

MARKET CONDUCT EXAMINATION REPORT

OF

ALFA ALLIANCE

INSURANCE CORPORATION

AS OF

DECEMBER 31, 2012

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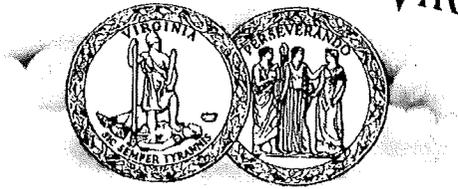
INSURANCE CORPORATION

AS OF

DECEMBER 31, 2012

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Market Conduct Examination Report of Alfa Alliance Insurance Corporation as of December 31, 2012, which took place at the company's office in Glen Allen, Virginia is a true copy of the original Report on file with the Bureau and also includes a true copy of the company's final response to the findings set forth therein, and of the Bureau's letter and the Order of the State Corporation Commission finalizing the Report.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the official seal of this the Bureau
at the City of Richmond, Virginia,
this 10th day of February, 2014.


JACQUELINE K. CUNNINGHAM
Commissioner of Insurance

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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a market conduct examination has been made of the homeowners and private passenger automobile lines of business written by Alfa Alliance Insurance Corporation at its office in Glen Allen, Virginia.

The examination commenced February 25, 2013 and concluded March 8, 2013. Brandon L. Ayers, William T. Felvey, Karen S. Gerber, Ju'Coby D. Hendrick, Richard L. Howell, and Melody R. Morrissette examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Supervisor of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on February 7, 2013 and was assigned the examination number of VA097-M5. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILES*

Virginia Auto Mutual Insurance Company was incorporated under the laws of Virginia on September 5, 1935 and commenced business on November 27, 1935. The name was changed to Virginia Mutual Insurance Company on June 9, 1949. Virginia Mutual Insurance Company affiliated with Alfa Mutual Insurance Company in August 2001. On January 1, 2007, the company converted from a mutual to a stock company and was recapitalized as Alfa Alliance Insurance Corporation, a wholly owned subsidiary of Alfa Corporation. Alfa Alliance Insurance Corporation is licensed in six states.*

* Source: Best's Insurance Reports, Property & Casualty, 2012 Edition.

The table below indicates when the company was licensed in Virginia and the lines of insurance that the company was licensed to write in Virginia during the examination period. All lines of insurance were authorized on November 27, 1935 except as noted in the table.

GROUP CODE: 0005	AAIC
NAIC Company Number	18791
LICENSED IN VIRGINIA	11/27/1935
LINES OF INSURANCE	
Accident and Sickness	
Aircraft Liability	X
Aircraft Physical Damage	X
Animal	
Automobile Liability	X
Automobile Physical Damage	X
Boiler and Machinery	X
Burglary and Theft	X
Commercial Multi-Peril	X
Credit	
Farmowners Multi-Peril	X
Fidelity	01/09/1982
Fire	X
General Liability	X
Glass	X
Homeowner Multi-Peril	X
Inland Marine	X
Miscellaneous Property	X
Ocean Marine	X
Surety	
Water Damage	X
Workers' Compensation	X

The table below shows the company's premium volume and approximate market share of business written in Virginia during 2012 for those lines of insurance included in this examination.* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Homeowners Multiple Peril	\$10,684,540	.59%
Private Automobile Liability	\$8,616,322	.35%
Private Automobile Physical Damage	\$6,005,046	.33%

*Source: The 2012 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

SCOPE OF THE EXAMINATION

The examination included a detailed review of the company's homeowners and private passenger automobile lines of business written in Virginia for the period beginning January 1, 2012 and ending December 31, 2012. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance¹, statutory notices, agent's licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the company's operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections: Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the company failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the company's practices that require some action by the company. This section also summarizes the violations for which the company was cited in previous examinations.

The examiners may not have discovered every unacceptable or non-compliant activity in which the company engaged. The failure to identify, comment on, or criticize

¹Policies reviewed under this category reflected the company's current practices and, therefore, fell outside of the exam period.

specific company practices does not constitute an acceptance of the practices by the Bureau.

STATISTICAL SUMMARY

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the company. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the Summary.

AREA	<u>Population</u>				
	<u>Sample Requested</u>				
	<u>TOTAL</u>	<u>FILES</u> <u>REVIEWED</u>	<u>FILES NOT</u> <u>FOUND</u>	<u>FILES WITH</u> <u>ERRORS</u>	<u>ERROR</u> <u>RATIO</u>
<u>Private Passenger Auto</u>					
New Business	<u>1348</u> 20	20	0	11	55%
Renew al Business	<u>10490</u> 40	40	0	16	40%
Co-Initiated Cancellations	<u>110</u> 22	22	0	6	27%
All Other Cancellations ¹	<u>2574</u> 32	31	0	12	39%
Nonrenew als ²	<u>240</u> 13	12	0	0	0%
Rejected Applications	<u>134</u> 5	5	0	5	100%
<u>Home owners</u>					
New Business	<u>1805</u> 25	25	0	5	20%
Renew al Business	<u>14452</u> 50	50	0	16	32%
Co-Initiated Cancellations	<u>130</u> 9	9	0	2	22%
All Other Cancellations	<u>1497</u> 25	25	0	9	36%
Nonrenew als ³	<u>284</u> 15	12	0	9	75%
Rejected Applications	<u>98</u> 5	5	0	5	100%
<u>Claims</u>					
Auto	<u>6138</u> 60	60	0	30	50%
Property ⁴	<u>1207</u> 61	60	0	26	43%

Footnote ¹- One file was added from the Nonrenew al category and two files were duplicates

Footnote ²- One file was moved to the Insured Requested category.

Footnote³ - Three files were duplicates

Footnote⁴ - One file was assisted by the BOI Consumer Services Section and was not reviewed

PART ONE – THE EXAMINERS' OBSERVATIONS

This section of the Report contains all of the observations that the examiners provided to the company. These include all instances where the company violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the company violated any other Virginia laws applicable to insurers.

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

The Bureau reviewed 20 new business policy files. As a result of this review, the examiners found overcharges totaling \$18.00 and undercharges totaling \$1,364.00. The net amount that should be refunded to insureds is \$18.00 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company listed the Passive Restraint Discount on the declarations page when it was not applicable to the policy.
- (2) The examiners found four violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with the specific reason for the adverse underwriting decision (AUD).
- (3) The examiners found ten violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In one instance, the company failed to apply the correct surcharge points for accidents and/or convictions.
 - b. In one instance, the company failed to use the correct driver classification factor.
 - c. In one instance, the company failed to use the correct base and/or final

rates.

- d. In seven instances, the company failed to use its filed rounding rule.

Automobile Renewal Business Policies

The Bureau reviewed 40 renewal business policy files. As a result of this review, the examiners found overcharges totaling \$580.00 and undercharges totaling \$2,078.00. The net amount that should be refunded to insureds is \$580.00 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy all of the information required by the statute. The company failed to list all applicable coverage information on the declarations page.
- (2) The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company listed the Passive Restraint Discount on the declarations page when it was not applicable to the policy.
- (3) The examiners found four violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with the specific reason for the AUD.
- (4) The examiners found 20 violations of § 38.2-1906 D of the Code of Virginia.
 - a. In four instances, the company failed to use the correct discounts and/or surcharges.
 - b. In four instances, the company failed to apply the correct surcharge points for accidents and/or convictions.
 - c. In one instance, the company failed to use the correct symbols.
 - d. In two instances, the company failed to use the correct driver classification factor.

- e. In one instance, the company failed to use the correct base and/or final rates.
- f. In eight instances, the company failed to use its filed rounding rule.

Homeowners New Business Policies

The Bureau reviewed 25 new business policy files. As a result of this review, the examiners found overcharges totaling \$50.93 and undercharges totaling \$26.01. The net amount that should be refunded to insureds is \$50.93 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (2) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to follow its order of rate calculation rule.

Homeowners Renewal Business Policies

The Bureau reviewed 50 renewal business policy files. As a result of this review, the examiners found overcharges totaling \$15.92 and undercharges totaling \$35.11. The net amount that should be refunded to insureds is \$15.92 plus six percent (6%) simple interest.

- (1) The examiners found 13 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to follow its order of rate calculation rule.
- (2) The examiners found three violations of § 38.2-2126 B of the Code of Virginia.

The company failed to update credit information at least once in a three year period or when requested by the insured.

TERMINATION REVIEW

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations – Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

The Bureau reviewed five automobile cancellations that were initiated by the company where the company mailed the notices prior to the 60th day of coverage in the initial policy period. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau reviewed 17 automobile cancellations that were initiated by the company where the company mailed the notices on or after the 60th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found three violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide the cancellation documentation that corresponded to the cancellation date reported in the data call.
- (2) The examiners found four violations of § 38.2-2212 E of the Code of Virginia.

- a. In two instances, the company failed to mail the notice of cancellation to the insured at least 45 days prior to the effective date of cancellation.
- b. In one instance, the company failed to state the specific reason for canceling the policy.
- c. In one instance, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.

All Other Cancellations – Automobile Policies

NONPAYMENT OF PREMIUM

The Bureau reviewed ten automobile cancellations that were initiated by the company for nonpayment of the policy premium. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to advise the insured of his right to request a review by the Commissioner of Insurance.

REQUESTED BY THE INSURED

The Bureau reviewed 21 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. As a result of this review, the examiners found overcharges totaling \$623.78 and undercharges totaling \$686.28. The net amount that should be refunded to insureds is \$623.78 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide the cancellation documentation that corresponded to the cancellation date reported in the data call.

- (2) The examiners found nine violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (3) The examiners found three violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain a written request from the insured to cancel his policy.

Company-Initiated Nonrenewals – Automobile Policies

The Bureau reviewed 12 automobile nonrenewals that were initiated by the company.

The examiners found two violations of § 38.2-2212 E of the Code of Virginia. The company failed to send the insured written notice of nonrenewal.

Rejected Applications – Automobile Policies

The Bureau reviewed five automobile insurance applications for which the company declined to issue a policy.

- (1) The examiners found five violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the applicant a copy of the company's Notice of Insurance Information Collection and Disclosure Practices.
- (2) The examiners found five violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the applicant with written notice of an AUD.

Homeowners Policies

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations – Homeowners PoliciesNOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The Bureau reviewed five homeowner cancellations that were initiated by the company where the company mailed the notices prior to the 90th day of coverage in the initial policy period. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

The Bureau reviewed four homeowner cancellations that were initiated by the company where the company mailed the notices on or after the 90th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. As a result of this review, the examiners found overcharges totaling \$8.00 and no undercharges. The net amount that should be refunded to insureds is \$8.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiners found two violations of § 38.2114 A of the Code of Virginia. The company cancelled coverage on an owner-occupied dwelling because of a physical change in the property and failed to properly document the change.
- (3) The examiners found one violation of § 38.2-2114 C of the Code of Virginia. The company failed to provide at least 30 days' notice to the insured when the company cancelled the policy after the 89th day of coverage.

All Other Cancellations – Homeowners Policies

NONPAYMENT OF THE PREMIUM

The Bureau reviewed seven homeowner and three owner-occupied dwelling fire policy cancellations that were initiated by the company for nonpayment of the policy premium. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

REQUESTED BY THE INSURED

The Bureau reviewed 15 homeowner and two owner-occupied dwelling fire policy cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found five violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide the cancellation documentation that corresponded to the cancellation date reported in the data call.
- (2) The examiners found six occurrences where the company failed to comply with the provisions of the insurance policy.
 - a. In three instances, the company failed to honor the date of cancellation requested by the insured.
 - b. In three instances, the company failed to obtain advanced written notice of cancellation from the insured.

Company-Initiated Nonrenewals – Homeowner Policies

The Bureau reviewed 12 homeowner nonrenewals that were initiated by the company.

The examiners found nine violations of § 38.2-2114 B of the Code of Virginia.

The company failed to send the insured written notice of nonrenewal.

Rejected Applications – Homeowner Policies

The Bureau reviewed five homeowners' insurance applications for which the company declined to issue a policy.

(1) The examiners found five violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the applicant a copy of the company's Notice of Insurance Information Collection and Disclosure Practices.

(2) The examiners found five violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the applicant with written notice of an AUD.

CLAIMS REVIEW**Private Passenger Automobile Claims**

The examiners reviewed 60 automobile claims for the period of January 1, 2012 through December 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found no overpayments and underpayments totaling \$5,417.01. The net amount that should be paid to claimants is \$5,417.01 plus six percent (6%) simple interest.

(1) The examiners found eight violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found five violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance contract that were pertinent to the claim.
- a. In two instances, the company failed to accurately inform an insured of his Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.
 - b. In three instances, the company failed to accurately inform an insured of his benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM).

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found six violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

These findings occurred with such frequency as to indicate a general business practice.

- (4) The examiners found one violation of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

- (5) The examiners found six violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

These findings occurred with such frequency as to indicate a general business practice.

- (6) The examiners found four violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

a. In one instance, the company failed to reimburse the insured his portion of the collision deductible under the UMPD coverage.

b. In three instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.

- (7) The examiners found nine violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.

a. In six instances, the company failed to provide a copy of the estimate to the insured.

b. In three instances, the company failed to provide a copy of the estimate to the claimant.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found seven violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt

investigation of claims arising under insurance policies.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.
- (10) The examiners found three violations of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured authorizing the company to make payments directly to the medical provider.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found seven violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

Homeowner and Dwelling Fire Claims

The examiners reviewed 60 homeowner claims for the period of January 1, 2012 through December 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$947.26 and no underpayments.

- (1) The examiners found six violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business

practice.

- (2) The examiners found eight violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.
 - a. In one instance, the company failed to inform the insured of the benefits under the Additional Living Expense coverage of the policy.
 - b. In four instances, the company failed to inform the insured of the Replacement Cost Benefits under the Dwelling coverage of the policy.
 - c. In three instances, the company failed to inform the insured of the Replacement Cost Benefits under the Personal Property coverage of the policy.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant or a claimant's authorized representative that reasonably suggested a response was expected.
- (4) The examiners found three violations of 14 VAC 5-400 70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found four violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to the coverages at issue.
 - a. In one instance, the company misrepresented to the insured that the

mortgagee did not have to be included on Coverage A payments below \$2,500.

- b. In three instances, the company gave the insured 180 days from the last actual cash payment rather than six months from the last actual cash payment to assert a claim for replacement cost on the damaged property.
- (6) The examiners found five violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.
- These findings occurred with such frequency as to indicate a general business practice.
- (7) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.
- (8) The examiners found five occurrences where the company failed to comply with the provisions of the insurance contract.
- a. In three instances, the company required the insured to obtain a police report as a condition for settlement of the claim.
 - b. In two instances, the company overpaid the claim.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found two violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

REVIEW OF FORMS

The examiners reviewed the company's policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the company's compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the company. In addition, the Bureau requested copies of new and renewal business policy mailings that the company was processing at the time of the Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance section of the Report. The examiners then reviewed the forms used on these policies to verify the company's current practices.

Automobile Policy Forms**POLICY FORMS USED DURING THE EXAMINATION PERIOD**

The company provided copies of 26 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area.

POLICY FORMS CURRENTLY USED BY THE COMPANY

The examiners found no additional forms to review.

Homeowners Policy Forms**POLICY FORMS USED DURING THE EXAMINATION PERIOD**

The company provided copies of 47 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area.

POLICY FORMS CURRENTLY USED BY THE COMPANY

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the company's policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the company received the Examination Data Call. The company was instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the company enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

Automobile Policies

The company provided five new business policies mailed on the following dates: January 4, 7, 8, and 16, 2013. In addition, the company provided five renewal business policies mailed on January 8, 2013.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

Homeowner and Dwelling Fire Policies

The company provided five new business policies mailed on the following dates: January 4, 7, 8, and 10, 2013. In addition, the company provided five renewal business policies mailed on January 8, 2013.

NEW BUSINESS POLICIES

- (1) The examiners found five violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to attach all applicable forms.
- (2) The examiners found one violation of § 38.2-305 B of the Code of Virginia. The company failed to provide the Important Information Regarding Your Insurance notice as required by the Code of Virginia.
- (3) The examiners found one violation of § 38.2-604.1 A of the Code of Virginia. The company failed to provide the Notice of Financial Information Collection and Disclosure Practices as required by this statute.
- (4) The examiners found one violation of § 38.2-2118 of the Code of Virginia. The company failed to provide a statement summarizing the replacement cost provisions.
- (5) The examiners found one violation of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.
- (6) The examiners found one violation of § 38.2-2124 of the Code of Virginia. The company failed to provide the Ordinance and Law notice as required by the Code of Virginia.
- (7) The examiners found one violation of § 38.2-2125 of the Code of Virginia. The company failed to provide the Flood Exclusion notice as required by the Code of

Virginia.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

REVIEW OF STATUTORY NOTICES

The examiners reviewed the company's statutory notices used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the company's compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the company. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the company on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia.

General Statutory Notices

The examiners found no violations in this area.

Statutory Vehicle Notices

The examiners found no violations in this area.

Statutory Property Notices

The examiners found no violations in this area.

Other Notices

The company provided copies of eight other notices that were used during the examination period.

The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company's "Homeowner Claims Frequency Deductible Procedure" notice is misleading regarding premium credit.

LICENSING AND APPOINTMENT REVIEW

A review was made of new business homeowners and private passenger automobile policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the company as required by Virginia insurance statutes. In addition, the agent or agency to which the company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

Agent

The examiners found three violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of binding coverage.

Agency

The examiners found no violations in this area.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

A review was made of the company's complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found no violations in this area.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

The Bureau requested a copy of the company's information security program that protects the privacy of policyholder information.

The company submitted its security information as required by § 38.2-613.2 of the Code of Virginia.

PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. Unless otherwise noted, a ten percent (10%) error criterion was applied to all operations of the company, with the exception of claims handling. The threshold applied to claims handling was seven percent (7%). Any error ratio above these thresholds indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

General

Alfa Alliance Insurance Corporation shall:

Provide a Corrective Action Plan (CAP) with its response to the Report.

RATING AND UNDERWRITING REVIEW

Alpha Alliance Insurance Corporation shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.

- (4) Specify accurate information in the policy by showing the Towing and Labor coverage limit and listing all joint owners on the declarations page.
- (5) Properly represent the benefits, coverage, advantages and conditions of the policy by showing only applicable discounts on the declarations page.
- (6) Provide an AUD notice to the insured when the company issues the policy with information that differs from the information provided by the insured in the application.
- (7) Maintain a copy of all new business applications.
- (8) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, driver classifications, base and/or final rates and rounding rules.
- (9) Update the insured's credit information at least once in a three year period or when requested by the insured.

Termination Review

Alfa Alliance Insurance Corporation shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.

- (4) Maintain accurate documentation that corresponds to the cancellation information.
- (5) Cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage only for those reasons permitted by § 38.2-2212 of the Code of Virginia.
- (6) Send the cancellation notice at least 45 days before the effective date of cancellation when the notice is mailed after the 59th day of coverage.
- (7) Advise the insured of the specific reason for cancelling the policy.
- (8) Inform the insured of his right to have the termination of his policy reviewed by the Commissioner of Insurance.
- (9) Calculate earned premium according to filed rules and policy provisions.
- (10) Provide the Notice of Insurance Information Collection and Disclosure Practices to the applicant.
- (11) Provide a written AUD notice to the applicant.
- (12) Cancel an owner-occupied dwelling policy after the 89th day of coverage only for reasons permitted by the statute.
- (13) Send the cancellation notice for an owner-occupied dwelling policy at least 30 days before the effective date of cancellation when it is mailed after the 89th day of coverage.
- (14) Honor the date of cancellation requested by the insured.
- (15) Obtain an advance written request from the insured to cancel his policy.
- (16) Send the insured written notice of nonrenewal.

Claims Review

Alfa Alliance Insurance Corporation shall:

- (1) Correct the errors that caused the overpayments and underpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has paid the underpayments listed in the file.
- (4) Document the claim file so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to rental benefits under UMPD and Transportation Expenses coverage as well as building and personal property replacement cost and Additional Living Expense coverage.
- (6) Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within ten business days.
- (7) Make all claim denials in writing and keep a copy of the written denial in the claim file.
- (8) Provide copies of vehicle repair estimates prepared by or on behalf of the company to insureds and claimants.
- (9) Implement reasonable standards for the prompt investigation of claims.

Review of Policy Issuance Process

Alfa Alliance Insurance Corporation shall:

Provide the required information in the policy by attaching only the applicable forms to the policy.

Licensing and Appointment Review

Alfa Alliance Insurance Corporation shall:

Appoint agents within 30 days of the application.

PART THREE – RECOMMENDATIONS

The examiners also found violations that did not appear to rise to the level of business practices by the company. The company should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer:

We recommend that the company take the following actions:

RECOMMENDATIONS**Rating and Underwriting**

- The company should apply surcharged points under a Safe Driver Insurance Policy to the vehicle customarily driven by the operator responsible for incurring the points.
- The company should show the physical garaging location on the declarations page.
- The company should use updated ISO vehicle symbols when rating a policy.
- The company should consider listing all discounts in one section of the declarations page.
- The company should only list the stated value of a vehicle on the declarations page when that value is used in the rating of the vehicle.

Termination

- Revise the bulk mailing statement to comply with § 38.2-2113 A, 1 c of the Code of Virginia.
- Provide proper notice of nonrenewal to the insured and lienholder.

Claims

- Secure an authorization of benefits form from the injured first party insured prior to making payment directly to the medical provider.
- Ensure that the company's coverage denial letter for material misrepresentation correctly explains that the policy will be voided back to inception instead of the renewal date.
- Ensure that the adjuster's voicemail box is not "full" so that voicemails may be left for the adjuster.
- Verify that the company prepared letter(s) mailed to the insured are pertinent to the claim.
- The coverage description on the company's check should accurately reference the indemnified loss.

Forms

- The Basic Form, Form 1, Edition 1.1., should be revised so that the numbering, spacing, and formatting is the same as the version on file with the Bureau.

Policy Issuance Process

- Revise the Identity Recovery Coverage letter, IDRAUDLTR (02 06), to provide the policyholder an option to cancel the Identity Recovery coverage.
- Revise the billing statement to indicate that the policy will expire and not lapse if the policyholder fails to pay the renewal premium before the payment due date.

Statutory Notices

- Include the company's toll free telephone number on the Important Information Regarding Your Insurance notice.

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

The Bureau conducted five prior market conduct examinations of Alfa Alliance Insurance Corporation/Virginia Mutual Insurance Company.

During the examination as of December 31, 1984, Virginia Mutual Insurance Company violated Virginia Code §§ 38.2-510, 38.2-1906 B, 38.2-2014, 38.2-2220, and 38.2-2223, the Commission's regulations governing Unfair Claim Settlement Practices adopted in Case No. 19961, and Administrative Order 7707.

During the examination as of October 31, 1992, Virginia Mutual Insurance Company violated Virginia Code §§ 38.2-231, 38.2-304, 38.2-510 A 6, 38.2-610, 38.2-1906, 38.2-1908, 38.2-2014, 38.2-2212, and 38.2-2220.

During the examination as of September 30, 1997, Virginia Mutual Insurance Company violated Virginia Code §§ 38.2-231, 38.2-304, 38.2-305, 38.2-510 A 6, 38.2-511, 38.2-1812, 38.2-1904, 38.2-1906, 38.2-2014, 38.2-2114, 38.2-2208, 38.2-2212, and 38.2-2220 of the Code of Virginia, as well as 14 VAC 5-400-50 D.

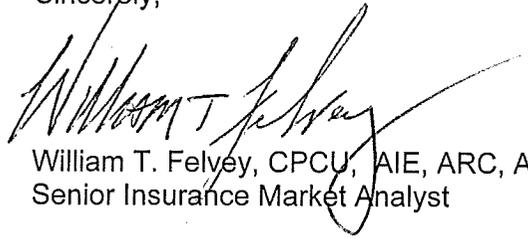
During the examination as of June 30, 2003, Virginia Mutual Insurance Company violated §§ 38.2-231, 38.2-305 A, 38.2-510 A 10, 38.2-1812, 38.2-1906 D, 38.2-2114, 38.2-2202 B, and 38.2-2212 of the Code of Virginia, as well as 14 VAC 5-400-40 A and 14 VAC 5-400-70 D.

During the examination as of December 31, 2009, Alfa Alliance Insurance Corporation violated §§ 38.2-317 A, 38.2-502 1, 38.2-510 A 3, and 38.2-2214 of the Code of Virginia; as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C and 14 VAC 5-400-70 A of the Virginia Administrative Code.

ACKNOWLEDGEMENT

The courteous cooperation extended by the officers and employees of the company during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in black ink, appearing to read "William T. Felvey". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

William T. Felvey, CPCU, AIE, ARC, ARe
Senior Insurance Market Analyst

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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June 14, 2013

VIA UPS 2nd DAY DELIVERY

Scott Beller
Vice President of Business Development and Marketing
Alfa Alliance Insurance Corporation
4480 Cox Road, Suite 300
Glen Allen, VA 23060-6718

RE: Market Conduct Examination
Alfa Alliance Insurance Corporation (NAIC # 18791)
Examination Period: January 1, 2012-December 31, 2012

Dear Mr. Beller:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced company for the period of January 1, 2012, through December 31, 2012. The preliminary examination report (Report) has been drafted for the company's review.

Enclosed with this letter is a copy of the preliminary examination report and copies of review sheets that have been withdrawn or revised since May 6, 2013. Also enclosed are several reports that will provide you with the specific file references for the violations listed in the report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the company, I would urge you to closely review the report. Please provide a written response. When the company responds, please use the same format (headings and numbering) as found in the Report. If not, the response will be returned to the company to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report. The company does not need to respond to any particular item with which it agrees. If the company disagrees with an item or wishes to further comment on an item, please do so in Part One of the Report. In addition, please refrain from using any insured and/or claimant's names, policy numbers, claim numbers or other personally identifiable information in your response. Please be aware that the examiners are unable to remove an item from the report or modify a violation unless the company provides written documentation to support its position.

Secondly, the company should provide a corrective action plan that addresses all of the issues identified in the examination, again using the same headings and numberings as are used in the Report.

Thirdly, if the company has comments it wishes to make regarding Part Three of the Report, please use the same headings and numbering for the comments. In particular, if the examiners identified

issues that were numerous but did not rise to the level of a business practice, the company should outline the actions it is taking to prevent those issues from becoming a business practice.

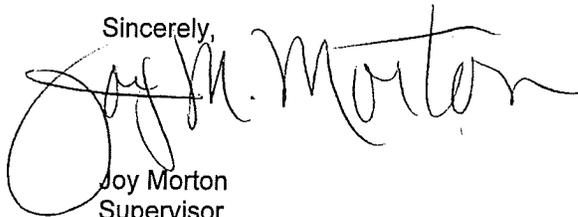
Finally, we have enclosed an Excel file that the company must complete and return to the Bureau with the company's response. This file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The company's response and the spreadsheet mentioned above must be returned to the Bureau by July 19, 2013.

After the Bureau has received and reviewed the company's response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by July 19, 2013.

Sincerely,

A handwritten signature in black ink, appearing to read "Joy M. Morton". The signature is fluid and cursive, with a large initial "J" and "M".

Joy Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

William Felvey

From: Beller, Scott A. <SBeller@AlfaAIC.com>
Sent: Friday, July 19, 2013 12:15 PM
To: Joy Morton; William Felvey
Subject: Alfa Alliance Insurance Corporation - Preliminary Report Response
Attachments: Response Cover Letter.docx; Alfa Alliance Insurance Corporation Company Response.docx; Alfa Alliance Restitution_6 13 2013.xlsx; Termination refund calculation & documentation.xlsx; Exhibit A - MVR, TermOvrPPA-460907704.pdf; Exhibit B - MVR, TermOvrPPA-1652703145.pdf; Exhibit C - Lienholder Notice, TermNRHO-1753666519.pdf; Exhibit D - Claims Underpayment, ClaimVehPPA-1111353247.pdf

Joy and Will, please see the attachments corresponding to Alfa Alliance Insurance Corporation's market conduct examination preliminary report response. Attachments include the following:

- Response Cover Letter.docx
- Alfa Alliance Insurance Corporation Company Response.docx
- Alfa Alliance Restitution_6 13 2013.xlsx
- Termination refund calculation & documentation.xlsx

Exhibits:

- Exhibit A
- Exhibit B
- Exhibit C
- Exhibit D

Please reply via email to confirm receipt of this email and its attachments. If you have any questions, or need any additional information, please let me know.

Scott

Scott Beller
Vice President - Marketing and Integrated Services
Alfa Alliance Insurance Corporation
4480 Cox Road, Suite 300
Glen Allen, VA 23060
(804) 217-7317 phone
(804) 217-7304 fax
sbeller@alfaaic.com

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recipient to ensure this email does not contain a virus. Alfa accepts no responsibility for any loss or damage arising in any way from its use.

July 19, 2013

Joy M. Morton
Supervisor – Market Conduct Section
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
Property & Casualty Division
1300 East Main Street
Richmond, VA 23219

Dear Ms. Morton:

We appreciate the Bureau of Insurance's time and effort in conducting the market conduct examination covering the period from January 1, 2012 through December 31, 2012. Our company will improve as a result of the work performed by you and your staff during the time you have spent in and out of our office. Please express our thanks to your staff, notably Will Felvey who led the examination.

We have reviewed the Bureau's Market Conduct Examination Preliminary Report and have provided our responses using the same format as was used in the Preliminary Report. In certain cases, we have included responses where findings in the report are in dispute, including disputed premium overcharges and claims underpayments. Several responses required supporting documentation, which we have provided as attached Exhibits to our report response per your instructions. Refunds for premium overcharges and claims underpayments that are not being disputed have been made and are documented in the attached spreadsheet provided with our report response. Per instructions from the Bureau, we have not refunded any premium overcharges or claims underpayments that are being disputed.

You will note that there are several responses citing errors discovered in the data call that was submitted to the Bureau prior to the examination. It is unfortunate that these data call errors were not discovered prior to submission, which would have likely reduced the number of violations documented in the preliminary report. We have already made organizational and procedural changes to eliminate similar data call errors from occurring in the future.

Our concern for compliance with all Virginia statutes and regulations is an important component of our standard operating procedures. We take all violations and recommendations seriously, and are taking appropriate measures where necessary to comply with Virginia law and exceed customer expectations.

We await your reply and the final disposition of the examination.

July 19, 2013

Page 2

Sincerely,

Scott Beller
Vice President – Marketing and Integrated Services
Alfa Alliance Insurance Corporation
4480 Cox Road, Suite 300
Glen Allen, VA 23059

Attachments:

Alfa Alliance Insurance Corporation Company Response.docx
Alfa Alliance Restitution_6 13 2013.xlsx
Termination refund calculation & documentation.xlsx

Exhibits:

Exhibit A
Exhibit B
Exhibit C
Exhibit D

Alfa Alliance Insurance Corporation (NAIC # 18791)

Market Conduct Examination

Examination Period: January 1, 2012 – December 31, 2012

Preliminary Examination Report Response

Part One – The Examiners' Observations

Rating and Underwriting Review

Automobile New Business Policies

(1a) The Company acknowledges these violations. This declarations page error was discovered prior to the market conduct examination and was corrected effective 2/24/2013 for new business and 3/24/2013 for renewals.

(1b) The Company respectfully disagrees with this violation. While the cost new information that was entered by the agent does appear on the declarations page, there is nothing on the page that would indicate that the policy was rated based on a stated value amount or that a physical damage loss would be covered based on a stated value amount. The cost new amount is not labeled on the declarations page, while the "Symbol" used for rating each vehicle is labeled. We would consider a recommendation for the cost new to be suppressed from printing on the declarations page, but do not think this is a violation of 38.2-502.

(2-3a) The Company acknowledges these violations.

(3b-c) The Company acknowledges these violations, however in these cases the violations were the result of human error on the part of the Company's appointed agents. Once the errors were discovered, they were corrected in the system.

(3d) The Company acknowledges these violations, resulting from certain rounding steps that were unintentionally omitted from the Premium Determination rule found in the Personal Automobile manual.

Automobile Renewal Business Policies

(1a) The Company acknowledges this violation, however in this case the violation was the result of human error.

(1b) The Company acknowledges this violation. The Towing and Labor limit was incorrectly listed on the initial declarations page, but was corrected on the policy by endorsement.

(2) The Company acknowledges this violation. This declarations page error was discovered prior to the market conduct examination and was corrected effective 2/24/2013 for new business and 3/24/2013 for renewals.

(3-4e) The Company acknowledges these violations.

(4f) The Company acknowledges these violations, resulting from certain rounding steps that were unintentionally omitted from the Premium Determination rule found in the Personal Automobile manual.

Homeowners New Business Policies

(1) The Company respectfully disagrees with this violation. An application was initially submitted requesting a liability limit of \$500,000, but a new application was re-submitted for the same insured requesting a liability limit of \$300,000. An AUD was not provided to the insured because the insured requested and received a liability limit of \$300,000.

(2) The Company acknowledges this violation.

(3) The Company acknowledges this violation, as manual Rule 4 (Premium Determination) could be written more clearly to specify the exact steps needed to determine a rate for Ordinance or Law coverage.

The Company acknowledges the violation cited for Section II coverage, as the residence information is noted in the diary comments section of our system but not on the declarations page.

Homeowners Renewal Business Policies

(1) The Company acknowledges this violation, as manual Rule 4 (Premium Determination) could be written more clearly to specify the exact steps needed to determine a rate for Ordinance or Law coverage.

The Company acknowledges the violations cited for Section II coverage, as the residence information is noted in the diary comments section of our system but not on the declarations page.

The Company acknowledges the violations cited for the Private Structures increased limit charge.

(2) The Company acknowledges these violations, resulting from a programming error that was discovered and corrected in January 2012 to allow the correct reordering of insurance scores at renewal.

Termination Review

Company-Initiated Cancellations – Automobile Policies

Notice Mailed After the 59th Day of Coverage

(1) The Company acknowledges three of these violations, however respectfully disagrees with one violation which appears to be a duplicate violation. Review sheet TermOvr60PPA-1323742656 appears to be the same as review sheet TermOvr60PPA-1122223506 - including the same policy number, code citation and observation – but both have different Review Sheet and BOI Reference numbers. The observation for both of these review sheets is identical and reads as follows: “The company failed to send the correct documentation that corresponds to the dates given for the data call. The population data provided by the company shows a cancellation date of 11/10/12, and the documents provided all show an effective cancellation date of 12/16/12. Please provide documentation to support a cancellation date of 11/10/12”.

(2) The Company respectfully disagrees with both of these violations. Attached are Exhibits A and B, which include copies of actual MVRs obtained from Lexis Nexis Risk Solutions for both policies cited under 38.2-2212 D. Both violations appear to be for the same driver under the same policy number.

(3a) The Company acknowledges one of these violations, however respectfully disagrees with the other violation which appears to be a duplicate violation. Review sheet TermOvr60PPA-224062910 appears to be the same as review sheet TermOvr60PPA-2093370327- including the same policy number, code citation and observation – but both have different Review Sheet and BOI Reference numbers. The observation for both of these review sheets is identical and reads as follows: “The company failed to give the insured 45 days notice when canceling the policy. The notice was mailed on 1/30/12 with an effective date of 3/10/12; this only gave the insured 40 days notice”.

(3b-c) The Company acknowledges these violations.

All Other Cancellations – Automobile Policies

Nonpayment of Premium

(1) The Company acknowledges this violation.

Requested by the Insured

(1) While the information that was requested as part of the examination was provided to the Bureau, the Company acknowledges that the date of cancellation shown on the data call does not correspond to the actual date of cancellation.

(2) The Company acknowledges these violations, but respectfully disagrees with the refund amounts that were calculated by the Bureau. According to the Company’s calculations, which are included in the

Excel file titled "Termination refund calculation & documentation.xlsx", no refunds are due to the insureds.

(3) While the Company did obtain from the insured a written request to cancel his policy, the Company acknowledges that it incorrectly processed the insured's requested cancellation date.

Company-Initiated Nonrenewals – Automobile Policies

(1) While the information that was requested as part of the examination was provided to the Bureau, the Company acknowledges that the date of nonrenewal shown on the data call does not correspond to the actual date of nonrenewal.

(2) While the Company did send the insured written notice of its refusal to renew his motor vehicle policy, the Company acknowledges that the date of nonrenewal shown on the data call does not correspond to the actual date of nonrenewal.

Rejected Applications – Automobile Policies

(1-2) The Company respectfully disagrees with these violations. When an agent provides a quote, the agent has not bound coverage or initiated an application for insurance. If a risk is not eligible based on company underwriting guidelines, then the agent will receive a message in the system. The agent can then decide whether to refer the quote to an underwriter for review. At no point has coverage been bound and at no point has an application for insurance been initiated. Applications are only initiated and risks are only bound when they are eligible for coverage based on company underwriting guidelines. As we discussed and agreed to during the Bureau's Exit Conference, the quotes that generated these violations should not have been included in the data call because they were not Rejected Applications. The Company does acknowledge that these quotes were mistakenly included in the data call for Rejected Applications, since the Company does not have any Rejected Applications.

Homeowners Policies

Company-Initiated Cancellations – Homeowners Policies

Notice Mailed After the 89th Day of Coverage

(1) The Company acknowledges this violation, but respectfully disagrees with the \$8.00 refund amount that was calculated by the Bureau. A \$5.00 installment fee was filed in our Homeowners manual when this policy was written. Since there were 8 installment payments made on this policy, the installment fees owed by the insured should have been \$40.00 (\$5.00 x 8). When compared to the \$8.00 in installment fees that were paid by the insured, the resulting difference is an undercharge of \$32.00

(\$40.00 - \$8.00), rather than an overcharge of \$8.00. Therefore, no refund is owed to the insured. The company's calculation is included in the Excel file titled "Termination refund calculation & documentation.xlsx".

(2-3) The Company acknowledges these violations.

All Other Cancellations – Homeowners Policies

Requested by the Insured

(1) The Company acknowledges these violations.

(2a) The Company acknowledges three of these violations, however respectfully disagrees with the other two violations which appear to be duplicate violations. Review sheet TermIRHO-1863219855 appears to be the same as review sheet TermIRHO-1005010773 - including the same policy number, code citation and observation – but both have different Review Sheet and BOI Reference numbers. The observation for both of these review sheets is identical and reads as follows: "The company failed to use the date the insured requested the policy to be canceled. The insured requested a cancellation date of 6/25/12, and the company used a cancellation date effective date of 7/21/12".

Also, review sheet TermIRHO-1006165218 appears to be the same as review sheet TermIRHO-8187760 - including the same policy number, code citation and observation – but both have different Review Sheet and BOI Reference numbers. The observation for both of these review sheets is identical and reads as follows: "The company failed to use the date the insured requested the policy to be canceled. The insured requested a cancellation date of 9/7/12, and the company used a cancellation date effective date of 12/10/12".

(2b) The Company acknowledges three of these violations, however respectfully disagrees with the other two violations which appears to be duplicate violations. Review sheet TermIRHO-1361543742 appears to be the same as review sheet TermIRHO-1670014745 - including the same policy number, code citation and observation – but both have different Review Sheet and BOI Reference numbers. The observation for both of these review sheets is identical and reads as follows: "The company is not filed to back date an insured requested cancellation. The policy provisions state 'giving us written notice and stating at what future date coverage is to stop.' The cancellation request was signed by the insured on 9/27/12 and they requested a date of 9/25/12. The company made the cancellation effective date 9/25/12".

Also, review sheet TermIRHO-295066979 appears to be the same as review sheet TermIRHO-996326870 - including the same policy number, code citation and observation – but both have different Review Sheet and BOI Reference numbers. The observation for both of these review sheets is identical and reads as follows: "The company is not filed to back date an insured requested cancellation. The policy provisions state 'giving us written notice and stating at what future date coverage is to stop.' The

cancellation request was signed by the insured on 8/23/12 and they requested a date of 8/21/12. The company made the cancellation effective date 8/21/12”.

Company-Initiated Nonrenewals – Homeowners Policies

(1) The Company respectfully disagrees with this violation. Attached is Exhibit C, the electronic notice of nonrenewal sent to the lienholder.

(2) While the Company did not nonrenew these policies in the middle of the policy period, the Company acknowledges that the date of nonrenewal shown on the data call does not correspond to the actual date of nonrenewal.

Rejected Applications – Homeowners Policies

(1-2) The Company respectfully disagrees with these violations. When an agent provides a quote, the agent has not bound coverage or initiated an application for insurance. If a risk is not eligible based on company underwriting guidelines, then the agent will receive a message in the system. The agent can then decide whether to refer the quote to an underwriter for review. At no point has coverage been bound and at no point has an application for insurance been initiated. Applications are only initiated and risks are only bound when they are eligible for coverage based on company underwriting guidelines. As we discussed and agreed to during the Bureau’s Exit Conference, the quotes that generated these violations should not have been included in the data call because they were not Rejected Applications. The Company does acknowledge that these quotes were mistakenly included in the data call for Rejected Applications, since the Company does not have any Rejected Applications.

Claims Review

Private Passenger Automobile Claims

(1) The Company acknowledges four violations and respectfully disagrees with four violations. In two cases the adjuster’s notes reconstructed file activity “... in such detail that *pertinent* events and dates of such events could be reconstructed” as noted in regulation. However, these two cases were cited for not keeping emails that were reconstructed in adjuster notes. In the third case, adjuster notes verify speaking with Rental Company multiple times to establish amount to pay on advancement, but still cited for not having invoice from Rental Company. In the fourth case, the Company was cited for not having a completed written statement form from the claimant in spite of the file showing we never received it after the claimant’s attorney refused to provide it.

(2a) The Company acknowledges one violation and respectfully disagrees with one violation. The Company's disagreement is based on adjuster notes confirming coverages discussed with claimant, but nonetheless cited for notes not specifically documenting rental was discussed.

(2b) The Company acknowledges one violation and respectfully disagrees with two violations. Adjuster notes confirmed coverages discussed with claimant, but nonetheless cited for not specifying each point discussed.

(3) The Company acknowledges four violations and respectfully disagrees with two violations. In both disagreements, we contend communication received didn't reasonably suggest a response was requested as per regulation; moreover, in both instances the adverse carrier communicating to us had been advised of our position previous to their communication.

(4) The Company respectfully disagrees with this violation. No UM claim (demand for payment as per Unfair Claim Settlement Practices) was ever made or requested by the insured; therefore, no 45 day letter was necessary. File reflects the insured was informed by adjuster on 3/12/12 that investigation revealed claim occurring on 3/4/12 did not involve UM coverage; therefore 45 day letter was not required since "...setting forth the reasons additional time is needed for investigation" as per regulation was not relevant. The insured was at fault as supported by our liability payment to insured's passenger. There were multiple discussions with insured during the 45 day period involving relevant first party coverages.

(5) The Company acknowledges two violations and respectfully disagrees with four violations. The disagreements are based on claims (demand for payment) never being made. In two instances, claimant paid CDW on rental prior to invoice being sent to us and did not even inquire about coverage for it. In another case, no UM claim was presented or inquired about, with adjuster's notes pointing out UM not involved.

(6a) The Company acknowledges this violation.

(6b) The Company acknowledges two violations and respectfully disagrees with one violation. In one of the acknowledged underpayment violations, the Company paid the medical provider directly. For our violation disagreement documented in review sheet ClaimVehPPA-1111353247, we have a direction to pay authorization signed by the named insured. On 2/5/13, the Company received medical bills totaling \$4,484.01, and that amount was paid on 2/5/13 directly to the providers. The insured signed a direct pay authorization dated 2/5/13. While our file failed to contain the direction to pay during the examination, it now does, along with an email from the insured dated 6/25/13 confirming he had saved the direction to pay in his system. This documentation is included as part of the attached Exhibit D.

(7a) The Company acknowledges three violations and respectfully disagrees with three violations. In three instances, the Company did not prepare the estimate of repairs as required in regulation. Additionally, the insured chose to use a shop that has a documented agreement with the Company to provide an estimate to the insured.

(7b) The Company acknowledges three violations on one file that involved one estimate and two supplements.

(8) The Company respectfully disagrees with this violation as pertinent facts of the policy were not misrepresented. The adjuster note on 4/20/12 documents claimant was advised it was claimant's option to pursue a depreciation claim, though we believed it would be minimal. In addition, the claimant never had her car repaired; therefore, there was no depreciation incurred.

(9) The Company respectfully disagrees with these violations. In two cases, 3rd party injury cases were never presented to the Company or pursued in any way, while the Company handled all presented claims. These two violations appear to be based on conservatively holding reserves and the files open in case claims were ever presented. Two more cases show file cycle times were 27 days and 14 days respectively. In one case, we promptly paid a portion of a total loss, and clearly explained in a letter that the remaining settlement would be released upon receipt of vehicle title. Claimant produced title, and remaining settlement released same day after liens not on policy handled by claimant. In one case, the insured was paid within five days of providing his estimate, and the claimant simply never contacted us or made a claim in spite of our letter requesting contact. When contacted by claimant, we inspected vehicle and settled total loss. In one case, the file illustrates we advised claimant's attorney we were waiting on submission of medical bills, which attorney chose to handle on his schedule. In one case, the insured opted to pursue adverse carrier rather than submit claim to us that eventually turned into a UM case.

(10-11) The Company acknowledges these violations.

Other Law Violations

(1) The Company acknowledges four violations and respectfully disagrees with three violations. Defense counsel representing the insured provided three legal forms to the plaintiff's lawyer to conclude a pending lawsuit. We neither provided nor required the insured's counsel to use his legal forms to conclude the case. An attorney representing an insured is not an agent of the Company.

Homeowner and Dwelling Fire Claims

(1) The Company acknowledges one violation and respectfully disagrees with five violations. In one instance involving a New Jersey (NJ) liability case, the Company was cited for not having an excess letter or ad damnum in file. We are unable to reconcile how this applies to documenting events and dates to reconstruct a claim. NJ law does not allow ad damnums with suit filing. Moreover, the only injury identified was for broken ribs to an intoxicated claimant falling due to his own negligence, with the insured having a \$500,000 liability policy. We do not send excess letters alarming an insured to an excess situation without a basis. Insured was aware of the suit and was/is represented by counsel in NJ. In support of our position, the initial demand from plaintiff's lawyer was \$40,000 to simply start

negotiations, while initial demands are historically well less than what is expected. In one instance, the file was cited for not having a fire department's report that was in the file, embedded in a PDF document. In one instance, the violation was for not documenting subrogation effort during the time after we had closed the file. In one instance, a claim file inadvertently noted theft in a contact letter when the peril was lightning; however, not pertinent to reconstructing dates and events considering insured's loss notice clearly pertained to lightning.

(2a) The Company acknowledges this violation; however, the Company did pay Additional Living Expense for housing.

(2b) The Company respectfully disagrees with these violations. In one case, we actually paid replacement cost. In four other cases, the files document that the insured was advised depreciation was taken and that replacement cost was available when repairs were completed. In two of those four cases we cited 180 days versus six months, with the difference not impacting either claim.

(2c) The Company respectfully disagrees with these violations. In one case, we paid replacement cost. In another case, ACV vs. RCV is not pertinent since no claim was every presented; moreover, the file documents the entire policy was provided to the insured at the inception of the claim. In one case, the file documents the insured was advised depreciation taken and that replacement cost was available when incurred.

(3-5a) The Company acknowledges these violations.

(5b) The Company acknowledges these violations, where we used 180 days versus 6 months.

(6) The Company acknowledges two violations and respectfully disagrees with three violations. In one case, claim paid within seven days of receiving bill. In one case, the Company made a subrogation demand within 45 days after loss. Having no theory of liability, we abandoned recovery effort. In one case, expert vendor took four months to research and price 88 antiques, with adjuster requesting status within 45 days.

(7) The Company respectfully disagrees with these violations. In one case, violation initially pointed out no attempt to equitably settle a claim which had not been made, with our claim file documenting the Company made 10 attempts to have insured send inventories to establish a claim. The Company was cited for not advancing the named insured's daughter some amount even though she was out of state and simply handling her deceased father's estate that sustained the loss. Our advances are normally based on need / reasonable request under case circumstances, and neither need nor request was present in this case. In another case, violation points out there is no policy authority to withhold overhead and profit when Company used that as depreciation on a dwelling claim; however, Company agreed to pay overhead and profit if incurred, and we find nothing in policy prohibiting the withholding of overhead and profit when considering ACV vs. RCV.

(8) The Company respectfully disagrees with this violation. While the check issued noted dwelling coverage, the settlement letter accompanying the check outlined payment was made for personal property on the insured's personal property inventory submitted to the Company.

(9a) The Company respectfully disagrees with these violations. In two cases, the insureds had relocated out of state and were agreeable to obtaining a police report to expedite handling to avoid natural delays for out of state; however, this would not have impacted decision to pay claim. On one claim, the adjuster notes do not demand report, but rather state "insured to get copy of policy report and submit." We ultimately paid the claim without the police report.

(9b) The Company respectfully disagrees with this violation. While the independent adjuster noted windstorm, the Company adjuster – from direct conversation with the insured - determined it was simply a falling object not associated to windstorm and applied the appropriate and smaller all perils deductible.

(9c) The Company acknowledges this violation.

Other Law Violations

(1)The Company acknowledges these two violations on one file.

Review of the Policy Issuance Process

Homeowner and Dwelling Fire Policies

New Business Policies

(1) The Company acknowledges these violations. The Virginia Amendatory Endorsement, AI ML 493 (01/13), was inadvertently not attached to certain policies that were reviewed, but the forms have since been printed and mailed to the impacted policyholders.

(2) The Company respectfully disagrees with this violation. According to our imaging system records, notice AI NT 80 01 13, Notice to Policyholder, produced off the system on January 3, 2013 for the policy that was reviewed. An electronic copy of the actual notice maintained in our policy issuance system includes coding at the bottom of the page verifying the policy number and the date the document was produced for this policy (January 3,2013). Our imaged records indicate this notice was included as part of the Policy Issuance documents mailed to the policyholder.

(3) The Company respectfully disagrees with this violation. According to our imaging system records, notice VM NT 25 09 04, Notice of Information Practices, produced off the system on January 3, 2013 for the policy that was reviewed. An electronic copy of the actual notice maintained in our policy issuance system includes coding at the bottom of the page verifying the policy number and the date the

document was produced for this policy (January 3,2013). Our imaged records indicate this notice was included as part of the Policy Issuance documents mailed to the policyholder.

(4) The Company respectfully disagrees with this violation. According to our imaging system records, notice AI NT 80 01 13, Notice to Policyholder (Optional Coverage Available – Replacement Cost Insurance), produced off the system on January 3, 2013 for the policy that was reviewed. An electronic copy of the actual notice maintained in our policy issuance system includes coding at the bottom of the page verifying the policy number and the date the document was produced for this policy (January 3,2013). Our imaged records indicate this notice was included as part of the Policy Issuance documents mailed to the policyholder.

(5) The Company respectfully disagrees with this violation. According to our imaging system records, notice AI NT 80 01 13, Notice to Policyholder (Optional Coverage Available – Back Up of Water), produced off the system on January 3, 2013 for the policy that was reviewed. An electronic copy of the actual notice maintained in our policy issuance system includes coding at the bottom of the page verifying the policy number and the date the document was produced for this policy (January 3,2013). Our imaged records indicate this notice was included as part of the Policy Issuance documents mailed to the policyholder.

(6) The Company respectfully disagrees with this violation. According to our imaging system records, notice AI NT 80 01 13, Notice to Policyholder (Ordinance Or Law Coverage), produced off the system on January 3, 2013 for the policy that was reviewed. An electronic copy of the actual notice maintained in our policy issuance system includes coding at the bottom of the page verifying the policy number and the date the document was produced for this policy (January 3,2013). Our imaged records indicate this notice was included as part of the Policy Issuance documents mailed to the policyholder.

(7) The Company respectfully disagrees with this violation. According to our imaging system records, notice AI NT 80 01 13, Notice to Policyholder (Flood Exclusion), produced off the system on January 3, 2013 for the policy that was reviewed. An electronic copy of the actual notice maintained in our policy issuance system includes coding at the bottom of the page verifying the policy number and the date the document was produced for this policy (January 3,2013). Our imaged records indicate this notice was included as part of the Policy Issuance documents mailed to the policyholder.

Review of Statutory Notices

Other Notices

(1) The Company respectfully disagrees with this violation. The company does not have any documentation showing that we ever received review sheet NoticesON-1852436938, which appears to be related to this violation. The Market Conduct Exam Violation Summary, included with the preliminary report mailing, references a violation of 38.2-1906 D related to notice AI NT 80 01 13. However, this notice was effective January 1, 2013 and was not used by the Company during the notices

examination period from January 1, 2012 through December 31, 2012. The notice that preceded AI NT 80 01 13, with a notice identifier of VM NT 01 08 04, was used during the notices examination period and was submitted to the Bureau for review as part of the Notices Data Call. To our knowledge, this notice was reviewed and no violations were found, since we did not receive any review sheets for this notice and it was not cited on the Violation Summary report. Even though we do not know the specific observation cited in review sheet NoticesON-1852436938 – because we did not receive this review sheet - we do not see how there can be a violation for Notice AI NT 80 01 13 since this notice was not used during the notices examination period.

Licensing and Appointment Review

Agent

(1) The Company acknowledges these violations. In all cases, the Company was not aware that the agent was not appointed when the application for the policy was signed. When it was first brought to the Company's attention that the agent was not appointed, the Company immediately appointed the agent.

Part Two – Corrective Action Plan

Rating and Underwriting Review

(1) The Company has sent refunds to the insureds in cases where the Company has acknowledged the corresponding violations.

(2) Where a refund has been sent to an insured, the Company has included six percent (6%) simple interest to the amount refunded.

(3) The Company has completed and submitted to the Bureau the file titled "Alfa Alliance Restitution_6 13 2013.xlsx", along with this preliminary report response.

(4) The Company will make necessary changes that will show the Towing and Labor coverage limit. The Company will list all joint owners when necessary on the declarations page.

(5) The Company previously identified a programming error that was discovered and corrected in February 2013 to show only the applicable discounts on the declarations page.

(6) The Company has programming in place to issue an AUD notice to an insured when the Company issues a policy with information that differs from the information provided by the insured on the application.

(7) The Company has procedures in place that require its independent agents to retain copies of all new business applications. The Company will perform audits to ensure that these procedures are being followed.

(8) The Company will program necessary changes and create necessary procedures to ensure that rates and rules on file with the Bureau are being used. The Company will make necessary manual changes and file with the Bureau where appropriate.

(9) The Company previously identified a programming error that was discovered and corrected in January 2012 to allow the correct reordering of insurance scores at renewal.

Termination Review

(1) The Company has already corrected its filed manual to remove the short rate cancellation language and match up with its underwriting process to use a pro rate calculation. The Company has changed its process to no longer allow back date cancellation requests to comply with our filed manual. The Company has reviewed the overcharges and provided detailed calculations demonstrating that no refunds are owed to policyholders. The Company has not taken action where it disagrees with a corresponding violation per instructions from the Bureau.

(2) The Company has reviewed the overcharges and provided detailed calculations demonstrating that no refunds are owed to policyholders.

(3) The Company has completed and submitted to the Bureau the file titled "Alfa Alliance Restitution_6 13 2013.xlsx", along with this preliminary report response, showing no refunds are owed for any of the Termination overcharges. In the accompanying file titled "Termination refund calculation & documentation.xlsx", the Company has reviewed each overcharge and provided detailed calculations demonstrating that no refund is owed to the policyholder.

(4-8) The Company acknowledges the errors made with the market conduct examination data call and has put procedures into place that now require detailed review and spot checking of data prior to the release of future data calls. The Underwriting team has completed additional training sessions and implemented a monthly underwriting audit and quality review process to ensure proper documentation and execution of cancellations. The Underwriting team has also changed its company initiated cancellation procedures so that all company initiated cancellations will be completed by an underwriter, which further tightens the span of control and will eliminate errors.

(9) The Company has corrected its filed manual to remove the short rate cancellation language and match up with its underwriting process to use a pro rate calculation.

(10-11) The Company acknowledges the errors made with the market conduct examination data call and has put procedures into place that now require detailed review and spot checking of data prior to the release of future data calls.

(12-13) The Company has changed its procedure to no longer process any midterm cancellations on owner occupied dwelling policies after the 89th day of coverage, although allowed by statute. All company initiated cancellations on owner occupied dwelling policies after the 89th day of coverage are now being made effective on the policy renewal date.

(14) The Company has re-trained its Underwriting team on its cancellation procedures to honor the date of cancellation requested by the insured, as long as it is not a backdate cancellation. The Company has also implemented a periodic underwriting audit and quality review process to ensure proper documentation and execution of insured cancellation requests.

(15) The Company has re-trained its Underwriting team on its cancellation procedures to obtain and image proper documentation of an advanced written request from the insured to cancel their policy. The Company has also implemented a periodic underwriting audit and quality review process to ensure proper documentation and execution of insured cancellation requests.

Claims Review

(1) Three of the four underpayment violations have been corrected and refunded. The remaining underpayment violation was first identified in the Bureau's Preliminary Report, and we have now responded with our disagreement in item (6b) under the "Claims Review - Private Passenger Automobile Claims" section. The Company has not taken action where it disagrees with a corresponding violation per instructions from the Bureau.

(2) Six percent (6%) simple interest was included on the two undisputed underpayments.

(3) The Company has completed and submitted to the Bureau the file titled "Alfa Alliance Restitution_6 13 2013.xlsx", along with this preliminary report response. The file documents the payment of the undisputed underpayments.

(4) Proper documentation of claim files remains an ongoing educational endeavor. The Company has captured all violations by unit and adjuster, and will continually reinforce required documentation that allows reconstruction of dates and events in all claim files, in all claims meetings and daily interactions. Enhanced auditing will be implemented of open and closed files, with focus and emphasis on issues discovered by the Bureau. Audits will be accomplished by claims supervisors as well as personnel not responsible for day to day claim handling or claim supervision.

(5) The Company will continually emphasize complete need to document that all customers have been advised of all applicable coverages, with particular attention to UMPD, rental benefits, replacement cost on buildings and personal property and additional living expenses. Results of the Bureau examination will be reviewed in periodic claims meetings. Each adjuster and supervisor will document receipt of the final examination report from the Bureau. Management will review violations by adjuster to correct past findings and measure future results.

(6) The Company will stress the minimum requirement to respond to correspondence which reasonably suggests a response is expected. Particular attention to this area will be in our daily reviews of claim files to ensure timeliness.

(7) The Company will strive to ensure whole or partial denials are in writing with copies contained in the claim file. Results of the Bureau examination will be reviewed in periodic claims meetings. Each adjuster and supervisor will document receipt of the final examination report from the Bureau.

(8) The Company will strengthen management's expectation to provide damage estimates to the claimant when one is prepared by the Company. Each claims handler will acknowledge receipt and review of fresh copies of 38.2-510, 38.2-517 and 14-VAC-400-20 through -80.

(9) The Company will call attention to the absolute need to promptly investigate and handle claims. Particular attention to this area will be in our daily reviews of claim files to ensure timeliness. Results of the Bureau examination will be reviewed in periodic claims meetings. Each adjuster and supervisor will document receipt of the final examination report from the Bureau.

Review of Policy Issuance Process

(1) The Company has programmed coding at the bottom of each form that shows the policy number and date for each form that is printed. This coding can be used to verify that policyholders are mailed the correct forms for each policy. The attachment of forms is reviewed and tested when our system is changed, to ensure that all forms are being attached correctly to policies. We will audit mailings to ensure that all forms are correctly produced and mailed to policyholders.

Licensing and Appointment Review

(1) The Company has procedures in place to reconcile agency appointment records with the Bureau's records on a quarterly basis. The Company will make agency appointment statuses more available to staff and agents for verification. If the Company finds that a producing agent is not currently appointed, we will immediately appoint that agent.

Part Three – Recommendations

Rating and Underwriting

(1) The Company will apply surcharged points to the vehicle that is customarily driven by the operator responsible for incurring the points.

(2) The Company will review programming to show the vehicle location on the declarations page.

(3) The Company will use updated ISO vehicle symbols when rating a policy when that information is made available to the Company.

(4) The Company will review programming to list all discounts in one section of the declarations page when not constrained by space limitations on the declarations page.

Termination

(1) The Company has revised the bulk mailing statement based on a prior conversation between underwriting leadership and the Bureau in February 2013. The revised bulk mailing statement was put into production effective March 5, 2013.

(2) The Company acknowledges the errors made with the market conduct examination data call and has put procedures into place that now require detailed management review and spot checking of data prior to the release of future data calls. The Company also acknowledges that the lienholder notices originally provided to the examiners were not in the best format. Therefore, the Underwriting team has changed to a new vendor website if there is a need to demonstrate proper lienholder notification.

Claims

(1) The Company acknowledges this recommendation: law requires direct payment authorizations.

(2) The Company acknowledges this recommendation: we have shared exam findings on voiding procedure with Underwriting.

(3) The Company acknowledges this recommendation: supervision to routinely confirm voice mail is available.

(4) The Company acknowledges this recommendation: department auditing to include review of template form letters.

(5) The Company acknowledges this recommendation: checks are to accurately describe indemnified loss.

Forms

(1) The Basic Form, Form 1, Edition 1.1 is currently not being used by the Company. If the Company decides to use this form, it will be revised so that the numbering, spacing, and formatting are the same as the version on file with the Bureau.

Policy Issuance Process

- (1) The Company will review the Identity Recovery Coverage Letter, IDRAUDLTR (02 06), to see if wording can be added to clarify the option to cancel the Identity Recovery Coverage.
- (2) The Company will review the billing statement for changes to indicate that the policy will expire and not lapse if the policyholder fails to pay the renewal premium before the payment due date.
- (3) The Company will continue to provide insureds with the Important Information Regarding Your Insurance notice.
- (4) The Company will continue to provide insureds with the Notice of Financial Collection and Disclosure Practices.
- (5) The Company will continue to provide insureds with the Replacement Cost notice with all new policies.
- (6) The Company will continue to provide insureds with the optional water back up through sewers or drains notice with all new business policies.
- (7) The Company will continue to provide insureds with the optional Ordinance or Law notice with all new business policies.
- (8) The Company will continue to provide insureds with the Flood Exclusion notice with all new business policies.

Statutory Notices

- (1) The Company will review programming to include its toll free telephone number on the Important Information Regarding Your Insurance notice.

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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October 21, 2013

VIA UPS 2nd DAY DELIVERY

Scott Beller
Vice President of Marketing and Integrated Services
Alfa Alliance Insurance Corporation
4480 Cox Road, Suite 300
Glen Allen, VA 23060-6718

Re: Market Conduct Examination
Alfa Alliance Insurance Corporation (NAIC# 18791)
Examination Period: January 1, 2012-December 31, 2012

Dear Mr. Beller:

The Bureau of Insurance (Bureau) has reviewed the Company's (Company) July 19, 2013 response to the Preliminary Market Conduct Report (Report) of the above referenced Company. The Bureau has referenced only those items in which the Company has disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

PART ONE – EXAMINERS' OBSERVATIONS

Rating and Underwriting

Automobile New Business

- (1b) After further review, the violation for RPA002 has been removed from the Report and a recommendation has been added in Part Three. The Report has been renumbered to reflect this change.

Homeowners New Business

- (1) The violation for RHO022 remains in the Report. The Company submitted a revised version of the application indicating a liability limit of \$300,000; however the application provided was not signed by the insured and contained a print date beyond the date the policy went into effect. An updated application signed by the insured showing the updated liability limit of \$300,000 would need to be provided for the violation to be reconsidered.

Terminations

Automobile Notices Mailed After the 60th Day of Coverage

- (1) The violation for TPA016 was originally cited under the incorrect statute (TermOvr60PPA-1323742656). The duplication of violations for the same insureds, policy numbers and termination dates are the direct result of the Company providing conflicting data. Both TPA016 and TPA017 have the same insured, policy number and termination date. However, incorrect data provided by the Company identified the notice date for TPA016 as 9/24/12 and 10/24/12 for TPA017. As such, TPA016 as originally cited has been removed from the Report.

The violation for TPA017 remains in the Report.

- (2) The Company provided additional information; as such the violations for TPA020 and TPA021 have been removed from the Report. The Report has been renumbered to reflect this change.

- (3a) After further review the violation for TPA011 has been removed from the Report. The duplication of violations for the same insured, policy number and termination date is the direct result of the Company providing conflicting data. Both TPA011 and TPA012 have the same insured, policy number and termination date.

The violation for TPA012 remains in the Report

Automobile Insured Requested Cancellations

- (2) The violation for TPA033 remains in the Report. The policy was effective from 3/13/12 to 3/13/13. The twelve month annual policy premium was \$839.00. The policy was in effect from 3/13/12 (factor .197) and was canceled on 8/5/12 (factor .622). The factors of 2012.622 – 2012.197 resulted in a pro rata earned factor of .425 and an unearned factor of .575. The unearned factor of .575 multiplied by the short rate factor (1.10) resulted in an unearned factor of .6325. The annual premium of \$839.00 x .6325 equals \$530.67 in unearned premium. The earned premium was \$308.33 (\$839.00-\$530.67). The amount paid by the insured of \$963.00 minus the earned premium of \$308.33 resulted in the amount owed the insured of \$655.46. The Company refunded \$482.00 leaving the balance due the insured of \$173.46.

The violation for TPA037 remains in the Report. The policy was effective from 4/24/12 to 4/24/13. The twelve month annual policy premium was \$1,248.00. The policy was in effect from 4/24/12 (factor .312) and was cancelled on 11/21/12 (factor .890). The pro rata factors 2012.890 - 2012.312 resulted in a pro rata earned factor of .578 and an unearned factor of .422. The unearned factor of .422 multiplied by the short rate factor (1.10) resulted in a short rate unearned factor of .4642. The annual premium of \$1,248.00 x .4642 = \$579.32 in unearned premium. The earned premium was \$668.68 (\$1,248.00 - \$579.32). The total amount paid by the insured of \$734.00 minus \$668.68 resulted in the Company owing the insured \$65.32.

The violation for TPA043 remains in the Report. The policy was effective from 5/18/11 to 5/18/12. The 12 month annual policy premium was \$1,013.70. The policy was in effect from 5/18/11 (factor .378) and was canceled on 3/10/12 (factor .378). The pro rata factors 2012.189 - 2011.378 resulted in a pro rata earned factor of .811 and an unearned factor of .189. The unearned factor of .189 multiplied by the short rate factor (1.10) resulted in a short rate unearned factor of .2079. The annual premium of \$1,013.70 x .2079 = \$210.75 in unearned premium. The earned premium was \$802.95 (\$1,013.70 - \$210.75). The insured paid a total of \$939.17 - \$802.95 in earned premium resulting in a balance due the insured of \$136.22. The Company fully earned \$50 in service charges along with \$5 (\$1.00 each for 5 EFT) in EFT charges. Subtracting the total charges of \$55.00 from the balance due the insured of \$136.22 resulted in a net to the insured of \$81.22. The Company's accounting screens show a refund of \$122.47 issued to the insured. However, documentation was not provided showing that the insured was refunded \$122.47. The Company must provide proof of the refund issued to the insured for reconsideration.

The violation for TPA045 remains in the Report. The policy was effective from 6/9/12 to 6/9/13. The 12 month policy premium was \$585.30. The policy was effective on 6/9/12 (factor .438) and was canceled on 8/2/12 (factor .586). The factors 2012.586 - 2012.438 resulted in a pro rata factor of .148 and an unearned factor of .852. The unearned factor of .852 multiplied by short rate (1.10) resulted in a short rate unearned factor of .9372. The annual premium of \$585.30 x .9372 = \$548.54 in unearned premium. The earned premium is \$36.75 (\$585.30 - \$548.54). The amount owed the insured minus the total amount paid by the insured of \$146.32 resulted in the Company owing the insured \$109.86. Subtracting a fully unearned service charge of \$5.00 less a refund of \$54.02 leaves the balance due the insured of \$50.84.

The violation for TPA048 remains in the Report. The policy effective dates were from 10/01/11 to 10/1/12. The 12 month policy premium was \$2,556. The pro rata factors 2012.052 - 2011.751 resulted in a pro rata earned factor of .301 and an unearned factor of .699. The unearned factor of .699 multiplied by short rate (1.10) resulted in a short rate unearned factor of .7689. The annual premium of \$2,556.00 x .7689 = \$1,965.31 in unearned premium. The earned premium was \$590.69 (\$2,556.00 - \$1,965.31). The total amount paid by the insured \$1283.00 less the earned premium of \$590.69 = \$692.31 minus the previous refund of \$503.00 left a balance due the insured of \$189.31.

The violation for TPA049 remains in the Report. The policy effective dates were from 9/21/12 to 9/21/13. The 12 month policy premium was \$429.00. The policy went into effect on 9/21/12 (factor .723) and was canceled 12/21/12 (factor .973). The pro rata factors 2012.973 - 2012.723 resulted in a pro rata earned factor of .250 and an unearned factor of .750. The unearned factor of .750 multiplied by short rate (1.10) resulted in a short rate unearned factor of .825. The annual premium of \$429.00 x .825 = \$353.93 in unearned premium. The earned premium of \$75.07 (\$429.00 - \$353.93) subtracted from the amount paid by the insured of \$138.70 resulted in the Company owing the insured \$63.63.

Automobile Non-renewal

- (1) After further review, the violations of § 38.2-1318 of the Code of Virginia have been removed from the Report. The Company's statistical reporting of the nonrenewals was inaccurate but the documentation for the actual nonrenewal of the policies was correct. The Company has indicated that internal corrections are being made to fix the statistical information.

Automobile Rejected Applications

- (1) The violations in this section remain in the Report. The Data Call Manual requested that the Company verify that it did not have any rejected applications for private passenger automobile insurance. However, the Company provided files for this particular category. The Company's process involves the agent entering information provided by the applicant into the Company's system to determine eligibility and provide a quote. If the individual applicant is not eligible for coverage the agent is notified. Section 38.2-604 of the Code of Virginia requires that the Company provide the rejected applicant with a Notice of Insurance Information Practices. The Company failed to comply with the statute in providing the applicant with the required notice.
- (2) The violations in this section remain in the Report. The Data Call Manual requested that the Company verify that it did not have any rejected applications for private passenger automobile insurance. However, the Company provided files for this particular category. The Company's process involves the agent entering information provided by the applicant into the Company's system to determine eligibility and provide a quote. If the individual applicant is not eligible for coverage the agent is notified. Section 38.2-610 of the Code of Virginia requires that the Company provide the rejected applicant with a written Notice of an Adverse Underwriting Decision (AUD) pertaining to the decision by the Company not to provide coverage.

Homeowner Notices Mailed after the 89th Day of Coverage

- (1) The violation for THO006 remains in the Report. The policy effective dates were from 9/12/11 to 9/12/12. The information on file for this Company during the policy period under review did not include a rule allowing the Company to charge an additional \$1.00 for each EFT installment. The amount of the refund owed to the insured is \$8.00.

Homeowner Insured Requested Cancellations

- (2a) The violation for THO022 remains in the Report. The insured requested in writing that his policy be cancelled on 6/26/12. The cancellation memo clearly states a cancellation date of 7/21/12. The Company has not provided any documentation showing that the policy was cancelled on 6/26/12 as requested by the insured. Furthermore, incorrect data originally provided by the Company identified the cancellation date as 7/25/12. For reconsideration, the Company must provide documentation that the cancellation was effective on 6/26/12.

After further review, the violation for THO023 has been withdrawn from the Report. The duplication of violations for the same insured, and policy number and termination dates is the direct result of the Company providing conflicting data.

The duplication of violations for the same insured and policy number but different termination dates is the direct result of the Company providing conflicting data. Information provided to the Bureau shows an insured requested cancellation effective date 9/7/12. As such, the cancellation effective 9/27/12 has been withdrawn. The violation for THO024 remains in the Report.

- (2b) After further review, the violation for THO33 has been removed from the Report. The duplication of violations for the same insured, policy number and termination date is the direct result of the Company providing conflicting data. Information provided to the Bureau shows different notice dates. THO33 shows the date the notice was issued as 10/9/2012; as such, the violation for THO33 has been removed. The violation for THO34 remains in the Report.

After further review, the violation of THO028 has been removed from the Report.

Homeowner Company-Initiated Non-renewals

- (1) After further review, the violation THO049 has been removed from the Report. The Report has been renumbered to reflect this change.

Homeowners Rejected Applications

- (1) The violations in this section remain in the Report. The Data Call Manual requested that the Company verify that it did not have any rejected applications for homeowners insurance. However, the Company provided files for this particular category. The Company's process involves the agent entering information provided by the applicant into the Company's system to determine eligibility and provide a quote. If the individual applicant is not eligible for coverage the agent is notified. Section 38.2-604 of the Code of Virginia requires that the Company provide the rejected applicant with a Notice of Insurance Information Practices. The Company failed to comply with the statute in providing the applicant with the required notice.
- (2) The violations in this section remain in the Report. The Data Call Manual requested that the Company verify that it did not have any rejected applications for homeowners. However, the Company provided files for this particular category. The Company's process involves the agent entering information provided by the applicant into the Company's system to determine eligibility and provide a quote. If the individual applicant is not eligible for coverage the agent is notified. Section 38.2-610 of the Code of Virginia requires that the Company provide the rejected applicant with a written AUD notice pertaining to the decision by the Company not to provide coverage.

Claims-Private Passenger Automobile

- (1) The violations for CPA014, CPA025 and CPA059 remain in the Report. In CPA014 the adjuster emailed the policyholder's agent 17 business days after the insured returned the rental vehicle to advise that the insured's rental bill was over \$800.00. There is no evidence in the file that the Company advised the insured of the \$600.00 rental reimbursement limit; this is important considering the insured paid \$438.54 out of pocket for the rental. The Company indicated there were two instances of this violation regarding "not keeping email"; however, of the eight violations CPA014 was the only instance regarding this issue. In regards to CPA025, a review of the witness statement was necessary to determine if it was written in English. This is material considering the language barrier prevented the witness from providing a recorded statement and may have also prevented the witness from completing the statement. In CPA059, the Company responded in part "adjuster notes verify speaking with the Rental Company multiple times to establish amount to pay on advancement...." The issue is that the specific amount (\$276.84) was not documented to support this payment.
- (2a) The violation for CPA002 remains in the Report. The insured was not advised of the availability of Transportation Expenses. An itemization of the coverages on the policy is not informing the insured of the coverages applicable to the loss. Did both COLL and OTC apply to this loss?
- (2b) The violations for CPA004 and CPA015 remain in the Report. In CPA004, the adjuster correctly determined that the \$200.00 Uninsured Motorist Property Damage (UMPD) deductible was applicable. However, "not applicable" was noted in the rental field. There is no evidence that the coverages explained to the insured included rental under the UMPD coverage considering the notes indicate rental was is "not applicable". In CPA015 a review of the file indicates that rental reimbursement under the UM coverage was never conveyed to the insured.
- (3) The violations for CPA005 and CPA017 remain in the Report. In CPA005, the final statement of the plaintiff attorney's letter requested contact pending the Company's review of the claim settlement document(s). The Company's prior communication(s) with the plaintiff's attorney did not absolve the Company from complying with this insurance regulation. In CPA017, the adverse carrier specifically requested contact pending the review of the subrogation documents; this "request" was made after the Company's prior communication(s) and thus the Company needed to comply with this insurance regulation.
- (4) The violation for CPA007 remains in the Report. The insured put the Company on notice of this loss involving an Uninsured Motorist (UM) exposure when the notice of loss was filed: "another vehicle sped past insured on the off ramp and forced insured off of ramp...." The Company investigated and ruled out the applicability of UM coverage and as the Company noted in their response "the insured was informed by the adjuster on 3/12/12 that the investigation revealed claim...did not involve UM coverage; therefore 45 day letter was not required...." In this instance, the Company is referring to the adjuster's entry "I have explained to her that from what I hear at this time, this does not appear that um/pd nor um/bi will apply. I need to see the police report...." The Company did not commit itself to a denial of UM coverage here in that

"this does not appear" is tantamount to an equivocation regarding this coverage decision. It is not until 5/14/12 that the adjuster notes "No um/bi for the ID..." the Company's decision came after the police report was received on 3/21/12. Finally, the multiple discussions held with the insured do not meet the standard set forth in this insurance regulation: "send to the first party claimant a letter..." (per 14 VAC 5-400-50 C).

- (5) The Company noted that it disagreed with four violations but the rebuttal pertained to only three violations. The violations for CPA007, CPA032 and CPA059 remain in the Report. Virginia Code Section 8.01-66 allows the insured to recover "the reasonable cost which was actually incurred in hiring a comparable vehicle..." Moreover, the Transportation Expenses Coverage-Virginia, PP 13 52 01 04, permits "Temporary transportation expenses, including expenses for rental reimbursement..." The claim file(s) indicate the Company never advised the insured(s) that the Collision Damage Waiver (CDW) would not be covered; the insured(s) could not claim this as the Company did not advise them of this reimbursable rental expense. Considering this and the fact that this expense is not excluded as referenced above, the Company owed these amount(s) to the insured(s) and in not paying same, a written denial was warranted. In regards to CPA007, the applicability of the written denial is directly correlated with item four addressed above.
- (6b) The violation for CPA050 remains in the Report. Virginia Code Section 38.2-2201 B indicates that the medical expense benefits "shall be payable to the covered injured person." The assignment of benefits (AOB) transfers this right to the medical provider; considering it is this injured person (insured) who is entitled to the benefit(s). It must be this same individual who executes the AOB in the absence of a power of attorney. In CPA050 the Mrs. Insured was injured, treated and incurred the medical expense(s); however, the AOB was executed by her husband and there is no evidence in the file that the husband had the legal right to assign his wife's medical expense benefit(s) to the medical provider. Furthermore, there is no evidence that the medical injury prevented the injured insured from executing the AOB considering she signed the power of attorney to have the title transferred nearly three months prior to the date the AOB was signed. Another issue regarding this violation needs to be addressed: this violation pertains to the underpayment due to the insured because the Company paid the medical provider directly; a violation of 14 VAC 5-400-70 D of the Virginia Administrative Code. The violation regarding the failure to obtain the AOB prior to paying the medical provider was documented under § 38.2-2201 B of the Code Virginia. The Company agreed to this violation when responding to the review sheet and the Company again agreed to this violation when responding to the Preliminary Report (see item 10). The Company is in agreement that an AOB was not secured but disagrees with the underpayment providing an AOB signed by the injured insured's husband which was not in the file when the examiner conducted the review.
- (7a) The violation(s) for CPA003 and CPA054 remain in the Report. In both claims, the insured elected to participate in the Direct Repair Program (DRP) and a DRP shop repaired the insured vehicle. Although the DRP shop is required to provide a copy of the estimate to the insured per the program's requirements, there is no evidence to indicate that the estimate(s) and supplement were provided to the insured(s) and merely relying on the shop to comply with the program's requirement is not sufficient to withdraw these violation(s).

- (8) The violation for CPA009 is withdrawn from the Report.
- (9) The violations for CPA001, CPA003, CPA009, CPA015, CPA020, CPA029 and CPA033 remain in the Report. The violation(s) for CPA042 and CPA060 have been withdrawn. In regards to CPA001, the injured insured's Medical Expense Benefits (MEB) claim sat for 220 business days (from the last contact to when the examiner reviewed the file); the last entry indicates the insured was still treating. The Company has not made any attempt to communicate with the insured's legal representation to; obtain an update, obtain the latest medical records and specials or close the file. Both CPA003 and CPA009 pertained to CDW but these two files were not addressed in the Company's rebuttal and thus remain in the Report. In CPA015, the Company received the coverage denial on 5/15/12 and waited to extend UMPD coverage 10 business days later on 5/29/12. The Company waited another 11 business days to secure the insured's statement to release the funds under UMPD on 6/13/12. The issue here is that the insured advised the Company the day after the loss (4/6/12) that a rental was needed and this rental could have been approved under UMPD on 5/15/12. Instead, by 6/13/12 the Company paid the total loss settlement funds and the Company never put the insured in a rental. In CPA020, there were 99 days from the date of loss until 9/6/2012 when SIU completed their investigation and ruled out fraud. The Company should have inspected the insured vehicle during this time and obtained photos of same instead of waiting until 9/14/12 to receive the estimate and then advise the insured that the insured vehicle needed to be inspected. In regards to the property damage claim, the Company had the police report as of 5/10/12 and could have attempted contact with the claimant owner at that time; at minimum, the Company's internal email of 7/30/12 indicates that the police report was in the file. Yet, the Company only attempted to contact the claimant driver on 5/2/12 leaving the claimant owner to pursue the Company on 10/22/12 to be indemnified. In CPA029, the claimant advised the Company she had neck pain for which she sought treatment. The Company failed to advise the claimant of her right to file a bodily injury claim; instead, the Company maintained silence in respect to advising the claimant of her rights under a bodily injury claim. Finally, in CPA033, it is unclear where this violation is addressed in the Company's rebuttal; as such, the BOI's position regarding this violation remains unchanged.

OTHER LAW VIOLATIONS

The three violations noted in the review of CPA005 remain in the Report. The insured's counsel, selected and paid at the Company's expense, drafted the Release(s) in question in order to settle the bodily injury claims; as the executed Release(s) were apparently required to settle these bodily injury claims the fraud language was required per § 52-40 of the Code of Virginia.

Claims-Homeowners

- (1) The violations for CHO023, CHO034, CHO045, CHO060 and CHO061 remain in the Report. In CHO023, the Company has not provided any additional documentation for the Bureau to reconsider its initial findings. The documents that are referenced in the fire department report are not in the Company's file. In CHO034, the Company did not document the file regarding subrogation prior to closing the claim. The Company

does not question that the claim has subrogation potential. In regards to CHO045, the Company disagreed with this violation in its response but did not provide a reason for the disagreement. The Company has not provided any additional information for the Bureau to reconsider its initial findings. In CHO060, the Company advised the insured that they received his theft claim; this was a lightning claim. The documentation sent to the insured was incorrect and the Company's file contained inaccurate information. Finally, in CHO061, the Company has previously acknowledged that an excess letter would have been sent in the absence of an ad damnum depending on the injury. However, the Company did not document its file to reflect its reasoning for not sending an excess letter given the facts of this claim. Since New Jersey permits verification that the ad damnum is within the jurisdictional requirements of the court, the Company could have obtained this information.

- (2b) The violations for CHO029, CHO032, CHO035, and CHO039 remain in the Report; the violation for CHO037 has been withdrawn. In regards to CHO029, although the Company paid the final cost for the debris removal, the personal property replacement cost claim remained open at the time this claim was reviewed. The insured was not properly informed regarding the process to recover replacement cost. In CHO032, CHO 035 and CHO039, the Company did not inform the insured of the 6 month policy provision for presenting a replacement cost claim. The Company cannot arbitrarily decide not to use the required Virginia Amendatory endorsement and subsequently cite the wrong policy provisions or fail to inform the insured of the applicable policy provisions.
- (2c) The violations for CHO004, CHO009 and CHO039 remain in the Report. In regards to CHO004, providing the insured with a copy of the entire policy and all endorsements is not informing the insured of coverages that are pertinent to the claim. This loss involved significant fire damage. Replacement cost was pertinent to the claim and should have been clearly explained to the representative of the insured. The Company's obligation to inform the insured of pertinent coverage does not diminish because the insured had not yet returned the entire inventory list. In CHO009, the Company paid replacement cost on the Dwelling. This violation relates to the failure of the Company to advise the insured regarding personal property replacement cost coverage. In CHO039, there is no documentation in the Company's file that the insured was informed on how to recover replacement cost.
- (6) The violations for CHO004, CHO023 and CHO037 remain in the Report. In regards to CHO004, eight months after the loss, the Company had not adjusted a significant portion of the insured's claim on a policy limits fire loss. The antiques were a minimal portion of the claim. In CHO023, the Company did not investigate the cause of the loss. There was evidence of an electrical problem. The Company did not pursue an investigation into the cause of the fire or possible subrogation. Finally, in CHO037, the Company did not investigate the cause of the loss. Additionally, the Company accepted and paid the claim based on a handwritten modified bill without an inquiry into its validity.
- (7) The violations for CHO004 and CHO029 remain in the Report. In regards to CHO004, at the time of the review by the examiner, one year had elapsed since the date of loss. No payment had been made for any portion of the personal property destroyed in the fire. It was obvious that at a minimum, at least 75% of the personal property coverage

was established to be completely destroyed but the Company did not offer to pay any portion of the loss even though they had a partial inventory list of destroyed items from a vendor. In CHO029, overhead is operating expense such as rent, electricity, etc. Rent and electricity do not depreciate. Concerning profit, a contractor is entitled to a reasonable profit for the work completed. Profit does not depreciate. The Company cannot withhold Overhead and Profit and define them as "depreciation".

- (8) After further review the violation for CHO034 has been withdrawn from the Report.
- (9a) The violations for CHO050, CHO051 and CHO054 remain in the Report. The Company requested that the insureds obtain a police report without first advising the insureds that the Company could obtain it. The Company did not provide the insureds with this option.
- (9b) The violation for CHO028 remains in the Report. The Company hired an Independent Appraiser who determined that "The damage was caused by windstorm". There is no evidence or documentation that the tree limbs were decayed, struck by lightning or fell of their own accord. The damage was not a falling object as the Company has responded. As a result of a windstorm, three large branches struck a fence, the dwelling and the neighbor's shed.

Policy Issuance New Business Homeowners Policies

- (2) The violation in this section remains in the Report. The Company was instructed in the Data Call Manual, as well as in the initial conference call, to provide all of the material that is mailed to the insured on a new business policy. The Company did not include the Important Information Regarding Your Insurance notice as required by the Code of Virginia.
- (3) After further review the violation of § 38.2-502 of the Code of Virginia has been withdrawn. A violation has been added to the Other Notices Section of the Report to address the verbiage in the notice.
- (4) The violation in this section remains in the Report. The Company was instructed in the Data Call Manual, as well as in the initial conference call, to provide all of the material that is mailed to the insured on a new business policy. The policy provided by the Company failed to include the Notice of Financial Information Collection and Disclosure Practices as required by the Code of Virginia.
- (5) The violation in this section remains in the Report. The Company was instructed in the Data Call Manual, as well as in the initial conference call, to provide all of the material that is mailed to the insured on a new business policy. The policy provided by the Company failed to include a statement summarizing replacement cost provisions.
- (6) The violation in this section remains in the Report. The Company was instructed in the Data Call Manual, as well as in the initial conference call, to provide all of the material that is mailed to the insured on a new business policy. The Company failed

to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

- (7) The violation in this section remains in the Report. The Company was instructed in the Data Call Manual, as well as in the initial conference call, to provide all of the material that is mailed to the insured on a new business policy. The policy provided by the Company did not include the notice to the insured offering the option of purchasing Ordinance or Law coverage as required by the Code of Virginia.
- (8) The violation in this section remains in the Report. The Company was instructed in the Data Call Manual, as well as in the initial conference call, to provide all of the material that is mailed to the insured on a new business policy. The policy provided by the Company did not include the Flood Exclusion notice as required by the Code of Virginia.

Notices-Other Notices

The violation for NON007 has been removed from the Report. Although the Company is not required to file notices in Virginia, the Company's notice must comply with the provisions of the Virginia policy. The Company's notice does not comply with the provisions of the policy and as a result, a violation of § 38.2-502 of the Code of Virginia has been added to the Policy Issuance, New Business section of the Report. The Report has been renumbered to reflect these changes.

An additional violation has been added to the Other Notices section of the Report also under § 38.2-502 of the Code of Virginia. The Company's notice is inconsistent with its rule. The Company's rule does not permit the removal of the premium credit for claims frequency as is stated in the notice.

PART TWO – CORRECTIVE ACTION PLAN

Terminations

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharges as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the Company acknowledges that it has refunded or credited the overcharges listed in the file.

Claims

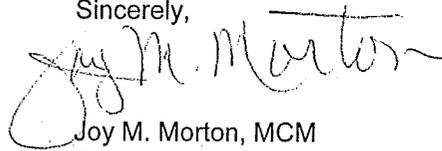
- (1) The Company should provide evidence of payment for the underpayment cited in the restitution spreadsheet.

Enclosed with this letter is a revised version of the Report, technical reports and a revised Restitution Spreadsheet.

The Company's response to this letter is due in the Bureau's office by November 1, 2013. Please keep in mind that the insured's and/or claimant's names, policy numbers, claim numbers or any other personally identifiable information should not be included in your response. Please reference only the BOI identifiers.

Should you have any questions please feel free to contact me.

Sincerely,



Joy M. Morton, MCM
Supervisor
Market Conduct Section
Property and Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

Enclosures

Joy Morton

From: Beller, Scott A. <SBeller@AlfaAIC.com>
Sent: Friday, November 01, 2013 11:45 AM
To: Joy Morton
Subject: Alfa Alliance Insurance Corporation - Preliminary Report Second Response
Attachments: Alfa Alliance Insurance Corporation Company Second Response.docx; Alfa Alliance Restitution 10 21 13.xlsx; Exhibit A.pdf; Exhibit B.pdf; Exhibit C.pdf

Joy, please see the attachments corresponding to Alfa Alliance Insurance Corporation's market conduct examination preliminary report second response. Attachments include the following:

- Alfa Alliance Insurance Corporation Company Second Response.docx
- Alfa Alliance Restitution 10 21 13.xlsx
- Exhibit A.pdf
- Exhibit B.pdf
- Exhibit C.pdf

Please reply via email to confirm receipt of this email and its attachments. If you have any questions, or need any additional information, please let me know.

Scott

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Alfa Alliance
Insurance Corporation

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Alfa Alliance Insurance Corporation (NAIC # 18791)

Market Conduct Examination

Examination Period: January 1, 2012 – December 31, 2012

Preliminary Examination Report – Company Response

Part One – Examiners’ Observations

Rating and Underwriting

Automobile New Business

(1b) The Company appreciates the time taken by the Bureau for further review of this violation, and is in agreement with the Bureau’s finding and the recommendation added to Part Three of the Report.

Homeowners New Business

(1) The Company appreciates the time taken by the Bureau for further review of this violation, and requests that this violation be reconsidered. Included with this Company response is Exhibit A, a signed copy of the Homeowners Application, showing the updated liability limit of \$300,000.

Terminations

Automobile Notices Mailed After the 60th Day of Coverage

(1) The Company appreciates the time taken by the Bureau for further review of these violations, and is in agreement with the Bureau’s findings.

(2) The Company appreciates the time taken by the Bureau for further review of these violations, and is in agreement with the Bureau’s findings.

(3a) The Company appreciates the time taken by the Bureau for further review of these violations, and is in agreement with the Bureau’s findings.

Automobile Insured Requested Cancellations

(2) The Company appreciates the time taken by the Bureau for further review of the refund amounts, but still believes the calculated amounts submitted with the Company’s first response are correct. However, since the Company has no new information to pass along to the Bureau regarding the refund

amounts calculated, the Company has sent refund checks to the insureds and included six percent (6%) simple interest to the amounts refunded. The Company has also completed and submitted to the Bureau the file titled "Alfa Alliance Restitution 10 21 13.xlsx", along with this Company response. The Company has provided a copy of the refund check for \$122.47 (Exhibit B) that was issued to the insured under policy TPA043, resulting in no additional refund due to the insured.

Automobile Non-renewal

(1) The Company appreciates the time taken by the Bureau for further review of these violations, and is in agreement with the Bureau's findings.

Automobile Rejected Applications

(1) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

(2) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

Homeowner Notices Mailed After the 89th Day of Coverage

(1) The Company appreciates the time taken by the Bureau for further review of the refund amount, but still believes the calculated amount submitted with the Company's first response is correct. However, since the Company has no new information to pass along to the Bureau regarding the refund amount calculated, the Company has sent a refund to the insured and included six percent (6%) simple interest to the amount refunded. The Company has also completed and submitted to the Bureau the file titled "Alfa Alliance Restitution 10 21 13.xlsx", along with this Company response.

Homeowner Insured Requested Cancellations

(2a) The Company appreciates the time taken by the Bureau for further review of these violations, and requests that the violation for policy THO022 be reconsidered. Included with this Company response is Exhibit C, documenting that the cancellation was effective on 6/26/2012.

For the violations for policies THO023 and THO024, the Company is in agreement with the Bureau's findings.

(2b) The Company appreciates the time taken by the Bureau for further review of these violations, and is in agreement with the Bureau's findings.

Homeowner Company-Initiated Non-renewals

(1) The Company appreciates the time taken by the Bureau for further review of this violation, and is in agreement with the Bureau's finding.

Homeowner Rejected Applications

(1) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

(2) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

Claims

Claims - Private Passenger Automobile

(1) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

(2a) The Company appreciates the time taken by the Bureau for further review of this violation, and acknowledges the Bureau's finding.

(2b) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

(3) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

(4) The Company appreciates the time taken by the Bureau for further review of this violation, and acknowledges the Bureau's finding.

(5) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

(6b) The Company appreciates the time taken by the Bureau for further review of this violation, and acknowledges the Bureau's finding.

(7a) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

(8) The Company appreciates the time taken by the Bureau for further review of this violation, and is in agreement with the Bureau's finding.

(9) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings for violations CPA001, CPA003, CPA009, CPA015, CPA020, CPA029 and CPA033. The Company is in agreement with the Bureau's findings for violations CPA042 and CPA060.

Other Law Violations

(1) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

Clams - Homeowners

(1) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

(2b) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings for violations CHO029, CHO032, CHO035 and CHO039. The Company is in agreement with the Bureau's finding for violation CHO037.

(2c) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

(6) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

(7) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

(8) The Company appreciates the time taken by the Bureau for further review of this violation, and is in agreement with the Bureau's finding.

(9a) The Company appreciates the time taken by the Bureau for further review of these violations, and acknowledges the Bureau's findings.

(9b) The Company appreciates the time taken by the Bureau for further review of this violation, and acknowledges the Bureau's finding.

Policy Issuance

New Business Homeowners Policies

(2) The Company appreciates the time taken by the Bureau for further review of this violation, and acknowledges the Bureau's finding.

(3) The Company appreciates the time taken by the Bureau for further review of this violation, and acknowledges the Bureau's finding.

(4) The Company appreciates the time taken by the Bureau for further review of this violation, and acknowledges the Bureau's finding.

(5) The Company appreciates the time taken by the Bureau for further review of this violation, and acknowledges the Bureau's finding.

(6) The Company appreciates the time taken by the Bureau for further review of this violation, and acknowledges the Bureau's finding.

(7) The Company appreciates the time taken by the Bureau for further review of this violation, and acknowledges the Bureau's finding.

(8) The Company appreciates the time taken by the Bureau for further review of this violation, and acknowledges the Bureau's finding.

Notices

Other Notices

(1) The Company acknowledges this violation.

Part Two – Corrective Action Plan

Terminations

(1) The Company has already corrected its filed manual to remove the short rate cancellation language and match up with its underwriting process to use a pro rate calculation. Six of the seven overcharges on the restitution spreadsheet have been refunded. The remaining overcharge on policy TPA043 was not refunded, since a previously issued refund in the amount of \$122.47 was issued to the insured, resulting in an undercharge. A copy of this previously issued refund check (Exhibit B) is included with this Company response.

(2) Six percent (6%) simple interest was included on the refund checks that were issued.

(3) The Company has completed and submitted to the Bureau the file titled "Alfa Alliance Restitution 10 21 13.xlsx", along with this Company response. The file documents the payment for the overcharges cited in the restitution spreadsheet.

Claims

(1) The Company has completed and submitted to the Bureau the file titled "Alfa Alliance Restitution 10 21 13.xlsx", along with this Company response. The file documents the payment for the underpayments cited in the restitution spreadsheet.

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

November 22, 2013

VIA UPS 2nd DAY DELIVERY

Scott Beller
Vice President of Marketing and Integrated Services
Alfa Alliance Insurance Corporation
4480 Cox Road, Suite 300
Glen Allen, VA 23060-6718

Re: Market Conduct Examination
Alfa Alliance Insurance Corporation (NAIC# 18791)
Examination Period: January 1, 2012-December 31, 2012

Dear Mr. Beller:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of November 1, 2013. Based upon the Bureau's review of the company's letter, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Alfa Alliance Insurance Corporation (Report).

The Report has been amended to reflect the changes listed below.

Part One – Examiners' Observations

Rating and Underwriting

Homeowners New Business

- (1) This violation has been withdrawn and the Report has been renumbered accordingly.

Terminations

Homeowner Insured Requested Cancellations

- (2a) The violation for THO022 remains in the Report. The insured requested in writing that the policy be cancelled effective 6/26/2012. The Company's system contained a Cancellation Memo that indicated the cancellation effective date as 7/21/2012 and it was this latter date that triggered the violation. The Company responded to the BOI's October 3, 2013 Response by providing a Cancellation Memo which listed the cancellation effective date as 6/26/2012. The two Cancellation Memos contradict one another in terms of the cancellation effective date and illustrate how the data, reported by the Company, was not accurate. In addition to the

above, the Company originally reported the cancellation effective date as 7/25/2012. The two Cancellation Memos are enclosed for review.

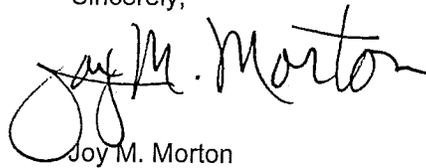
Based on the Bureau's review of the Report and the Company's responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-305 A, 38.2-305 B, 38.2-502, 38.2-510 A, 38.2-604 A, 38.2-604.1, 38.2-610 A, 38.2-1318, 38.2-1833, 38.2-1906 D, 38.2-2114 A, 38.2-2114 B, 38.2-2144 C, 38.2-2118, 38.2-2120, 38.2-2124, 38.2-2125, 38.2-2126, 38.2-2212 E, 38.2-2212 F of the Code of Virginia; and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C, 14 VAC 5-400-70 A, and 14 VAC 5-400-80 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the business of insurance in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,



Joy M. Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

JMM/

STATE CORP. COMMISSION
2013 DEC 26 PM 1:40
BUREAU OF INSURANCE

December 16, 2013

Mary Bannister
Deputy Commissioner
Property and Casualty
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

RE: Market Conduct Examination Settlement Offer
Alfa Alliance Insurance Corporation

530098

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter dated December 3, 2013 concerning the above referenced matter.

We wish to make a settlement offer on behalf of Alfa Alliance Insurance Corporation for the alleged violations of Sections 38.2-305 A, 38.2-305 B, 38.2-502, 38.2-510 A 3, 38.2-604 A, 38.2-604.1 A, 38.2-610 A, 38.2-1318, 38.2-1833, 38.2-1906 D, 38.2-2114 A, 38.2-2114 B, 38.2-2114 C, 38.2-2118, 38.2-2120, 38.2-2124, 38.2-2125, 38.2-2126 B, 38.2-2212 E, 38.2-2212 F of the Code of Virginia; and 14-VAC 5-400-30, 14-VAC 5-400-40 A, 14 VAC 5-400-50 C, 14 VAC 5-400-70 A, and 14 VAC 5-400-80 D of the Virginia Administrative Code.

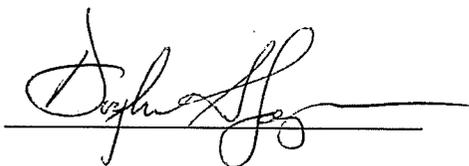
1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$38,000.00
2. We agree to comply with the corrective action plan set forth in the company's letters of July 19, 2013 and November 1, 2013.
3. We confirm that restitution was made to 28 consumers for \$7,152.84 in accordance with the company's letters of July 19, 2013 and November 1, 2013.
4. We further acknowledge the company's right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

Page 2

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely,

Alfa Alliance Insurance Corporation



Douglas S. Joyce
President
December 16, 2013

Enclosure

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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Alfa Alliance Insurance Corporation has tendered to the Bureau of Insurance the settlement amount of \$38,000 by its check numbered 347496 and dated December 13, 2013, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

140120170

AT RICHMOND, JANUARY 21, 2014

SEC-CLERK'S OFFICE
DOCUMENT CONTROL CENTER

2014 JAN 21 P 2:36

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2013-00282

ALFA ALLIANCE INSURANCE CORPORATION,
Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Alfa Alliance Insurance Corporation ("Defendant"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Commonwealth"), violated §§ 38.2-305 A and 38.2-305 B of the Code of Virginia ("Code") by failing to provide the information required by the statute in the insurance policy; violated § 38.2-502 of the Code by misrepresenting the benefits, advantages, conditions or terms of insurance policies; violated §§ 38.2-604 A, 38.2-604.1 A, 38.2-610 A, 38.2-2118, 38.2-2120, 38.2-2124, 38.2-2125, and 38.2-2126 B of the Code by failing to accurately provide the required notices to insureds; violated § 38.2-1318 of the Code by failing to provide convenient access to the files, documents, and records relating to the examination; violated § 38.2-1833 of the Code by paying commissions to agencies/agents that were not appointed by the Defendant; violated § 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendant; violated §§ 38.2-2114 A, 38.2-2114 B, 38.2-2114 C, 38.2-2212 E, and 38.2-2212 F of the Code by failing to properly terminate insurance policies; and violated § 38.2-510 A (3) of the Code as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A,

14 VAC 5-400-50 C, 14 VAC 5-400-70 A, and 14 VAC 5-400-80 D of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*, by failing to properly handle claims with such frequency as to indicate a general business practice.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke a defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendant has been advised of its right to a hearing in this matter whereupon the Defendant, without admitting any violation of Virginia law, has made an offer of settlement to the Commission wherein the Defendant has tendered to the Commonwealth the sum of Thirty-eight Thousand Dollars (\$38,000), waived its right to a hearing, agreed to comply with the corrective action plan set forth in its letters to the Bureau dated July 19, 2013, and November 1, 2013, and confirmed that restitution was made to 28 consumers in the amount of Seven Thousand One Hundred Fifty-two Dollars and Eighty-four Cents (\$7,152.84).

The Bureau has recommended that the Commission accept the offer of settlement of the Defendant pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendant, and the recommendation of the Bureau, is of the opinion that the Defendant's offer should be accepted.

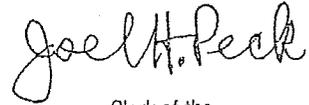
Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendant in settlement of the matter set forth herein is hereby accepted.

(2) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Scott Beller, Vice President of Marketing and Integrated Services, Alfa Alliance Insurance Corporation, 4480 Cox Road, Suite 300, Glen Allen, Virginia 23060-6718; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Mary M. Bannister.

A True Copy
Teste:



Clerk of the
State Corporation Commission