

ASSOCIATION EXAMINATION
on
TREXIS INSURANCE CORPORATION
Glen Allen, Virginia
as of
December 31, 2021

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Trexis Insurance Corporation as of December 31, 2021, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 10th day of March 2023

A handwritten signature in black ink, appearing to read 'S. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance



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Richmond, Virginia
January 19, 2023

Honorable Scott A. White
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of § 38.2 - 1317 of the Code of Virginia, a financial condition examination of the records and affairs of the

TREXIS INSURANCE CORPORATION

Glen Allen, Virginia

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

SCOPE OF THE EXAMINATION

The Corporation was last examined by representatives of the State Corporation Commission Bureau of Insurance (Bureau) as of December 31, 2016. This examination covers the period from January 1, 2017 through December 31, 2021.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Corporation's financial condition, assess corporate governance, identify current and prospective risks of the Corporation, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Corporation were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

The examination was conducted on a coordinated basis with the Alabama Department of Insurance, with Alabama designated as the lead state. The examination of the Corporation was conducted concurrently with the examination of the following insurers:

<u>Insurer</u>	<u>Domiciliary State</u>
Alfa Mutual Insurance Company	Alabama
Alfa Mutual Fire Insurance Company	Alabama
Alfa Mutual General Insurance Company	Alabama
Alfa Insurance Corporation	Alabama
Alfa General Insurance Corporation	Alabama
Alfa Life Insurance Corporation	Alabama
Trexis One Insurance Corporation	Virginia
Alfa Alliance Insurance Corporation	Virginia

The services of Merlinos & Associates, Inc. were employed to provide an actuarial analysis as to the reasonableness of the Corporation's loss and loss adjustment expense reserves as of December 31, 2021.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Corporation.

HISTORY

The Corporation is a stock property and casualty insurer wholly-owned by Alfa Corporation (AC). AC is a subsidiary of Alfa Mutual Insurance Company (AMIC) and Alfa Mutual Fire Insurance Company (AMFIC). Together, along with affiliated entities, these companies are known as the Alfa Group (Group).

On January 1, 2005, the Corporation commenced operations to write nonstandard automobile insurance produced under a Managing General Agent (MGA) Agreement with The Vision Insurance Group, LLC, which was acquired by AC in January 2005. The Corporation subsequently terminated the MGA Agreement and currently writes business produced directly by independent agents.

In October 2010, the Corporation re-domesticated from Alabama to Virginia. In connection with the re-domestication, the Board of Directors approved an increase in the par value of the Corporation's shares of common stock from \$.20 to \$.30 per share to

comply with the minimum capital requirements of the Commonwealth of Virginia. The increase was effective October 1, 2010.

On September 30, 2016, AC made a cash capital contribution of \$7,500,000 to the Corporation. This transaction was approved by the Virginia Bureau of Insurance. The Corporation paid dividends to AC in the amount of \$5,500,000 during the period of this examination.

On August 23, 2017, the Corporation notified the Bureau of their plans to change their name to Trexis Insurance Corporation from Alfa Vision Insurance Corporation. The Company's name change became effective on the same date.

On August 12, 2021, AMIC submitted a Form D filing requesting to merge an Alfa Alliance Insurance Corporation (AAIC) into the Corporation. The Form D was approved by the Bureau on September 29, 2021. The merger was effective as of January 1, 2022.

MANAGEMENT AND CONTROL

Management is vested in a board of directors consisting of between one and twenty members. A majority of the board members shall constitute a quorum for the transaction of business.

The bylaws provide that the board shall elect a president, an executive vice president, a secretary, a treasurer and a general manager. In addition, the board may appoint such other officers as may be deemed necessary. The president has general charge and supervision of the business and affairs of the Corporation.

At December 31, 2021, the directors and officers of the Corporation were as follows:

<u>Directors</u>	<u>Principal Business Affiliation</u>
James Louis Parnell	Chairman of the Board, President and Chief Executive Officer Alfa Mutual Insurance Company Montgomery, Alabama
William Scott Forrest	Executive Vice President – Administration and Treasurer Alfa Mutual Insurance Company Montgomery, Alabama

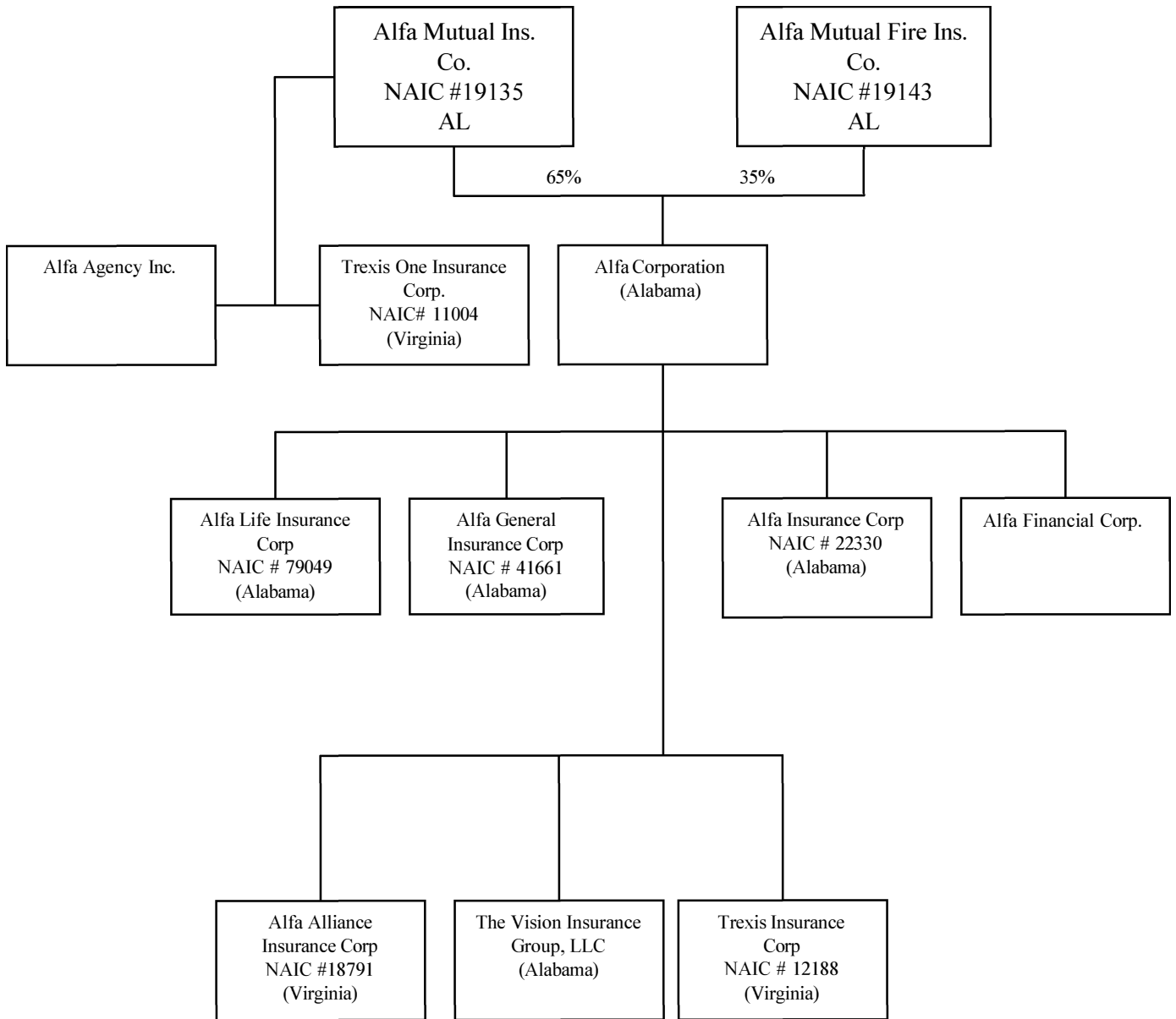
Angela Long Bradwell Executive Vice President, General Counsel and Secretary
Alfa Mutual Insurance Company
Montgomery, Alabama

Officers

Title

James Louis Parnell	Chairman of the Board and Chief Executive Officer
John Christopher Pace	President
William Scott Forrest	Executive Vice President, Administration and Treasurer
Angela Long Bradwell	Executive Vice President, General Counsel, and Secretary
William Thomas Coshatt, Jr.	Executive Vice President, Operations
John Delane Hemmings, Jr.	Senior Vice President, Chief Financial Officer and Chief Investments Officer
Julie Meadows Parish	Senior Vice President and Chief Accounting Officer
Joel Franklin Witt	Vice President, Actuarial Services

The Corporation is part of the Alfa Insurance Group. The following chart illustrates this insurance holding company system at December 31, 2021:



RELATED PARTY TRANSACTIONS

Management, Service Contracts, Cost Sharing Agreements

Pursuant to a Management and Operating Agreement between AMI, Trexis One Insurance Corporation, AMF, Alfa Mutual General Insurance Company, and AC and their subsidiaries (including the Corporation), AMI provides management and operational services to the participating companies. The participating companies reimburse AMI for their services.

Tax Allocation Agreement

The Corporation is a participant in a tax sharing agreement between AC and its subsidiaries. The method of allocation is subject to a written agreement. The tax liability of the group shall be allocated to the members of the group based on the percentage of the tax for each member if determined on a separate return compared to the total amount of taxes for all members of the group. This percentage method allocates tax liability based upon the absorption of tax attributes, without taking into account the ability of any member to subsequently absorb its own tax attributes.

TERRITORY AND PLAN OF OPERATION

At December 31, 2021, the Corporation was licensed to transact the business of insurance in Alabama, Arizona, Arkansas, Colorado, Indiana, Kentucky, Missouri, Nevada, Ohio, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, and Wisconsin, but only writes business in Tennessee (33%), Arkansas (24.6%), Kentucky (10.7%), Ohio (10.5%), Virginia (8.4%), Indiana (7.4%), South Carolina (3.4%), Alabama (1.4%), and Missouri (1%).

In Virginia, the Corporation was authorized to write Auto Liability, Auto Physical Damage and Workers Compensation as of December 31, 2021. Business is produced by independent agents. Control over underwriting and settlement of claims is maintained in the Franklin, Tennessee office. The Corporation issues non-assessable policies only. All policies are issued annually. Insureds may elect to pay on an installment basis.

GROWTH OF THE CORPORATION

The following statistics, obtained from Annual Statements filed with the Bureau and from examination reports, indicate the growth of the Corporation from commencement of business through December 31, 2021:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Common Capital Stock</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds</u>
2012	\$84,953,371	\$42,095,755	3,000,000	\$40,535,755	(\$678,139)
2013	93,353,594	47,448,612	3,000,000	40,535,755	2,369,227
2014	96,697,555	49,417,665	3,000,000	40,535,755	3,744,135
2015	95,501,526	51,136,373	3,000,000	40,535,755	829,398
2016	104,137,259	53,431,464	3,000,000	48,035,755	(329,960)
2017	108,062,896	57,659,029	3,000,000	48,035,755	(631,888)
2018	107,252,475	57,733,955	3,000,000	48,035,755	(1,517,235)
2019	112,292,170	56,866,617	3,000,000	48,035,755	4,389,798
2020	113,770,051	59,735,806	3,000,000	48,035,755	2,998,490
2021	121,252,345	63,662,383	3,000,000	48,035,755	6,554,207

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gains or (Loss)</u>
2012	\$41,789,722	\$28,820,759	\$12,852,016	\$116,947
2013	42,888,829	29,356,993	13,762,530	(230,694)
2014	44,447,179	31,276,879	14,570,640	(1,400,340)
2015	45,208,383	31,971,423	14,502,169	(1,265,209)
2016	48,001,042	34,609,795	15,175,719	(1,784,472)
2017	51,837,775	38,970,623	16,775,915	(3,908,763)
2018	54,578,244	41,129,227	16,845,974	(3,396,957)
2019	53,439,690	35,044,628	16,267,106	2,127,956
2020	54,633,911	42,632,856	16,650,250	(4,649,195)
2021	56,439,534	40,582,766	17,150,322	(1,293,554)

REINSURANCE

Intercompany Pooling Agreement

The amended and restated intercompany pooling agreement, effective December 1, 2017, was between AMI and the following entities (hereinafter referred to as the Participating Companies):

- Alfa Mutual Fire Insurance Company (AMF)
- Alfa Mutual General Insurance Company (AMG)
- Alfa Insurance Corporation (AIC)
- Alfa General Insurance Corporation (AGI)
- Trexis One Insurance Corporation (TOI)
- Trexis Insurance Corporation (TIC)

On January 1 of the current year, all Participating Companies ceded 100% of their books of business (the premiums) and net liabilities to AMI. In turn, AMI:

- Ceded and each Participating Company accepted its proportionate share of unearned premiums on AMI's book of business in-force as of the close of business.
- Ceded and each Participating Company accepted its proportionate share of the net liability on all insurance written by AMI, including the net liability of business assumed.
- Paid each Participating Company its proportionate share of the combined net unearned premium reserves less commissions at a rate equal to its pooled underwriting expense ratio for the most recently filed financial statements.
- Paid each Participating Company its respective participation of all premiums written after first deducting premiums for all working cover reinsurance ceded to reinsurers.

The following pooling percentages were in effect at December 31, 2021:

AMI	42%
AMF	38%
AMG	6%
AIC	3%
AGI	4%
TIC	4%
TOI	3%

The Participating Companies agreed that all net premiums, losses and expenses on all insurance written by AMI and assumed under this agreement would be prorated between the Participating Companies based on each participant's proportionate share specified in the agreement. Each Participating Company would retain and be liable for outstanding net losses (including IBNR), for outstanding net expenses, and salvage and subrogation related to losses incurred.

Each of the Participating Companies provides AMI with a monthly accounting report within thirty days after the close of each month. Likewise, AMI provides each Participating Company with a monthly accounting report. The agreement was continuous and could only be terminated in writing by mutual agreement of all parties.

Reinsurance Assumed

Home State County Mutual Insurance Company

Effective January 28, 2005, the Corporation entered into a reinsurance agreement with Home State County Mutual Insurance Company (Home State). The Corporation reinsured 100% of all liabilities, including but not limited to, losses and loss adjusted expenses under policies covering risks in the state of Texas only. Home State paid the Corporation 100% of the net premium collected and remitted on policies reinsured, less the ceding commission allowed, commissions and/or any policy fees paid to the general agent and premium taxes on policies.

The agreement contained the standard contract provisions regarding insolvency, errors and omissions, reports and remittances, and exclusions. The agreement was automatically renewable for a term of one year, unless terminated by either party. The agreement could be terminated provided a written notice was given 180 days in advance.

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Corporation for the period ending December 31, 2021. No examination adjustments were made to the statutory financial statements filed by the Corporation with the Bureau for the period ending December 31, 2021.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$39,531,650		\$39,531,650
Preferred stocks	1,459,502		1,459,502
Common stocks	28,346,148		28,346,148
Cash and short-term investments	25,552,481		25,552,481
Other invested assets	243,700		243,700
Investment income due and accrued	195,682		195,682
Uncollected premiums and agents' balances in the course of collection	4,208,553	725	4,207,828
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,872,907	627	8,872,280
Amounts recoverable from reinsurers	11,366,613		11,366,613
Current federal income tax recoverable	308,293		308,293
Electronic data processing equipment	3,160,711	3,160,711	
Furniture and equipment	1,050,962	1,050,962	
Receivables from parent, subsidiaries, and affiliates	1,168,168		1,168,168
Other amounts receivable	150,000	150,000	
Aggregate write-ins for other than invested assets	896,947	896,947	
Totals	<u>\$126,512,317</u>	<u>\$5,259,972</u>	<u>\$121,252,345</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses		\$17,122,872
Reinsurance payable on paid losses and loss adjustment expenses		4,625,536
Loss adjustment expenses		2,472,594
Commissions payable, contingent commissions and other similar charges		7,798,672
Other expenses		4,821,814
Taxes, licenses and fees		1,172,073
Net deferred tax liability		17,849
Unearned premiums		19,863,173
Advance premium		491,356
Ceded reinsurance premiums payable		684,551
Amounts withheld or retained by company for account of others		303,515
Payable to parent, subsidiaries, and affiliates		<u>4,288,378</u>
 Total liabilities		 \$63,662,383
 Common capital stock	 \$3,000,000	
Gross paid in and contributed surplus	48,035,755	
Unassigned funds (surplus)	<u>6,554,207</u>	
 Surplus as regards policyholders		 <u>57,589,962</u>
 Totals		 <u><u>\$121,252,345</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$56,439,534</u>
Deductions:	
Losses incurred	\$37,538,210
Loss adjustment expenses incurred	3,044,556
Other underwriting expenses incurred	17,154,790
Aggregate write-ins for underwriting deductions	<u>(4,468)</u>
Total underwriting deductions	<u>\$57,733,088</u>
Net underwriting loss	<u>(\$1,293,554)</u>

INVESTMENT INCOME

Net investment income earned	\$1,383,137
Net realized capital gains	<u>1,636,085</u>
Net investment gain	<u>\$3,019,222</u>

OTHER INCOME

Net loss from agents' or premium balances charged off	(\$159,621)
Finance and service charges not included in premiums	617,766
Aggregate write-ins for miscellaneous income	<u>71,574</u>
Total other income	<u>\$529,718</u>
Net income before federal income taxes	\$2,255,386
Federal income taxes incurred	<u>242,273</u>
Net income	<u><u>\$2,013,113</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Surplus as regards policyholders, December 31, previous year	<u>\$50,705,795</u>	<u>\$50,403,867</u>	<u>\$49,518,520</u>	<u>\$55,425,553</u>	<u>\$54,034,245</u>
Net income	\$512,451	\$497,213	\$4,148,999	(\$2,009,921)	\$2,013,113
Change in net unrealized capital gains or (losses)	658,748	(1,651,657)	2,327,505	4,799,190	(593,638)
Change in net deferred income tax	(470,644)	(188,406)	223,374	253,241	(46,899)
Change in nonadmitted assets	(1,002,483)	457,503	(792,845)	1,066,182	2,183,141
Dividends to stockholders				(5,500,000)	
Change in surplus as regards policyholders for the year	<u>(\$301,928)</u>	<u>(\$885,347)</u>	<u>\$5,907,033</u>	<u>(\$1,391,308)</u>	<u>\$3,555,717</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$50,403,867</u></u>	<u><u>\$49,518,520</u></u>	<u><u>\$55,425,553</u></u>	<u><u>\$54,034,245</u></u>	<u><u>\$57,589,962</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$57,498,429
Net investment income	1,393,619
Miscellaneous income	686,615
Total	<u>\$59,578,663</u>
Benefits and loss related payments	\$36,818,699
Commissions, expenses paid and aggregate write-ins	18,403,046
Federal income taxes paid	1,343,000
Total	<u>\$56,564,745</u>
Net cash from operations	<u>\$3,013,918</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$9,500,816
Stocks	9,448,028
Net losses on cash and short-term investments	7
Total investment proceeds	<u>\$18,948,851</u>
Cost of investments acquired (long-term only):	
Bonds	\$10,254,089
Stocks	11,887,932
Other invested assets	243,700
Miscellaneous applications	1
Total investments acquired	<u>\$22,385,722</u>
Net cash from investments	<u>(\$3,436,871)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	2,615,925
Net change from financing and miscellaneous sources	<u>\$2,615,925</u>
Net change in cash and short-term investments	<u>\$2,192,972</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$23,359,509
End of year	25,552,481
Net change in cash and short-term investments	<u>\$2,192,972</u>

SUBSEQUENT EVENTS

Effective January 1, 2022, the Corporation's affiliate, Alfa Alliance Insurance Corporation, was merged into the Corporation.

On December 14, 2022, the Bureau approved the redomestication of the Company, along with its affiliate, Trexis One Insurance Corporation, from Virginia to Tennessee.

ACKNOWLEDGMENT

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

In addition to the undersigned, Jennifer K. Blizzard, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

Mario A Cuellar

Mario A Cuellar, CFE
Principal Insurance Financial Analyst
Commonwealth of Virginia



March 1, 2023

State Corporation Commission
Bureau of Insurance
1300 E. Main Street
Richmond, VA 23219

Attention: David H. Smith
Chief Examiner

RE: Trexis Insurance Corporation
Examination Report as of December 31, 2021

Dear Mr. Smith:

Thank you for your time and work on this examination. I acknowledge receipt of the draft report provided by your office on February 28, 2023. Please advise if I can be of further assistance regarding this examination.

Sincerely,

A handwritten signature in blue ink, appearing to read "John Pace", written over a faint, illegible stamp.

John Pace
President
Trexis Insurance Corporation