

**ASSOCIATION EXAMINATION**  
**on**  
**ALFA ALLIANCE INSURANCE CORPORATION**  
**Glen Allen, Virginia**  
**as of**  
**December 31, 2016**

# 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 Alfa Alliance Insurance Corporation as of December 31, 2016, 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 5<sup>th</sup> day of June 2018

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

Scott A. White  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
February 28, 2018

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

**ALFA ALLIANCE 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, 2011. This examination covers the period from January 1, 2012 through December 31, 2016.

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
Alfa Vision Insurance Corporation	Virginia
Alfa Specialty Insurance Corporation	Virginia

The services of Merlino & 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, 2016.

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). The Corporation was incorporated under the laws of the Commonwealth of Virginia on September 5, 1935 as Virginia Auto Mutual Insurance Company. On June 10, 1949, the Corporation's name was changed to Virginia Mutual Insurance Company.

On August 9, 2001, the Corporation entered into a strategic affiliation agreement with Alfa Mutual Insurance Company (AMI) of Montgomery, Alabama. Under this agreement, AMI assumed managerial and operational control of the Corporation. This affiliation was made possible by changes in the articles of incorporation and bylaws of the Corporation, which were approved by the Corporation's policyholders.

On January 1, 2007, the Corporation redeemed all outstanding surplus notes and converted to a stock corporation. The Corporation became a wholly-owned subsidiary of AC, a holding company with approximately 55% of its outstanding shares held by members of the Alfa Insurance Group and the remaining shares publicly held. The Corporation made payment to policyholders to satisfy their interests, changed its name to Alfa Alliance Insurance Corporation, and became a member of the intercompany pooling agreement between AMI and its affiliates in the Alfa Insurance Group. The conversion plan was approved by the Commission on October 2, 2006 and by the Corporation's policyholders on November 29, 2006.

The initial par value of the outstanding stock after the conversion was \$1 per share. On August 28, 2007, the Corporation amended its Articles of Incorporation to change the par value of the outstanding shares to \$2 per share in order to meet the minimum capital requirements of North Carolina.

On April 15, 2008, AMI completed a transaction in which it and Alfa Mutual Fire Insurance Company (AMF) acquired the shares of AC not previously owned by them. As a result, AMI currently owns 65% of AC and AMF owns the remaining 35%. Each share of outstanding common stock of AC (other than shares owned by members of the Alfa Insurance Group and holders of shares subject to certain company awards) was cancelled and converted to the right to receive \$22 in cash without interest.

On September 30, 2016, AC made a cash capital contribution of \$8,100,000 to the Corporation. This transaction was approved by the Virginia Bureau of Insurance.

During the period of this examination, the Corporation paid AC ordinary dividends of \$1,500,000 and \$600,000 in 2013 and 2014, respectively. No dividends were paid in 2012, 2015 or 2016.

### **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, 2016, the directors and select officers of the Corporation were as follows:

**Directors**

James L. Parnell

**Principal  
Business Affiliation**

Chairman of the Board, President  
and Chief Executive Officer  
Alfa Mutual Insurance Company  
Montgomery, Alabama

Stephen G. Rutledge

Executive Vice President - Business Operations  
Alfa Mutual Insurance Company  
Montgomery, Alabama

Angela L. Bradwell

Executive Vice President and General Counsel  
Alfa Mutual Insurance Company  
Montgomery, Alabama

**Officers**

James L. Parnell

Chairman and Chief Executive Officer

Douglas S. Joyce

President

Stephen G. Rutledge

Executive Vice President, Operations and Treasurer

W. Scott Forrest

Executive Vice President, Administration

Angela L. Bradwell

Executive Vice President, General Counsel and Secretary

Russell J. Sinco

Senior Vice President and Chief Financial Officer

John D. Hemmings, Jr.

Senior Vice President, Investments

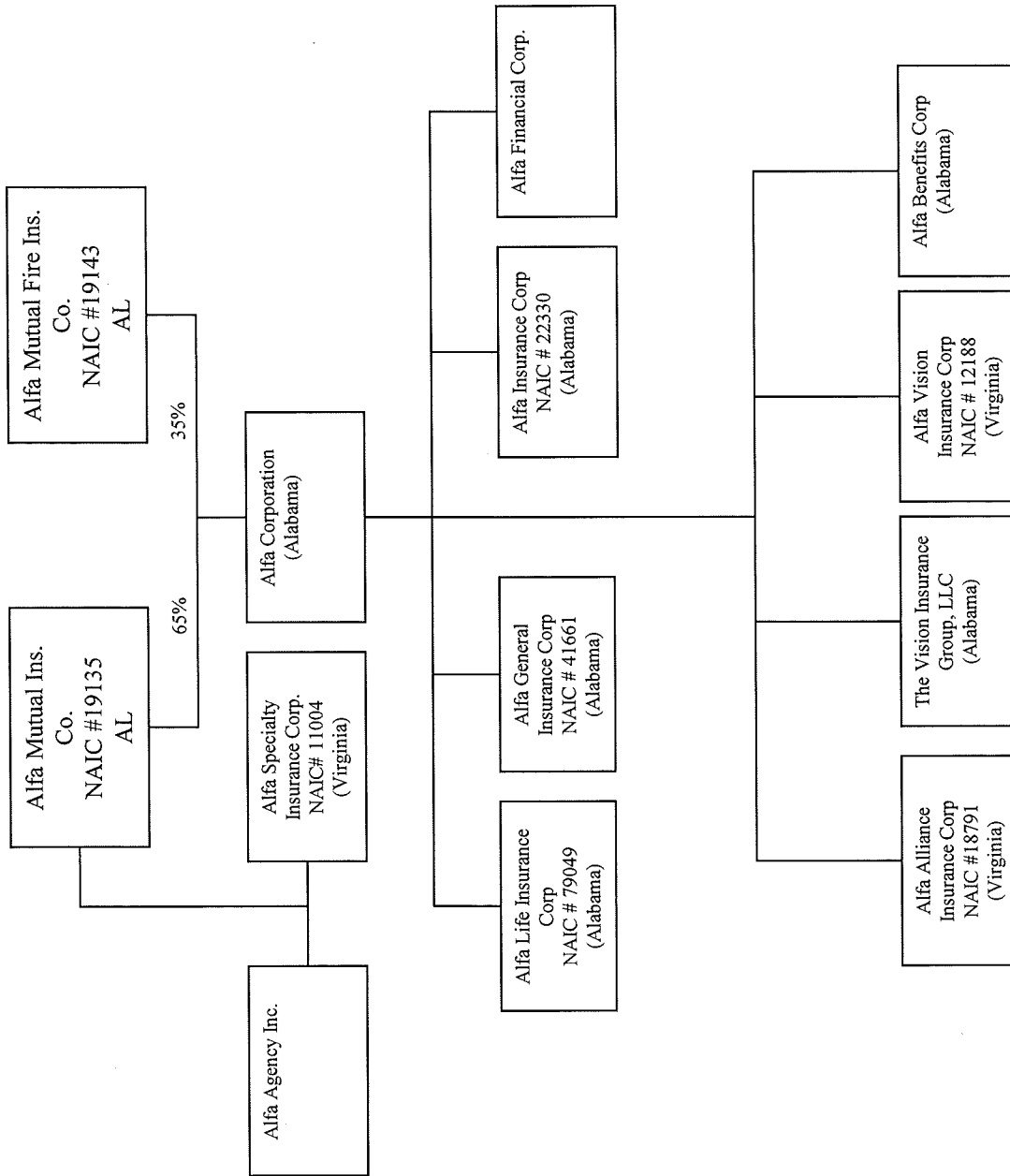
Donald E. Manis

Vice President, Property and Casualty Actuary

Matthew Roberts

Chief Information Officer

The Corporation is part of the Alfa Insurance Group. The following chart illustrates this insurance holding company system at December 31, 2016:





## **RELATED PARTY TRANSACTIONS**

### **Management, Service Contracts, Cost Sharing Agreements**

Pursuant to a Management and Operating Agreement between AMI, Alfa Specialty 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, 2016, the Corporation was licensed to transact the business of insurance in Georgia, Maryland, North Carolina, South Carolina, Tennessee, and Virginia. The Corporation, however, writes business only in Virginia. In Virginia, the Corporation was authorized to write the following lines of business as of December 31, 2016:

Fire, miscellaneous property and casualty, farmowners multiple-peril, home-owners multiple-peril, commercial multiple-peril, ocean marine, inland marine, workers' compensation and employers' liability, liability other than automobile, automobile liability, automobile physical damage, aircraft liability, aircraft physical damage, fidelity, glass, burglary and theft, boiler and machinery and water damage.

Business is produced by independent agents. Control over underwriting and settlement of claims is maintained at the Corporation's home 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 for the ten year period ending December 31, 2016:

<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>
2007	\$45,171,981	\$29,992,527	\$2,000,000	\$6,760,000	\$6,419,454
2008	34,514,381	16,937,549	2,000,000	6,760,000	8,816,832
2009	34,563,621	17,133,880	2,000,000	6,760,000	8,669,741
2010	30,528,574	14,720,781	2,000,000	6,760,000	7,047,793
2011	28,091,946	13,358,384	2,000,000	6,760,000	5,973,562
2012	27,133,150	11,813,069	2,000,000	6,760,000	6,560,081
2013	27,342,393	13,158,230	2,000,000	6,760,000	5,424,163
2014	27,044,594	13,242,330	2,000,000	6,760,000	5,042,264
2015	28,104,881	14,889,218	2,000,000	6,760,000	4,455,663
2016	36,561,758	15,806,039	2,000,000	14,860,000	3,895,719

<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>
2007	\$19,300,180	\$10,104,138	\$3,464,947	\$5,731,095
2008	9,151,827	5,016,548	5,104,579	(969,300)
2009	9,593,416	6,886,159	3,592,927	(885,670)
2010	10,351,025	7,819,622	3,146,854	(615,451)
2011	10,336,991	9,520,216	3,327,688	(2,510,913)
2012	10,446,949	7,100,652	3,303,037	43,260
2013	10,721,625	7,332,779	3,735,054	(346,208)
2014	11,112,700	7,746,938	3,929,968	(564,206)
2015	11,301,581	7,981,295	3,857,121	(536,835)
2016	12,000,796	8,669,867	3,989,903	(658,974)

## REINSURANCE

The Corporation had the following reinsurance program in force at December 31, 2016:

### Intercompany Pooling Agreement

The amended and restated intercompany pooling agreement, effective January 1, 2008, 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)
- Alfa Specialty Insurance Corporation (ASI)
- Alfa Vision Insurance Corporation (AVI)
- Alfa Alliance Insurance Corporation (AAI)

On January 1, 2016, all Participating Companies ceded 100% of their books of business (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, 2016:

	Pool 4	Pool 5	Pool 6	Pool 7
Name of Insurer	Loss Dates 1/1/01- 12/13/04	Loss Dates 1/1/05-12/31/06	Loss Dates 1/1/07 – 12/31/07	Loss Dates 1/1/08 - current
AMI (Lead Company)	18%	18%	18%	52%
AMF	13%	13%	13%	30%
AMG	3%	3%	3%	4%
AIC	32.5%	30%	29%	3%
AGI	32.5%	30%	29%	4%
ASI	1%	1%	1%	2%
AVI	0%	5%	5%	4%
AAI	0%	0%	2%	1%

### **Reinsurance Assumed**

In addition to the business assumed through the intercompany pooling agreement, the Corporation assumed reinsurance from the following mandatory pools:

- National Workers Compensation Reinsurance Pool
- North Carolina Reinsurance Facility
- Virginia Commercial Automobile Insurance Procedure Plan

### **Reinsurance Ceded**

#### **Intercompany Traditional Excess Catastrophe Reinsurance Contract**

This intercompany contract was effective June 1, 2016 between the Corporation and AMF. This reinsurance agreement also mirrors the catastrophe reinsurance that AMF obtains for the Alfa P&C group with outside reinsurers.

This agreement was established to provide the Corporation with internal catastrophe coverage at a lower retention to manage the Corporation's direct operating performance as a stand-alone, single state operation. This was executed as a separate reinsurance agreement because the Corporation writes only in Virginia and is not geographically contiguous with the Alfa Insurance Group's core exposure in Alabama, Georgia and Mississippi. The retention and limit component of the agreement provides a direct operating performance view of the Corporation as a stand-alone insurance operation prior to the Pooling Agreement allocation. Such agreement affords the Corporation with catastrophe reinsurance protection at a substantially lower retention (i.e., \$5.4 million) than the Alfa P&C Group program (\$75 million). the Corporation participates in the Intercompany Pool at a 1% level.

The liability of the Reinsurer hereunder shall not exceed \$23,700,000 as respects loss or losses arising out of any one loss occurrence, nor shall it exceed \$47,400,000 in all during the term of this Contract.

**FINANCIAL STATEMENTS**

The following statutory financial statements present the financial condition of the Corporation for the period ending December 31, 2016. No examination adjustments were made to the statutory financial statements filed by the Corporation with the Bureau for the period ending December 31, 2016.

**ASSETS**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$7,524,710		\$7,524,710
Preferred stocks	237,500		237,500
Common stocks	2,867,739		2,867,739
Cash and short-term investments	18,778,665		18,778,665
Investment income due and accrued	61,659		61,659
Uncollected premiums and agents' balances in the course of collection	948,734	9,783	938,951
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,021,144	111	2,021,033
Amounts recoverable from reinsurers	2,858,592		2,858,592
Current federal income tax recoverable	222,068		222,068
Net deferred tax asset	871,866		871,866
Electronic data processing equipment	2,702,619	2,702,619	
Furniture and equipment	6,449	6,449	
Receivables from parent, subsidiaries, and affiliates	44,941		44,941
Other amounts receivable	50,174	55	50,119
Aggregate write-ins for other than invested assets	95,703	11,788	83,915
Totals	<u>\$39,292,563</u>	<u>\$2,730,805</u>	<u>\$36,561,758</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses		\$3,940,117
Reinsurance payable on paid losses and loss adjustment expenses		867,391
Loss adjustment expenses		987,096
Commissions payable, contingent commissions and other similar charges		1,275,224
Other expenses		435,396
Taxes, licenses and fees		424,693
Unearned premiums		4,428,848
Advance premium		226,970
Ceded reinsurance premiums payable		498,040
Amounts withheld or retained by company for account of others		138,503
Remittances and items not allocated		6,737
Payable to parent, subsidiaries, and affiliates		1,820,839
Aggregate write-ins for liabilities		<u>756,185</u>
Total liabilities		\$15,806,039
Common capital stock	\$2,000,000	
Gross paid in and contributed surplus	14,860,000	
Unassigned funds (surplus)	<u>3,895,719</u>	
Surplus as regards policyholders		<u>20,755,719</u>
Totals		<u><u>\$36,561,758</u></u>



**UNDERWRITING AND INVESTMENT EXHIBIT**  
**STATEMENT OF INCOME**

UNDERWRITING INCOME

Premiums earned	<u>\$12,000,796</u>
Deductions:	
Losses incurred	\$7,901,927
Loss adjustment expenses incurred	767,940
Other underwriting expenses incurred	3,990,529
Aggregate write-ins for underwriting deductions	<u>(626)</u>
Total underwriting deductions	<u>\$12,659,770</u>
Net underwriting loss	<u>(\$658,974)</u>

INVESTMENT INCOME

Net investment income earned	\$285,303
Net realized capital gains	<u>139,066</u>
Net investment gain	<u>\$424,369</u>

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	(\$72,554)
Finance and service charges not included in premiums	314,886
Aggregate write-ins for miscellaneous income	<u>2,962</u>
Total other income	<u>\$245,294</u>
Net income before federal income taxes	\$10,689
Federal income taxes incurred	<u>(211,291)</u>
Net income	<u><u>\$221,980</u></u>

**RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Surplus as regards policyholders, December 31, previous year	\$14,733,562	\$15,320,081	\$14,184,163	\$13,802,264	\$13,215,663
Net income	\$721,520	\$757,632	\$241,862	\$348,647	\$221,980
Change in net unrealized capital gains or (losses)	228,330	69,724	156,787	(202,866)	43,922
Change in net deferred income tax	(120,935)	(400,411)	(11,428)	(18,555)	(190,237)
Change in nonadmitted assets	(242,396)	100,383	(14,772)	(657,071)	(517,643)
Cumulative effect of changes in accounting principles			(1,590)		
Surplus paid in Dividends to stockholders		(1,500,000)	(600,000)		8,100,000
Aggregate write-ins for gains and losses in surplus		(163,246)	(152,758)	(56,756)	(117,966)
Change in surplus as regards policyholders for the year	\$586,519	(\$1,135,918)	(\$381,899)	(\$586,601)	\$7,540,056
Surplus as regards policyholders, December 31, current year	<u>\$15,320,081</u>	<u>\$14,184,163</u>	<u>\$13,802,264</u>	<u>\$13,215,663</u>	<u>\$20,755,719</u>

**CASH FLOW****Cash From Operations**

Premiums collected net of reinsurance	\$11,929,812
Net investment income	337,450
Miscellaneous income	317,215
Total	<u>\$12,584,477</u>
Benefits and loss related payments	\$8,017,600
Commissions, expenses paid and aggregate write-ins	4,630,223
Federal income taxes paid	(196,900)
Total	<u>\$12,450,923</u>
Net cash from operations	<u>\$133,554</u>

**Cash From Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$4,216,282
Stocks	2,424,665
Net gains on cash and short-term investments	588
Total investment proceeds	<u>\$6,641,535</u>
Cost of investments acquired (long-term only):	
Bonds	\$1,275,095
Stocks	1,717,573
Total investments acquired	<u>\$2,992,668</u>
Net cash from investments	<u>\$3,648,867</u>

**Cash From Financing and Miscellaneous Sources**

Cash provided (applied):	
Capital and paid in surplus	\$8,100,000
Other cash applied	(1,244,546)
Net change from financing and miscellaneous sources	<u>\$6,855,454</u>
Net change in cash and short-term investments	<u>\$10,637,876</u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

Cash and short-term investments:	
Beginning of year	\$8,140,790
End of year	18,778,665
Net change in cash and short-term investments	<u>\$10,637,876</u>

**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. Crawley, CFE, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T. Bradford Earley, Jr.', written in a cursive style.

T. Bradford Earley, Jr., CFE, CPCU, AIAF  
BOI Manager  
Commonwealth of Virginia

May 29, 2018

Mr. David H. Smith  
Chief Examiner  
State of Virginia  
Department of Insurance  
1300 E. Main Street  
Richmond, VA 23219

**Re: Examination Report of Alfa Alliance Insurance Corporation**

Dear Mr. Smith:

This letter is in response to the Department's May 21, 2018 notice requiring a written acknowledgment of receipt of the Examination Report as of December 31, 2016. This report has been received and reviewed.

As noted in your letter, there were no recommendations for corrective action reported.

If you have any questions regarding the foregoing, please give me a call.

Sincerely,



Douglas S. Joyce  
President  
Alfa Alliance Insurance Corporation

CC: Karen Henderson

*Please contact your Independent Agent or visit us at [www.AlfaAIC.com](http://www.AlfaAIC.com) for more details.*