

ASSOCIATION EXAMINATION
on
ALFA ALLIANCE 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

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

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, 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

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

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, 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 Insurance Corporation	Virginia
Trexis One 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). 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.

The Corporation paid AC ordinary dividends of \$2,000,000 in 2019 and \$2,100,000 in 2020. In 2021, the Corporation requested and was granted approval to pay extraordinary dividends of \$12,000,000 to AC. The dividends were disbursed on October 15, 2021.

Effective August 1, 2018, the Corporation was placed into runoff status. All remaining agents were terminated as of November 1, 2019. The last non-renewal date was set as October 31, 2019.

On October 9, 2020, AMI submitted a Form D filing to the Bureau to remove the Corporation from the reinsurance pooling agreement. The percentages within the pooling agreement were adjusted to align with the remaining participants. The Form D was approved by the Bureau on December 3, 2020 and was effective January 1, 2021.

On August 12, 2021, Alfa Insurance Group, submitted a Form D filing requesting to merge the Corporation into its affiliate, Trexis Insurance Corporation. The Form D was approved by the Bureau on September 29, 2021. The merger was effective on January 1, 2022.

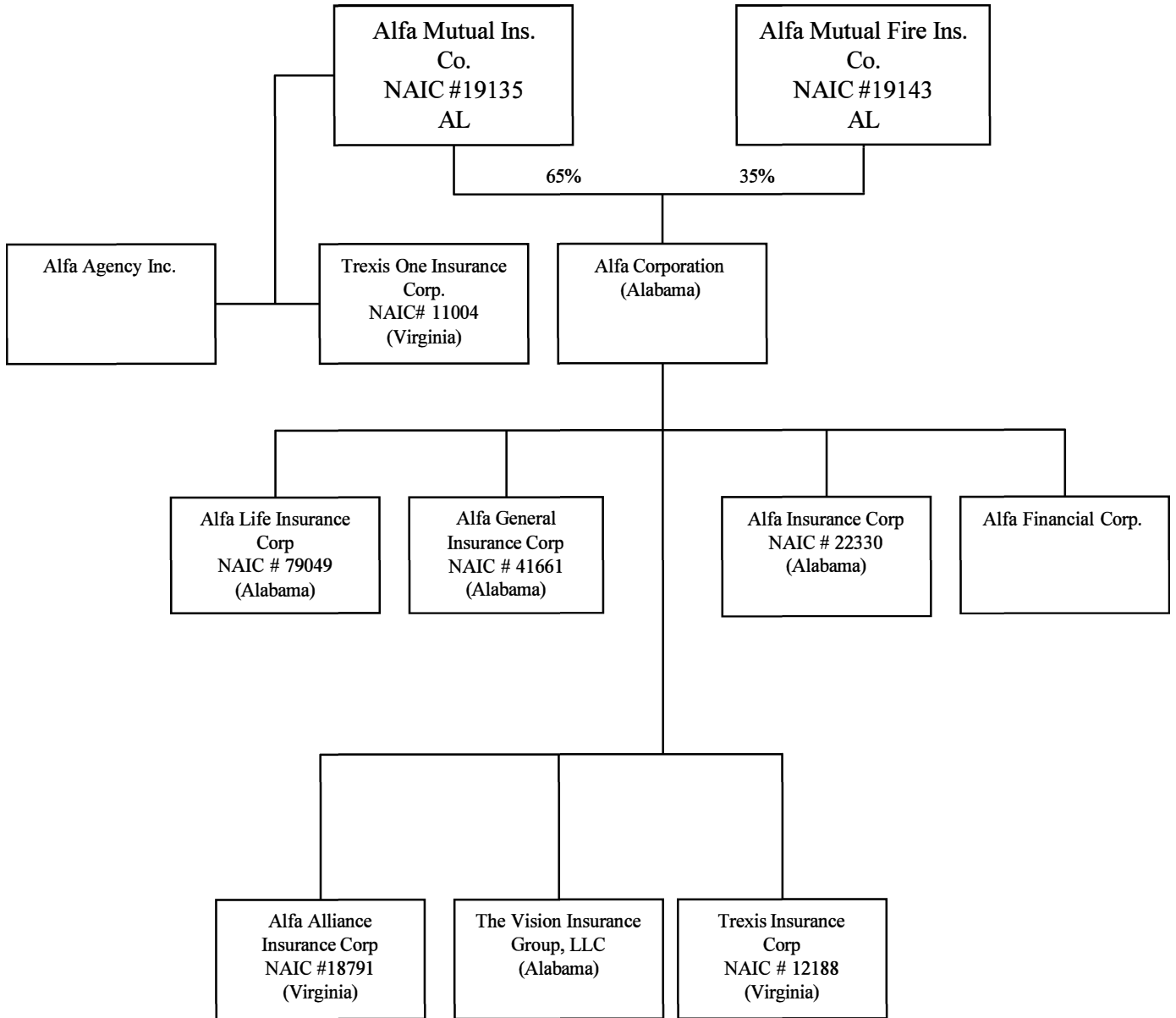
MANAGEMENT AND CONTROL

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 select 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 Alfa Mutual Insurance Company Montgomery, Alabama
Angela Long Bradwell	Executive Vice President and General Counsel Alfa Mutual Insurance Company Montgomery, Alabama
 <u>Officers</u>	
James Louis Parnell	Chairman of the Board and Chief Executive Officer
Kenneth Thomas Gee	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, Investments
Julie Meadows Parish	Senior Vice President and Chief Accounting Officer
Kevin Scott Burke	Director, Actuarial Pricing/Appointed Actuary

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

Effective August 1, 2018, the Corporation was placed into runoff status. All remaining agents were terminated as of November 1, 2019. The last non-renewal date was set as October 31, 2019.

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, 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	\$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
2017	37,191,293	16,247,543	2,000,000	14,860,000	4,083,750
2018	34,003,699	13,059,768	2,000,000	14,860,000	4,083,931
2019	34,005,755	12,294,960	2,000,000	14,860,000	4,850,795
2020	34,835,989	12,938,146	2,000,000	14,860,000	5,037,843
2021	16,945,585	3,893,374	2,000,000	2,860,000	8,192,211

<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	\$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)
2017	12,960,401	9,591,066	4,575,390	(1,206,055)
2018	13,645,554	10,274,787	4,385,408	(1,014,641)
2019	13,360,886	8,799,366	4,245,445	316,075
2020	13,659,444	10,645,912	4,346,662	(1,333,130)
2021	100,472	(338,476)	(414,462)	853,410

REINSURANCE

On October 9, 2020, AMI submitted a Form D filing to the Bureau to remove the Corporation from the reinsurance pooling agreement. The percentages within the pooling agreement were adjusted to align with the remaining participants. The Form D was approved by the Bureau on December 3, 2020 and was effective January 1, 2021.

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	\$7,209,859		\$7,209,859
Preferred stocks			
Common stocks	7,612,191		7,612,191
Cash and short-term investments	1,548,165		1,548,165
Investment income due and accrued	27,642		27,642
Uncollected premiums and agents' balances in the course of collection	44,319		44,319
Amounts recoverable from reinsurers	105,515		105,515
Current federal income tax recoverable	250,853		250,853
Receivables from parent, subsidiaries, and affiliates	34		34
Aggregate write-ins for other than invested assets	<u>147,802</u>	<u>795</u>	<u>147,007</u>
Totals	<u><u>\$16,946,380</u></u>	<u><u>\$795</u></u>	<u><u>\$16,945,585</u></u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses		\$1,760,721
Reinsurance payable on paid losses and loss adjustment expenses		162,574
Loss adjustment expenses		368,680
Commissions payable, contingent commissions and other similar charges		3,615
Other expenses		83,874
Net deferred tax liability		534,534
Unearned premiums		441
Ceded reinsurance premiums payable		160,065
Amounts withheld or retained by company for account of others		64,170
Payable to parent, subsidiaries, and affiliates		<u>754,700</u>
 Total liabilities		 \$3,893,374
 Common capital stock	\$2,000,000	
Gross paid in and contributed surplus	2,860,000	
Unassigned funds (surplus)	<u>8,192,211</u>	
 Surplus as regards policyholders		 <u>13,052,211</u>
 Totals		 <u><u>\$16,945,585</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$100,472</u>
Deductions:	
Losses incurred	(\$177,677)
Loss adjustment expenses incurred	(160,799)
Other underwriting expenses incurred	(414,250)
Aggregate write-ins for underwriting deductions	<u>(212)</u>
Total underwriting deductions	<u>(\$752,938)</u>
Net underwriting loss	<u>\$853,410</u>

INVESTMENT INCOME

Net investment income earned	\$320,182
Net realized capital gains	<u>839,038</u>
Net investment gain	<u>\$1,159,220</u>

OTHER INCOME

Net gain from agents' or premium balances charged off	\$342,519
Aggregate write-ins for miscellaneous income	<u>(279,585)</u>
Total other income	<u>\$62,934</u>
Net income before federal income taxes	\$2,075,564
Federal income taxes incurred	<u>155,857</u>
Net income	<u><u>\$1,919,707</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	\$20,755,719	\$20,943,750	\$20,943,931	\$21,710,795	\$21,897,843
Net income	\$198,535	\$87,802	\$665,390	(\$169,777)	\$1,919,707
Change in net unrealized capital gains or (losses)	262,682	(621,996)	1,059,736	1,930,670	284,079
Change in net deferred income tax	(122,219)	(202,145)	(20,809)	(27,993)	(67,910)
Change in nonadmitted assets	34,104	726,329	1,157,852	589,704	222,023
Surplus paid in Dividends to stockholders			(2,000,000)	(2,100,000)	(12,000,000)
Aggregate write-ins for gains and losses in surplus	(185,071)	10,191	(95,305)	(35,556)	796,469
Change in surplus as regards policyholders for the year	\$188,031	\$181	\$766,864	\$187,048	(\$8,845,632)
Surplus as regards policyholders, December 31, current year	<u>\$20,943,750</u>	<u>\$20,943,931</u>	<u>\$21,710,795</u>	<u>\$21,897,843</u>	<u>\$13,052,211</u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	(\$1,366,241)
Net investment income	322,394
Miscellaneous income	(14)
Total	<u>(\$1,043,861)</u>
Benefits and loss related payments	\$3,182,156
Commissions, expenses paid and aggregate write-ins	(36,561)
Federal income taxes paid	686,000
Total	<u>\$3,831,596</u>
Net cash from operations	<u>(\$4,875,457)</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$7,286,015
Stocks	2,747,505
Total investment proceeds	<u>\$10,033,520</u>
Cost of investments acquired (long-term only):	
Bonds	\$0
Stocks	328,685
Total investments acquired	<u>\$328,685</u>
Net cash from investments	<u>\$9,704,835</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Capital and paid in surplus	(\$12,000,000)
Other cash provided	818,879
Net change from financing and miscellaneous sources	<u>(\$11,181,121)</u>
Net change in cash and short-term investments	<u>(\$6,351,743)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$7,899,908
End of year	1,548,165
Net change in cash and short-term investments	<u>(\$6,351,743)</u>

SUBSEQUENT EVENT

Effective on January 1, 2022, the Corporation was merged into its affiliate Trexis Insurance Corporation. Approval for the merger was granted by the Bureau on September 29, 2021.

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: Alfa Alliance 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, light blue circular stamp.

John Pace
President
Alfa Alliance Insurance Corporation