance Company (“Trinity Universal”), a wholly-owned subsidiary of Unitrin, Inc. (now known as the Kemper Corporation) acquired all of the capital stock of MIG.
2001	MIG was dissolved and its assets and liabilities were merged into Trinity Universal. Upon the dissolution of MIG, Alpha became a direct subsidiary of Trinity Universal.

In 2023, the company wrote direct premium in the following states:

Oregon	\$22,483,147	98.41%
All others	<u>362,246</u>	<u>1.59</u>
Total	<u>\$22,845,393</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 company primarily writes non-standard auto insurance products, which 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 2023. The growth of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Homeowners multiple peril	\$ 52,929	\$	\$ 52,929	\$0
Private passenger auto no-fault (personal injury)	4,504,339		4,504,339	0
Other private passenger auto liability	14,114,170		14,114,170	0
Other commercial auto liability		8,104	8,104	0
Private passenger auto physical damage	<u>4,173,955</u>	<u> </u>	<u>4,173,955</u>	<u>0</u>
Total All Lines	<u>\$22,845,393</u>	<u>\$8,104</u>	<u>\$22,853,497</u>	<u>\$0</u>

Alpha operates within Kemper’s Specialty Property and Casualty segment, which includes over 30 affiliates, domiciled in Illinois, Indiana, New York, Ohio, Oregon, Texas, and Wisconsin. The segment provides personal auto insurance to consumers who have difficulty obtaining standard or preferred risk insurance (generally due to their driving record, claims experience or premium payment history). The segment also provides commercial auto to targeted markets and industries, with a focus on contractors, short-haul delivery, and sales/services that are closely aligned to personal auto insurance from both a footprint and distribution perspective.¹ The segment’s products are primarily distributed through independent agents and brokers (with a small portion distributed through direct to consumer and captive channels).

Alpha does not have any employees. Kemper 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,

¹ In addition, Kemper’s Life Insurance segment’s career agents also sell contents coverage for personal property to its customers against loss resulting from fire, lightning and other causes.

pursuant to intercompany agreements. Further discussion of Alpha's significant affiliates is included in the section of this report captioned "Affiliated Companies."

III. MANAGEMENT AND CONTROL

Board of Directors

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

Currently, the board of directors consists of the following persons:

Name	Principal Occupation	Term Expires
John M. Boschelli	Executive Vice President and Chief Investment Officer Kemper Corporation	2025
Maxwell T. Mindak	Senior Vice President, Treasurer and Chief Risk Officer Kemper Corporation	2025
James A. Alexander	Senior Vice President and Chief Accounting Officer Kemper Corporation	2025
Christopher L. Moses	Vice President, Treasury Kemper Corporation	2025
Timothy D. Bruns	Senior Vice President, Operations, Property & Casualty Division Kemper Corporation	2025

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 current officers are as follows:

Name	Office
John M. Boschelli	Chairman of the Board
Timothy D. Bruns	President
Christopher D. Dell Isola	Vice President and Secretary
Ryan E. Erickson	Treasurer

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. Kemper Corporation is a SOX-Compliant Entity, as defined in s. Ins 50.01 (7t), Wis.

Adm. Code. Alpha has elected to allow Trinity Universal's audit committee to perform the duties of Alpha's audit committee. The committees at the time of the examination are listed below:

Executive Committee

John M. Boschelli, Chair
James A. Alexander
Maxwell T. Mindak

Audit Committee

John M. Boschelli, Chair
James A. Alexander
Maxwell T. Mindak

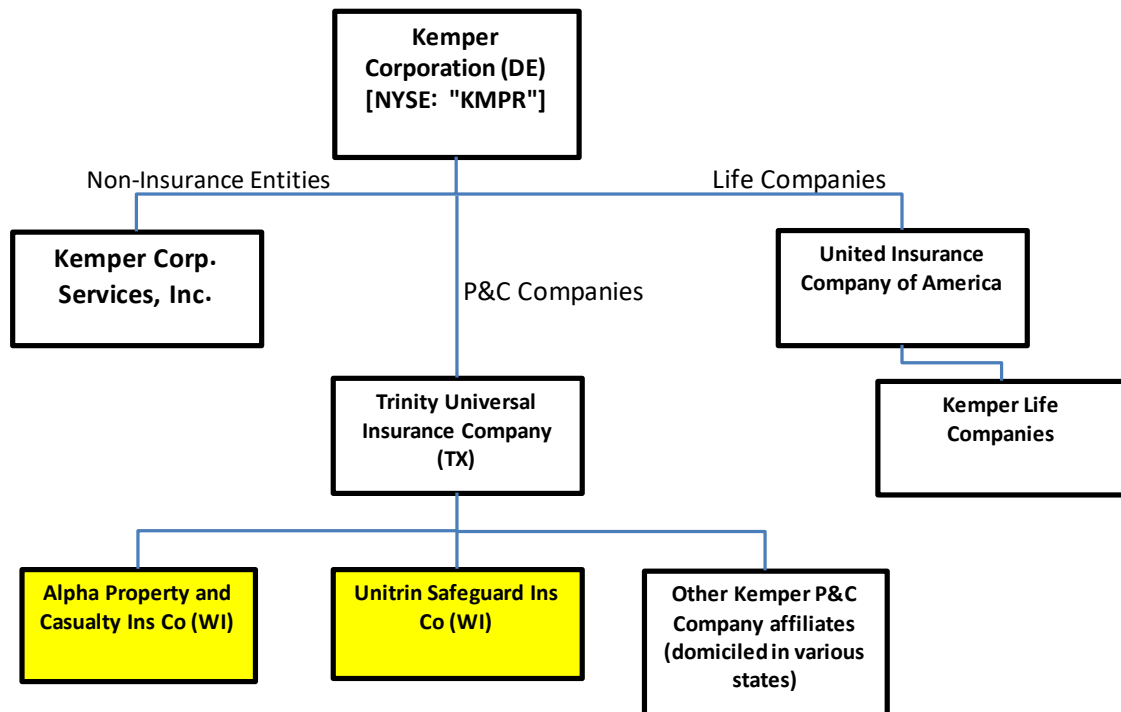
Investment Committee

John M. Boschelli, Chair
James A. Alexander
Maxwell T. Mindak

IV. AFFILIATED COMPANIES

Alpha Property and Casualty Insurance Company is a member of a holding company system. Below is an abbreviated organizational chart showing the company's key affiliates, followed by a brief description of significant Kemper affiliates.

**Organizational Chart (Abbreviated)
As of December 31, 2023**



Kemper Corporation

Kemper Corporation (Kemper), headquartered in Chicago, IL, is a publicly traded insurance holding company whose operations are conducted solely in the United States. Kemper conducts its operations through two segments: Specialty Property & Casualty Insurance and Life Insurance. The Specialty Property & Casualty Insurance segment primarily offers specialty personal and commercial auto insurance through independent agents and brokers. The Life

Insurance segment primarily provides individual life, accident, supplemental health and property insurance.

As of December 31, 2023, Kemper Corporation's GAAP basis audited financial statements reported total assets of \$12,742,700,000, total liabilities of \$10,237,700,000, and total shareholders' equity of \$2,505,000,000.

Merastar Insurance Company and Infinity Insurance Company

Through a General Services Agreement, Merastar Insurance Company (Merastar) and Infinity Insurance Company (Infinity) provide various general services to all of the operating companies within the Kemper Group, including executive management, investment management, accounting and other administrative services. The costs of the executive services rendered by Merastar and Infinity are allocated to the respective affiliates in accordance with the terms of the General Services Agreement between Merastar and Infinity and the various Kemper property and casualty affiliates, including Alpha.

Trinity Universal Insurance Company

Trinity Universal Insurance Company (Trinity Universal), Kemper Corporations' largest property and casualty insurer, is a multi-line insurance company.

As of December 31, 2023, Trinity Universal's statutory basis audited financial statements reported total admitted assets of \$5,211,304,544, total liabilities of \$3,780,217,069, and surplus as regards policyholders of \$1,431,087,475.

Unitrin Direct Insurance Company

Unitrin Direct Insurance Company (Unitrin Direct) is an Illinois-domiciled property and casualty insurance company and subsidiary of Trinity Universal Insurance Company. Alpha is a party to General Services Agreement, where Unitrin Direct provides administration services to Alpha related to the direct marketing of private passenger automobile insurance in Florida.

As of December 31, 2023, Unitrin Direct's statutory basis audited financial statements reported total admitted assets of \$9,724,798, total liabilities of \$1,677,334, and surplus as regards policyholders of \$8,047,464.

Merastar Insurance Company

Merastar Insurance Company (Merastar) is an Illinois-domiciled property and casualty insurance company and subsidiary of Trinity Universal Insurance Company. Merastar is one of Kemper Corporation's main payroll companies.

As of December 31, 2023, Merastar's statutory basis audited financial statements reported total admitted assets of \$89,837,452, total liabilities of \$62,004,755, and surplus as regards policyholders of \$27,832,697.

Agreements with Affiliates

Below is a summary of the company's significant affiliated agreements in effect at the time of the examination:

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.
2. **General Services Agreement:** Effective January 1, 2019, Alpha, along with other property and casualty affiliate companies, entered into a General Services Agreement with Merastar and Infinity. Under the terms of the agreement, Merastar and Infinity provide general corporate services, policy and claims administrative services and computer information technology services to Alpha and other affiliates.
3. **Amended and Restated 100% Quota Share Reinsurance Agreement:** Effective December 1, 2019, Alpha and Trinity Universal entered into an Amended and Restated 100% Quota Share Reinsurance Agreement. 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.
4. **General Services Agreement:** Effective April 1, 2001, Alpha and Unitrin Direct Insurance Company are parties to a General Services Agreement. Pursuant to the terms of the

Agreement, UDIC provides administration services to Alpha related to the direct marketing of private passenger automobile insurance of Alpha written in Florida.

V. REINSURANCE

The company has only one material treaty, an affiliated ceded reinsurance contract described below. The contracts 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, 2023, 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 and the compulsory and security surplus calculation.

Alpha Property & Casualty Insurance Company
Assets
As of December 31, 2023

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$12,670,904	\$	\$12,670,904
Cash, cash equivalents, and short-term investments	2,024,651		2,024,651
Investment income due and accrued	117,343		117,343
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	3,722,679		3,722,679
Reinsurance:			
Amounts recoverable from reinsurers	1,986		1,986
Other amounts receivable under reinsurance contracts	263,305		263,305
Net deferred tax asset	18,950		18,950
Guaranty funds receivable or on deposit	890		890
Write-ins for other than invested assets:			
Premium tax receivable	621,502		621,502
Prepaid expense	<u>48,165</u>	<u>48,165</u>	<u> </u>
 Total Assets	 <u>\$20,003,534</u>	 <u>\$48,165</u>	 <u>\$19,955,369</u>

Alpha Property & Casualty Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2023

Commissions payable, contingent commissions, and other similar charges	\$ 192,785
Other expenses (excluding taxes, licenses, and fees)	4,206
Current federal and foreign income taxes	66,834
Advance premium	108,586
Ceded reinsurance premiums payable (net of ceding commissions)	3,638,496
Amounts withheld or retained by company for account of others	26,842
Payable to parent, subsidiaries, and affiliates	<u>614,325</u>
 Total Liabilities	 4,652,075
 Common capital stock	 \$4,200,000
Gross paid in and contributed surplus	8,100,000
Unassigned funds (surplus)	<u>3,003,294</u>
 Surplus as Regards Policyholders	 <u>15,303,294</u>
 Total Liabilities and Surplus	 <u>\$19,955,369</u>

Alpha Property & Casualty Insurance Company
Summary of Operations
For the Year 2023

Investment Income

Net investment income earned	\$396,276	
Net realized capital gains (losses)	<u>(1,539)</u>	
Net investment gain (loss)		394,737
 Net income (loss) before dividends to policyholders and before federal and foreign income taxes		 394,737
 Net income (loss) after dividends to policyholders but before federal and foreign income taxes		 394,737
Federal and foreign income taxes incurred		<u>85,394</u>
 Net Income (Loss)		 <u>\$309,343</u>

Alpha Property & Casualty Insurance Company
Cash Flow
For the Year 2023

Premiums collected net of reinsurance			\$ (12,364)
Net investment income			860,151
Miscellaneous income			<u>(263,305)</u>
Total			584,482
Benefit- and loss-related payments	\$1,509		
Commissions, expenses paid, and aggregate write-ins for deductions	(116,050)		
Federal and foreign income taxes paid (recovered)	<u>44,000</u>		
Total deductions			<u>(70,541)</u>
Net cash from operations			655,023
Proceeds from investments sold, matured, or repaid:			
Bonds	\$1,190,096		
Total investment proceeds		1,190,096	
Cost of investments acquired (long-term only):			
Bonds	1,383,727		
Miscellaneous applications	<u>372</u>		
Total investments acquired		<u>1,384,099</u>	
Net cash from investments			(194,003)
Cash from financing and miscellaneous sources:			
Dividends to stockholders	374,360		
Other cash provided (applied)	<u>1,510,146</u>		
Net cash from financing and miscellaneous sources			<u>1,135,786</u>
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			1,596,805
Cash, cash equivalents, and short-term investments:			
Beginning of year			<u>427,846</u>
End of Year			<u>\$2,024,651</u>

Alpha Property & Casualty Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2023

Assets		\$19,955,369
Less liabilities		<u>4,652,075</u>
Adjusted surplus		15,303,294
Annual premium:		
Lines other than health and medical malpractice	\$ 0	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$13,303,294</u>
Adjusted surplus (from above)		\$15,303,294
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>\$12,503,294</u>

Alpha Property & Casualty Insurance Company
Analysis of Surplus
For the 5-Year Period Ending December 31, 2023

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

	2023	2022	2021	2020	2019
Surplus, beginning of year	\$15,662,334	\$15,224,530	\$14,085,668	\$13,964,956	\$13,838,439
Net income	309,343	390,827	397,809	413,565	485,510
Change in net deferred income tax	25,366	(27,209)	19,654	(27,706)	(16,650)
Change in non-admitted assets	(43,749)	74,186	(78,601)	134,854	57,656
Surplus adjustments:					
Paid in Dividends to stockholders	(650,000)		800,000	(400,000)	(400,000)
Surplus, End of Year	<u>\$15,303,294</u>	<u>\$15,662,334</u>	<u>\$15,224,530</u>	<u>\$14,085,668</u>	<u>\$13,964,956</u>

Growth of Alpha Property & Casualty Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2023	\$19,955,369	\$4,652,075	\$15,303,294	\$309,343
2022	24,190,188	8,527,856	15,662,334	390,827
2021	36,430,218	21,205,688	15,224,530	397,809
2020	36,213,199	22,127,531	14,085,668	413,565
2019	36,418,188	22,453,232	13,964,956	485,510
2018	31,458,098	17,619,659	13,838,439	464,916

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2023	\$22,853,497	\$0	\$0	0.0%	0.0%	0.0%
2022	56,919,194	0	0	0.0	0.0	0.0
2021	90,272,983	0	0	0.0	0.0	0.0
2020	90,439,784	0	0	0.0	0.0	0.0
2019	83,752,958	0	0	0.0	0.0	0.0
2018	71,986,416	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 2023 (\$650,000), 2020 (\$400,000), and in 2019 (\$400,000). 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 the surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2023, 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 comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. 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.

Action—Compliance.

Summary of Current Examination Results

The current examination resulted in no recommendations. There were no adjustments or reclassifications to the balance sheet amounts as a result of this examination.

VIII. CONCLUSION

Alpha Property & Casualty Insurance Company is a Wisconsin-domiciled stock property and casualty insurance company that was organized in 1979. The company operates within Kemper's Specialty Property and Casualty segment, which focuses on writing non-standard and specialty personal and commercial auto business.

During the period under examination, the company's surplus increased by 10.6%. The increase was driven almost entirely by investment income (as the company cedes 100% of its underwriting risk to an affiliate, Trinity Universal, through a 100% quota share reinsurance agreement).

The current examination resulted in no recommendations. No adjustments were made to the company's reported surplus. The amount of surplus reported by the company as of December 31, 2023, is accepted.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination resulted in no recommendations. There were no adjustments or reclassifications to the balance sheet amounts as a result of this examination.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended by the officers and employees of the company during the course of the examination 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:

Name	Title
Junji Nartatez, CISA, AES	IT Specialist
Kongmeng Yang, CFE	Quality Control Specialist

Respectfully submitted,



Yi Xu
Examiner-in-Charge