

MARKET CONDUCT EXAMINATION REPORT

OF

ALPHA P&C INSURANCE COMPANY

AS OF

AUGUST 31, 2010

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

**Property and Casualty Division
Market Conduct Section**

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

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 Alpha P & C Insurance Company as of August 31, 2010, which took place at the office at the State Corporation Commission 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 22nd day of February, 2012.



JACQUELINE K. CUNNINGHAM

Commissioner of Insurance

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STATE CORPORATION COMMISSION
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**Property and Casualty Division
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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a target examination has been made of the private passenger automobile line of business written by Alpha Property and Casualty Insurance Company in a desk examination at the office of the Virginia State Corporation Commission in Richmond, Virginia.

The examination commenced February 1, 2011, and concluded April 27, 2011. Karen S. Gerber, Richard L. Howell, and Gloria V. Warriner, examiners of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on October 7, 2010, and was assigned the examination number of VA199-M28. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILE

Alpha Property and Casualty Insurance Company was incorporated under the laws of Wisconsin on December 19, 1979, and commenced business on December 21, 1979. The company's parent group, Milwaukee Insurance Group, was acquired by Trinity Universal Insurance Company on October 2, 1995. At that time Trinity Universal Insurance Company was already a wholly owned subsidiary of Unitrin, Inc.

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 September 1, 2005.

Group Code: 215	Alpha property & Casualty Insurance Company
NAIC Company Number	38156
LICENSED IN VIRGINIA	09/01/2005
LINES OF INSURANCE	
Accident and Sickness	
Aircraft Liability	
Aircraft Physical Damage	
Animal	
Automobile Liability	09/01/2005
Automobile Physical Damage	09/01/2005
Boiler and Machinery	
Burglary and Theft	
Commercial Multi-Peril	
Credit	
Farmowners Multi-Peril	
Fidelity	
Fire	
General Liability	
Glass	
Homeowners Multi-Peril	
Inland Marine	09/01/2005
Miscellaneous Property	
Ocean Marine	
Surety	09/01/2005
Water Damage	
Workers' Compensation	

The table below shows the company's premium volume and approximate market share of business written in Virginia during 2009 for the line of insurance included in this examination.*

This business was developed through independent agents.

ALPHA PROPERTY & CASUALTY INSURANCE COMPANY	PREMIUM VOLUME	MARKET SHARE
Private Auto Liability	\$4,628,220	.20%
Private Passenger Auto Physical Damage	\$2,613,978	.15%

* Source: The 2009 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 private passenger automobile line of business written in Virginia for the period beginning September 1, 2009, and ending August 31, 2010. This review included terminations, policy forms, and statutory notices. 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 – Examiners' Notes. 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.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a business practice.

In Part Three, the examiners cite any violations that are not considered a business practice. Also included in this section are recommendations regarding the company's practices that are not violations of Virginia insurance laws but require some action by the company. This section does not form the basis of any settlement offer made by the Bureau.

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

STATISTICAL SUMMARY

The files selected for the review of the terminations was 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.

**POPULATION
SAMPLE REQUESTED**

AREA	<u>Alpha P&C</u>	<u>FILES REVIEWED</u>	<u>FILES NOT FOUND</u>	<u>FILES WITH ERRORS</u>	<u>ERROR RATIO</u>
<u>Private Passenger Auto</u>					
Co-Initiated Cancellations ¹	<u>103</u> 28	11	0	11	100%
All Other Cancellations ¹	<u>2848</u> 72	80	0	51	64%
Nonrenewals	<u>367</u> 25	25	0	25	100%

Footnote ¹ The population included inaccurate termination type in each of these categories.

PART ONE - THE EXAMINERS' OBSERVATIONS

This section of the Report contains all of the observations the examiners provided to the company. These include all instances where the company violated Virginia insurance statutes and regulations.

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 requested 18 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. The examiners reviewed six of these files. Eight files were expirations and therefore were not reviewed. Three files were moved to the Insured Requested Cancellation category. One file was moved to the Notice Mailed After the 59th Day category. Four files were moved from the Notice Mailed After the 59th Day category. The examiners found overcharges totaling \$10.00 and no undercharges during the review of these files. The net amount that should be refunded to insureds is \$10 plus six percent (6%) simple interest.

- (1) The examiners found nine violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an adverse underwriting decision (AUD).
- (2) 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.
- (3) The examiners found eight violations of § 38.2-2208 A of the Code of Virginia. The

company failed to obtain valid proof of mailing the cancellation notice to the insured.

- (4) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to provide at least ten days notice to the insured when the policy had been in effect less than 60 days.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau requested ten 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. The examiners reviewed none of the requested files. One file was reviewed in Consumer Services and therefore was not reviewed. One file was moved to the Insured Requested Cancellation category. Four files were moved to the Notice Mailed Prior to the 60th Day category. Four files were moved to the Nonpayment of Premium category. One file was moved from the Notice Mailed Prior the 60th Day category. The examiners found no overcharges and no undercharges during the review of these files.

- (1) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured written notice of an AUD.
- (2) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to state the effective date of cancellation in the notice.

All Other Cancellations - Automobile Policies

NONPAYMENT OF PREMIUM

The Bureau requested 45 automobile cancellations that were initiated by the company for nonpayment of the policy premium. The examiners reviewed all of these files. Four files were moved from the Notice After the 59th Day category. The examiners found no overcharges and no undercharges during the review of these files.

- (1) The examiners found 33 violations of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.
- (2) The examiners found ten violations of § 38.2-2208 B of the Code of Virginia.
 - a. In nine instances, the company failed to retain a copy of the cancellation notice sent to the lienholder.
 - b. In one instance, the company failed to retain proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found ten violations of § 38.2-2212 E of the Code of Virginia.
 - a. In four instances, the company failed to send the cancellation notice to the named insureds listed on the policy.
 - b. In six instances, the company failed to mail the notice of cancellation to the insured at least 15 days prior to the effective date of cancellation.

REQUESTED BY THE INSURED

The Bureau requested 27 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The examiners reviewed all of these files. Three files were moved from the Notice Mailed Prior to the 60th Day category. One file was moved from the Notice Mailed After the 59th Day category.

The examiners found overcharges totaling \$52.24 and undercharges totaling \$239.66 during the review of these files. The net amount that should be refunded to insureds is \$52.24 plus six percent (6%) simple interest.

- (1) 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.
- (2) The examiners found three violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain the insured's written request to cancel his policy mid-term.
- (3) The examiners found six occurrences where the company failed to comply with the

provisions of the insurance policy. The company failed to obtain advanced notice of cancellation from the insured.

Company-Initiated Non-renewals - Automobile Policies

The Bureau requested 25 automobile non-renewals that were initiated by the company. The examiners reviewed all of these files.

- (1) The examiners found 25 violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an AUD.
- (2) The examiners found 19 violations of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the nonrenewal notice to the insured.
- (3) The examiners found three violations of § 38.2-2208 B of the Code of Virginia. The company failed to obtain valid proof of mailing the nonrenewal notice to the lienholder.
- (4) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the cancellation notice to the named insureds listed on the policy.

REVIEW OF FORMS

In order to verify the company's compliance with Virginia insurance laws and regulations, the examiners reviewed the company's policy forms and endorsements for the lines of business examined.

Automobile Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 16 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found 14 violations of § 38.2-2220 of the Code of Virginia. The company used a version of the Standard Automobile form that was not in the precise language

filed and adopted by the Bureau.

REVIEW OF STATUTORY NOTICES

Other Notices

The company provided a copy of the application that was 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 an insurance policy. The application contains information that is contrary to coverages in the Personal Automobile Policy.

PART TWO – CORRECTIVE ACTION PLAN

As stated in the Scope of the Examination, only those violations identified by the examiners as business practices of the company will be considered in the settlement offer. Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. A ten percent (10%) error criterion was applied to all operations of the company. Any error ratio above this threshold indicates a general business practice. In some instances, such as forms and notices, 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

Alpha Property and Casualty Insurance Company shall:

Provide a Corrective Action Plan (CAP) with their response to this Report.

Termination Review

Alpha Property and Casualty Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges shown the over/undercharge spreadsheet and send the refund to the insured or credit the insured's account 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' account.
- (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) Obtain valid proof of mailing cancellation and non-renewal notices to the insured and lienholder.

- (5) Provide proper notice of cancellation to the lienholder when canceling a policy.
- (6) Calculate return premiums in accordance with filed rules and rates.
- (7) Obtain written requests for cancellation from the insured before processing insured requested cancellations.
- (8) Provide the insured with a written notice of an AUD when canceling or non-renewing a policy.
- (9) Send the cancellation notice for a motor vehicle policy for nonpayment of premium at least 15 days before the effective date of cancellation.
- (10) Send the cancellation notice to the named insureds listed on the policy.

Forms Review

Alpha Property and Casualty Insurance Company shall:

Use the precise language of the standard automobile forms as adopted by the Bureau.

Review of Statutory Notices

Alpha Property and Casualty Insurance Company shall:

Amend the application to comply with the provisions of the Personal Auto Policy.

PART THREE – EXAMINERS’ NOTES

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:

Terminations

- Failure to comply with the provisions of the insurance policy.
- Failure to state the effective date of cancellation.

RECOMMENDATIONS

We recommend that the company take the following actions:

Terminations

- The company should amend the declarations page by eliminating the wording “Excluded Driver(s).”
- The company should amend the notice of nonrenewal by removing any references to Wisconsin law.
- The company should amend their cancellation rules on file to include all permissible reasons a cancellation can be backdated.
- The company should remove the insured’s right to review by the Commissioner of Insurance on insured requested cancellations.
- The company should amend their form to delete reference to advance written notice if the company intends to allow cancellations to be backdated.

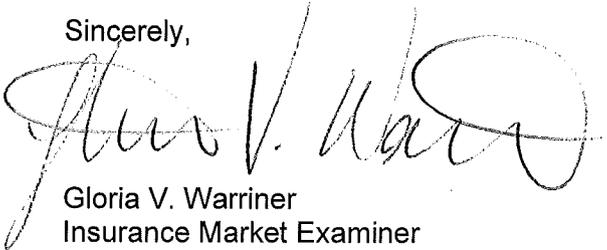
SUMMARY OF PREVIOUS EXAMINATION FINDINGS

This is the first time the Virginia Bureau of Insurance has conducted an examination of the company.

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 "Gloria V. Warriner". The signature is fluid and cursive, with a large loop at the end.

Gloria V. Warriner
Insurance Market Examiner

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

June 28, 2011

VIA UPS 2nd DAY DELIVERY

Alan Olsen
Senior Compliance Manager
21650 Oxnard Street, Suite 1800
Woodland Hills, CA 91367

RE: Market Conduct Examination
Alpha Property & Casualty Insurance Company (NAIC# 38156)

Dear Mr. Olsen:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced company for the period of September 1, 2009 through August 31, 2010. The Preliminary Market Conduct Examination Report has been drafted for the company's review.

Enclosed with this letter is a copy of the Preliminary Market Conduct Examination Report (Report) and copies of review sheets that have been withdrawn or revised since April 27, 2011. Also enclosed are several technical 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. If the company disagrees with an item(s) or wishes to further comment on an item(s), please respond to the items in Part I of the Report using the format of the Report. The company does not need to respond to any particular item in Part I if it agrees with the Report. 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. If the company uses the same format (headings and numbering) as found in the Report, it is much easier to follow the company's points.

Secondly, the company should respond to the corrective action plan (CAP) outlined in Part II of the Report. In some cases, the issues that should be addressed may be broader than those that are in the CAP. 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.

Thirdly, if the company has comments it wishes to make regarding the Examiners' Notes in Part III of the Report, please use the same headings and numbering for the comments. Of course, should the company wish to comment on any other part of the Report, please reference the heading of the section where the item is found.

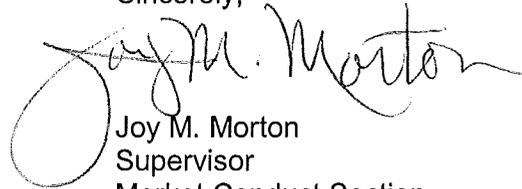
Finally, we have enclosed a CD containing an Excel spreadsheet that the company must complete and return to the Bureau with the company's response. This spreadsheet lists the files in which the examiners identified termination overcharges.

The company's response and the spreadsheet mentioned above must be returned to the Bureau by July 21, 2011.

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 21, 2011.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is fluid and cursive, with a large loop at the beginning of the first name.

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

JMM/sb
Enclosure

UNITRIN®

STATE CUIP COMMISSION
BUREAU OF INSURANCE
11 AUG 12 AM 9:18

August 11, 2011

Ms. Joy Morton, Supervisor
Market Conduct Section
Property & Casualty Division
P.O. Box 1157
Richmond, VA 23218

RE: Alpha Property & Casualty Insurance Company (NAIC# 38156)

Dear Ms. Morton:

Enclosed is the response of Alpha Property & Casualty Insurance Company to the Preliminary Market Conduct Examination Report prepared by the Virginia Bureau of Insurance.

For your convenience, we have prepared the response using the format of the report. Numerous attachments are included and they have been numbered for your convenience. A CD containing the Excel spreadsheet with the requested information on the overcharges is also enclosed.

We thank you and your staff for the professional manner in which the examination was conducted. The knowledge we have gained from the examination has been very helpful in insuring we will be in compliance with the laws of the State of Virginia.

Sincerely,



Alan R. Olsen, CPCU
Sr. Compliance Manager
Unitrin Specialty
(800-777-4342, extension 5503)
aolsen@unitrin.com

AO/ao
Enclosures

Unitrin Specialty

Alpha Property & Casualty Insurance Company, Charter Indemnity Company, Financial Indemnity Company, Unitrin County Mutual Insurance Company

8360 LBJ Freeway, Dallas, Texas 75243 • P O Box 223687, Dallas, Texas 75222-3687 • 972.690.5500 • 800.456.1919 • Fax 972.669.7922 • UnitrinSpecialty.com

PART ONE – THE EXAMINERS' OBSERVATIONS

The following are our comments on the examiner's observations.

All Other Cancellations – Automobile Policies

NONPAYMENT OF PREMIUM

- (1) The examiners found 33 violations of §38.2-2208A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.

Company Response:

Review sheets 938393263, 529334645, 481266415, 609611093 and 339482373 all contained an observation that the USPS dates on several of the certificates of bulk mailing were different from the date on the mailing list. When the vendor has issues with the mailing, such as printing or sorting, there is a chance mailing of some items can be delayed until the next day. Our processes build in additional mailing time to accommodate disruptions in the mailing process. We would like it noted that regardless of which day these items were mailed, the customer received the statutory required notice. I have attached copies of these review sheets (attachments 1 through 5) and we respectfully request reconsideration of these observations. We are not contesting the other violations noted on these review sheets.

REQUESTED BY THE INSURED

- (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 calculate the return premium correctly.

Company Response:

We request the following four issues be withdrawn:

Review Sheet -1415018895, attached are the cancellation calculations (attachment 6), by vehicle per line of coverage, matching the amount of \$59.32 due from the insured.

Review Sheet - 2037690526, attached are the cancellation calculations (attachment 7), by vehicle per line of coverage, matching the amount of \$58.50 previously refunded to the insured.

Review Sheet – 745605409, attached are the cancellation calculations (attachment 8), by vehicle per line of coverage, matching the amount of \$2.96 due from the insured, which was previously written off.

Review Sheet - 850032198.attached are the cancellation calculations (attachment 9), by vehicle per line of coverage, matching the amount of \$405.96 due from the insured, which was previously sent to collections.

Review Sheet – 1960376963, attached are the cancellation calculations (attachment 10), by vehicle per line of coverage. We owe the insured \$10 for a billing fee that was not offset when the cancellation was processed. We have refunded \$10.60 including interest.

Company-Initiated Non-renewals – Automobile Policies

- (2) The examiners found 20 violations of §38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the nonrenewal notice to the insured.

Company Response:

Review Sheet 412987540, the examiners requested the first page of the mailing list. Attached is the first page (attachment 11). We respectfully request this criticism be withdrawn.

- (3) The examiners found five violations of §38.2-2208 B of the Code of Virginia.

- a. The company failed to retain a copy of the nonrenewal notice sent to the lienholder.

Company Response:

The company disputes review sheet 1747656443. CV-Exchange has provided the attached copy of the notice with POM (attachment 12).

- b. The company failed to retain proof of mailing the nonrenewal notice to the lienholder.

Company Response:

The company disputes review sheets 1095599448 and 555460268. CV-Exchange has provided the attached copies of the notice with POM (attachments 13 & 14).

- c. The company failed to provide proper notice of cancellation to the lienholder.

Company Response:

We request further review of review sheets 1096614405 and 2127996828. Attached are the declarations pages and a copy of the transmittals from CV-Exchange on both policies, which have Navy Federal Credit Union, Attn Collateral Department, Merrifield VA 22119 as the lien holder (attachments 15 & 16). We attempted delivery to the addresses shown on the policies, which are the addresses given to us by the policyholders. We had no way of knowing this address was incorrect and feel any violation is unjustified. We respectfully request these violations be withdrawn.

REVIEW OF FORMS

Automobile Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company used a version of the Standard Automobile Policy form that was not in the precise language filed and adopted by the Bureau.

Company Response:

We respectfully request review sheets 326257236 and -168888543 be withdrawn, as the issues are duplicates of the issues found on review sheet 1521029053. Copies of each of the review sheets are attached for your review (attachments 17, 18 & 19).

REVIEW OF STATUTORY NOTICES

Other Notices

The company misrepresented the benefits, advantages, conditions or terms of an insurance policy. The application contains information that is contrary to coverages in the Personal Automobile Policy.

Company Response:

Review Sheet 866991680, #3 - The reference to the provision regarding replacement and additional vehicles is not part of the application, but is part of the standard SR-22 **AAMVA UNIFORM FINANCIAL RESPONSIBILITY FORM**. This is a standard form not created by Alpha Property & Casualty Insurance Company and is required to be filed by the Virginia Department of Motor Vehicles as evidence of financial responsibility. Also, the form does not indicate whether coverage will cease, but whether the certificate will apply or not. As this form is promulgated by an outside source, not a part of the application and required to be filed by the Virginia Department of Motor Vehicles, we respectfully request this violation be removed. Attached is a copy of the application package for your review (attachment 20).

PART TWO – CORRECTIVE ACTION PLAN

Termination Review

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insured's accounts the amount of the overcharge as the date the error first occurred,

Company Response:

The corrections have been made and refunds and or credits have been issued with the exception of one item, TPA092 – Review Sheet 745605409, which we are disputing. (See "Requested by the Insured", on page 1).

- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insured's account.

Company Response:

We have included 6% simple interest in all refunds and/or credits.

- (3) Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited During the Examination".

Company Response:

The enclosed CD containing the file titled "Termination Overcharges Cited During the Examination" has been completed with the exception of one item we are disputing.

- (4) Obtain and retain valid proof of mailing cancellation and non-renewal notices to the insured and lienholder.

Company Response:

The last page of our cancellation mailing list was corrected to include a signature validating the number of pieces mailed matched the number shown on the USPS receipt. This correction was made on 04/01/10. We are making arrangements to meet with R. R. Donnelly, the vendor who mails our cancellation notices, and CV-Exchange, who notifies lien holders, to make sure valid proof of mailing is obtained.

- (5) Provide proper notice of cancellation to the lienholder when cancelling a policy.

Company Response:

We will revise our notices of cancellation to lien holders to provide the proper number of days notice.

- (6) Calculate return premiums in accordance with filed rules and rates.

Company Response:

We are in the process of eliminating short rate cancellations and when the project is completed, the exceptions we made will no longer be an issue. We believe all other return premiums are being cancelled correctly.

- (7) Obtain written requests for cancellation from the insured before processing insured requested cancellations.

Company Response:

We wish to continue the practice of requiring our agents to retain all cancellation requests. We will send our agents a reminder that they must comply with this requirement.

- (8) Provide the insured with a written notice of an AUD when cancelling or non-renewing a policy.

Company Response:

An Adverse Underwriting Notice has been prepared and is currently being programmed to generate on cancellations, except for nonpayment, and on non-renewals.

- (9) Send the cancellation notice for a motor vehicle policy for nonpayment of premium at least 15 days before the effective date of cancellation

Company Response:

Beginning 05/27/11, we began giving at least 15 days notice for non-payment of premium on policies in effect 60 days or more.

- (10) Send the cancellation notice to the named insureds listed on the policy.

Company Response:

Beginning on 03/19/10, we began sending cancellation notices to all named insureds listed on the policy.

Forms Review

Use the precise language of the standard automobile forms as adopted by the Bureau.

Company Response:

All of the substantive language of the standard forms is included in our forms with few, minor revisions which have no effect on coverage. A forms list was submitted which clearly advised of our forms layout and the list was approved by the Virginia Bureau of Insurance. Therefore, we respectfully request you remove this violation. Although our forms meet the substantive requirements of the forms language, we will be revising our forms to stand alone from the policy and precisely match the standard forms in order to avoid confusion in the future.

Review of Statutory Notices

Amend the application to comply with the provisions of the Personal Auto Policy.

Company Response:

The application is being revised to remove the exclusion of vehicles not manufactured in the US. The revised application will go into production later this month.

PART THREE – EXAMINERS' NOTES

Terminations

RECOMMENDATIONS

- The company should amend the declarations page by eliminating the wording "Excluded Driver(s)."

Company Response:

This wording was removed from our declarations pages on 03/18/11.

- The company should amend the notice of nonrenewal by removing any references to Wisconsin law.

Company Response:

The wording was removed from our nonrenewal notices on 01/28/11.

- The company should amend their cancellation rules on file to include all permissible reasons a cancellation can be backdated.

Company Response:

We will amend our rules to be consistent with our practices.

- The company should remove the Important Notice on insured requested cancellations.

Company Response:

Programming has been completed and the issue is in our QA Department for testing. When testing is completed, the change will be moved to production.

- The company should amend their form if the company intends to allow the insured to backdate the cancellation and forego advance written notice.

Company Response:

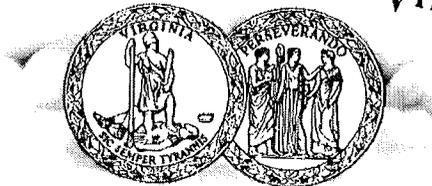
We will amend our product guide to conform to our current procedures.

Prepared By: Alan R. Olsen

Date: August 11, 2011

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
<http://www.scc.virginia.gov/division/b>

November 10, 2011

VIA UPS 2nd DAY DELIVERY

Alan Olsen
Senior Compliance Manager
21650 Oxnard Street, Suite 1800
Woodland Hills, CA 91367

RE: Market Conduct Examination
Alpha Property & Casualty Insurance Company (NAIC# 38156)

Dear Mr. Olsen:

The Bureau of Insurance (Bureau) has reviewed the August 11, 2011 response to the Preliminary Market Conduct Report (Report) of Alpha Property and Casualty Insurance Company. The Bureau has referenced only those items where 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 – THE EXAMINERS' OBSERVATIONS

Terminations

Nonpayment of Premium Cancellations

- (1) These items all remain in the Report. It is impossible to verify which date each of these notices were mailed. How do you know which of the documents were not generated and/or sent when the system failed? If the POM for review sheet 529334645 (TPA032) is one of the documents that failed on 01/04/10 and was sent on 01/05/10, the Company did not give the insured 15 days notice.

Insured Requested Cancellations

- (1) After further review, the violations for review sheet 14150188958 (TPA076), review sheet 2037690526 (TPA089), and review sheet 850032198 (TPA093) have been withdrawn. The Report has been renumbered to reflect this change.

The violation for review sheet 74560549 (TPA092) remains in the Report. The overcharge amount is amended to \$23.04. The Company used an amount different than the amount applicable to this policy when calculating the return premium. The company applied \$26.00 from the prior policy term. The Billing screen provided by the company shows a \$0.00 balance for the prior term as of 08/11/09.

The violation for review sheet 1960376963 (TPA080) remains in the Report. The overcharge amount is amended to \$10.00.

Company-Initiated Non-renewals

- (2) After further review, the violation for review sheet 412987540 (RPA104) has been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (3.a) The violation for review sheet 1747656443 (TPA115) remains in the Report. The POM (attachment 12) does not match up to the lienholder's name and address on the CVS Exchange. The nonrenewal notice (CVS Exchange) shows the lienholder notified as Costal Credit, P.O. Box 9470, Virginia Beach, VA. The POM provided shows Fort Lee Fed – CU, 4495 Crossing Blvd., Prince George, VA. The policy declarations does not include a loss payee.
- (3.b) After further review, the violations for review sheet 109559948 (TPA103) and review sheet 2127996828 (TPA107) have been withdrawn from the Report. The Company provided copies of the proof of mailings of the cancellation notices to the lienholders. The proof of mailings provided by the Company for TPA103 and TPA107 were not valid, as such, two violations of § 38.2-2208 B of the Code of Virginia have been added.
- (3.c) The violations for review sheet 1096614405 (TPA104) and review sheet 2127996828 (TPA105) remain in the Report. The Company has not provided any additional information that would cause the examiner to reconsider the initial findings.

Forms

The violations for review sheet 326257236 (FPA014) and review sheet 168888543 (FPA015) remain in the Report. These review sheets are not duplicates of issues found on review sheet 1521029053 (FPA013).

The violation for FPA014 is for the Amendment of Policy Provision – Virginia (PP 01 99). The Company did not use the precise language of the standard form when integrating this form into the Company's Policy Jacket for Personal Auto Policy. The Company's form is either missing required language, including language that is not in the standard form and/or has words in bold print that are not in bold, or highlighted in the standard form.

The violation for FPA015 is for the Uninsured Motorist Coverage – Virginia (PP 14 03). Again, the Company did not use the precise language of the standard form when it was added into the Company's Policy Jacket for Personal Auto Policy.

The violation for FPA013 pertains to the Personal Auto Policy (PP 00 01) itself. The version of the form the Company is using is missing required verbiage, includes added verbiage that is not in the standard form, is not written in the order of the standard form, has either improper headings or is missing headings, is not properly formatted and uses bold print where none exists in the standard form.

General Statutory Notices

After further review, violation #3 on review sheet 866991680 (NON001) has been withdrawn from the Report.

PART TWO – CORRECTIVE ACTION PLAN

Termination

- (1) The violation for review sheet 745605409 (TPA092) remains in the Report. The overcharge has been increased to \$24.42. The earned premium is \$289.64 for the policy period of 09/03/09 through 12//22/09 and the insured paid \$312.68. The overcharge was \$23.04 before adding the six percent simple interest of \$1.39.
- (5) Please advise when the changes to will be implemented that will provide the proper number of days notice of cancellation to the lienholders.
- (6) Please advise when the company will eliminate short rate cancellations.
- (8) Please advise when the Adverse Underwriting Notice will be completed and programmed to generate on cancellations.

Forms

All forms must be in the precise language of the Virginia standard forms.

Statutory Notices

Please advise when the application will be revised.

PART THREE – EXAMINERS’ NOTES

Recommendations

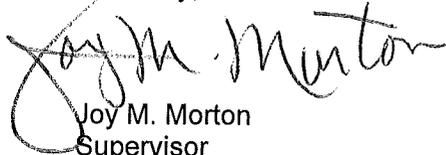
Please advise when the company will amend their cancellation rules with the Rates and Forms Section of the Bureau.

Please advise when the Important Notice on the insured requested cancellation will be removed.

Please advise when the Company’s product guide will be amended to match their current procedures to allow the insured to backdate the cancellation and forego advance written notice.

Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet and any review sheets withdrawn, added or altered as a result of this review. The Company’s response to this letter is due in the Bureau’s office by December 5, 2011.

Sincerely,



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

UNITRIN®

December 5, 2011

Ms. Joy Morton, Supervisor
Market Conduct Section
Property & Casualty Division
P.O. Box 1157
Richmond, VA 23218

RE: Alpha Property & Casualty Insurance Company (NAIC# 38156)

Dear Ms. Morton:

The following is the response of Alpha Property & Casualty Insurance Company to the Market Conduct Examination Report prepared by the Virginia Bureau of Insurance dated November 10, 2011.

For your convenience, we have prepared the response using the format of the report. Several attachments are included and they have been numbered for your convenience.

PART ONE – THE EXAMINERS' OBSERVATIONS

Terminations

Nonpayment of Premium Cancellations

- (1) These items all remain in the Report. It is impossible to verify which date each of these notices were mailed. How do you know which of the documents were not generated and/or sent when the system failed? If the POM for review sheet 529334645 (TPA032) is one of the documents that failed on 01/04/10 and was sent on 01/05/10, the company did not give the insured 15 days notice.

Company Response:

While we disagree with your comments as respects review sheets 938393263, 481266415, 609611093 and 339482373 since they would have the required number of days notice regardless of which date they were mailed, we agree with your observations on review sheet 529334645 (TPA032). However, we proposed a solution to the BOI which was accepted on 11/28/11. We are currently working with our vendor to make the changes which will identify those cancellations mailed on the second day and provide proof of mailing.

Unitrin Specialty

Alpha Property & Casualty Insurance Company, Charter Indemnity Company, Financial Indemnity Company, Unitrin County Mutual Insurance Company

8360 LBJ Freeway, Dallas, Texas 75243 • P O Box 223687, Dallas, Texas 75222-3687 • 972.690.5500 • 800.456.1919 • Fax 972.669.7922 • UnitrinSpecialty.com

Insured Requested Cancellations

- (1) The violation for review sheet 745605409 (TPA092) remains in the report. The overcharge is amended to \$23.04. The company used an amount different than the amount applicable to this policy when calculating the return premium. The company applied \$26.00 from the prior policy term. The billing screen provided by the company shows a \$0.00 balance for the prior term as of 08/11/09.

Company Response - We respectfully disagree. Please refer to attachment "Review Sheet 745605409" for a complete explanation. Please remove this violation.

Company-Initiated Non-renewals – Automobile Policies

- (3.a) The violation for review sheet 1747656443 (TPA115) remains in the report. The POM (attachment 12) does not match up to the lien holder's name and address on the CVS Exchange. The nonrenewal notice (CVS Exchange) shows the lien holder notified as Costal Credit, P.O. Box 9470, Virginia Beach, VA. The POM provided shows Fort Lee Fed – CU, 4495 Crossing Blvd., Prince George, VA. The policy declarations does not include a loss payee.

Company Response - The lien holder notification sent in attachment 12 belongs to another policy. The correct notification and declarations page are contained in attachment "Review Sheet 1747656443". Please remove this violation.

- (3.c) The violation for review sheet 1096614405 (TPA104) and review sheet 2127996828 (TPA105) remain in the report. The company has not provided any additional information that would cause the examiner to reconsider the initial findings.

Company Response – The ISO policy indicates, "If **we** decide not to renew or continue this policy, **we** will mail notice by registered or certified mail or United States Post Office certificate of mailing, to the **named insured** shown in the Declarations at the address shown in the policy". The ISO Loss Payable Clause states, "However, **we** reserve the right to cancel the policy as permitted by policy terms and the cancellation shall terminate this agreement as to the loss payee's interest". We attempted delivery to the lien holders at the addresses shown on the policies, which are required by the ISO policy and the Loss Payable Clause. These addresses were given to us by the policyholders and we had no way of knowing these addresses were incorrect. We feel the violations are unjustified and request they be withdrawn.

PART TWO – CORRECTIVE ACTION PLAN

Termination

- (1) The violation for review sheet 745605409 (TPA092) remains in the report. The overcharge has been increased to \$24.42. The earned premium is \$289.64 for the policy period of 09/03/09 through 12/22/09 and the insured paid \$312.68. The overcharge was \$23.04 before adding the six percent simple interest of \$1.39.

Company Response - Please refer to our response under Premium Cancellations (1) on page 1.

- (5) Please advise when the changes will be implemented that will provide the proper number of days notice of cancellation to the lien holders.

Company Response - This project which is in progress was more complicated than we originally thought. CV-Exchange has informed us that any change we make will affect all states. Therefore the number of days notice we provide will have to be sufficiently long to comply with the regulations of all other states. We are currently surveying our other states to determine the requirements. This project should be completed within the next 30 days.

- (6) Please advise when the company will eliminate short rate cancellations..

Company Response - Short rate cancellations were eliminated on 06/02/11.

- (8) Please advise when the Adverse Underwriting Notice will be completed and programmed to generate on cancellations.

Company Response - The Adverse Underwriting Notice was installed in production on 08/19/11.

Forms

All forms must be in the precise language of the Virginia standard forms.

Company Response - All forms are being revised to the precise language of the Virginia standard forms.

Statutory Notices

Please advise when the application will be revised.

Company Response - The application was placed into production on 08/26/11.

PART THREE – EXAMINERS’ NOTES

Recommendations

Please advise when the company will amend their cancellation rules with the Rates and Forms Section of the Bureau.

Company Response – The company will file the amended product guide with the cancellation rules within the next 30 days.

Please advise when the Important Notice on the insured requested cancellation will be removed.

Company Response - The Important Notice was removed on 08/19/11.

Please advise when the company's product guide will be amended to match their current procedures to allow the insured to backdate the cancellation and forego advance written notice.

Company Response – The product guide will be amended within the next 30 days.

We thank the Virginia Bureau of Insurance for the professional manner in which the examination was conducted. The examination was very informative for us and will help us in our compliance efforts.

Sincerely,

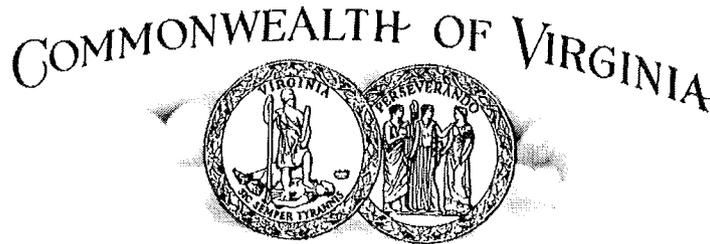


Alan R. Olsen, CPCU
Sr. Compliance Manager
Alpha Property & Casualty Insurance Company
800-777-4343, Ext. 5503
aolsen@unitrin.com

AO/ao

Attachments

ALFRED W. GROSS
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
<http://www.scc.virginia.gov/division/bol>

December 15, 2011

VIA UPS 2nd DAY DELIVERY

Alan Olsen
Senior Compliance Manager
Alpha Property & Casualty Insurance Company
21650 Oxnard Street, Suite 1800
Woodland Hills, CA 91367

RE: Market Conduct Examination
Alpha Property & Casualty Insurance Company (NAIC# 38156)

Dear Mr. Olsen:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of December 5, 2011. Based upon the Bureau's review of the company's December 5, 2011, letter, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Alpha Property & Casualty Insurance Company (Report). The Report has been amended to include the following changes.

PART ONE – EXAMINERS OBSERVATIONS

Terminations

Insured Requested Cancellations

- (1) After further review, the violation for review sheet 74560549 (TPA092) has been withdrawn from the Report. The Report has been revised to reflect this change.

Company-Initiated Non-renewals

- (3.a) The violation for review sheet 1747656443 (TPA115), remains in the Report. The Company has made several attempts to provide additional information to the Bureau for reconsideration its initial findings. The Company has provided several different documents that are not relevant to the nonrenewal in question. The dates on the Proof of Mailing (POM) provided in response to review sheet 1747656443 do not match the dates on the nonrenewal notice and therefore, the POM is not valid.
- (3.c) The violations for review sheet 1096614405 (TPA104) and review sheet 2127996828 (TPA105) have been withdrawn from the Report. The Report has been renumbered to reflect this change.

PART TWO – CORRECTIVE ACTION PLAN

Termination

- (1) The overcharge spreadsheet has been amended to delete the overcharge cited for TPA092.

Enclosed is the final Market Conduct Examination Report of Alpha Property & Casualty Insurance Company (Report).

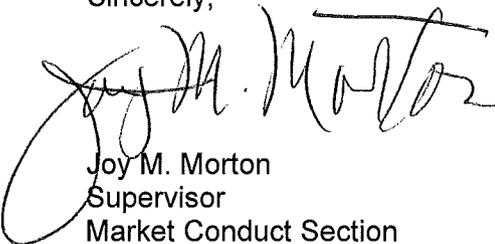
Based on the Bureau's review of the Report and the company's responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2- 502, 38.2- 610 A, 38.2- 1906 D, 38.2- 2208 A, 38.2- 2208 B, 38.2- 2212 E, 38.2- 2212 F, and 38.2- 2220 of the Code of Virginia;.

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 insurance business 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

UNITRIN®

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

400056



RE: Market Conduct Examination Settlement Offer
Examination Period: September 1, 2009 – August 31, 2010

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter dated December 16, 2011, concerning the above referenced matter.

We wish to make a settlement offer on behalf of the insurance company listed below for the alleged violations of §§ 38.2- 502, 38.2- 610 A, 38.2- 1906 D, 38.2- 2208 A, 38.2- 2208 B, 38.2- 2212 E, 38.2- 2212 F, and 38.2- 2220 of the Code of Virginia;

1. We enclose with this letter a check made payable to the Treasurer of Virginia in the amount of ~~\$19,400.00~~ \$5,000.
2. We confirm that restitution was made in accordance with the company's letter of December 5, 2011
3. We further acknowledge the company's right to a hearing before the State Corporation Commission in this matter and waive the right if this offer of settlement is accepted by the State Corporation Commission.

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,

Alpha Property and Casualty Insurance Company

A Roberts

(Signed)

Angela Grant Roberts

(Type or Print Name)

Director of Compliance

(Title)

1/12/2012

(Date)

Enclosure

Unitrin Specialty

Alpha Property & Casualty Insurance Company, Charter Indemnity Company, Unitrin County Mutual Insurance Company, Financial Indemnity Company

8360 LBJ Freeway, Dallas, Texas 75243 • PO Box 223687, Dallas, Texas 75222-3687 • 972.690.5500 • 800.456.1919 • Fax 972.669.7922 • Claims Fax 972.669.9641 • UnitrinSpecialty.com

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
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www.scc.virginia.gov/boi

Alpha P & C Insurance Company has tendered to the Bureau of Insurance the settlement amount of \$15,000.00 by its check numbered 176790 dated January 16, 2012, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
CLERK'S OFFICE
AT RICHMOND, FEBRUARY 17, 2012

120220163

2012 FEB 17 A 9:15

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

DOCUMENT CONTROL

v.

CASE NO. INS-2011-00241

ALPHA PROPERTY & CASUALTY
INSURANCE COMPANY,
Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance, it is alleged that the Defendant, duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia, violated § 38.2-502 of the Code of Virginia ("Code") by misrepresenting the benefits, advantages, conditions or terms of an insurance policy; violated § 38.2-610 A of the Code by failing to give to applicants for insurance written notice of an adverse underwriting decision in the form approved by the Commission; 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 §§ 38.2-2208 A, 38.2-2208 B, 38.2-2212 E, and 38.2-2212 F of the Code by failing to properly terminate policies; and violated § 38.2-2220 of the Code by using forms that did not contain the precise language of the standard form filed and adopted by the Commission.

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 the Defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that the 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 of Virginia the sum of Fifteen Thousand Dollars (\$15,000), waived its right to a hearing, agreed to comply with the Corrective Action Plan set forth in its letter to the Bureau of Insurance dated December 5, 2011, and confirmed that restitution was made to seven (7) consumers in the amount of Eighty-nine Dollars and Sixty-one Cents (\$89.61).

The Bureau of Insurance 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 of Insurance, is of the opinion that the Defendant's offer should be accepted.

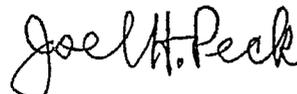
Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendant in settlement of the matter set forth herein be, and it is hereby, accepted; and

(2) The papers herein be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to Alan Olsen, Senior Compliance Manager, Alpha Property & Casualty Insurance Company, 21650 Oxnard Street, Suite 1800, Woodland Hills, California 91367. A copy shall also 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